eLong, Inc.
Form F-1/A
October 26, 2004
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As filed with the Securities and Exchange Commission on October 26, 2004.

Registration No. 333-119606

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 3 to

FORM F-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

eLong, Inc.

(Exact Name of Registrant as Specified in its Charter)

Cayman Islands	7389	Not Applicable
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(IRS Employer Identification Number)

Block B, Xing Ke Plaza

10 Jiuxianqiao Zhonglu

Chaoyang District, Beijing 100016

People s Republic of China

Attn: Justin Tang, Chief Executive Officer

Tel: +86 (10) 5860-2288

(Address, including zip code, and telephone number, including area code of Registrant s principal executive offices)

CT Corporation System,

111 Eighth Avenue,

New York, New York 10011

Tel: (212) 894-8440

(Name, address, including zip code, and telephone number, including area code of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434 under the Securities Act of 1933, please check the following box. ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. Neither we nor the selling shareholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is declared effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject To Completion, Dated October 26, 2004

eLong, Inc.

4,602,547 American Depositary Shares

Representing 9,205,094 Ordinary Shares

This is the initial public offering of eLong, Inc. We are offering 3,623,235 American Depositary Shares, or ADSs, and the selling shareholders are offering 979,312 ADSs. Each ADS represents two ordinary shares. We anticipate that the initial public offering price will be between US$11.50 and US$13.50 per ADS. The ADSs have been approved to be quoted on the Nasdaq National Market under the symbol LONG.

Investing in our ADSs involves risks. See Risk Factors beginning on page 14.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per ADS	Total
Public offering price	US$	US$
Underwriting discounts and commissions	US$	US$
Proceeds, before expenses, to eLong, Inc.	US$	US$
Proceeds, before expenses, to the selling shareholders	US$	US$

The selling shareholders have granted the underwriters the right to purchase up to an aggregate of 690,383 additional ADSs to cover over-allotments.

Deutsche Bank Securities

WR Hambrecht + Co

Allen & Company LLC

The date of this prospectus is , 2004.

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CONVENTIONS THAT APPLY TO THIS PROSPECTUS

Unless otherwise indicated, references in this prospectus to:

ADRs are to the American depositary receipts that evidence our ADSs;

ADSs are to our American depositary shares, each of which represents ordinary shares;

CAGR are to compound annual growth rate;

China or the PRC are to the People s Republic of China, excluding for the purpose of this prospectus Hong Kong, Macau and Taiwan;

Nasdaq are to the Nasdaq National Stock Market, Inc.;

RMB are to Renminbi, the legal currency of China;

shares or ordinary shares are to our ordinary shares, with par value US$0.01 per share;

U.S. GAAP are to generally accepted accounting principles in the United States of America;

US$ are to U.S. dollars, the legal currency of the United States; and

we , us , our company , our and eLong are to eLong, Inc., its predecessor entities and subsidiaries, and additionally, in t context of describing our operations, our affiliated Chinese entities.

Unless otherwise indicated, our financial information presented in this prospectus has been prepared in accordance with U.S. GAAP.

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into U.S. dollars at specified rates. All translations from Renminbi to U.S. dollar amounts are made at the noon buying rate in the City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, the translation from Renminbi into U.S. dollars and from U.S. dollars into Renminbi has been made at the noon buying rate in effect on June 30, 2004, which was RMB 8.2766 to US$1.00. No representation is made that the Renminbi or U.S. dollar amounts referred to in this prospectus could have been or could be converted into U.S. dollar or Renminbi amounts, as the case may be, at any particular rate or at all. See Risk Factors Risks Related to Doing Business in the People s Republic of China Governmental control of currency conversion may affect the value of your investment and Risk Factors Risks Related to Doing Business in the People s Republic of China Fluctuation of the Renminbi may materially and adversely affect the value of your investment for discussions of the effects of currency control and fluctuating exchange rates on the value of our ADSs. On October 22, 2004, the noon buying rate was

RMB8.2765 to US$1.00.

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PROSPECTUS SUMMARY

The following summary should be read in conjunction with the more detailed information, including the Risk Factors section and the financial statements and related notes, appearing elsewhere in this prospectus. You should read the entire prospectus carefully in evaluating an investment in our securities.

Overview

We are a leading online travel service provider in China. We utilize a centralized modern call center and web-based distribution technologies to provide our services. We seek to serve China s emerging class of frequent independent travelers, or FITs, who engage in business and leisure travel. We believe FITs to be a fast-growing, yet relatively underserved, segment of the approximately RMB388 billion (US$46.9 billion) domestic travel market in China. Through our nationwide 24-hour toll-free call center, our user-friendly Chinese and English language websites and our extensive reseller network, we provide our customers with consolidated travel information and the ability to book rooms at discounted rates at over 2,600 hotels in more than 220 cities across China. The majority of our hotel suppliers are three-, four- or five-star hotels, as rated by the China National Tourism Bureau, catering to higher-end travelers. We also offer convenient air ticketing and other travel related services, such as rental cars, vacation packages and corporate travel services, at competitive prices.

Since our inception in April 2001, we believe we have built one of the largest travel service distribution networks in China. We offer our customers a wide selection of hotel rooms in all major cities in China, usually at significant discounts to published rates, and guaranteed year-round room availability at many hotels. Our hotel booking volume has increased from approximately 389,000 room-nights in 2001 to approximately 1,032,000 room-nights in 2003. In the six months ended June 30, 2004, we booked approximately 847,300 room-nights, compared to the approximately 343,600 room-nights we booked in the six months ended June 30, 2003. For the three months ended September 30, 2004, we booked approximately 538,000 room-nights. We offer our travel suppliers access to aggregated consumer demand, giving them the ability to promote their hotels and other travel related services to a large and growing base of customers at low incremental cost.

We also sell air tickets for all major airlines in China and many international airlines that operate flights originating from China. We issue and deliver air tickets using a network of local agents throughout major cities in China. In the six months ended June 30, 2004, we sold approximately 93,600 air tickets, compared to approximately 20,700 air tickets we sold in the six months ended June 30, 2003. For the three months ended September 30, 2004, we sold approximately 81,000 air tickets.

