

INDUSTRY OVERVIEW

*Certain information and statistics presented in this section and elsewhere in this document were derived from official government publications and other publicly available sources as well as from the *Analysys Report*, the market research report prepared by *Analysys*, an independent industry consultant that was commissioned by us. We believe that the sources of the information in this section and elsewhere in this document are appropriate sources for such information and reasonable care has been taken in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any part has been omitted that would render such information false or misleading. The information from official and non-official sources has not been independently verified by us or any other parties involved in the [REDACTED], except *Analysys*, or any of our or their respective directors, officers, or representatives, and no representation is given as to its accuracy or completeness. Accordingly, you should not place undue reliance on such information and statistics. For discussions of risks relating to our industries, see “Risk Factors—Risks Relating to Our Business and Industry.”*

SOURCES OF INFORMATION

We commissioned *Analysys*, an independent market research consulting firm that is principally engaged in the provision of market research consultancy services, to conduct a detailed study of the travel markets in China and globally.

During the preparation of the *Analysys Report*, *Analysys* performed both primary and secondary research, and obtained knowledge, statistics, information, and industry insights on the industry trends of the travel markets in China and globally. Primary research involved discussing the status of the industry with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports, and available data based on *Analysys*’s own research database. In addition, *Analysys* also conducted two surveys: (i) one conducted in November 2019 with a total of 510 valid samples to study travel product demand, and (ii) the other conducted in May 2020 with a total of 500 valid samples to study the varying travel demand during the COVID-19 pandemic.

The *Analysys Report* was compiled and the expected growth in the global and China’s travel markets was estimated based on the following assumptions: (i) the political, economic, and social environment in China remains stable, which ensures the continuous development of China’s travel market, (ii) the PRC government continues to support the development of China’s travel market, and (iii) the COVID-19 epidemic has caused a decrease in demand in the global and China travel markets, but as vaccine roll out globally, the pandemic is expected to be contained and travel demand will increase, therefore the travel markets in China and globally will resume growth and are expected to recover to the pre-COVID level in 2021 and 2022, respectively. Specifically, since late February 2021, China has been generally clear of regions identified with medium or higher risk of COVID-19 infection, boosting confidence in domestic travel. The domestic air ticket reservations for the upcoming Ching Ming Festival in 2021 are expected to be comparable with the 2019 level, and the hotel reservations for the Labor Day Holiday in 2021 are expected to increase from the 2019 level. In light of the well contained pandemic and strong demand for travel that had been suppressed temporarily, the China travel market is estimated to recover to the pre-COVID level in 2021, according to the *Analysys Report*. In addition, vaccines have been rolling out globally and authorities are making effective efforts to contain the COVID-19 pandemic and facilitate safe global travel. For example, countries such as Iceland started to provide immunity passports for citizens who have received the COVID-19 vaccines. As a result, the global travel market is expecting a solid resurgence to the pre-COVID level in 2022, according to the *Analysys Report*.

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Analysys is an independent consulting firm, which was founded in Beijing, China in 2000. It offers big data analytics and consulting services. We have agreed to pay a fee of RMB200,000 to Analysys in connection with the preparation of the Analysys Report. We have extracted certain information from the Analysys Report in this section, as well as in the sections headed “Summary,” “Risk Factors,” “Business,” “Financial Information,” and elsewhere in this [REDACTED] to provide our potential [REDACTED] with a more comprehensive presentation of the industries where we operate.

