

CTRIP COM INTERNATIONAL LTD

Form 20-F

May 26, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 20-F**

(Mark One)

☐ **Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934**  
**or**

☐ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the fiscal year ended December 31, 2008.**  
**or**

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**  
**or**

☐ **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**Date of event requiring this shell company report \_\_\_\_\_**

**Commission file number: 001-33853**

**CTRIP.COM INTERNATIONAL, LTD.**

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

99 Fu Quan Road

Shanghai 200335

People's Republic of China

(Address of principal executive offices)

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Shanghai 200335

People's Republic of China

(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

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

**Title of Each Class**

**Name of Each Exchange on Which Registered**

**American Depositary Shares, each representing  
0.5 ordinary shares, par value US\$0.01 per  
ordinary share**

**The NASDAQ Stock Market LLC**

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

None

(Title of Class)

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

None

(Title of Class)

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report. **33,468,023** ordinary shares, par value \$0.01 per ordinary share

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

Yes ☐ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☐

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

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

U.S. GAAP ☐

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

Other ☐

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

Item 17 ☐

Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☐

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

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**INTRODUCTION**

In this annual report, unless otherwise indicated,

(1) the terms we, us, our company, our and Ctrip refer to Ctrip.com International, Ltd., its predecessor entities and subsidiaries, and, in the context of describing our operations and consolidated financial information, also include its consolidated affiliated Chinese entities;

(2) shares and ordinary shares refer to our ordinary shares, par value of US\$0.01 per ordinary share;

(3) ADSs refers to our American depositary shares, each of which represents 0.5 ordinary shares;

(4) China and PRC refer to the People's Republic of China, and solely for the purpose of this annual report, excluding Taiwan, Hong Kong and Macau; and

(5) all references to RMB and Renminbi are to the legal currency of China and all references to U.S. dollars, US\$, dollars and \$ are to the legal currency of the United States.

Any discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2006, 2007 and 2008.

On April 11, 2006, we effected a change of the ratio of our ADSs to ordinary shares from one (1) ADS representing two (2) ordinary shares to one (1) ADS representing one (1) ordinary share. On July 31, 2007, we effected a change of the ratio of our ADSs to ordinary shares from one (1) ADS representing one (1) ordinary share to one (1) ADS representing one-half (0.5) of an ordinary share. Unless otherwise indicated, ADSs and per ADS amount in this annual report have been retroactively adjusted to reflect the changes in ratio for all periods presented.

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**FORWARD-LOOKING INFORMATION**

This annual report on Form 20-F contains forward-looking statements that reflect our current expectations and views of future events. These statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as may, will, expect, anticipate, future, intend, plan, believe, estimate, is/are likely to or other and similar expressions. We have forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things:

our anticipated growth strategies;

our future business development, results of operations and financial condition;

our ability to continue to control costs and maintain profitability; and

the expected growth of and change in the travel and online commerce industries in China.

The forward-looking statements included in this annual report on Form 20-F are subject to risks, uncertainties and assumptions about our company. Our actual results of operations may differ materially from the forward-looking statements as a result of risk factors described under Item 3.D of this annual report, Risk Factors, included elsewhere in this annual report on Form 20-F, including the following risks:

the slow-down of economic growth in China and the global economic downturn may materially and adversely affect our growth and profitability;

general declines or disruptions in the travel industry may materially and adversely affect our business and results of operations;

the trading price of our ADSs has been volatile historically and may continue to be volatile regardless of our operating performance;

if we are unable to maintain existing relationships with travel suppliers and strategic alliances, or establish new arrangements with travel suppliers and strategic alliances similar to those we currently have, our business may suffer;

if we fail to further increase our brand recognition, we may face difficulty in obtaining new business partners and customers, and our business may be harmed;

if we do not compete successfully against new and existing competitors, we may lose our market share, and our profitability may be adversely affected;

our quarterly results are likely to fluctuate because of seasonality in the travel industry in China;

our business may be harmed if our infrastructure and technology are damaged or otherwise fail or become obsolete;

our business may be severely disrupted if we lose the services of our key executives;

inflation in China and in other countries may disrupt our business and have an adverse effect on our financial condition and results of operations;

our strategy to acquire or invest in complementary businesses and assets involves significant risks and uncertainty that may prevent us from achieving our objectives and harm our financial condition and results of operations; and

if the ownership structure of our affiliated Chinese entities and the contractual arrangements among us, our consolidated affiliated Chinese entities and their shareholders are found to be in violation of any PRC laws or regulations, we and/or our affiliated Chinese entities may be subject to fines and other penalties, which may adversely affect our business and results of operations.

These risks are not exhaustive. Other sections of this annual report include additional factors that could adversely impact our business and financial performance. You should read these statements in conjunction with the risk factors disclosed in Item 3.D. of this annual report, Risk Factors, and other risks outlined in our other filings with the Securities and Exchange Commission. Moreover, we operate in an emerging and evolving environment. New risk factors may emerge from time to time, and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



**Table of Contents****PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION*****A. Selected Financial Data***

The following table presents the selected consolidated financial information for our business. You should read the following information in conjunction with Item 5, Operating and Financial Review and Prospects, below. The selected consolidated statement of operations data for the years ended December 31, 2006, 2007 and 2008 and the selected consolidated balance sheet data as of December 31, 2007 and 2008 have been derived from our audited consolidated financial statements and should be read in conjunction with those statements, which are included in this annual report beginning on page F-1. The selected consolidated statement of operations data for the years ended December 31, 2004 and 2005 and the selected consolidated balance sheet data as of December 31, 2004, 2005 and 2006 have been derived from our audited consolidated financial statements for these periods, which are not included in this annual report. Certain prior year amounts have been reclassified with no effect on net income or retained earnings to conform to the 2008 financial statement presentation. Additionally, all ADS data have been retroactively adjusted to reflect the current ADS to ordinary share ratio for all periods presented.

|   | For the Year Ended December 31,                    |           |           |           |           |                      |
|---|--|-----------|-----------|-----------|-----------|----------------------|
|   | 2004   | 2005      | 2006      | 2007      | 2008      | 2008                 |
|   | RMB  | RMB       | RMB       | RMB       | RMB       | US\$( <sup>2</sup> ) |
|   | (in thousands, except for per ordinary share data) |           |           |           |           |                      |
| <b>Consolidated Statement of Operation Data</b>         |  |           |           |           |           |                      |
| Net revenues  | 335,042  | 524,183   | 779,952   | 1,199,111 | 1,482,004 | 217,223              |
| Cost of revenues  | (51,637)   | (88,627)  | (153,132) | (236,226) | (326,610) | (47,872)             |
| Gross profit  | 283,405  | 435,556   | 626,820   | 962,885   | 1,155,394 | 169,351              |
| Operating expenses                                      |  |           |           |           |           |                      |
| Product development <sup>(1)</sup>                      | (38,510)   | (57,913)  | (105,938) | (177,302) | (235,800) | (34,562)             |
| Sales and marketing <sup>(1)</sup>                      | (73,051)   | (112,532) | (172,492) | (243,314) | (286,693) | (42,022)             |
| General and administrative <sup>(1)</sup>               | (38,114)   | (42,651)  | (93,174)  | (137,944) | (171,694) | (25,166)             |
| Total operating expenses                                | (149,675)  | (213,096) | (371,604) | (558,560) | (694,187) | (101,750)            |
| Income from operations                                  | 133,730  | 222,460   | 255,216   | 404,325   | 461,207   | 67,601               |
| Net interest income and other income                    | 11,952   | 32,632    | 26,846    | 52,001    | 86,045    | 12,612               |
| Income before income tax expense and minority interests | 145,682  | 255,092   | 282,062   | 456,326   | 547,252   | 80,213               |
| Income tax expense                                      | (12,517)   | (30,577)  | (41,277)  | (58,006)  | (102,914) | (15,084)             |
| Minority interests                                      | (39)   | (269)     | (221)     | 4         | (230)     | (34)                 |
| Net income  | 133,126  | 224,246   | 240,564   | 398,324   | 444,108   | 65,095               |
| <b>Earnings Per Ordinary Share Data:</b>                |  |           |           |           |           |                      |
| Net income attributable to ordinary shareholders        | 133,126  | 224,246   | 240,564   | 398,324   | 444,108   | 65,095               |
| Earnings per ordinary share <sup>(4)</sup> , basic      | 4.33   | 7.06      | 7.44      | 12.10     | 13.32     | 1.95                 |
|   | 4.23   | 6.91      | 7.23      | 11.67     | 12.90     | 1.89                 |