We have experienced significant growth since we began operations in 2001. For the six months ended June 30, of 2004, we generated revenues of RMB60.1 million (US$7.3 million), an increase of 146.3% over RMB24.4 million (US$2.9 million) generated in the six months ended June 30, of 2003. We generated revenues of RMB74.4 million (US$9.0 million) for the year ended December 31, 2003, an increase of 33.3% from 2002. We recorded net income of RMB1.6 million (US$0.2 million) for the year ended December 31, 2003 and net loss of RMB9.3 million (US$1.1 million) for the six months ended June 30, 2004. Approximately 81.0% of our total revenues in 2003 and 79.9% of our total revenues for the six months ended June 30, 2004 were derived from our hotel booking business with the remainder of our revenues being largely derived from sales of air tickets, short messaging services, Internet advertising, the sale of co-branded and VIP membership cards and Internet services to hotels.

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Recent Developments

On August 4, 2004 we issued and sold 11,188,570 Series B preferred shares to a wholly-owned subsidiary of IAC/InterActiveCorp, or IAC. In addition to its other businesses, IAC owns and operates, through its IAC Travel division, various online travel businesses, including Expedia, Hotels.com, Hotwire and the WWTE private label. We used approximately one-half of the proceeds of the sale of the Series B preferred shares to repurchase securities from our existing shareholders. In addition, we granted IAC options to purchase additional ordinary shares, and a warrant to purchase a number of our high-vote ordinary shares that, if exercised, would result in IAC s holding approximately 52% of our outstanding shares and approximately 96% of our voting power on a fully-diluted basis. See Investment by IAC/InterActiveCorp for a more detailed description of the IAC investment and Description of Share Capital Ordinary Shares and High-Vote Ordinary Shares for a description of our high-vote ordinary shares.

Our Opportunity

We expect the travel and tourism industry in China to continue to grow rapidly as China s economy continues to expand. China s travel service industry is fragmented and inefficient. This fragmentation creates a market opportunity for our centralized reservation platform offering comprehensive travel information and favorable terms negotiated with travel service suppliers across China. See The Travel and Tourism Industry in China.

Our Strengths

We have quickly become one of the leading travel service providers in China by capitalizing on the following competitive strengths.

Brand leadership. As one of the early movers in the industry to adopt modern communications and Internet technologies, we believe we have one of the best-known brands for travel services in China. We believe our customers associate the eLong brand with value, convenience and innovation.

Nationwide reach for nationwide travel destinations. Our customers can make reservations for accommodation at over 2,600 hotels in more than 220 cities across China, and book domestic and international air tickets, vacation packages and rental cars by calling our 24-hour call center from anywhere in China, or by booking through our websites or nationwide reseller network.

Total customer focus. We provide our customers with comprehensive travel information, allowing them to conveniently compare prices, browse availability and amenity options, and select the price and supplier that best meet their individual travel needs. We enhance customer experience through personalized care, loyalty rewards and continuous service improvements.

Strong supplier value. We offer our travel suppliers access to aggregated consumer demand and the ability to promote their services at low incremental cost to a large and growing base of frequent independent travelers seeking higher-end travel services.

Streamlined business operations through tailored information management systems. We have drawn on our in-depth knowledge of the business practices unique to China s travel service industry to develop proprietary processes and technology-based systems that enable us to coordinate effectively the activities of our staff, suppliers, agents and resellers. This results in

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streamlined operations and stronger customer relationships through enhanced customer service.

Scalable and cost-efficient platform. Our technology-enabled platform is highly scalable, allowing us to expand our range of services and extend our geographical reach without making major changes to our existing infrastructure or incurring significant capital costs.

Experienced management. We believe that our management team, which includes Justin Tang, our Chairman, President and Chief Executive Officer, and a seasoned team of senior managers with significant experience in the areas of travel service operations, marketing, technology and finance, is one of the strongest management teams in the travel service industry in China.

Relationship with IAC/InterActiveCorp. IAC s investment in our company has provided us with additional financial resources consisting of up to approximately US$58.7 million from the proceeds of the sales of our Series B preferred shares, of which US$29.3 million was used to repurchase securities from our existing shareholders. In addition, we believe that our business will benefit from being aligned with IAC, which we believe is one of the leading global companies in online travel with what we believe to be a broad product offering, strong technology platform, well-known brand, experienced management team and track record of success.

Our Strategy

Our mission is to become the leading provider of travel services in China. We seek to achieve superior revenue and earnings growth by pursuing the following key business strategies.

Strengthen brand awareness and marketing. We seek to strengthen consumer awareness of our brand by pursuing an aggressive marketing strategy, which includes the following principal elements:

- entering into marketing agreements with top Internet portals in China including Yahoo!China, Sohu.com and Tom.com;
- co-marketing programs with prominent consumer brands;
- promoting the eLong membership card in leading Chinese business publications;
- entering into arrangements with commercial banks in their offering of co-branded credit cards; and
- entering into arrangements with major Chinese telecommunications companies under which travel booking enquiries are diverted to us from their service hotlines.

Expand our range of travel services. We intend to capitalize on our leadership in hotel reservations utilizing a centralized, modern call center and web-based distribution technologies and leverage the reach and efficiency of our distribution platform by growing our air ticketing and other travel related services, such as vacation packages, car rentals and corporate travel services.

Enhance customer experience. We seek to enhance our customers experience by providing more personalized care, and by strengthening and expanding travel supplier relationships to offer our customers a wider range of travel services.

Enhance efficiency and profitability. We seek to enhance the efficiency of our operations and the profitability of our business by taking advantage of our cost-effective call center and web-based distribution technologies.

Develop complementary merchant business. We seek to further enhance our profitability by developing a complementary merchant business. We intend to begin selling pre-purchased hotel rooms and other services from selected suppliers, which we believe will result in higher profit margins per transaction.

Enhance our technology infrastructure. We design and maintain our systems with a view to enhancing consumer-friendliness and providing adaptive solutions for our hotel and other travel service suppliers. We seek to streamline our transaction processes through ongoing technology upgrades to our transaction and service platform.

Selectively pursue complementary acquisitions. We seek to capitalize on the opportunities for consolidation in China s fragmented and inefficient travel service industry by selectively exploring opportunities to acquire other travel service businesses such as air-ticketing agencies, hotel-room consolidators, tour-package agencies and corporate travel providers.

Increase benefits from our relationship with IAC/InterActiveCorp. Over time, we seek to derive additional strategic benefits from our relationship with IAC as a significant shareholder, including the potential to cross-market and cross-sell our bases of consumers and suppliers, share enabling technologies and work closely with IAC management and personnel.