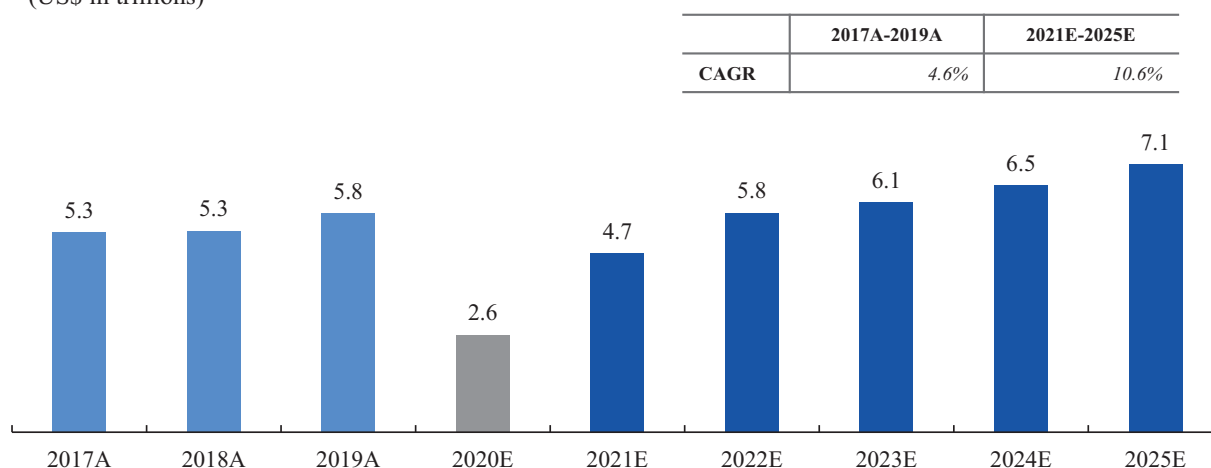
THE MASSIVE TRAVEL MARKET OPPORTUNITY

Travel is a lifestyle and an indispensable dimension of life and has been fast evolving with constant enhancement in technology. Especially in recent years, technology has been transforming the industry through innovation that brings enjoyable travel experience to travelers with diverse needs.

The global demand for travel is massive. In 2019, travelers took 12.3 billion trips, and the global travel market size was US\$5.8 trillion, according to the Analysys Report. After a decrease in 2020 due to the COVID-19 pandemic, the global travel market is expected to resume growth in 2021 and reach US\$7.1 trillion by 2025, mainly driven by continuing rollout of COVID-19 vaccines, increasing consumer interest in travel, and rising consumer spending power, especially from emerging markets such as Asia, according to the Analysys Report.

Global Travel Market, 2017-2025E

(US\$ in trillions)



Source: Analysys Report

Note: The market size was determined and calculated based on (i) the primary and secondary research Analysys performed on the industry trends of the global and China travel markets, (ii) with references to the formal releases by World Tourism Cities Federation (WTCF) and (iii) taking into account the outlook of global travel market for 2021-2024 by World Tourism Organization (UNWTO).

According to the Analysys Report, China has become the largest travel market globally in terms of the total number of domestic and inbound trips, which was 6.2 billion in 2019 and is expected to reach 7.5 billion in 2025, despite a drop in 2020 due to the COVID-19 pandemic. During 2019, the market size of domestic and inbound travel in China was RMB6.6 trillion (US\$1.0 trillion), accounting for 18% of the global travel market.

Despite its current massive size, China’s travel market still has great potential for further growth. China’s travel market is expected to quickly recover from the impact of the COVID-19 pandemic in 2020 and reach RMB10.1 trillion (US\$1.6 trillion) by 2025, representing a CAGR of 11% from 2021, according to the Analysys Report. Chinese travelers’ average spending per trip was US\$158 in 2019, significantly lower than that of U.S. travelers at US\$873. In the foreseeable future,