Earnings per ordinary  
share<sup>(4)</sup>, diluted

Cash dividends per ordinary  
share paid<sup>(5)</sup>

1.26

2.04

2.11

3.38

0.488

3

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|                                  | 2004    | 2005      | As of December 31, |           | 2008      | 2008                 |
|----------------------------------|---------|-----------|--------------------|-----------|-----------|----------------------|
|                                  | RMB     | RMB       | 2006               | 2007      | RMB       | US\$( <sup>2</sup> ) |
|                                  |         |           | RMB                | RMB       |           |                      |
|                                  |         |           | (in thousands)     |           |           |                      |
| Consolidated Balance Sheet Data: |         |           |                    |           |           |                      |
| Cash and cash equivalents        | 615,875 | 735,062   | 844,393            | 1,064,418 | 1,069,827 | 156,809              |
| Short-term investment            |         |           |                    | 141,174   | 176,586   | 25,883               |
| Accounts receivable, net         | 35,418  | 63,392    | 136,688            | 260,684   | 274,302   | 40,205               |
| Other current assets             | 19,573  | 52,861    | 72,387             | 81,365    | 110,592   | 16,210               |
| Non-current assets               | 69,852  | 184,586   | 398,385            | 577,303   | 929,259   | 136,205              |
| Total assets                     | 740,718 | 1,035,901 | 1,451,853          | 2,124,944 | 2,560,566 | 375,312              |
| Current liabilities              | 138,744 | 270,314   | 421,045            | 672,041   | 626,037   | 91,761               |
| Other long-term payables         |         |           | 2,438              | 1,625     | 813       | 119                  |
| Minority interests               | 603     | 871       | 673                | 1,159     | 2,628     | 385                  |
| Total shareholders' equity       | 601,371 | 764,716   | 1,027,697          | 1,450,119 | 1,931,088 | 283,047              |

- (1) Share-based compensation was included in the related operating expense categories as follows:

|                            | <b>For the Year Ended December 31,</b> |             |                       |             |             | <b>2008</b>               |
|----------------------------|--|-------------|-----------------------|-------------|-------------|---------------------------|
|                            | <b>2004</b>                            | <b>2005</b> | <b>2006</b>           | <b>2007</b> | <b>2008</b> | <b>2008</b>               |
|                            | <b>RMB</b>                             | <b>RMB</b>  | <b>RMB</b>            | <b>RMB</b>  | <b>RMB</b>  | <b>US\$(<sup>2</sup>)</b> |
|                            |  |             | <i>(in thousands)</i> |             |             |                           |
| Product development        | 550                                    | 403         | 13,694                | 22,708      | 32,666      | 4,788                     |
| Sales and marketing        | 188                                    | 258         | 8,558                 | 13,649      | 18,816      | 2,758                     |
| General and administrative | 1,220                                  | 1,116       | 32,430                | 50,557      | 77,035      | 11,291                    |

- (2) Translation from RMB amounts into U.S. dollars was made at a rate of RMB6.8225 to US\$1.00. See Exchange Rate Information.
- (3) Each ADS represents 0.5 ordinary shares.

- (4) On July 8, 2005, we distributed dividends in the aggregate amount of RMB40 million to our shareholders of record as of June 30, 2005, at a dividend rate of RMB1.26, or US\$0.1525, per ordinary share. On July 14, 2006, we distributed dividends in the aggregate amount of RMB67 million to our shareholders of record as of June 30, 2006, at a dividend rate of RMB2.04, or US\$0.255, per ordinary share. On July 6, 2007, we distributed dividends in the aggregate amount of RMB72 million to our shareholders of record as of June 29, 2007, at a dividend rate of RMB2.11, or US\$0.277, per ordinary share. On July 7, 2008, we distributed dividends in the aggregate amount of RMB112 million to our shareholders of record as of

June 12, 2008, at  
a dividend rate of  
RMB3.38, or  
US\$0.488, per  
ordinary share.

**Exchange Rate Information**

We have published our financial statements in RMB. Our business is primarily conducted in China in RMB. The conversion of RMB into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. For your convenience, this annual report contains translations of some RMB or U.S. dollar amounts for 2008 at US\$1.00 : RMB6.8225, which was the noon buying rate in effect as of December 31, 2008. The prevailing rate on May 15, 2009 was US\$1.00 : RMB6.8225. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange.

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The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you. The source of these rates is the Federal Reserve Bank of New York.

| Period                     | Period-End | Noon Buying Rate                                |        | High   |
|----------------------------|------------|---|--------|--------|
|                            |            | Average <sup>(1)</sup><br>(RMB per U.S. Dollar) | Low    |        |
| 2004                       | 8.2765     | 8.2768  | 8.2774 | 8.2764 |
| 2005                       | 8.0702     | 8.1826  | 8.2765 | 8.0702 |
| 2006                       | 7.8041     | 7.9579  | 8.0702 | 7.8041 |
| 2007                       | 7.2946     | 7.5806  | 7.8127 | 7.2946 |
| 2008                       | 6.8225     | 6.9193  | 7.2946 | 6.7800 |
| December 2009              | 6.8225     | 6.8539  | 6.8842 | 6.8225 |
| January                    | 6.8392     | 6.8360  | 6.8403 | 6.8225 |
| February                   | 6.8395     | 6.8363  | 6.8470 | 6.8241 |
| March                      | 6.8329     | 6.8360  | 6.8438 | 6.8240 |
| April                      | 6.8180     | 6.8304  | 6.8361 | 6.8180 |
| May (through May 15, 2009) | 6.8225     | 6.8210  | 6.8248 | 6.8176 |

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

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors****Risks Related to Our Company**

*The slow-down of economic growth in China and the global economic downturn have adversely affected our business, and may materially and adversely affect our growth and profitability.*

Our business and operations are primarily based in China and almost all of our revenues are derived from our operations in China. Accordingly, our financial results have been, and are expected to continue to be, affected by the economy and travel industry in China. Although the economy in China has grown significantly in the past decades, any slow-down of economic growth in China could reduce expenditures for travel, which in turn may adversely affect our operating results and financial condition.

The global financial markets have experienced significant disruptions recently, and most of the world's major economies have entered into recession. China's economy has slowed down significantly since the second half of 2008

and this trend may continue into the rest of 2009 and beyond. Since we derive most of our revenues from hotel reservation, air-ticketing and packaged-tour services in China, the recent economic slow-down in China has negatively affected our operating results since the second half of 2008. Any persistent slow-down in China's economy may materially and adversely affect our business, operating results and financial condition in a number of ways. For example, the weakness in the economy could erode consumer confidence which, in turn, could result in changes to consumer spending patterns relating to travel products and services. If consumer demand for travel products and services we offer decreases, our revenues may decline. Furthermore, the current financial turmoil affecting the financial markets and banking system may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all. Although we are uncertain about the extent to which the recent global financial and economic crisis and slow-down of the Chinese economy may affect our business and their impact on our business in the short term and long term, there is a risk that our business, results of operations and prospects would be materially and adversely affected by the continuing global economic downturn and slow-down of the Chinese economy.

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*General declines or disruptions in the travel industry may materially and adversely affect our business and results of operations.*

Our business is significantly affected by the trends that occur in the travel industry in China, including the hotel, air-ticketing and packaged-tour sectors. As the travel industry is highly sensitive to business and personal discretionary spending levels, it tends to decline during general economic downturns. The recent worldwide recession has led to a weakening in the fundamental demand for travel services. Other trends or events that tend to reduce travel and are likely to reduce our revenues include:

- an outbreak of H1N1 flu, avian flu, severe acute respiratory syndrome, or SARS, or any other serious contagious diseases;

- increased prices in the hotel, air-ticketing, or other travel-related sectors;

- increased occurrence of travel-related accidents;

- natural disasters or poor weather conditions; and

- terrorist attacks or threats of terrorist attacks or wars.

We could be severely and adversely affected by declines or disruptions in the travel industry and in many cases, have little or no control over the occurrence of such events. Such events could result in a decrease in demand for our travel services. This decrease in demand, depending on the scope and duration, could significantly and adversely affect our business and financial performance over the short and long term.

*The trading price of our ADSs has been volatile historically and may continue to be volatile regardless of our operating performance.*

The trading price of our ADSs has been and may continue to be subject to wide fluctuations. In 2008, the trading prices of our ADSs on the Nasdaq Global Market ranged from US\$16.41 to US\$70.89 per ADS, and the closing price on May 22, 2009 was US\$37.04 per ADS. The price of our ADSs may fluctuate in response to a number of events and factors, including the following:

- actual or anticipated fluctuations in our quarterly operating results;

- changes in financial estimates by securities analysts;

- conditions in the Internet, online commerce or travel industries;

- changes in the economic performance or market valuations of other Internet, online commerce or travel companies;

- changes in the economic performance or market valuations of other companies that focus on the China market;

- announcements by us or our competitors of new products or services, significant acquisitions, strategic partnerships, joint ventures or capital commitments;

- additions or departures of key personnel;

- potential litigation; and

- market and volume fluctuations in the stock market in general.

In particular, in 2008, the trading prices of shares and ADSs listed on major U.S. stock exchanges experienced wide fluctuations, due in part to worldwide financial and economic turmoil. The trading price of our ADSs was also subject



to wide fluctuation during the period.

In addition, market prices for Internet-related companies and companies with operations in China in particular have experienced volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our ADSs, regardless of our operating performance. Additionally, volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees, all of whom have been granted share-based awards.