Risk of Investment

An investment in our ADSs or in our ordinary shares involves a high degree of risk that includes risks related to our company, risks related to the travel industry, risks related to the PRC and risks related to the ownership of our ADSs or ordinary shares. Specifically, risks include those relating to the following areas:

Our limited operating history. We have only a limited operating history from which you can evaluate our business and our prospects for future success.

Our ability to sustain our profitability. We have sustained losses in the past and cannot assure you that we will be profitable in the future.

Our ability to compete against current or future competitors. We face many sources of competition and cannot assure you that we will be able to successfully compete against current or future competitors.

Our corporate structure may pose certain risks. We depend substantially, through a series of agreements, on our affiliated Chinese entities to conduct our operations. Our affiliated Chinese entities are controlled by Justin Tang, our Chairman, President and Chief Executive Officer. Potential conflicts of interests may exist due to our corporate structure. In addition, if our affiliated Chinese entities violate their agreements with us, our business, operating results and financial conditions may be materially and adversely affected.

Our ability to effectively promote our brand. We believe that we must be successful in promoting our eLong brand in order to continue to grow our business. We cannot assure you that we will be successful in effectively promoting our brand image.

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Declines or disruptions in the travel industry can adversely affect us. We are affected by the health of the travel industry in China. Our industry is sensitive to the general business climate, personal discretionary spending levels, serious epidemics such as SARS and catastrophic events. We cannot assure you that adverse trends or events will not occur or that those adverse trends or events will not adversely affect our operating results and financial conditions.

Possible slowdown of economic growth in China. We cannot assure you that the growth of the economy in China will continue or that any slowdown will not have a negative effect on our business.

Risks associated with our relationship with IAC/InterActiveCorp. We cannot assure you that IAC will exercise its warrant to purchase our shares, which would result in IAC s holding approximately 52% of our equity and approximately 96% of our voting power. If IAC does not exercise its warrant, we may lose the benefit of IAC s experience and strength in the international online travel service industry. Furthermore, regardless of whether IAC exercises its warrant, IAC is under no contractual obligation to provide such benefits to us, and we cannot assure you as to when or whether any of these expected benefits will be realized. Subject to restrictions in our agreements with IAC, IAC may be able to compete with us, through its various subsidiaries and affiliates such as Expedia and Hotels.com, in the online travel industry in China.

In addition, if IAC does exercise its warrant, it will control our company and will be able to, among other things, prevent business combination transactions, such as a merger or sale of the company, even when such a transaction may be desired by other shareholders. Even if IAC does not exercise its warrant, it will still have a substantial equity stake and presence on our board, which will make it more difficult for us to enter into certain business combination transactions without IAC s consent, and IAC will continue to have substantial contractual rights relating to our business, including the right to replace the shareholders of our affiliated Chinese entities and the right to direct us or our subsidiary to acquire additional equity interests in our affiliated Chinese affiliates. IAC s exercise of these rights may be in conflict with the views of our management or interests of our other shareholders.

The market price of our ADSs may be volatile. The market prices of the securities of Internet-related companies have been extremely volatile and may be subject to fluctuation. In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. In particular, securities offered by a number of PRC companies have experienced volatility. We cannot assure you that the market price of our ADSs will not decline below the initial public offering price.

See Risk Factors beginning on page 14 for a more detailed description of these and other risks related to an investment in our ADSs or ordinary shares.

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Corporate Structure and Information

Foreign ownership in the Internet content provision, advertising, and air-ticketing businesses is subject to significant restrictions under current PRC laws and regulations. As a result, we have a wholly owned subsidiary in China that conducts its operations in China through a series of contractual arrangements with a number of our affiliated Chinese entities. We do not have any direct ownership interests or voting rights in our affiliated Chinese entities. Under these contractual arrangements, we have management control over these entities. We also bear economic risks with respect to, and derive economic benefits from, their operations. Accordingly, the financial statements of our affiliated Chinese entities are consolidated with our financial statements. See Corporate Structure and Related Party Transactions.

We are a limited liability company that was incorporated in the British Virgin Islands on April 4, 2001 and continued in the Cayman Islands in May 2004. Our principal executive office is located at:

Block B, Xingke Plaza Building

10 Jiuxianqiao Zhonglu

Chaoyang District

Beijing 100016, People s Republic of China

Telephone: +86 (10) 5860-2288

Investor inquiries should be directed to us at the above address and telephone number. Our websites are *www.eLong.com* and *www.eLong.net*. **The information contained on our websites does not constitute part of this prospectus.**

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The Offering

American depositary shares offered	4,602,547 ADSs, representing 9,205,094 ordinary shares
By us	3,623,235 ADSs, representing 7,246,470 ordinary shares
By the selling shareholders	an aggregate of 979,312 ADSs, representing 1,958,624 ordinary shares
Price per ADS	We currently estimate that the initial public offering price per ADS will be between US$11.50 and US$13.50.
The ADSs	Each ADS represents two ordinary shares, par value US$0.01 per share. The ADSs will be evidenced by American Depositary Receipts, or ADRs. A nominee of the depositary will be the registered holder of the ordinary shares underlying your ADSs. You will have the rights of an ADR holder as provided in a deposit agreement among us, the depositary and holders and beneficial owners of ADSs from time to time, dated , 2004. Under the deposit agreement, you may instruct the depositary to vote the ordinary shares underlying your ADSs, but only if we ask the depositary to ask for your instructions. Otherwise you will not be able to exercise your right to vote unless you withdraw the ordinary shares deposited with the depositary.
	You will be required to pay up to US$5.00 per 100 ADS for each issuance or cancellation of an ADS, a fee for each distribution of securities by the depositary based on the number of ordinary shares deposited for issuance of ADSs, up to US$0.02 per ADS per year for depositary services, fees for transfer and registration of your ordinary shares, and certain expenses incurred by the depositary.
	To better understand the terms of the ADSs, you should carefully read the section in this prospectus entitled Description of American Depositary Shares. We also encourage you to read the deposit agreement, which is an exhibit to the registration statement that includes this prospectus. We may amend or terminate the deposit agreement for any reason without your consent. If an amendment becomes effective, you will be considered, by continuing to hold your ADSs, to have agreed to be bound by the deposit agreement as amended.
Over-allotment option	The selling shareholders have granted a 30-day option to the underwriters to purchase up to an aggregate of 690,383 additional ADSs to cover over-allotments of ADSs.

