

Tuniu Corp  
Form 20-F  
April 26, 2018

**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  
x 1934  
For the fiscal year ended December 31, 2017.**

**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**

(Address of principal executive offices)

**Ms. Maria Yi Xin, Chief Financial Officer**

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**Email: ir@tuniu.com**

**Tuniu Building No. 699-32**

**Xuanwudadao, Xuanwu District**

**Nanjing, Jiangsu Province 210042**

**The People's Republic of China**

(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
<b>American depositary shares (one American depositary share representing three Class A ordinary shares, par value US\$0.0001 per share)</b>	<b>The Nasdaq Stock Market LLC (The Nasdaq Global Market)</b>
<b>Class A ordinary shares, par value US\$0.0001 per share*</b>	<b>The Nasdaq Stock Market LLC (The Nasdaq Global Market)</b>

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\* 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.

**371,544,515 Class A ordinary shares (excluding 413,529 Class A ordinary shares, represented by American depositary shares, issued and reserved for the future exercise of options or the vesting of other awards under the 2008 Plan and the 2014 Plan) and 17,373,500 Class B ordinary shares, par value US\$0.0001 per share, as of December 31, 2017.**

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

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.



## **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 the 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 for the three years ended December 31, 2015, 2016 and 2017 and the consolidated balance sheets data as of December 31, 2016 and 2017 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 for the year ended December 31, 2013 and 2014 and the selected consolidated balance sheet data as of December 31, 2013, 2014 and 2015 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(ae) “Recently Issued Accounting Pronouncements” to our consolidated financial statements included in this Annual Report on Form 20-F for further information regarding these changes. 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 of our role, revenue from the organized tours for 2017 was mainly recognized on a

net basis. Under ASC 606, *Revenue from Contracts with Customers*, substantially all revenues from our organized tours for the years ended December 31, 2015 and 2016 continued to be recognized on a gross basis because of our principal role for these organized tours up to the end of 2016. Revenues and cost of revenues for the years ended December 31, 2013 and 2014 were not recast and were presented in accordance with ASC 605, *Revenue Recognition*.

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	For the Years Ended December 31,					
	2013	2014	2015	2016	2017	US\$
	RMB	RMB	RMB	RMB	RMB	
	(in thousands, except for share, per share and per ADS data)					
<b>Summary Consolidated</b>						
<b>Statements of</b>						
<b>Comprehensive Loss Data:</b>						
<b>Revenues:</b>						
Packaged tours	1,941,727	3,525,951	7,578,822	10,147,148	1,589,353	244,279
Others	20,744	28,756	127,804	401,100	602,747	92,641
<b>Total revenues</b>	<b>1,962,471</b>	<b>3,554,707</b>	<b>7,706,626</b>	<b>10,548,248</b>	<b>2,192,100</b>	<b>336,920</b>
Less: Business and related taxes	(12,784 )	(19,768 )	(35,526 )	(17,307 )	—	—
<b>Net revenues</b>	<b>1,949,687</b>	<b>3,534,939</b>	<b>7,671,100</b>	<b>10,530,941</b>	<b>2,192,100</b>	<b>336,920</b>
Cost of revenues	(1,829,665 )	(3,308,801 )	(7,309,062 )	(9,891,736 )	(1,024,206 )	(157,418 )
<b>Gross profit</b>	<b>120,022</b>	<b>226,138</b>	<b>362,038</b>	<b>639,205</b>	<b>1,167,894</b>	<b>179,502</b>
<b>Operating expenses:</b>						
Research and product development	(38,994 )	(104,881 )	(298,199 )	(601,402 )	(541,126 )	(83,170 )
Sales and marketing	(110,071 )	(434,191 )	(1,149,512 )	(1,900,397 )	(894,148 )	(137,428 )
General and administrative	(69,679 )	(166,988 )	(385,442 )	(658,790 )	(637,795 )	(98,027 )
Other operating income	1,689	6,902	12,175	22,323	21,749	3,343
<b>Loss from operations</b>	<b>(97,033 )</b>	<b>(473,020 )</b>	<b>(1,458,940 )</b>	<b>(2,499,061 )</b>	<b>(883,426 )</b>	<b>(135,780 )</b>
<b>Other income/(expenses):</b>						
Interest income	16,163	31,284	76,516	87,305	130,250	20,019
Foreign exchange gains/(losses), net	1,286	(5,334 )	(83,118 )	(9,734 )	(2,394 )	(368 )
Other loss, net	(48 )	(788 )	(1,334 )	(2,553 )	(121 )	(19 )
<b>Loss before income tax expense</b>	<b>(79,632 )</b>	<b>(447,858 )</b>	<b>(1,466,876 )</b>	<b>(2,424,043 )</b>	<b>(755,691 )</b>	<b>(116,148 )</b>
Income tax benefit/(expense)	—	—	589	1,711	(15,625 )	(2,402 )
<b>Net loss</b>	<b>(79,632 )</b>	<b>(447,858 )</b>	<b>(1,466,287 )</b>	<b>(2,422,332 )</b>	<b>(771,316 )</b>	<b>(118,550 )</b>
Less: Net loss attributable to noncontrolling interests	—	—	(3,006 )	(15,104 )	(4,934 )	(758 )
Less: Net (loss)/income attributable to redeemable	—	—	—	(34 )	922	142