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*If we are unable to maintain existing relationships with travel suppliers and strategic alliances, or establish new arrangements with travel suppliers and strategic alliances similar to those we currently have, our business may suffer.*

If we are unable to maintain satisfactory relationships with our existing hotel suppliers, if our hotel suppliers establish similar or more favorable relationships with our competitors or if our hotel suppliers increase their competition with us through their direct sales, our operating results and our business would be harmed, because we would not have the necessary supply of hotel rooms or hotel rooms at satisfactory rates to meet the needs of our customers, or because of reduced demand for our services. Our business depends significantly upon our ability to contract with hotels in advance for the guaranteed availability of certain hotel rooms. We rely on hotel suppliers to provide us with rooms at discounted prices. However, our contracts with our hotel suppliers are not exclusive and most of the contracts must be renewed semi-annually or annually. We cannot assure you that our hotel suppliers will renew our contracts in the future on terms similar to those we currently have. Furthermore, in order to maintain and grow our business, we will need to establish new arrangements with hotels in our existing markets and in new markets. We cannot assure you that we will be able to identify appropriate hotels or enter into arrangements with those hotels on favorable terms, if at all. This failure could harm the growth of our business and adversely affect our operating results and financial condition. We derive revenues and other significant benefits from our arrangements with major domestic airlines in China and international airlines operating flights originating from China. Our airline ticket suppliers allow us to book and sell tickets on their behalf and collect commissions on tickets booked and sold through us. Although we currently have supply relationships with these airlines, they also compete with us for ticket bookings and additionally have entered into similar arrangements with many of our competitors and may continue to do so in the future. Such arrangements may be on better terms than we have. We cannot assure you that any of these airlines will continue to have supplier relationships with us. The loss of these supplier relationships would impair our operating results and financial condition as we would lose an increasingly significant source of our revenues.

Part of the revenues that we derive from our hotel suppliers, airline ticket suppliers and other travel service providers are obtained through our strategic alliances with various third parties. We cannot assure you, however, that we will be able to successfully establish and maintain strategic alliances with third parties which are effective and beneficial for our business. Our inability to do so could have a material adverse effect on our market penetration, revenue growth and profitability.

*If we fail to further increase our brand recognition, we may face difficulty in obtaining new business partners and customers, and our business may be harmed.*

We believe that maintaining and enhancing the Ctrip brand is a critical aspect of our efforts to grow our customer base and obtain new business partners. Some of our potential competitors already have well-established brands in the travel industry. The successful promotion of our brand will depend largely on our ability to maintain a sizeable and active customer base, provide high-quality customer service and organize effective marketing and advertising programs. If our customer base significantly declines, or the quality of our customer services substantially deteriorates, we may not be able to cost-effectively maintain and promote our brand, and our business, operating results and financial condition may be materially and adversely affected.

*If we do not compete successfully against new and existing competitors, we may lose our market share, and our business may be materially and adversely affected.*

We compete primarily with other consolidators of hotel accommodations and flight reservation services based in China, such as eLong, Inc. and Mangocity.com. We also compete with traditional travel agencies.

In the future, we may also face competition from new players in the hotel consolidation market in China and abroad that may enter China. We may face more competition from hotels and airlines as they enter the discount rate market directly or through alliances with other travel consolidators. In addition, international travelers have become an increasingly important customer base. Competitors that have strategic alliances with consolidators abroad may have more effective channels to direct on-line booking requests to their websites for travel needs in China. Furthermore, like all other consolidators, we do not have exclusive arrangements with our travel suppliers. The combination of these two factors means that potential entrants to our industry face relatively low entry barriers.

Increased competition could reduce our operating margins and profitability and result in loss of market share. Some of our existing and potential competitors may have competitive advantages, such as significantly greater financial,

marketing and strategic relationships and alliances or other resources or name recognition, and may be able to imitate and adopt our business model. We cannot assure you that we will be able to successfully compete against new or existing competitors. In the event we are not able to compete successfully, our business will be materially and adversely affected.

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

Our business experiences fluctuations, reflecting seasonal variations in demand for travel services. For example, the first quarter of each year generally contributes the lowest portion of our annual net revenues, primarily due to a slowdown in business activity around and during the Chinese New Year holiday, which occurs during the period. Consequently, our results of operations may fluctuate from quarter to quarter.

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*Our business may be harmed if our infrastructure and technology are damaged or otherwise fail or become obsolete.* Our first customer service center and substantially all of our computer and communications systems are located at a single facility in Shanghai. Our second customer service center is currently under construction in Nantong, China. Therefore, our computer and communication systems are vulnerable to damage or interruption from human error, computer viruses, fire, flood, power loss, telecommunications failure, physical or electronic break-ins, sabotage, vandalism, natural disasters and other similar events. We do not carry business interruption insurance to compensate us for losses that may occur.

We use an internally developed booking software system that supports nearly all aspects of our booking transactions. Our business may be harmed if we are unable to upgrade our systems and infrastructure quickly enough to accommodate future traffic levels, avoid obsolescence or successfully integrate any newly developed or purchased technology with our existing system. Capacity constraints could cause unanticipated system disruptions, slower response times, poor customer service, impaired quality and speed of reservations and confirmations and delays in reporting accurate financial and operating information. These factors could cause us to lose customers and suppliers, which would have a material adverse effect on our results of operations and financial condition.

*Our business depends substantially on the continuing efforts of our key executives, and our business may be severely disrupted if we lose their services.*

Our future success depends heavily upon the continued services of our key executives. We rely on their expertise in business operations, finance and travel services and on their relationships with our suppliers, shareholders, and business partners. We do not maintain key-man life insurance for any of our key executives. If one or more of our key executives are unable or unwilling to continue in their present positions, we may not be able to easily replace them. In that case, our business may be severely disrupted, we may incur additional expenses to recruit and train personnel and our financial condition and results of operations may be materially and adversely affected.

In addition, if any of these key executives joins a competitor or forms a competing company, we may lose customers and suppliers. Each of our executive officers has entered into an employment agreement with us that contains confidentiality and non-competition provisions. If any disputes arise between our executive officers and us, we cannot assure you of the extent to which any of these agreements would be enforced in China, where most of these executive officers reside and hold most of their assets, in light of the uncertainties with China's legal system. See **Risks Related to Doing Business in China** Uncertainties with respect to the PRC legal system could adversely affect us.

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

If our business continues to expand, we will need to hire additional employees, including travel supplier management personnel to maintain and expand our travel supplier network, information technology and engineering personnel to maintain and expand our websites, customer service center and systems, and customer service representatives to serve an increasing number of customers. If we are unable to identify, attract, hire, train and retain sufficient employees in these areas, users of our websites and customer service center may have negative experiences and turn to our competitors, which could adversely affect our business and results of operations.

### **Risks Related to Our Corporate Structure**

*PRC laws and regulations restrict foreign investment in the air-ticketing, travel agency, advertising and value-added telecommunications businesses, and substantial uncertainties exist with respect to the application and implementation of PRC laws and regulations.*

We are a Cayman Islands company and a foreign person under PRC law. Due to foreign ownership restrictions in the air-ticketing, travel agency, advertising and value-added telecommunications industries, we conduct parts of our business through contractual arrangements with our affiliated Chinese entities. These entities hold the licenses and approvals that are essential for our business operations.

In the opinion of our PRC counsel, Commerce & Finance Law Offices, our current ownership structure, the ownership structure of our subsidiaries and our affiliated Chinese entities, the contractual arrangements among us, our subsidiaries, our affiliated Chinese entities and their shareholders and our business operations, as described in this annual report, are in compliance with existing PRC laws, rules and regulations. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. Accordingly,

we cannot assure you that PRC government authorities will not ultimately take a view contrary to the opinion of our PRC legal counsel.

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, requiring us and our affiliated Chinese entities to restructure our ownership structure or operations and requiring us or our affiliated Chinese entities to discontinue any portion or all of our value-added telecommunications, air-ticketing, travel agency or advertising businesses. Any of these actions could cause significant disruption to our business operations, and may materially and adversely affect our business, financial condition and results of operations.

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Under the equity pledge agreements between our subsidiaries and the shareholders of our affiliated Chinese entities, the shareholders of our affiliated Chinese entities pledged their respective equity interests in these entities to our subsidiaries. Such pledges were duly created by recording the pledge in the relevant affiliated Chinese entities' register of shareholders in accordance with the PRC Collateral Law. However, according to the PRC Property Rights Law, effective as of October 1, 2007 and the Measures for the Registration of Equity Pledge with the Administration for Industry and Commerce, effective as of October 1, 2008, the effectiveness of the pledges will be denied if the pledges are not registered with the relevant administration for industry and commerce. Our affiliated Chinese entities and our subsidiaries are in the process of preparing the application forms and relevant documents for registration pursuant to the Measures for the Registration of Equity Pledge. Before such registration procedures are completed, we cannot assure you that the effectiveness of the pledges will be recognized by PRC courts if disputes arise on certain pledged equity interests or that our subsidiaries' interests as pledgees will prevail over those of third parties.