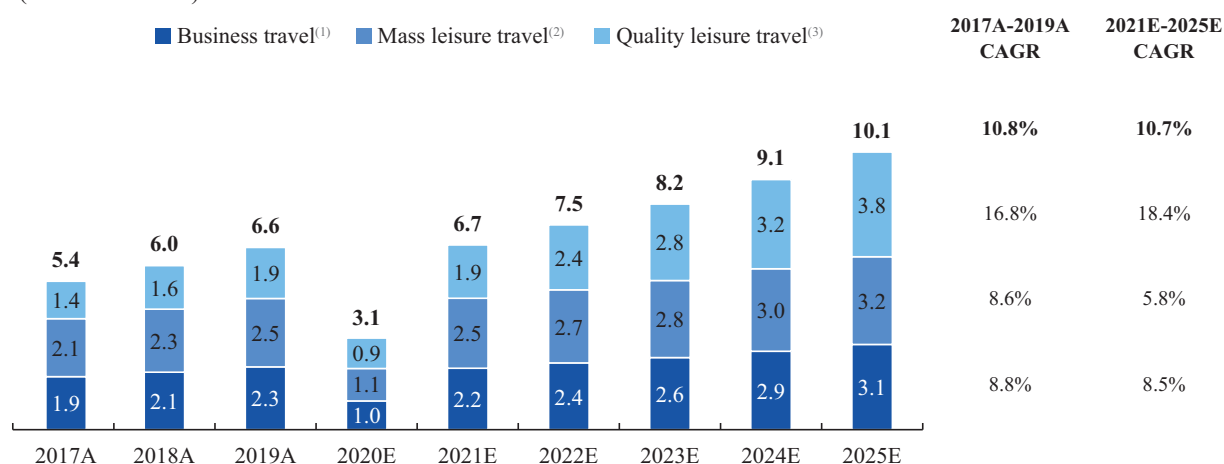
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China will continue to be a major market for the global travel industry, driven by robust economic growth and ongoing consumption upgrades.

China’s travel market mainly consists of business travel, mass leisure travel, and quality leisure travel, according to the Analysys Report. Quality leisure travel, represented by high-quality travel products and services such as upscale hotels, VIP tour products, and in-destination travel options, is the fastest growing sector and is expected to surpass the mass leisure travel sector in terms of market size in 2024. According to the Analysys Report, key areas of competition in the business travel and quality leisure travel sectors include: (i) the ability to provide premium and enjoyable user experience and comprehensive products and services, and (ii) convenient and reliable user care services throughout the trip. Therefore, industry participants are inclined to enhance service quality and continue to enrich the suite of product and service offerings. The established players with proven service quality and comprehensive offerings are better positioned to seize the market opportunities and increasing demand in these sectors. Meanwhile, as the mass leisure travel sector mainly represent basic travel demand, major elements of competition include pricing and availability of products and services.

China’s Domestic and Inbound Travel Market by Travel Purpose, 2017-2025E

(RMB in trillions)



Source: Analysys Report

Notes:

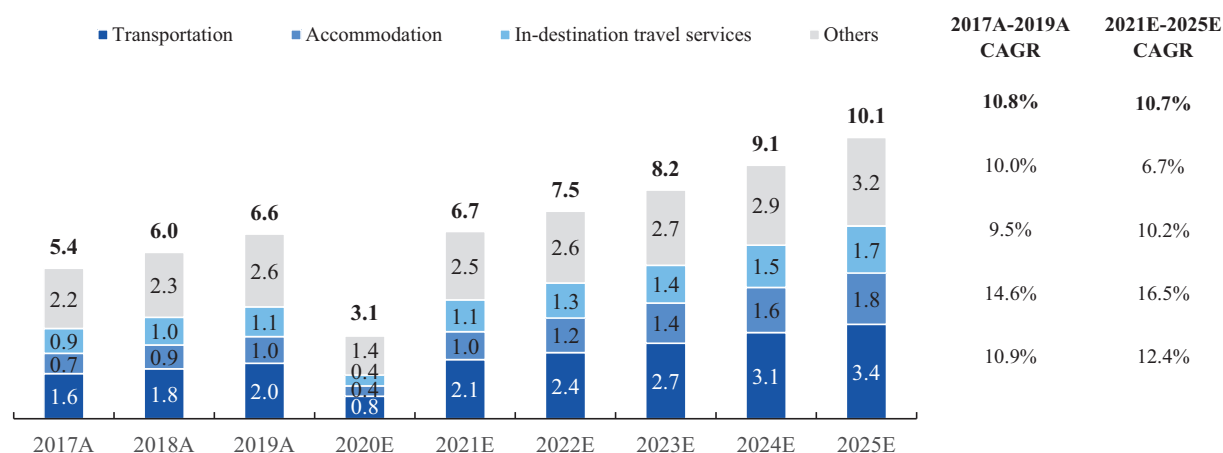
- (1) Business travel refers to travel for work or business purposes.
- (2) Mass leisure travel refers to leisure-oriented travel involving expenditure on budget hotels (three-star and below), train and coach tickets, tour tickets, lower-end packaged tours, self-guided tours, and daycations, excluding those included in quality leisure travel.
- (3) Quality leisure travel refers to leisure-oriented travel involving expenditure on mid-to-upscale hotels (four-star and above), air tickets, car rental and chauffeured car services, smaller-group (with less than 10 travelers) packaged tours and self-guided tours with customized tour plan and butler services, and mid-to-upscale hotel products, private daycations with customized tour plan and butler services, VIP tour tickets, and other premium leisure travel features.