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noncontrolling interests						
Net loss attributable to Tuniu Corporation	(79,632 )	(447,858 )	(1,463,281 )	(2,407,194 )	(767,304 )	(117,934 )
Accretion on redeemable noncontrolling interest	—	—	—	(106 )	(5,725 )	(880 )
Deemed dividends to preferred shareholders	(59,428 )	(15,606 )	—	—	—	—
Net loss attributable to ordinary shareholders	(139,060 )	(463,464 )	(1,463,281 )	(2,407,300 )	(773,029 )	(118,814 )
Net loss per ordinary share attributable to ordinary shareholders						
Basic	(5.35 )	(4.38 )	(5.89 )	(6.45 )	(2.04 )	(0.31 )
Diluted	(5.35 )	(4.38 )	(5.89 )	(6.45 )	(2.04 )	(0.31 )
Net loss per ADS attributable to ordinary shareholders						
Basic	(16.05 )	(13.15 )	(17.67 )	(19.35 )	(6.12 )	(0.93 )
Diluted	(16.05 )	(13.15 )	(17.67 )	(19.35 )	(6.12 )	(0.93 )
Weighted average number of ordinary shares used in computing basic and diluted loss per share	26,000,000	105,746,313	248,362,837	373,347,855	378,230,039	378,230,039

	As of December 31,					
	2013	2014	2015	2016	2017	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Summary Consolidated Balance Sheet						
Data:						
Cash and cash equivalents	419,403	1,457,722	2,101,217	1,085,236	484,101	74,405
Restricted cash	9,250	44,030	338,997	124,561	91,810	14,111
Short-term investments	327,000	468,570	1,226,415	3,603,497	3,084,634	474,100
Prepayments and other current assets	286,560	575,297	1,285,607	1,632,329	939,463	144,393
Total assets	1,075,373	2,645,017	7,186,141	9,171,654	6,657,805	1,023,287
Accounts payable	288,965	382,705	855,588	1,022,704	852,500	131,027
Advances from customers	396,738	638,828	1,138,009	1,806,493	1,210,615	186,068
Total liabilities	784,017	1,236,294	3,851,394	4,581,927	2,963,777	455,525
Total mezzanine equity	716,441	—	—	90,072	96,719	14,865
Total shareholders' (deficit)/equity	(425,086 )	1,408,723	3,334,747	4,499,655	3,597,309	552,897

	For the Year Ended December 31,					
	2013	2014	2015	2016	2017	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Summary Consolidated Statements of						
Cash Flow Data:						
Net cash provided by/(used in) operating activities	116,736	(271,102 )	(514,735 )	(2,239,444)	(418,649)	(64,347 )
Net cash (used in)/ provided by investing activities	(304,218)	(227,923 )	(1,915,168)	(2,514,247)	648,306	99,644
Net cash provided by/(used in) financing activities	306,360	1,540,397	3,005,838	3,627,058	(784,766)	(120,616)

## Exchange Rate Information

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. The conversion of Renminbi into U.S. dollars in this annual report is based on the noon buying rate in New York City for cable transfers in RMB as certified for customs purposes by the Federal Reserve Board. 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 RMB6.5063 to US\$1.00, the noon buying rate in effect as of December 29, 2017. 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. On April 20, 2018, the noon buying rate was RMB6.2945 to US\$1.00.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated.

	Noon Buying Rate			
	Period-End	Average <sup>(1)</sup>	Low	High
	(RMB per U.S. Dollar)			
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6563	6.9580	6.4480
2017	6.5063	6.7350	6.9575	6.4773
October	6.6328	6.6254	6.6533	6.5712
November	6.6090	6.6200	6.6385	6.5967
December	6.5063	6.5932	6.6210	6.5063
2018				
January	6.2841	6.4233	6.5263	6.2841
February	6.3280	6.3183	6.3471	6.2649
March	6.2726	6.3174	6.3565	6.2685
April (through April 20, 2018)	6.2945	6.2859	6.3045	6.2655

Source: Federal Reserve Statistical Release

(1)



Annual averages are calculated using the average of month-end rates of the relevant year. Monthly averages are calculated using the average of the daily rates during the relevant period.