*If our affiliated Chinese entities violate our contractual arrangements with them, our business could be disrupted, our reputation may be harmed and we may have to resort to litigation to enforce our rights, which may be time-consuming and expensive.*

As the PRC government restricts foreign ownership of value-added telecommunications, air-ticketing, travel agency and advertising businesses in China, we depend on our affiliated Chinese entities, in which we have no ownership interest, to conduct part of our non-hotel reservation business activities through a series of contractual arrangements, which are intended to provide us with effective control over these entities and allow us to obtain economic benefits from them. Although we have been advised by our PRC counsel, Commerce & Finance Law Offices, that these contractual arrangements are valid, binding and enforceable under current PRC laws, these arrangements are not as effective in providing control as direct ownership of these businesses. For example, our affiliated Chinese entities could violate our contractual arrangements with them by, among other things, failing to operate our air-ticketing, packaged-tour or advertising business in an acceptable manner or pay us for our consulting or other services. In any such event, we would have to rely on the PRC legal system for the enforcement of those agreements, which could have uncertain results. Any legal proceeding could result in the disruption of our business, damage to our reputation, diversion of our resources and incurrence of substantial costs. See **Risks Related to Doing Business in China** Uncertainties with respect to the PRC legal system could adversely affect us.

*The principal shareholders of our affiliated Chinese entities have potential conflicts of interest with us, which may adversely affect our business.*

Our director, Min Fan, our officers, Jianmin Zhu, Tao Yang and Gangyi Yan and a family member of a senior officer, Fengying Zhang were also the principal shareholders of our consolidated affiliated Chinese entities as of December 31, 2008. Thus, conflicts of interest between their duties to our company and our affiliated Chinese entities may arise. We cannot assure you that when conflicts of interest arise, these persons will act entirely in our interests or that the conflicts of interest will be resolved in our favor. In addition, these persons could violate their non-competition or employment agreements with us or their legal duties by diverting business opportunities from us to others, resulting in our loss of corporate opportunities. In any such event, we would have to rely on the PRC legal system for the enforcement of these agreements, which could have uncertain results. Any legal proceeding could result in the disruption of our business, diversion of our resources and incurrence of substantial costs. See **Risks Related to Doing Business in China** Uncertainties with respect to the PRC legal system could adversely affect us.

*Our contractual arrangements with our affiliated Chinese entities may result in adverse tax consequences to us.*

As a result of our corporate structure and the contractual arrangements between us and our affiliated Chinese entities, we are effectively subject to the 5% PRC business tax on both revenues generated by our affiliated Chinese entities operations in China and revenues derived from our contractual arrangements with our affiliated Chinese entities. We may be subject to adverse tax consequences if the PRC tax authorities were to determine that the contracts between us and our affiliated Chinese entities were not made on an arm's length basis and therefore constitute a favorable transfer pricing. If this occurs, the PRC tax authorities could request that our affiliated Chinese entities adjust their taxable income upward for PRC tax purposes. Such a pricing adjustment could adversely affect us by increasing our affiliated Chinese entities' tax expenses without reducing our tax expenses, which could subject our affiliated Chinese entities to late payment fees and other penalties for underpayment of taxes, and/or result in the loss of the tax benefits available

to our subsidiaries in China. The new PRC Enterprise Income Tax Law, or the EIT Law, effective on January 1, 2008, requires every enterprise in China to submit its annual enterprise income tax return together with a report on transactions with its affiliates to the relevant tax authorities. The tax authorities may impose reasonable adjustments on taxation if they have identified any related party transactions that are inconsistent with arms length principles. As a result, our contractual arrangements with our affiliated Chinese entities may result in adverse tax consequences to us.

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*Our subsidiaries and affiliated Chinese entities in China are subject to restrictions on paying dividends or making other payments to us, which may restrict our ability to satisfy our liquidity requirements.*

We are a holding company incorporated in the Cayman Islands. We rely on dividends from our subsidiaries in China and consulting and other fees paid to us by our affiliated Chinese entities. Current PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, our subsidiaries in China are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the subsidiaries' registered capital. These reserves are not distributable as cash dividends. Furthermore, if our subsidiaries and affiliated Chinese entities in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us, which may restrict our ability to satisfy our liquidity requirements.

Dividend payments derived from income earned prior to January 1, 2008 to foreign investors made by foreign-invested enterprises, or FIEs, were exempt from PRC withholding tax under PRC tax law. Pursuant to the EIT Law and Circular Caishui (2008) No. 1 issued by Ministry of Finance of China on February 22, 2008, the dividends declared out of the profits earned after January 1, 2008 by an FIE to its immediate holding company outside China would be subject to a 10% withholding tax unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. Our subsidiaries in China are considered FIEs and are directly held by our subsidiary in Hong Kong. According to the Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income agreed between the mainland China and Hong Kong Special Administrative Region in August 2006, dividends payable by an FIE in China to a company in Hong Kong which directly holds at least 25% of the equity interests in the FIE will be subject to a withholding tax of 5%. On February 20, 2009, the State Administration of Taxation promulgated the Notice on Relevant Issues of Implementing Dividend Clauses under Tax Treaties, or the 2009 Notice. According to the 2009 Notice, no enterprise is entitled to enjoy preferential treatment on dividend withholding tax rates pursuant to any tax treaties if such enterprise qualifies for such preferential tax rates through any transaction or arrangement, the major purpose of which is to obtain such preferential tax treatment. The tax authority in charge has the right to make adjustments to the applicable tax rates, if it determines that any taxpayer has enjoyed preferential treatment under tax treaties as a result of such transaction or arrangement. Since the 2009 Notice is newly issued, it remains unclear how the PRC tax authorities will implement it in practice and to what extent it will affect the dividend withholding tax rates for dividends distributed by our subsidiaries in China to our Hong Kong subsidiary. If the relevant tax authority determines that our Hong Kong subsidiary was set up for the purpose of taking advantage of the preferential tax rates on dividends, the higher 10% withholding tax rate may apply to such dividends.

Under the EIT Law, an enterprise established outside the PRC with its de facto management body within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its worldwide income. The de facto management body is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. It remains unclear how the PRC tax authorities will interpret such a broad definition. If the PRC tax authorities determine that we should be classified as a resident enterprise, our global income will be subject to income tax at a uniform rate of 25%, which may have a material adverse effect on our financial condition and results of operations. Notwithstanding the foregoing provision, the EIT Law also provides that, if a resident enterprise directly invests in another resident enterprise, the dividends received by the investing resident enterprise from the invested enterprise are exempted from income tax, subject to certain conditions. However, it remains unclear how the PRC tax authorities will interpret the PRC tax resident treatment of an offshore company, like us, having indirect ownership interests in PRC enterprises through intermediary holding vehicles.

Moreover, under the EIT Law, foreign ADS holders may be subject to a 10% withholding tax upon dividends payable by a Chinese entity and gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is sourced from within the PRC. It remains unclear whether the dividends payable by a Chinese entity or the gains our foreign ADS holders may realize will be regarded as income from sources within the PRC if we are classified as a PRC resident enterprise. Any such tax will reduce the returns on your investment in our ADSs.



*The PRC government regulates the air-ticketing, travel agency, advertising and Internet industries. If we fail to obtain or maintain all pertinent permits and approvals or if the PRC government imposes more restrictions on these industries, our business may be adversely affected.*

The PRC government regulates the air-ticketing, travel agency, advertising and Internet industries. We are required to obtain applicable permits or approvals from different regulatory authorities to conduct our business, including separate licenses for value-added telecommunications, air-ticketing, advertising and travel agency activities. If we fail to obtain or maintain any of the required permits or approvals, we may be subject to various penalties, such as fines or suspension of operations in these regulated businesses, which could severely disrupt our business operations. As a result, our financial condition and results of operations may be adversely affected.

In particular, the Civil Aviation Administration of China, or CAAC, regulates pricing of air tickets as well as commissions payable to air-ticketing agencies. If restrictive policies are adopted by CAAC or any of its regional branches, our air-ticketing revenues may be adversely affected.

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

We regard our domain names, trade names, trademarks and similar intellectual property as critical to our success. We try to protect our intellectual property rights by relying on trademark protection and confidentiality laws and contracts. Trademark and confidentiality protection in China may not be as effective in the United States. Policing unauthorized use of proprietary technology is difficult and expensive.

The steps we have taken may be inadequate to prevent the misappropriation of our proprietary technology. Any misappropriation could have a negative effect on our business and operating results. Furthermore, we may need to go to court to enforce our intellectual property rights. Litigation relating to our intellectual property might result in substantial costs and diversion of resources and management attention. See Risks Related to Doing Business in China Uncertainties with respect to the PRC legal system could adversely affect us.

*Our business could suffer if we do not successfully manage current growth and potential future growth.*

Our business has grown rapidly during the last several years. We have rapidly expanded our operations and anticipate further expansion of our operations and workforce. Our growth to date has placed, and our anticipated future operations will continue to place, a significant strain on our management, systems and resources. In addition to training and managing our workforce, we will need to continue to improve and develop our financial and managerial controls and our reporting systems and procedures. We cannot assure you that we will be able to efficiently or effectively manage the growth of our operations, and any failure to do so may limit our future growth and hamper our business strategy.