Ordinary shares outstanding after the offering	28,538,900 ordinary shares (or 28,652,551 ordinary shares if the underwriters exercise the over-allotment in full) immediately after the offering. A total of 8,205,620 Series A preferred shares will have been automatically converted into 8,205,620 ordinary shares upon the completion of this offering. Effective 31 business days after the completion of this offering, a total of 11,188,570 Series B preferred shares will be automatically converted on a one-to-one conversion ratio (subject to certain anti-dilution adjustments, if applicable) into either 11,188,570 ordinary shares (if IAC does not exercise its warrant) or 11,188,570 high-vote ordinary shares (if IAC exercises its warrant). In addition, if IAC exercises its warrant and assuming we do not issue any of our securities prior to the exercise other than in connection with this offering, we will issue to IAC 17,387,783 high-vote ordinary shares in respect of its warrant, which number represents that number of high-vote ordinary shares as will cause IAC to hold 51% of our outstanding ordinary shares on a fully-diluted basis after giving effect to our repurchase, in connection with the warrant exercise, from certain existing shareholders of the company of a number of ordinary shares equal to one-half of the shares IAC purchases upon exercise of the warrant. If IAC exercises its warrant, there will be 48,421,362 ordinary shares outstanding (or 48,535,013 ordinary shares outstanding if the underwriters exercise their over-allotment option in full), of which 28,576,352 will be high-vote ordinary shares.
Use of proceeds	We estimate that we will receive net proceeds from this offering of approximately US$40.1 million, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, and assuming an initial public offering price of US$12.50 per ADS, the midpoint of the estimated range of the initial public offering price. We intend to use the net proceeds we will receive from this offering for general corporate purposes, including working capital and capital expenditures, as well as for potential acquisitions. We will not receive any proceeds from the sale of the ADSs by the selling shareholders.
Risk factors	See Risk Factors and other information included in this prospectus for a discussion of the factors you should carefully consider before deciding to invest in our ADSs.

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Listing	Our ADSs have been approved to be quoted on the Nasdaq National Market. Our ordinary shares will not be listed on any exchange or quoted for trading on any over-the-counter trading system.
Proposed Nasdaq National Market symbol	LONG
Depositary	JPMorgan Chase Bank
Lock-up	We have agreed with the underwriters to a lock-up of shares for a period of 180 days after the date of this prospectus. In addition, our executive officers, directors, the selling shareholders and certain other existing shareholders have also agreed with the underwriters to a lock-up of shares for a period of 180 days after the date of this prospectus, subject to an extension of up to 18 days under certain circumstances. See Underwriting.

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SUMMARY CONSOLIDATED FINANCIAL DATA

You should read the following information with our consolidated financial statements and related notes, Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

The summary consolidated statements of operations and cash flow data for the period from April 4, 2001, the date of our inception, through December 31, 2001 and for the years ended December 31, 2002 and 2003, and the summary consolidated balance sheet data as of December 31, 2002 and 2003, are derived from our audited consolidated financial statements included elsewhere in this prospectus and should be read in conjunction with, and are qualified in their entirety by reference to, these consolidated financial statements and related notes. These consolidated financial statements are prepared in accordance with U.S. GAAP. The summary consolidated statements of operations and cash flow data for the six months ended June 30, 2003 and 2004 and the summary consolidated balance sheet data as of June 30, 2004 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. We have prepared the unaudited information on the same basis as the audited consolidated financial statements, and have included, in our opinion, all adjustments, consisting only of normal and recurring adjustments that we consider necessary for a fair representation of the financial information set forth in those statements. Our historical results do not necessarily indicate results expected for any future periods.

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	April 4, 2001 to December 31,	Year ended December 31,			Six months ended June 30,		
	2001	2002	2003	2003	2003	2004	2004
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in thousands, except for per share data)						
Summary Consolidated							
Statements of Operations Data							
Revenues							
Travel	18,734	48,401	66,230	8,002	21,495	52,544	6,348
Others	9,104	7,349	8,160	986	2,945	7,565	914
Total revenues	27,838	55,750	74,390	8,988	24,440	60,109	7,262
Cost of services	(9,528)	(10,079)	(9,370)	(1,132)	(4,376)	(7,068)	(854)
Gross profit	18,310	45,671	65,020	7,856	20,064	53,041	6,408
Operating expenses							
Service development	(1,174)	(1,528)	(2,022)	(245)	(765)	(4,250)	(514)
Sales and marketing	(21,130)	(35,142)	(44,903)	(5,425)	(16,980)	(39,188)	(4,735)
General and administrative	(5,898)	(10,542)	(10,513)	(1,270)	(3,976)	(10,795)	(1,304)
Stock-based compensation (1)	(3,167)	(4,471)	(1,353)	(164)	(1,304)	(4,653)	(562)
Amortization of goodwill and intangibles	(583)		(20)	(2)		(120)	(14)
Business tax and surcharges	(1,360)	(2,816)	(4,109)	(496)	(1,350)	(3,062)	(370)
Total operating expenses	(33,312)	(54,499)	(62,920)	(7,602)	(24,375)	(62,068)	(7,499)
Profit (loss) from operations	(15,002)	(8,828)	2,100	254	(4,311)	(9,027)	(1,091)
Other expenses, net	(42)	(690)	(21)	(3)	(46)	(22)	(3)
Income (loss) before income tax expense	(15,044)	(9,518)	2,079	251	(4,357)	(9,049)	(1,094)
Income tax benefit (expense)	(71)	(580)	(463)	(56)	971	(284)	(34)
Net income (loss)	(15,115)	(10,098)	1,616	195	(3,386)	(9,333)	(1,128)
Earnings (loss) per ordinary share							
Basic	(0.94)	(0.63)	0.09	0.01	(0.21)	(0.56)	(0.07)
Diluted	(0.94)	(0.63)	0.07	0.01	(0.21)	(0.56)	(0.07)
Proforma earnings (loss) per ordinary share							
Basic			0.01	0.00		(0.31)	(0.04)
Diluted(2)			0.01	0.00		(0.31)	(0.04)
Earnings (loss) per ADS(3)							
Basic	(1.88)	(1.26)	0.18	0.02	(0.42)	(1.11)	(0.13)
Diluted(2)	(1.88)	(1.26)	0.14	0.02	(0.42)	(1.11)	(0.13)
Proforma earnings (loss) per ADS(3)							
Basic			0.02	0.00		(0.63)	(0.08)
Diluted(2)			0.02	0.00		(0.63)	(0.08)