Each trip consists of several essential elements, including transportation, accommodation, in-destination travel services such as sightseeing and entertainment, and other consumption forms mainly including dining and shopping. China’s travel market can be similarly divided into these four sectors, as illustrated below.

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China’s Domestic and Inbound Travel Market by Consumption Form, 2017-2025E

(RMB in trillions)



Source: Analysys Report

Chinese travelers’ outbound travel spending was RMB562.5 billion (US\$87.0 billion) in 2019, making it the largest outbound travel market globally, according to the Analysys Report. Chinese travelers took 155 million international trips in 2019. Driven by the growing consumption power and easier access to an increasing number of quality travel options, Chinese travelers’ outbound travel spending is expected to reach RMB657.9 billion (US\$101.7 billion) by 2025 following recovery from the COVID-19 pandemic, according to the Analysys Report.

KEY MARKET TRENDS FOR TRAVEL IN CHINA

We believe that the following trends drive the future development of China’s travel market.

- Consumption upgrade driven by mass affluent population.** China has the world’s largest middle-class population, whose annual household income ranges from RMB60,000 to RMB500,000. China’s middle-class population is expected to expand from 300 million in 2019 to 660 million in 2025, representing 46% of the total population in China in 2025, according to the Analysys Report. The rise of China’s middle class is continuously reshaping consumption patterns, and this demographic group is typically more tech-savvy and tends to spend more on quality services and experiences. We believe that the emerging affluent population in China has reached an inflection point in terms of their consumption power, and are poised to drive increasing travel demand, similar to the historical growth trajectory of travel consumption in first-tier cities in China with more affluent populations.
- Preference for diverse travel options and quality experience.** From long adventures to weekend getaways, and from long-distance travels to short-haul trips, the concept of travel has been continuously expanding, making everyone a more frequent traveler. Particularly following the COVID-19 pandemic in China, the industry has observed booming demand in small-group and self-guided tours, short-haul trips, night-time sightseeing, and other customized and emerging offerings with immersive experience, according to the Analysys Report. Nevertheless, travelers’ expectations for quality continue to prevail, as 95% of travelers are willing to pay a premium for quality travel products and services, according to a survey conducted by Analysys in November 2019. As such, the quality leisure travel market holds significant growth potential, and its market size is expected to reach RMB3.8 trillion (US\$0.6 trillion) in 2025, according to the Analysys Report.

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- ***Structural shifts towards inspirational and comprehensive user engagement.*** Chinese travelers have become digitally native and sophisticated, and continuously seek an elevated experience through a one-stop platform offering comprehensive travel content, products, and services. In contrast to the conventional search-and-book model, travelers today increasingly enjoy the fun of sharing, discovering, and getting inspired by rich content, which helps attract more travelers and foster additional demand. In addition, the boundary between online and offline user engagement has blurred, as travelers do not limit themselves to one channel as long as they are digitally connected. Thus, travel platforms offering inspirational content, diverse product selection, and smooth service across a wide range of user touch points both online and offline are better positioned to attract and retain users. As a natural result, the travel advertising market in China, which includes revenues generated from non-travel advertisements on travel platforms and travel advertisements, also shows great growing potential. The market size is estimated to grow from RMB94.6 billion (US\$14.6 billion) in 2019 to RMB139.3 billion (US\$21.5 billion) in 2025, according to the Analysys Report.
- ***Technology-driven supply side evolution.*** As the travel industry keeps expanding to include a wider range of participants and enable more sophisticated offerings, efficiency along the travel industry supply chain becomes a major focus. With business insights and intelligence based on AI and big data analytics, online platforms are better poised to empower these participants to effectively engage users through targeted marketing and conduct well-informed operations leveraging supply-chain management systems. For example, big data analytics can help airlines achieve more effective inventory management with better knowledge of travelers. The integration of and close relationship with digitalized partners will in turn enhance the effectiveness of online platforms and create a thriving industry.