*Our strategy to acquire or invest in complementary businesses and assets and establish strategic alliances involves significant risk and uncertainty that may prevent us from achieving our objectives and harm our financial conditions and result of operations.*

As part of our plan to expand our product and service offerings, we have made and intend to make strategic acquisitions or investments in the highly-fragmented travel service industry in China. Our strategic acquisitions and investments could subject us to uncertainties and risks, including:

high acquisition and financing costs;

potential ongoing financial obligations and unforeseen or hidden liabilities;

failure to achieve our intended objectives, benefits or revenue-enhancing opportunities;

cost of and difficulties in integrating acquired businesses and managing a larger business; and

potential claims or litigation regarding our board's exercise of its duty of care and other duties required under applicable law in connection with any of our significant acquisitions or investments approved by the board; and

diversion of our resources and management attention.

Our failure to address these uncertainties and risks may have a material adverse effect on our financial condition and results of operations. In addition, we establish strategic alliances with various third parties to further our business purpose from time to time. Strategic alliances with third parties could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the counter-party, and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business.

We have invested through open market purchases and in a private placement transaction a total of US\$92 million in an 18.25% stake in Home Inns & Hotels Management Inc., a leading economy hotel chain in China. The purchase prices were determined based on the trading prices of Home Inns ADSs on the Nasdaq Global Market at the time of each open market purchase or the average closing prices of Home Inns ADSs as stipulated in the relevant purchase agreement. If Home Inns experiences a net loss in the future, we would share the net loss of Home Inns proportionate to our equity interest in Home Inns. In addition, if the ADS price of Home Inns declines and becomes lower than our

share purchase price in the long term, we would incur impairment loss under U.S. GAAP, which in turn would adversely affect our financial results for the relevant periods.

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*We rely on services from third parties to carry out our business and to deliver our products to customers, and if there is any interruption or deterioration in the quality of these services, our customers may not continue using our services.*

We rely on third-party computer systems to host our websites, as well as third-party licenses for some of the software underlying our technology platform. In addition, we rely on third-party air-ticketing agencies to issue air tickets and travel insurance products, confirmations and deliveries in some cities in China. Any interruption in our ability to obtain the products or services of these or other third parties or deterioration in their performance could impair the timing and quality of our own service. If our service providers fail to provide high quality services in a timely manner to our customers, our services will not meet the expectations of our customers and our reputation and brand will be damaged. In December 2008, one of our customers purchased two aviation insurance policies from one of our local third-party air-ticketing agencies. Such insurance policies turned out to be counterfeit. In March 2009, the customer filed a civil lawsuit against us in a local court in Kunming, Yunnan province, claiming economic compensation of approximately RMB100,000 (US\$14,657). The court dismissed the case on jurisdictional grounds. This incident has triggered significant negative media coverage of our company in China. If similar incidents happen in the future and we are unable to deal with them properly, our public image may suffer and our customers may cease to use our services, which would have a material and adverse effect on our business and results of operation.

*If our hotel suppliers or customers provide us with untrue information regarding our customers' stay, we may not be able to recognize and collect revenues to which we are entitled.*

A substantial portion of our revenues are represented by commissions which hotels pay us for room nights booked through us. Generally, we do not receive payment from our customers on behalf of our hotel suppliers, as our customers pay hotels directly. To confirm whether a customer adheres to the booked itinerary, we routinely make inquiries with the hotel and, occasionally, with the customer. We rely on the hotel and the customer to give us truthful information regarding the customer's check-in and check-out dates, which forms the basis for calculating the commission we are entitled to receive from the hotel. If our hotel suppliers or customers provide us with untrue information with respect to our customers' length of stay at the hotels, we would not be able to recognize revenues to which we are entitled. In addition, using such untrue information may lead to inaccurate business projections and plans, which may adversely affect our business planning and strategy.

*We may suffer losses if we are unable to predict the amount of inventory we will need to purchase during the peak holiday seasons.*

During the peak holiday seasons in China, we establish limited merchant business relationships with selected travel service suppliers, particularly for our packaged-tour products, in order to secure adequate supplies for our customers. In the merchant business relationship, we buy hotel rooms and/or air tickets before selling them to our customers and thereby incur inventory risk. If we are unable to correctly predict demand for hotel rooms and air tickets that we are committed to purchase, we would be responsible for covering the cost of the hotel rooms and air tickets we are unable to sell, and our financial condition and results of operations would be adversely affected.

*If tax benefits available to our subsidiaries in China are reduced or repealed, our results of operations could suffer.*

Under the EIT law, FIEs and domestic enterprises are subject to EIT at a uniform rate of 25%. Certain enterprises will benefit from a preferential tax rate of 15% under the EIT Law if they qualify as high and new technology enterprises strongly supported by the State, subject to certain general restrictions described in the EIT Law and the related regulations.

In December 2008, our PRC subsidiaries, Ctrip Computer Technology, Ctrip Travel Information and Ctrip Travel Network were each designated by relevant local authorities in Shanghai as a high and new technology enterprise under the EIT Law. Therefore, these entities are entitled to enjoy a preferential tax rate of 15% as long as they maintain their qualification for high and new technology enterprise, which is subject to reevaluation in three years. We cannot assure you that our subsidiaries will continue to qualify as high and new technology enterprises when they are subject to reevaluation in the future. In the event that the preferential tax treatment for them is discontinued, these entities will become subject to the standard 25% EIT rate, which could materially increase our tax obligations.

*We may be subject to additional business tax for our hotel reservation services.*

Some of our hotel reservation services customers prepay for their expected hotel stays with the entire amount of hotel charges before checking in. As a result, we issue them invoices representing the entire amount of their expected hotel charges. Although we only recognize commissions on such hotel reservations as revenues, we cannot assure that, in these cases, the PRC tax authorities will not deem the entire invoiced amount as our revenue and impose business tax on such amount. Payment of business tax on the full amounts represented by these invoices may have a material adverse effect on our financial condition and results of operations.

*We have sustained losses in the past and may experience earnings declines or net losses in the future.*

We sustained net losses in the periods prior to 2002. We cannot assure you that we can sustain profitability or avoid net losses in the future. We expect that our operating expenses will increase and the degree of increase in these expenses is largely based on anticipated organizational growth and revenue trends. As a result, any decrease or delay in generating additional sales volume and revenues could result in substantial operating losses.

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*We may be subject to litigation regarding information provided on our websites, which may be time-consuming to defend.*

Our websites contain information about hotels, flights, popular vacation destinations and other travel-related topics. It is possible that if any information accessible on our websites contains errors or false or misleading information, third parties could take action against us for losses incurred in connection with the use of such information. Any such claims, with or without merit, could be time consuming and costly to defend, result in litigation and divert management's attention and resources.

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

We conduct a portion of our transactions through our websites. In such transactions, secured transmission of confidential information (such as customers' itineraries, hotel and other reservation information, credit card information, personal information and billing addresses) over public networks is essential to maintain consumer and supplier confidence. Our current security measures may not be adequate. Security breaches could expose us to litigation and possible liability for failing to secure confidential customer or supplier information and could harm our reputation and ability to attract customers.

*Inflation in China may disrupt our business and have an adverse effect on our financial condition and results of operations*

Historically, China has experienced significant inflation and we cannot assure you that further inflation will not occur in the future. If inflation recurs, the scope and the extent of inflation could adversely affect the Chinese economy and both business and personal travel behavior. If inflation leads to a reduction in business and leisure travel, our business, financial condition and results of operations would be adversely impacted. Furthermore, we cannot assure you that, under competitive pressure, we will be able to implement price increases, which could adversely impact our business, financial condition and results of operations.

*The recurrence of SARS and other similar outbreaks such as H1N1 flu (swine flu) or avian flu as well as natural disasters may materially and adversely affect our business and operating results.*

In early 2003, several regions in Asia, including Hong Kong and China, were affected by the outbreak of SARS. The travel industry in China, Hong Kong and some other parts of Asia suffered tremendously as a result of the outbreak. Furthermore, in early 2008, severe snowstorms hit many areas of China and particularly affected southern China. The travel industry was severely and adversely affected during and after the snowstorms. Additionally, in May 2008, a major earthquake struck China's populous Sichuan province and was felt across much of the country, causing great loss of life, numerous injuries, property loss and disruption to the local economy. The earthquake had an immediate impact on our business as a result of the sharp decrease in travel in the relevant earthquake affected areas in Sichuan province. Finally, in April 2009, an outbreak of H1N1 flu (swine flu) occurred in Mexico and the United States and human cases of swine flu were discovered in China and Hong Kong. Our business and operating results were adversely affected in all cases.

A recurrence of an outbreak of SARS, avian flu, swine flu or other contagious diseases, extreme unexpected bad weather or severe natural disasters would affect our business and operating results. Ongoing concerns regarding contagious disease or natural disasters, particularly its effect on travel, could negatively impact our China-based customers' desire to travel. If there is a recurrence of an outbreak of certain contagious diseases or natural disasters, travel to and from affected regions could be curtailed. Government advice regarding or restrictions on travel to and from these and other regions on account of outbreak of any contagious disease or occurrence of natural disasters could have a material adverse effect on our business and operating results.