	As of December 31,	As of June 30,	Condensed Pro forma June 30,

	2002	2003	2003	2004	2004	2004	2004
	RMB	RMB	US$	RMB	US$	RMB(5)	US$
				(in thousands)			
Consolidated Balance Sheet Data							
Cash and cash equivalents	5,344	73,132	8,836	52,448	6,337	258,893	31,280
Working capital (4)	7,007	80,677	9,747	74,185	8,963	317,062	38,308
Equipment and software, net	6,288	8,108	980	10,174	1,229	10,174	1,229
Total assets	36,570	130,561	15,775	142,842	17,259	385,719	46,604
Accumulated deficit	(25,213)	(24,223)	(2,927)	(33,556)	(4,054)	(33,556)	(4,054)
Shareholders equity	19,685	100,608	12,156	96,061	11,606	338,938	40,951

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	April 4, 2001 to December 31, 2001	Year ended December 31,			Six months ended June 30,		
		2002	2003	2003	2003	2004	2004
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in thousands)						
Consolidated Cash Flow Data							
Net cash provided by (used in) operating activities	(7,910)	1,621	(7,429)	(898)	1,803	(12,285)	(1,484)
Net cash used in investing activities	(23,305)	(494)	(1,628)	(197)	(616)	(7,293)	(881)
Net cash provided by (used in) financing activities	36,649	(1,218)	76,856	9,286	(138)	(1,084)	(131)
Depreciation and amortization	4,345	5,920	3,006	363	2,151	1,248	151
Capital expenditures	810	2,994	5,180	626	616	3,193	386

(1) Stock-based compensation is all related to general and administrative expenses.

(2) All dilutive potential ordinary shares arise from (a) the stock options granted to our directors and employees under our stock option plans, (b) the stock warrants granted to non-employees, (c) stock options to purchase up to 971,633 ordinary shares granted to IAC, (d) the automatic conversion of 8,205,620 existing Series A preferred shares into 8,205,620 ordinary shares upon the completion of this offering and giving effect to the repurchase of Series A preferred shares and ordinary shares in connection with the issuance of Series B preferred shares, and (e) the automatic conversion of 11,188,570 Series B preferred shares on a one-to-one conversion ratio (subject to certain anti-dilution adjustments, if applicable) into 11,188,570 ordinary shares (if IAC does not exercise its warrant) or 11,188,570 high-vote ordinary shares (if IAC exercises its warrant) 31 business days after the completion of this offering. For the purpose of computing pro forma diluted income per share, dilutive potential ordinary shares arise from (a) conversion of the 9,787,494 Series A preferred shares of outstanding ordinary shares that will be issued for the preferred shares, as if the preferred shares issuance and the conversion of these shares upon the occurrence of the IPO had both taken place on January 1, 2003 and (b) the issuance of Series B preferred shares and repurchase of ordinary shares and Series A preferred shares from existing shareholders. For the year ended December 31, 2003, the pro forma diluted income per share computation was based on the pro forma net income available to ordinary shareholders of RMB173,618, divided by the weighted average number of ordinary shares outstanding on a pro forma basis of 32,969,281, adjusted for the dilutive effect of non-vested ordinary shares and stock options and warrants of 3,866,430, but exclusive of the effect of stock options and warrants granted subsequent to December 31, 2003 which were granted in the ordinary course of business or in connection with the issuance of Series B preferred shares on August 4, 2004. For the six-month period ended June 30, 2004, the pro forma diluted loss per share computation was based on the pro forma net loss available to ordinary shareholders of RMB10,054,136, divided by the weighted average number of ordinary shares outstanding on a pro forma basis of 32,169,285. The pro forma diluted loss per share for the six-month period did not include the effect of non-vested ordinary shares and stock options and warrants as the effect would be anti-dilutive. In addition, the pro forma diluted loss per share for the six-month period did not include the effect of stock options and warrants granted subsequent to December 31, 2003 which were granted in the ordinary course of business or in connection with the issuance of Series B preferred shares on August 4, 2004. The pro forma diluted income (loss) per share data for the year ended

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December 31, 2003 and for the six-month period ended June 30, 2004 gives effect to the option to purchase up to 260,204 ordinary shares granted to IAC on October 1, 2004 as if such option had been granted on January 1, 2003 at the same terms and exercise price. For more information regarding the issuance of options to IAC, see Investment by IAC/InterActiveCorp Stock Options. On the date of the grant, the fair value of the option to purchase up to 260,204 ordinary shares was RMB5,769,047 and will be recorded as a deduction in arriving at net income available to ordinary shareholders over the vesting term.

(3) Each ADS represents two ordinary shares.

(4) Represents the amount of total current assets less total current liabilities.

(5) Represents the issuance of Series B preferred shares and giving effect to the repurchase of Series A preferred shares and ordinary shares in connection with the issuance of Series B preferred shares.

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RISK FACTORS

An investment in our ADSs or ordinary shares involves a high degree of risk of which you should be aware. You should carefully consider the risks described below, in conjunction with other information and our consolidated financial statements and related notes included elsewhere in this prospectus, before making an investment decision. You should pay particular attention to the fact that we conduct our operations in China and are governed by a legal and regulatory environment that in some respects differs significantly from the environment that may prevail in other countries that you may be familiar with. Our business, financial condition and operating results could be affected materially and adversely by any or all of these risks. The trading price of our ADSs could decline due to any or all of these risks, and you may lose part or all of your investment.

Risks Related to Our Business

Our limited operating history may not serve as an adequate basis to judge our future prospects and operating results.

We have only a limited operating history from which you can evaluate our business and our prospects. We have encountered and will continue to encounter risks and difficulties frequently experienced by early-stage companies in evolving industries such as the travel service industry in China. Some of the risks relate to our ability to:

- attract and retain customers and encourage our customers to engage in repeat transactions;
- retain our existing agreements with travel suppliers such as hotels and airlines and to expand our service offerings on satisfactory terms with our travel suppliers;
- operate, support, expand and develop our operations, our call center, our websites, and our communications and other systems;
- diversify our sources of revenue;
- maintain effective control of our expenses;
- attract and retain qualified employees;
- raise additional capital;
- respond to changes in our regulatory environment; and

respond to competitive market conditions.