Driven by the foregoing key market trends, China’s travel market presents great potential for further expansion. The travel market continues to witness various innovations such as application of new technology and rollout of new products and business models, which in turn bring vitality to the industry and fuel future growth.

COMPETITIVE LANDSCAPE OF GLOBAL AND CHINA’S TRAVEL MARKET

The global travel market demonstrated strong growth from 2017 to 2019, when industry players were constantly adapting to market changes and updating their business models to compete more effectively. The global travel market is fragmented, as the top five travel platforms globally accounted for an aggregate market share of 7.0% in terms of GMV in 2019.

In China, major industry players in the travel market include travel platforms that provide integrated travel products and services, and various travel product and service providers along the value chain. In terms of GMV, the top five travel platforms accounted for an aggregate market share of 21.5% in China in 2019.

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The following table presents the ranking and market share of the top five players in terms of GMV in the global and China’s travel market in 2019, respectively.

Top five travel platforms ⁽¹⁾ globally (by GMV, 2019)			Top five travel platforms ⁽¹⁾ in China (by GMV, 2019)		
Ranking	Players ⁽²⁾	Market share ⁽³⁾	Ranking	Players ⁽²⁾	Market share ⁽³⁾
1	The Company	2.3%	1	The Company	13.7%
2	Player A	1.9%	2	Player E	3.8%
3	Player B	1.7%	3	Player F	2.6%
4	Player C	0.7%	4	Player G	0.9%
5	Player D	0.5%	5	Player H	0.6%
Top 5		7.0%	Top 5		21.5%

Source: *Analysys Report*

Notes:

- (1) Travel platforms refer to platforms that provide integrated travel services and products, such as transportation ticketing, accommodation booking, in-destination travel services, among others.
- (2) Player A is a listed company based in the U.S.; player B is a listed company based in the U.S.; player C is a listed company based in the U.S.; player D is a private company headquartered in the Netherlands; player E is a subsidiary of a listed company based in China; player F is a listed company based in China; player G is a listed company based in China; player H is a listed company based in China.
- (3) Market shares are based on global travel market size in 2019 and China’s domestic and outbound travel market size in 2019, respectively.

INDUSTRY RECOVERY AND NEW NORMS AFTER THE COVID-19 PANDEMIC

The COVID-19 pandemic has had a negative impact on the travel market in China and globally, given the worldwide travel restrictions in place starting from early 2020. The global travel industry has observed rising demand in domestic and short-haul travel as replacement for cross-border travel due to the travel restrictions. In the meantime, authorities in various countries are looking into the possibility of introducing exclusive partnerships among selected countries, or “travel bubbles,” and establishing an international vaccine certificate or visa system, which would enable people to travel abroad and drive a rebound in global travel demand for the post-COVID era. For instance, Malta has re-opened its border and been expanding the list of countries whose citizens are eligible to enter the country; starting from November 6, 2020, the Singapore government has lifted their border restrictions for travelers from mainland China, then established a travel bubble with Hong Kong.

With gradual recovery of domestic travel, China has been leading the worldwide recovery in the travel industry since the outbreak of the COVID-19 pandemic due to the rapid response and effective containment measures. For example, the National Day holiday golden week in October 2020 observed a strong resurgence of China’s domestic travel market, with 637 million domestic trips during the holiday, accounting for 81% of the total number of domestic trips in the same period in 2019, according to the *Analysys Report*.