*We have limited business insurance coverage in China.*

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

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

Since we began providing travel booking services to corporate customers who generally request credit terms, our accounts receivable have increased. We cannot assure you that we will be able to collect payment fully and in a timely manner on our outstanding accounts receivable from our corporate travel service customers. As a result, we may face a greater risk of non-payments in our accounts receivable and, when 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.

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*As we have commenced accounting for employee share options using the fair value method beginning from 2006, such accounting treatment could continue to significantly reduce our net income.*

Since 2006, we have accounted for share-based compensation in accordance with FASB Statement No. 123R, Share-Based Payment, or FAS No. 123R, which requires a public company to recognize, as an expense, the fair value of share options and other share-based compensation to employees based on the requisite service period of the share-based awards. Prior to 2006, we recorded share-based compensation to the extent that the fair value of the shares on the date of grant exceeded the exercise price of the option. In 2008, share-based compensation expense reduced our diluted earnings per ADS by approximately US\$0.27. The adoption of SFAS No.123R may continue to have a significant impact on our net income. In addition, future changes to various assumptions used to determine the fair-value of awards issued or the amount and type of equity awards granted may also create uncertainty as to the amount of future share-based compensation expense.

*Failure to maintain effective internal control over financial reporting could have a material adverse effect on the trading price of our ADSs.*

We are subject to the reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, or the SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002, has adopted rules requiring public companies to include a report of management on the effectiveness of such companies' internal control over financial reporting in its annual report. In addition, an independent registered public accounting firm for a public company must issue an attestation report on the effectiveness of the company's internal control over financial reporting. Our management conducted an evaluation of the effectiveness of our internal control over financial reporting and concluded that our internal control over financial reporting was effective as of December 31, 2008. In addition, our independent registered public accounting firm attested the effectiveness of our internal control and reported that our internal control over financial reporting was effective as of December 31, 2008. If we fail to maintain the effectiveness of our internal control over financial reporting, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with the Sarbanes-Oxley Act. Moreover, effective internal control over financial reporting is necessary for us to produce reliable financial reports. As a result, any failure to maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could negatively impact the trading price of our ADSs. Furthermore, we may need to incur additional costs and use additional management and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act and other requirements going forward.

*We may need additional capital and we may not be able to obtain it.*

We believe that our current cash and cash equivalents and cash flow from operations will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our existing resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. In particular, the current financial turmoil affecting the financial markets and banking system may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all.

### **Risks Related to Doing Business in China**

*Adverse changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could adversely affect our business.*

Substantially all of our business operations are conducted in China. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past decades, growth has been uneven across different regions and among various economic sectors of China. The PRC government has implemented



various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, future measures to control the pace of economic growth may cause a decrease in the level of economic activity in China, which in turn could adversely affect our results of operations and financial condition.

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*Future movements in exchange rates between the U.S. dollar and the RMB may adversely affect the value of our ADSs.*

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. The conversion of the RMB into foreign currencies, including the U.S. dollar, has been based on rates set by the People's Bank of China. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in a greater fluctuation range between the RMB and the U.S. dollar and caused the RMB to appreciate approximately 21.5% against the U.S. dollar over the following three years. On May 19, 2007, the People's Bank of China announced a policy to expand the maximum daily floating range of the RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market from 0.3% to 0.5%. With this increased floating range, the RMB's value may appreciate or depreciate significantly against the U.S. dollar or other foreign currencies in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued. For example, the RMB appreciated approximately 27% against the Euro between July 2008 and November 2008. It is difficult to predict how long the current situation may last and when and how it may change again.

Our revenues and costs are mostly denominated in RMB, while a portion of our financial assets and our dividend payments are denominated in U.S. dollars. We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency risk. Any significant revaluation of the RMB or the U.S. dollar may adversely affect our cash flows, earnings and financial position, and the value of, and any dividends payable on, our ADSs. For example, an appreciation of the RMB against the U.S. dollar would make any new RMB denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into RMB for such purposes. An appreciation of the RMB against the U.S. dollar would also result in foreign currency translation losses for financial reporting purposes when we translate our U.S. dollar denominated financial assets into RMB, our reporting currency.

*Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.*

Because substantially all of our revenues are in the form of RMB, any restrictions on currency exchange may limit our ability to use revenues generated in RMB to fund our business activities outside China or to make dividend payments in U.S. dollars. The principal regulation governing foreign currency exchange in China is the Foreign Currency Administration Rules (1996), as amended, the Rules. Under the Rules, RMB is freely convertible for trade and service-related foreign exchange transactions, but not for direct investment, loan or investment in securities outside China unless the prior approval of the State Administration of Foreign Exchange, or SAFE is obtained. Although the PRC government regulations now allow greater convertibility of RMB for current account transactions, significant restrictions still remain. For example, foreign exchange transactions under our subsidiaries' capital account, including principal payments in respect of foreign currency-denominated obligations, remain subject to significant foreign exchange controls and the approval of SAFE. These limitations could affect our ability to obtain foreign exchange for capital expenditures. We cannot be certain that the PRC regulatory authorities will not impose more stringent restrictions on the convertibility of RMB, especially with respect to foreign exchange transactions.

*PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our ability to inject capital into our PRC subsidiaries, limit our subsidiaries' ability to distribute profits to us, or otherwise adversely affect us.*

SAFE issued a public notice, or Notice 75, in October 2005 requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equity interests in any onshore enterprise located in the PRC, referred to in the notice as a special purpose company. On May 29, 2007, SAFE further promulgated the guideline for Notice 75, or Guideline 106, which clarifies certain implementation questions of Notice 75. According to Notice 75 and Guideline 106, any PRC resident who is a direct or indirect shareholder of a special purpose company is also required to file or update the registration with the local branch of SAFE, with respect to that special purpose company, any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest. Moreover, the PRC subsidiaries of that special purpose company are required to urge the PRC resident shareholders to update their SAFE registration with the local

branch of SAFE when such updates are required under applicable SAFE regulations.

We have notified holders of ordinary shares of our company who we know are PRC residents to register with the local SAFE branch as required under the SAFE notice. The failure or inability of our shareholders resident in the PRC to comply with the registration procedures set forth therein may subject them to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to our company or otherwise adversely affect our business.

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*Online payment systems in China are at an early stage of development and may restrict our ability to expand our online commerce service business.*

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

The Internet market has not been proven as an effective commercial medium in China. The market for Internet products and services in China has only recently begun to develop. The Internet penetration rate in China is lower than those in the United States and other developed countries. Since the Internet is an unproven medium for commerce in China, our future operating results from online services will depend substantially upon the increased use and acceptance of the Internet for distribution of products and services and facilitation of commerce in China.

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

consumer dependence on traditional means of commerce;

inexperience with the Internet as a sales and distribution channel;

inadequate development of the necessary infrastructure to facilitate online commerce;

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

inexperience with credit card usage or with other means of electronic payment; and

limited use of personal computers.

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

*Uncertainties with respect to the PRC legal system could adversely affect us.*

We conduct our business primarily through our wholly-owned subsidiaries incorporated in China. Our subsidiaries are generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to wholly foreign-owned enterprises. In addition, we depend on several affiliated Chinese entities in China to honor their service agreements with us. Almost all of these agreements are governed by PRC law and disputes arising out of these agreements are expected to be decided by arbitration in China. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since the PRC legal system is still evolving, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit remedies available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

*We have attempted to comply with the PRC government regulations regarding licensing requirements by entering into a series of agreements with our affiliated Chinese entities. If the PRC laws and regulations change, our business in China may be adversely affected.*

To comply with the PRC government regulations regarding licensing requirements, we have entered into a series of agreements with our affiliated Chinese entities to exert our operational control over them and secure consulting fees and other payments from them. Although we have been advised by our PRC counsel, Commerce & Finance Law Offices, that our arrangements with our affiliated Chinese entities are valid under current PRC law and regulations, we cannot assure you that we will not be required to restructure our organization structure and operations in China to

comply with changing and new PRC laws and regulations. Restructuring of our operations may result in disruption of our business, diversion of management attention and the incurrence of substantial costs.

*The continued growth of the Chinese Internet market depends on the establishment of an adequate telecommunications infrastructure.*

Although private sector Internet service providers currently exist in China, almost all access to the Internet is maintained through state-owned telecommunication operations under the administrative control and regulatory supervision of China's Ministry of Industry and Information Technology. In addition, the national networks in China connect to the Internet through government-controlled international gateways. These international gateways are the only channels through which a domestic Chinese user can connect to the international Internet network. We rely on this infrastructure, China Telecom and China Netcom to provide data communications capacity primarily. Although the government has announced plans to aggressively develop the national information infrastructure, we cannot assure you that this infrastructure will be 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.

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### **Risks Related to the Shares and ADSs**

*The future sales by our existing shareholders of a substantial number of our ADSs in the public market could adversely affect the price of our ADSs.*

If our existing shareholders sell substantial amounts of our ADSs, including those issued upon the exercise of outstanding options, in the public market, the market price of our ADSs could fall. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. Any future sales of a substantial number of our ADSs in the public market could adversely affect the price of our ADSs. *You may face difficulties in protecting your interests, and our ability to protect our rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law.*

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law (2007 Revision) and common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, and provides significantly less protection to investors. Therefore, our public shareholders may have more difficulties in protecting their interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States. As a result, we may not be able to protect our interests if we are harmed in a manner that would otherwise enable us to sue in a United States federal court.