If we are not successful in addressing any or all of these risks, our business may be materially affected in an adverse manner.

We have sustained losses in the past and cannot guarantee profitability in the future.

We sustained net losses in 2001, 2002 and for the first six months ended June 30, 2003 and 2004. Although we achieved profitability for the six months ended December 31, 2003, we cannot assure you that we will be profitable in future periods. A variety of factors may cause our operating results to fluctuate and financial condition to change, including:

changes in general economic conditions in China;

unforeseen disruptive events in the travel and tourism industry;

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- unanticipated rises in operating costs and capital expenditures;
- changes in our regulatory environment;
- changes in our management team and other key personnel; and
- intensified competition from our competitors.

Our operating costs have increased significantly principally as a result of increases in our sales and marketing expenses in the third quarter of 2003 and we expect that due to our anticipated organizational growth and our ongoing efforts to expand our customer base, our operating expenses will continue to increase. Any decrease or delay in achieving additional sales and revenues or failure to control our costs as our business grows could result in substantial operating losses. As a result, we cannot assure you that our company will remain profitable in the future.

We may not be able to compete successfully against our current or future competitors.

We face many sources of competition, including other consolidators of hotel and flight reservation services, such as Ctrip.com International, Ltd., and traditional travel agencies, such as China Travel Services, China International Travel Services and China Youth Travel Services. Because we do not have exclusive arrangements with our suppliers and our business involves relatively low fixed costs, new competitors face low entry barriers to our industry. We could face increasing competition from hotels and airlines if they decide to increase their efforts to sell directly to consumers or to engage in alliances with other travel service providers. Moreover, established international players may choose to enter into China in the future, either as sole entrants or in conjunction with our existing competitors. Our potential and existing competitors may have competitive advantages over us including longer operating histories, larger customer bases and greater financial, marketing and other expertise and resources. If we do not successfully compete against our current or potential competitors, our operating results and financial condition may be adversely affected.

If we fail to attract and retain customers in a cost-effective manner, our ability to grow and maintain profitability may be impaired.

Our business strategy is substantially dependent on our ability to increase the overall number of customer transactions with us in a cost-effective manner. In order to increase the number of transactions, we must attract new visitors to our call center and websites, convert these visitors into paying customers and capture repeat business from existing customers. Similarly, our corporate travel service is dependent on enlisting new corporate customers and attracting their travel-booking activity. Although we have spent significant financial and other resources on sales and marketing and plan to continue to do so, we cannot assure you that these efforts will be cost-effective in attracting new customers or increasing transaction volume. If we do not achieve our marketing objectives, our ability to grow our revenues and maintain profitability may be impaired.

Our business may be harmed if we fail to strengthen our brand recognition among current and potential customers, suppliers and business partners.

We believe that we must be successful in the promotion of our eLong brand in order to continue to grow our business and secure new business relationships. We must introduce new consumers to our eLong brand and ensure that the eLong brand is associated with quality and value. We cannot assure you that we will be successful in our efforts to introduce the eLong

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brand to a wider group of consumers or that we will be successful in establishing our brand image among consumers. If we fail to strengthen our brand recognition among our current and potential customers, suppliers and business partners, our operating results and financial condition may be adversely affected.

We may suffer losses as we supplement our agent business model with a merchant business model if we are unable to predict accurately the amount of inventory we need.

We plan to supplement our current agency business model with a merchant business model. Under a merchant business model, we would purchase travel services in advance at lower prices before reselling them to our customers at higher prices. Our ability to accurately predict inventory demand will be crucial to our ability to generate higher margins and minimize losses from excess inventory. If we overestimate the demand for hotel rooms or other services, we may be exposed to excess inventory and may be forced to cover the costs for the services we have committed to purchase. Our operating results and financial condition may be adversely affected if we are unable to predict accurately the amount of inventory we may need.

We face a greater risk of doubtful accounts as our corporate travel business increases in scale.

As our corporate travel business increases in scale, we expect our accounts receivable to show a corresponding increase. We cannot assure you that we will be able to collect payment fully on our outstanding accounts receivable from our corporate travel service customers. As a result, we may face a greater risk of larger non-payments in our accounts receivable and, as our corporate travel business grows in scale, we may need to make increased provisions for doubtful accounts. Our operating results and financial condition may be materially and adversely affected if we are unable to successfully manage our accounts receivable.

We may experience difficulties managing our growth because our rapid growth may present significant challenges to our management and administrative systems and resources.

We have experienced rapid growth since our inception in 2001. On June 30, 2004, we had approximately 1,230 employees, compared to approximately 380 employees on December 31, 2001. Our continued expansion may present significant challenges to our management and administrative systems and resources. In order to be successful, we must:

- maintain an effective management team;
- adequately train our employees;
- improve our information management, administrative systems and internal controls; and
- address investor relations and required disclosure issues associated with being a public company.

If we fail to address any of the foregoing concerns, our operating results and financial condition could be adversely affected.

We are dependent on our ability to establish and maintain favorable arrangements with our travel suppliers.

We are dependent on our continued relationships on favorable terms with our hotel and airline suppliers. In particular, the ability to contract in advance for the guaranteed availability of

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hotel rooms on a discounted basis is crucial to our business. However, we do not have exclusive contractual arrangements with our travel suppliers, and we must renew these contracts on an ongoing basis. We cannot assure you that we will be able to maintain satisfactory relationships and obtain favorable contractual terms with our travel suppliers. All of our relationships with travel suppliers are freely terminable by the supplier. None of these arrangements are exclusive, and our travel suppliers could enter into, and in many cases have already entered into similar agreements with our competitors. If we lose existing relationships or fail to establish new relationships with travel suppliers on terms satisfactory to us, our operating results and financial condition could be adversely affected.

Our commission income and revenues may decrease if our hotel suppliers fail to accurately report data concerning our customers stay.