**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 6.9% in 2017. 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 as well as the volcanic eruption in Bali, Indonesia in November 2017, which all had a negative impact on our target customers. In addition, leisure travel products and services to overseas destinations accounted for over 67.1% of our packaged tour gross bookings in 2017. Even though China has recently reached agreements with certain countries such as the United States and Canada to relax existing travel visa restrictions for Chinese nationals, 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, and the deployment of THAAD by South Korea in 2016 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 RMB1,466.3 million, RMB2,422.3 million and RMB771.3 million (US\$118.6 million) in 2015, 2016 and 2017, 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. Although we are not the primary obligor for providing the travel services since the beginning of 2017, 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 2017, the number of orders placed through our mobile platform accounted for over 90% of total orders placed through our online platform and average daily unique visitors on our mobile platform accounted for over 70% 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 rapid expansion in lower tier cities in China. 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. Dunde Yu, our co-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 participate in the finance sector in China in 2015. We offer a range of financial services, including consumer financing, supply chain financing and microcredit, yield enhancement products and insurance products to our customers. Expansion in this new business area 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, and Changsha. We operate our 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 March 31, 2018, we operate our own local tour operators in 12 domestic destinations and 2 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. 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. The Measures for the Administration of the Overseas Tours of Chinese Citizens which was issued by the State Council on May 27, 2002, 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.

***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. Our security measures may not be sufficient to prevent security breaches. 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 and could expose us to legal claims.

***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, 2017. 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, 2017. 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 March 31, 2018, there were options to acquire 4,041,659 ordinary shares outstanding under the 2008 Plan, and options to acquire 12,854,567 ordinary shares and 81,946 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 not allowed to own more than 50% of the equity interest in any entity conducting value-added telecommunications business. 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 enactment timetable, interpretation and implementation of the draft PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.***

The Ministry of Commerce, or MOC, published a discussion draft of its proposed Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, *the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law*, together with their implementation rules and ancillary regulations. The draft Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and legislative efforts to unify the corporate legal requirements for both foreign and domestic investments.

Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of “actual control” in determining whether a company is considered a foreign-invested enterprise, or FIE. The draft Foreign Investment Law specifically provides that entities established in China but “controlled” by foreign

investors will be treated as FIEs, whereas an entity established in a foreign jurisdiction would nonetheless be, upon market entry clearance by the MOC, treated as a PRC domestic investor provided that entity is “controlled” by PRC entities and/or citizens. In this connection, “control” is broadly defined in the draft law to cover the following summarized categories: (i) holding, directly or indirectly, 50% or more of the equity interests or voting rights of the subject entity; (ii) holding less than 50% of the equity interests or voting rights of the subject entity but having the power to secure at least 50% of the seats on the board or other equivalent decision making bodies, or having the voting power to materially influence the board, shareholders’ meetings or other equivalent decision making bodies; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity’s operations, financial matters or other key aspects of business operations. Under the draft Foreign Investment Law, once an entity is determined to be an FIE, it will be subject to the foreign investment restrictions or prohibitions set forth in a “negative list,” to be separately issued by the State Council at a later date, in the event that the FIE is engaged in an industry listed on the negative list. Unless the underlying business of the FIE falls within the negative list, which calls for market entry clearance by the MOC, prior approval from the government authorities as mandated by the existing foreign investment legal regime would no longer be required for establishment of the FIE.

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.” Under the draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangements would also be deemed FIEs, if they are ultimately “controlled” by foreign investors. Therefore, there is a risk that, for any company which invests in an industry category that is on the “negative list” using a VIE structure established after the Foreign Investment Law takes effect the VIE structure would be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC companies or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then there is the risk that the variable interest entities will be treated as FIEs and any operation in industry categories on the “negative list” without market entry clearance would possibly be considered as illegal. But as for investments in industry categories contained in the negative list through VIE structures established before the Foreign Investment Law takes effect, there is no specific clause in the draft Foreign Investment Law specifying how these investments will be treated. In accordance with an explanation on the draft Foreign Investment Law issued concurrently by the MOC, the MOC is conducting further research and studying on this matter and will put forward disposition suggestions after soliciting public comments. The MOC solicited comments on the draft Foreign Investment Law and substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. Moreover, it is uncertain whether the value-added telecommunications and travel industries in which our variable interest entities operate will be subject to the foreign investment restrictions or prohibitions set forth in the “negative list” to be issued by the State Council. If a final version of the Foreign Investment Law and the “negative list” are promulgated and mandate further actions, such as MOC market entry clearance, to be completed by companies like us, with existing VIE structures, we face uncertainties as to whether such clearance can be timely obtained, or at all. Any such development could materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects. In the event that a final version of the Foreign Investment Law is enacted, we will conduct a full analysis of our corporate structure, corporate governance and business operations to assess our conformity with the requirements set forth therein.

The draft Foreign Investment Law, if enacted as proposed, may also materially impact our corporate governance practices and increase our compliance costs. For instance, the draft Foreign Investment Law imposes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable FIEs. Aside from investment implementation report and investment amendment report that are required at each investment and alteration of investment specifics, an annual report is mandatory, and large foreign investors meeting certain criteria are required to report on a quarterly basis. Any company found to be non-compliant with these information reporting obligations may potentially be subject to fines and/or administrative or criminal liabilities, and the persons directly responsible may be subject to criminal liability.

***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 o***