*Your ability to bring an action against us or against our directors and officers, or to enforce a judgment against us or them, will be limited because we are incorporated in the Cayman Islands, because we conduct a substantial portion of our operations in China and because the majority of our directors and officers reside outside of the United States.*

We are incorporated in the Cayman Islands, and we conduct a substantial portion of our operations in China through our wholly-owned subsidiaries and several affiliated Chinese entities in China. Most of our directors and officers reside outside of the United States and most of the assets of those persons are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the Cayman Islands or in China in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

*You may not be able to exercise your right to vote.*

As a holder of ADSs, you may instruct the depositary of our ADSs to vote the 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 shares. However, you may not know about the meeting enough in advance to withdraw the shares. If we ask for your instructions, the depositary will notify you of the upcoming vote and arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and there may be nothing you can do if the shares underlying your ADSs are not voted as you requested.

Under our deposit agreement, the depositary will give us a discretionary proxy to vote our ordinary shares underlying your ADSs at shareholders' meetings if you do not vote, unless we have instructed the depositary that we do not wish a discretionary proxy to be given or any of the other situations specified under the deposit agreement takes place. The effect of this discretionary proxy is that you cannot prevent ordinary shares underlying your ADSs from being voted, absent the situations described above, and it may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

*Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.*

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act of 1933, as amended, or Securities Act, or an exemption from the registration

requirements is available. Also, under the deposit agreement, the depositary bank will not make rights available to you those rights unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act, or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

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*You may not receive distributions on ordinary shares or any value for them if it is illegal or impractical to make them available to you.*

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. We have no obligation to register ADSs, ordinary shares, rights or other securities under U.S. securities laws. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive the distribution we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may have a material adverse effect on the value of your ADSs.

*You may be subject to limitations on transfer of your ADSs.*

Your ADSs represented by the ADRs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary thinks it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

*The sale, deposit, cancellation and transfer of the ADSs issued after exercise of rights may be restricted.*

If we offer holders of our ordinary shares any rights to subscribe for additional shares or any other rights, the depositary may make these rights available to you. However, the depositary may allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them. In addition, U.S. securities laws may restrict the sale, deposit, cancellation and transfer of the ADSs issued after exercise of rights. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Also, under the deposit agreement, the depositary will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. We can give no assurance that we can establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, you may be unable to participate in our rights offerings and may experience dilution of your holdings as a result.

*Provisions of our shareholder rights plan could delay or prevent an acquisition of our company, even if the acquisition would be beneficial to our shareholders.*

In November 2007, we adopted a shareholder rights plan. Although the rights plan will not prevent a takeover, it is intended to encourage anyone seeking to acquire our company to negotiate with our board of directors prior to attempting a takeover by potentially significantly diluting an acquirer's ownership interest in our outstanding capital stock. The existence of the rights plan may also discourage transactions that otherwise could involve payment of a premium over prevailing market prices for our ADSs.

## **ITEM 4. INFORMATION ON THE COMPANY**

### ***A. History and Development of the Company***

We commenced our business in June 1999. In March 2000, we established a new holding company, Ctrip.com International, Ltd., in the Cayman Islands as an exempted company with limited liability under the Cayman Islands Companies Law, and soon thereafter, all of the shareholders of Ctrip.com (Hong Kong) Limited transferred their shares to the holding company in exchange for shares of the holding company and Ctrip.com (Hong Kong) Limited became our wholly-owned subsidiary.

Since our inception, we have conducted substantially all of our operations in China. As of December 31, 2008, we operated as a foreign investment enterprise in China through the following subsidiaries:

Ctrip Computer Technology (Shanghai) Co., Ltd., or Ctrip Computer Technology;



Ctrip Travel Information Technology (Shanghai) Co., Ltd., or Ctrip Travel Information;  
Ctrip Travel Network Technology (Shanghai) Co., Ltd., or Ctrip Travel Network;  
Ctrip Information Technology (Nantong) Co., Ltd., or Ctrip Information Technology;  
Starway Hotels (Shanghai) Co., Ltd., or Starway Shanghai; and  
China Software Hotel Information System Co., Ltd., or Software Hotel Information.

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We also conduct part of our business in China through the following consolidated affiliated Chinese entities:

Beijing Ctrip International Travel Agency Co., Ltd., or Beijing Ctrip, which holds domestic and cross-border travel agency license and air transport sales agency licenses;

Shanghai Ctrip Commerce Co., Ltd., or Ctrip Commerce, which holds value-added telecommunications business license;

Guangzhou Ctrip International Travel Agency Co., Ltd., or Guangzhou Ctrip, which holds domestic and cross-border travel agency and air transport sales agency licenses;

Shanghai Huacheng Southwest Travel Agency Co., Ltd., or Shanghai Huacheng, which holds domestic travel agency and air transport sales agency licenses;

Shanghai Ctrip International Travel Agency Co., Ltd. (formerly Shanghai Ctrip Charming International Travel Agency Co., Ltd.), or Shanghai Ctrip, which holds domestic and cross-border travel agency licenses and air transport sales agency license;

Shenzhen Ctrip Travel Agency Co., Ltd., or Shenzhen Ctrip, which holds air transport sales agency and domestic travel agency licenses; and

Nantong Tongcheng Information Technology Co., Ltd., or Nantong Tongcheng, which holds value-added telecommunications business license.

We formed Home Inns & Hotels Management (Hong Kong) Limited, or Home Inns Hong Kong, in 2001 to expand our business to include the hotel management service. We spun off all of our interest in Home Inns Hong Kong in August 2003. Home Inns Hong Kong became a wholly-owned subsidiary of Home Inns & Hotels Management Inc., or Home Inns, in June 2006. Home Inns went public and its ADSs were listed on the Nasdaq Global Market in October 2006. During the period from September 12, 2008 to December 31, 2008, we purchased ADSs of Home Inns on the open market representing 9% of the total outstanding shares of Home Inns as of December 31, 2008. In May 2009, we entered into a definitive purchase agreement with Home Inns to acquire additional equity interest in Home Inns through a private placement of its ordinary shares for \$50 million in cash. This transaction closed on May 21, 2009. As a result, our aggregate equity interest in Home Inns has increased to 18.25% of the total outstanding shares of Home Inns as of May 21, 2009.

In March 2006, we formed a wholly-owned subsidiary, C-Travel International Limited, an exempted company with limited liability incorporated in the Cayman Islands, in connection with our investment in a minority stake in ezTravel Co., Ltd., an online travel service provider in Taiwan that offers packaged-tours as well as hotel and airline tickets reservation services. In April 2007, we formed a new wholly-owned subsidiary, Ctrip Information Technology in the PRC, in connection with the construction of our second toll-free customer service center in anticipation of future business expansion.

Our principal executive offices are located at 99 Fu Quan Road, Shanghai 200335, People's Republic of China, and our telephone number is (86-21) 3406-4880.

***B. Business Overview***

We are a leading travel service provider for hotel accommodations, airline tickets and packaged tours in China. We aggregate information on hotels and flights and enable our customers to make informed and cost-effective hotel and flight bookings. We also sell packaged tours that include transportation and accommodations, as well as guided tours in some instances. Since commencing operations in 1999, we have become one of the best-known travel brands in China. We pioneered the development of a reservation and fulfillment infrastructure that enables our customers to:

choose and reserve hotel rooms in cities throughout China and selected cities abroad;

book and purchase air tickets for domestic and international flights originating from China; and

choose and reserve packaged tours that include transportation and accommodations, as well as guided tours in some instances.

We target our services primarily at business and leisure travelers in China who do not travel in groups. These types of travelers, who are referred to in the travel industry as FITs (free individual travelers) and whom we refer to as independent travelers in this annual report, form a traditionally under-served yet fast-growing segment of the China travel market. We act as agent in substantially all of our transactions and generally do not take inventory risks with respect to the hotel rooms and airline tickets booked through us. We derive our hotel reservation, air-ticketing and packaged-tour revenues mainly through commissions from our travel suppliers, primarily based on the transaction value of the rooms, airline tickets and packaged-tour products, respectively, booked through our services.

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We believe that we are the largest consolidator of hotel accommodations in China in terms of the number of hotel room nights booked. As of December 31, 2008, we had secured room supply relationships with approximately 7,700 hotels in China and approximately 16,000 hotels abroad, which cover a broad range of hotels in terms of price and geographical location. As of December 31, 2008, we had guaranteed room allotments, which allow us to sell hotel rooms to our customers even during peak seasons and provide instant confirmation, with approximately 67% of the hotels in China with whom we have a supply relationship. Rooms booked in guaranteed allotment hotels accounted for approximately 85% of our hotel transactions for the year ended December 31, 2008. The quality and depth of our hotel supplier network enable us to offer our customers a wide selection of hotel accommodations. We believe our ability to offer reservations at highly rated hotels is particularly appealing to our customers. Revenues from our bookings for three-, four- and five-star hotels comprised approximately 80% of our revenues from our hotel reservation business in 2008.