A substantial portion of our revenues is currently generated through commissions received from hotels for room nights booked through us. We do not receive direct payments for hotel bookings from our customers. Our revenues are dependent on the hotel supplier accurately reporting the customer s subsequent stay. In order to verify the hotel supplier s report, we make periodic inquiries with the hotel and the customer. We rely on the hotel and the customer to give us truthful information regarding the customer s check-in and checkout dates, which form the basis for calculating the commission we are entitled to receive from the hotel supplier. While we rank hotel suppliers and impose a ranking penalty on hotel suppliers who report inaccurate information, we cannot guarantee that all hotel supplier reports will be completely accurate. If our hotel suppliers provide us with untrue information with respect to our customers length of stay, our revenues derived from hotel bookings may be materially and adversely affected.

Our business depends substantially on the continuing efforts of our senior executive and other key employees, and our business may be severely disrupted if we lose their services.

Our future success heavily depends on the performance and continued service of our Chairman, President and Chief Executive Officer, Justin Tang, our Chief Technology Officer, Richard Chen, our Vice President for Business Development and Strategy, Richard Xue, our Chief Financial Officer, Derek Palaschuk, and other members of our senior management. We rely on their expertise in business operations, finance, technology and travel services and we depend on their relationships with our shareholders, suppliers and regulators. In addition, competition for highly skilled employees with technical, management, marketing, sales and other specialized training is intense, and we cannot assure you that we will be successful in attracting or retaining such personnel. Therefore, our business and results of operations may be materially and adversely affected, and we may incur additional expenses to recruit and train replacement personnel if one or more of our key employees is unwilling or unable to continue his or her employment with us.

In addition, if any of our key executives joins a competitor or forms a competing company, we may lose customers and suppliers. While each of our executive officers has entered into an employment agreement that contains confidentiality and non-competition provisions, we cannot guarantee that we will be able to successfully enforce these employment agreements in court.

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The PRC legal system embodies uncertainties which could limit the legal protections available to us and to you.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little value as precedents. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. Our subsidiaries in the PRC and our affiliated Chinese entities are subject to laws and regulations applicable to their operations in the PRC. However, these laws, regulations and legal requirements are relatively recent, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us and our foreign investors, including you. In addition, we cannot predict the effect of future developments in the PRC legal system, particularly with respect to the travel industry or the Internet, including the introduction of new laws, changes to existing laws or the interpretation or enforcement of current or future laws and regulations, or the preemption of local regulations by national laws.

The laws and regulations of the PRC restrict foreign investment in the air-ticketing, travel agency, Internet content provision and advertising business and substantial uncertainties and restrictions exist with respect to the interpretation and application of PRC laws and regulations as they relate to our ownership structure.

We are a Cayman Islands corporation, and are therefore treated as a foreign person under applicable PRC laws and regulations. The PRC government regulates Internet access, the distribution of online information, the conduct of online commerce, advertising, and the provision of travel agency services through strict business licensing requirements and other regulations. These regulations include limiting foreign ownership in PRC companies providing Internet information and other online Internet services, travel agency services and advertising services. As a result, we conduct our business through contractual arrangements with our affiliated Chinese entities. These entities hold licenses and approvals that are essential for our business operations. See Corporate Structure and Related Party Transactions Corporate Structure and Arrangements with Affiliated Chinese Entities for a detailed discussion of our affiliated Chinese entities.

In the opinion of our PRC legal counsel, Commerce & Finance Law Offices, our current ownership structure, the ownership structure of our wholly-owned subsidiaries and our affiliated Chinese entities, the contractual arrangements among us, our wholly-owned subsidiaries, our affiliated Chinese entities and their shareholders, and our business operations as described in this prospectus, are in compliance with all existing PRC laws, rules and regulations. See Our Corporate Structure and Related Party Transactions for a detailed description of our corporate structure and these contractual arrangements. There are, however, substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations as they relate to our ownership structure. Accordingly, we cannot assure you that the relevant government authorities will not determine that our current ownership structure and these contractual arrangements are not in compliance with the relevant laws and regulations.

If we and our affiliated Chinese entities are found to be in violation of any existing or future PRC laws or regulations, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- levying fines, confiscating our income, or the income of our affiliated Chinese entities;
- revoking our business licenses, or the business licenses of our affiliated Chinese entities;

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- requiring us and our affiliated Chinese entities to restructure our ownership structure or operations; and

- requiring that we discontinue any or all portions of our Internet content provision, air-ticketing, travel agency or advertising businesses.

Any of the above could cause significant disruptions to our operations and may materially and adversely affect our business, operating results and financial condition.

Our affiliated Chinese entities are controlled by Justin Tang, which may pose potential conflicts of interests, and if these affiliated Chinese entities violate their contractual agreements with us, our business could be harmed, our reputation could be damaged and we might have to resort to litigation to enforce our rights, which could be time-consuming and expensive.

We depend substantially on our affiliated Chinese entities to conduct our operations. While we have no direct ownership interest in these entities, we have attempted to establish effective control through a series of agreements. Although we have been advised by our PRC legal counsel, Commerce & Finance Law Offices, that these agreements have been duly authorized, executed and delivered, and are enforceable under current PRC law, these agreements may not be as effective in providing control as direct ownership of these businesses.

Under our current structure, Justin Tang, our Chairman, President and Chief Executive Officer, directly or indirectly owns a controlling interest in our affiliated Chinese entities. The potential exists for conflicts of interests between his duties to us and his ownership interests in our affiliated Chinese entities. In particular, Mr. Tang may be able to cause our agreements with our affiliated Chinese entities to be performed or amended in a manner adverse to us by, among other things, failing to remit payments to us on a timely basis or operating the affiliated Chinese entities so as to cause harm to our business. We can provide no assurance that if potential conflicts of interests arise, these conflicts will not result in a significant loss in corporate opportunities for us or a diversion of our resources to the affiliated Chinese entities, which may not be in the best interest of eLong, Inc. or of the other shareholders of eLong, Inc.

Our agreements with our affiliated Chinese entities are for limited terms and generally provide that the compensation we receive for the services that we provide to them will be based on market rates. Certain provisions of these agreements, such as price and payment terms, are subject to adjustment and may also be subject to differing interpretations. In particular, the term market rates is not clearly defined in the agreements and there may not be a clearly defined market for the services we provide.

In the event that there is a dispute with respect to our agreements with our affiliated Chinese entities, we would have to rely on the PRC legal system for remedies, which might not be as effective as that in the United States or other more developed countries. Because we rely on our affiliated Chinese entities for our business operations, the realization of any of these risks could result in a material disruption of our business, damage to our reputation, diversion of our resources and the incurrence of substantial costs, any of which could materially and adversely affect our operating results and financial condition.

