

All,

It was great seeing you on our most recent trip. Thanks for spending the time to understand our story, track our growth, and watch our strategy unfold quarter after quarter. We appreciate your support.

Many of you may have read the book “Zero to One” by Peter Thiel. I wanted to share with you a thought that started in this book. The author raised a proverbial question: what important truth do very few people agree with you on? Applied broadly, this is a metaphysical question. Applied narrowly to the more mundane field of China online travel, my answer is “Most people believe that competition is getting more intense, but that is not the truth.”

Yes, there have been a lot of chatter about intensified competition in both the media and earnings calls in our industry. Coupon. Branding campaigns (we do minimal). Big sales staff (we stayed on track and added small numbers in 2H2014). Inferring from these phrases, investors naturally think about lack of visibility and value destruction.

What is missing here, however, is a primal truth, which is, competition has always been intense. Not more so... not less so, and we stay on our course.

Think about this. Travel is one of only a few annual trillion RMB verticals, and it is a space where in steady state, dominance by few, NOT perfect competition, will likely happen. The ultimate prize is large, and players all industrious and resourceful. We have been as well, but we have followed a different philosophy and business model.

We started in 2005, when two Chinese OTAs were already public. We came in as the disruptor, as the technology play. Over the years, we designed our offerings with squarely the average Chinese consumer in mind – who is probably more value conscious than consumers elsewhere; who embraces new technologies and products faster (“leapfrog”); and who is a savvy shopper that plans and researches before making large purchases.

We believe in the power of technology, to empower both consumers and merchants. We have built a nimble and efficient technology platform – first to automate the search and transaction processes to accommodate a very large; diverse group of products, and to use mobile to transact, service consumers and build an online travel community (3 in 1 on mobile); and now to use data to understand, anticipate and influence consumer behavior through dynamic pricing. Innovation is vital to us, and it is only through innovation that we can bring the future of travel to Chinese consumers today. It is only through innovation that we can scale, can keep our cost / expense structure as fixed as possible, and can drive profitability through a clear path.

Flight was our first vertical. We were teeny tiny. There were large incumbents. Our competitors outspent us by very large ratios; but we kept innovating. We used our R&D dollars wisely; we have been blessed with a gifted and devoted team. In Q3 2013, we overtook our competitors to become the largest 2C platform for flight tickets in China. We have continued to grow faster than our competitors, and some of our erstwhile peers have ceased to be meaningful players (and their names gradually disappearing from the consciousness of Chinese consumers). We became profitable for flight. Before we started to push aggressively our second vertical, our company was profitable in Q1 2013 for example (non-GAAP), although our take rate then at slightly over 1% of GMV, was significantly lower than the 5% charged by other 2C players. We thank technology.

Hotel is our second vertical. We do not spread ourselves too thin. We go after large verticals intensely only one by one (and there are very limited numbers of what we define as “large verticals” within travel). If we were to name 2014 after one phrase, 2014 was a year for “hotel direct”. By Q3 this year, we became the second largest hotel platform in China, and “direct” became the majority of our hotel business. We literally went from 0 to 1 in a few quarters.

We have also been decisive in taking actions once we’ve determined a clear path. Take the example of our SaaS platform, which allows consumers to complete their transactions on our platform. Much like

Kayak.com, we have our roots in metasearch, but directing leads to other sites is NOT a winning proposition in the mobile age. In anticipation of the mobile potential, we developed SaaS, and then when China went from offline to mobile in 2014, we fully embraced the seismic shift! Our mobile stats, which many of you are familiar with (55% of hotel volume, 43% of flight volume and 40% of revenue in Q3 2014), is a result of our early determination.

Today, we are taking the same approach for signing China's fragmented, independent hotels (vast majority of the market) directly onto our platform and building a technology platform to support it. Yes, we want to capture that vast market opportunity , and yes, we want to avoid high levels of customer concentration, which would be the result if we remained in meta for hotel. Here, we have determined a path – and we will travel that path.

Now going back to the question of competition. For years and years, we have competed in a field with large incumbent players. They enjoyed larger scale, bigger brand name, deeper war chest, and the stature of being publicly listed. We had something different – our grit and our starry-eyed vision that technology is the key. We have the firm belief that Chinese consumers and merchants are smart, and we want our technology to be as smart as our constituencies.

I have already gone through with many of you on the most recent trip those finer points – how coupon is NOT getting more intense in Q4, how we are unfazed by our competitors' headcount increase as we are a "high technology touch" player, and I am not going to belabor the same points here.

But importantly though, I want to thank all of you for your support. You have challenged us – in larger and smaller settings; your great questions have led us to think deeper about how we operate; and you have offered us ideas that are thought-provoking. Some of you are already large shareholders of us, and we appreciate your faith in our business model and in us to execute. We know we are still early in our story. We look forward to staying on our course and continuing to execute; and we look forward to having

more discussions, debates and mathematical analysis with you.

With that, happy early holidays!

We look forward to thriving with you in 2015.

Best regards,
Yilu Zhau
Qunar, chief strategy officer