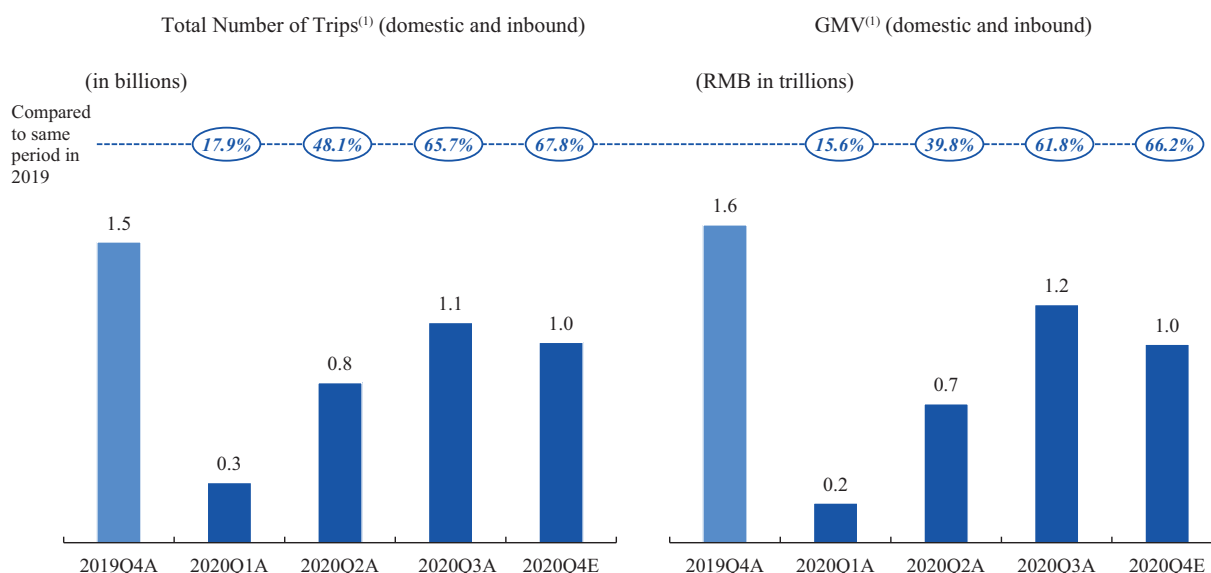
The pandemic also has driven a surging demand for quality leisure travel products. During the economic recovery amid persistent health and safety measures against the pandemic, Chinese travelers continued to travel but showed an emerging preference for short-haul travel, local trips, and domestic boutique and premium accommodation experiences. For example, it is expected that the small group tour products currently on the market for the upcoming public holidays in 2021 will cover all major tourist destinations across the country, according to the *Analysys Report*. In addition, the quality leisure travel sector is expected to grow nearly twice as fast as the overall travel market from 2021 to 2025, according to the *Analysys Report*, representing significant demand and growth potential going forward.

China’s travel market has formed a V-shaped recovery, with 1.1 billion domestic and inbound trips in the third quarter of 2020, representing a 45% increase from the number of such trips in the

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second quarter of 2020, according to the Analysys Report. The market is also expected to quickly rebound in 2021, reaching a total of 6.2 billion domestic and inbound trips, and to resume growth going forward.

China’s Travel Market: V-Shaped Recovery from the COVID-19 Pandemic



Source: Analysys Report

Note:

(1) The market size in terms of total number of trips and GMV were determined and calculated based on (i) the primary and secondary research and forecast that Analysys performed on the industrial trends of the China travel market, and (ii) quarterly domestic travel market data and survey results released by the PRC Ministry of Culture and Tourism.

The COVID-19 pandemic has also caused shifts in the supply chain of China’s travel market. Comparing to mature and large-sized market participants, the ones that were smaller in scale, less capitalized, or less differentiated were typically more severely affected. In addition, the pandemic also further promoted the digitalization of the overall travel supply chain. Travel brands and service providers became more inclined to establish online presence and embrace new digital tools, such as dynamic operation management systems and content creation tools, to more efficiently meet demand and operate their businesses. As travelers developed an emerging preference towards short-haul travel, local trips, and domestic boutique and premium accommodation experiences during the economic recovery, service providers have been creating innovative products and enhancing their service quality to capture the evolving demand.

The secular trends continue to create massive market opportunities for participants in the travel market in both China and globally in the mid- to long-term. Established platforms with leading technology and proven operational know-how across all travel segments are poised to promptly react to evolving demand, maximize user satisfaction and trust, drive industry recovery, and strengthen their leadership in the post-COVID era.