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If our affiliated Chinese entities do not extend their contractual agreements with us, our business could be harmed, our reputation could be damaged and we could spend time and resources in establishing alternative arrangements.

We depend substantially on our affiliated Chinese entities to conduct our operations, and our business could therefore be disrupted if our affiliated Chinese entities do not extend our contractual arrangements with them. Our possible need to search for alternative arrangements could require time and resources that would divert our attention from our business. As a result, our operating results and financial condition could be materially and adversely impacted.

Our business operations may be materially and adversely affected if we or our affiliated Chinese entities fail to obtain or maintain all pertinent permits and approvals in the heavily regulated air-ticketing, travel agency, advertising and Internet industries.

The Chinese government extensively regulates the air-ticketing, travel agency and advertising industries, as well as most Internet related activities. In order to conduct our business, we or our affiliated Chinese entities must possess and maintain valid permits or approvals from different regulatory authorities. Any failure to obtain or maintain any of the required permits or approvals may subject us to various penalties, such as fines or suspension of operations in these regulated businesses, which could severely disrupt our business operations and materially and adversely affect our operating results and financial condition.

Our business depends on maintaining the integrity of our systems and information infrastructure.

We depend on our systems and information infrastructure to facilitate transactions between our consumers and suppliers, to develop new customers, to deliver service improvements and to perform other operational functions. As our operations grow both in size and scope, we will need to upgrade and expand the capacity of our call center and online systems. If we are unable to upgrade our system to keep pace with our business growth, we may experience capacity constraints, system obsolescence or other unintended system disruptions which may result in slower response times, impaired customer service, delays in fulfilling customer orders and inaccurate reporting of travel information. Any of these factors may cause us to lose customers or suppliers and our operating results and financial condition may be materially and adversely affected.

Our online business is dependent on the continued use and growth of the Internet, a medium that has not yet been proven as an effective means of commerce in China.

A significant portion of our services is targeted toward businesses and consumers who use the Internet. The development and growth of the Internet are subject to a high level of uncertainty and have been characterized by rapid changes, evolving industry standards and continuous new product and service introductions. China has only recently begun to develop the Internet as a commercial medium and has a lower Internet penetration rate compared to most developed countries. Our future operating results from our online distribution channel will depend substantially upon a rising Internet penetration rate and the increased use and acceptance of the Internet for distribution of products and services and for the facilitation of commerce in China. The Internet may not become a viable medium for commercial transactions in China. Major impediments to developing the Internet as a commercial medium in China include:

limited use of credit card and other electronic commerce infrastructure;

lack of consumer familiarity with the Internet as a sales and distribution channel;

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- inadequate infrastructure such as the limited access to personal computers, local access points and server capacity to facilitate online commerce;

- concerns about security, reliability, cost, ease of deployment, administration and quality of service associated with conducting business over the Internet; and

- the degree to which the PRC government seeks to regulate the dissemination of information over the Internet.

If the Internet does not become a widely accepted medium for commerce in China, our business development and growth may be significantly impeded. Our operating results and financial condition may thus be materially and adversely affected.

We may have to register our encryption software with Chinese regulatory authorities, and if they request that we change our encryption software, our business operations will be disrupted as we develop or license replacement software.

Under the Regulations for the Administration of Commercial Encryption promulgated in 1999, foreign and domestic companies operating in China are required to register and disclose to PRC regulatory authorities the commercial encryption products they use. Because these regulations do not specify what constitutes encryption products, we are unsure whether or how they apply to us and the encryption software we utilize. We have not registered with or disclosed to any PRC regulatory authority our encryption software and we may be required to register or apply for permits with the relevant PRC regulatory authorities for our current or future encryption software. If PRC regulatory authorities request that we change our encryption software, we may have to develop or license replacement software, which would require additional capital expenditures and could disrupt our business operations. In addition, we may be subject to potential liability for using software that is subsequently deemed to be illegal by the relevant PRC regulatory authorities. These potential liabilities include fines, product confiscation and criminal sanctions. We cannot assure you that our business, financial condition and results of operations will not be materially and adversely affected by the application of these regulations.

Our business depends on the technology infrastructure of third parties.

We rely on third-party computer systems and other service providers, including the computerized reservation systems of hotels, airlines and car rental agencies to make reservations and confirmations. Other third parties provide, for instance, our back-up data center, telecommunications access lines, significant computer systems and software licensing, support and maintenance service and air-ticket delivery. Any interruption in these or other third-party services or a deterioration in their performance could impair the quality of our service.

Our online business relies on the existence of an adequate telecommunications infrastructure for continued growth of China s Internet market.

Although private sector Internet service providers currently exist in China, almost all access to the Internet is maintained through a network owned by China Netcom under the regulatory supervision of China s Ministry of Information Industry. In addition, the national networks in China connect to the Internet through a government-controlled international gateway. This international gateway is the only channel through which a domestic Chinese user can connect to the international Internet network. We rely on this infrastructure and China Netcom to provide data communications capacity, primarily through local telecommunications lines. We cannot assure you that this infrastructure will be further developed. In addition, we will have no access to alternative networks and services, on a timely basis if at all, in the event of any infrastructure disruption or failure. The Internet infrastructure in China may not support the demands associated with continued growth in Internet usage.

We may become involved in costly and time-consuming intellectual property litigation in order to enforce our intellectual property rights, or to prevent third parties from successfully alleging our infringement of their intellectual property rights.

From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources. In addition, third parties may initiate litigation against us for alleged infringement of their proprietary rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or obtain a license for the infringed or similar technology on a timely basis, our business could suffer. Moreover, even if we are able to obtain a license for the infringed or similar technology, license fees payable to licensors could be substantial or commercially unviable.

The content on our websites may subject us to litigation, which may be time-consuming and costly to defend.

The content on our websites contains information about hotels, flights and popular vacation destinations, as well as customer feedback about certain travel-related services. Third parties could take legal action against us for any false or misleading information accessible on our websites. Any claims could be time consuming to defend, result in litigation and divert management s attention and resources, any of which could have a material and adverse impact on our operating results and financial condition.

We could be liable for breaches of security on our websites and fraudulent transactions by users of our websites.