We believe that we are the largest consolidator of airline tickets in China in terms of the total number of airline tickets booked and sold. Our airline ticket suppliers include all major Chinese airlines and many international airlines that operate flights originating from China. We are among the few airline ticket consolidators in China that maintain a centralized reservation system and ticket fulfillment infrastructure covering substantially all of the economically prosperous regions of China. Our customers can make flight reservations on their chosen routes and arrange ticket payment and delivery through our ticketing offices and third-party agencies located in over 50 major cities in China. We also offer independent leisure travelers bundled package-tour products, which include transportation and accommodations, as well as guided tours in some instances. Our package-tour products cover a variety of domestic and international destinations.

We offer our services to customers through an advanced transaction and service platform consisting of our centralized toll-free, 24-hour customer service center and bilingual websites. In 2008, transactions effected through our customer service center accounted for approximately 70% of our transaction volume, while our websites accounted for the balance.

Our revenues are primarily generated from the hotel reservation, air-ticketing and packaged-tour services. For information on revenues attributable to our different products, see Item 5.A, Operating Results.

### **Products and Services**

We began offering hotel reservation and air-ticketing services in October 1999. In 2008, we derived 48% of our revenues from the hotel reservation business and 42% of our revenues from the air-ticketing business. In addition, we offer other products and services including packaged tours, mostly bundled by us, that cover hotel, air tickets and transportation.

*Hotel Reservations.* We act as agent in substantially all of our hotel-related transactions. Our customers receive confirmed bookings and generally pay the hotels directly upon completion of their stays, and in general, we pay no penalty to the hotels if our customers do not check in. For some of our hotel suppliers, we earn pre-negotiated fixed commissions on hotel rooms we sell. For other hotels, we have commission arrangements that we refer to as the ratchet system, whereby our commission rate per room night is adjusted upward with the increase in the volume of room nights we sell for such hotel during such month.

We contract with hotels for rooms under two agency models, the guaranteed allotment model and the on-request model. Under our agreements with our hotel suppliers, hotels are generally required to offer us prices that are equal or lower than their published prices, and notify us in advance if they have promotional sales, so that we can lower our prices accordingly.

In addition to the agreements that we enter into with all of our hotel suppliers, we enter into a supplemental agreement with each of the hotel suppliers with which we have a guaranteed allotment arrangement. Pursuant to this agreement, a hotel guarantees us a specified number of available rooms every day, allowing us to provide instant confirmations on such rooms to our customers before notifying the hotel. The hotel is required to notify us in advance if it will not be able to make the guaranteed rooms available to our customers due to reasons beyond its control.

As of December 31, 2008, we had contracted with approximately 7,700 hotels in China, of which approximately 5,200 hotels have guaranteed room allotments, allowing us to sell rooms to our customers even during peak seasons and provide instant confirmation. Rooms booked in hotels with which we have a guaranteed allotment arrangement

currently account for a majority of our total hotel room transaction volume. With the remaining hotel suppliers, we book rooms on an on-request basis, meaning our ability to secure hotel rooms for our customers is subject to room availability at the time of booking. Our business development team continues to try to increase guaranteed room allotment arrangements with our travel suppliers.

*Air-ticketing.* We sell air tickets for all major domestic Chinese airlines, including Air China, China Eastern Airlines, China Southern Airlines and Shanghai Airlines and many international airlines operating flights that originate from cities in China, such as United Airlines, Northwest Airlines, Air Canada, DragonAir and Lufthansa.

In air-ticketing transactions, a customer generally pays the ticket delivery agent upon delivery of the ticket. The customer also has the option of picking up a ticket at the ticketing office or obtaining an electronic ticket. Generally, the customer pays a penalty to the airline if he or she cancels the ticket for the flight. In 2006, China began to operate on a large scale an electronic ticketing, or E-ticketing, system for air travel within China and abroad. We believe that E-ticketing allows our consumers to book air tickets and complete their trips more conveniently. In addition, we believe that E-ticketing allows us to execute air-ticketing transactions more efficiently. E-ticketing also makes our business expansion into second-tier cities easier and more efficient. The airline industry, including airline ticket pricing, is regulated by CAAC. Therefore, we have no discretion in offering discounts on the air tickets we sell.

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*Packaged-tour.* We also offer independent leisure travelers bundled package-tour products, which include transportation and accommodations, as well as guided tours in some instance. Our package-tour products cover a variety of domestic and international destinations.

*Other Products and Services.* We offer travel-related businesses and other third parties the opportunity to advertise on our websites. We sell travel guidebooks, which provide useful information for independent travelers. We provide air-ticket delivery and insurance services to our customers. We sell VIP membership cards that allow cardholders to enjoy certain priority in obtaining our services and receiving discounts from many restaurants, clubs and bars in various cities in China. We also offer these membership cards free of charge to select customers who have purchased a certain amount of travel services from us. Other products and services accounted for a small portion of our total revenues in 2008.

### **Seasonality**

Our business experiences fluctuations, reflecting seasonal variations in demand for travel services. See Item 5.A Operating Results, for a discussion of seasonality in the travel industry.

### **Transaction and Service Platform**

Our customers can reach us for their travel-related needs through either our toll-free customer service center or our bilingual websites located at [www.ctrip.com](http://www.ctrip.com) and [english.ctrip.com](http://english.ctrip.com). In 2008, transactions executed through our customer service center and websites account for approximately 70% and 30%, respectively, of our total transactions.

*Customer Service Center.* Our centralized toll-free customer service center is located in Shanghai, China and is operated 24 hours a day, seven days a week. Customers can call our nationwide toll free number to consult with our customer service representatives, receive comprehensive, real-time hotel, flight and packaged-tour information and make travel bookings.

As of December 31, 2008, we employed approximately 4,700 customer service representatives, as compared with 3,700 customer service representatives as of December 31, 2007. All of our customer service representatives participated in a formal training program before commencing work. Unlike some companies in the United States that outsource their customer service to third-party call centers, our customer service representatives are in-house travel specialists.

At our technically advanced Shanghai facility, we have implemented comprehensive performance measures to monitor our calls to ensure that our customers will receive quality service. We believe we have sufficient capacity to meet the currently anticipated increases in call volume. Nevertheless, if we exceed this capacity, we believe we can add, within a reasonable time and at a reasonable cost, additional phone lines, computer systems and customer service representatives to handle increasing call volumes without the need to undertake system redesign to our existing systems. In September 2008, we announced the construction of a new customer service center in Nantong, China, which would further increase our customer service capacity.

*Internet Websites.* We have a Chinese-language website located at [www.ctrip.com](http://www.ctrip.com) and an English-language website located at [english.ctrip.com](http://english.ctrip.com). Our proprietary booking software is integrated with our websites, allowing a customer to complete a booking within minutes. In addition, our customers can use our editorial content for researching destinations and travel tips.

### **Marketing and Brand Awareness**

Through on-site promotions, cross-marketing, online marketing, advertising and our customer reward program, we have created a strong Ctrip brand that is commonly associated in China with value travel products and services and superior customer service. We will continue to use our focused marketing strategy to further enhance awareness of our brand and acquire new customers.

*On-Site Promotions.* We have on-site promotion staff in more than 45 major cities in China. Our staff distributes membership cards and introductory brochures at various locations including airports and train and bus stations. To date, our on-site promotions have proven to be an effective marketing channel for us.

*Cross-Marketing.* We have entered into cross-marketing relationships with major Chinese domestic airlines, telecommunications service providers, financial institutions and other corporations.



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Our airline partners recommend our products and services to their mileage program members, and allow their members to accumulate miles by staying at hotels booked through us. Our telecommunications service provider partners direct their subscribers requesting travel information to our customer service center through automatic call forwarding, or to our websites through an Internet link on their websites. In addition, our bank partners recommend our products and services to their debit or credit card holders, and we allow their card holders to use their cards to settle their payments for travel products purchased from us. In September 2004, we and China Merchants Bank jointly launched a dual-currency travel credit card through which holders of the credit card may book hotels, air tickets and packaged-tour products with us, and settle the payments in either RMB or U.S. dollars. Card holders are also entitled to certain VIP membership privileges with us. Total number of holders of this dual-currency travel credit card exceeded 150 million as of February 28, 2009. This credit card is one of the leading joint-launching credit cards in terms of number of holders in China and was honored as the Most Popular Credit Card in 2006 by VISA. In May 2007, we and Bank of China together with MasterCard International Organization jointly launched a dual-currency travel credit card through which holders of the credit card may book hotels, air tickets and packaged-tour products with us, and settle the payments in either RMB or U.S. dollars. Card holders are also entitled to high insurance coverage upon settlement of payments for our air tickets and packaged-tour products. As of April 30, 2009, the number of holders of this credit card exceeded 400,000.

*Online Marketing.* We have paid many of the leading Internet search engines and portals in China to prominently feature our websites.

*Advertising.* We advertise in top tier newspapers, radio broadcasting and traffic hubs in China's major cities where we have a sales team. Based on our experience, this is an effective advertising method for increasing brand awareness and attracting new customers.

*Customer Reward Program.* To secure our customers' loyalty and further promote our Ctrip brand, we provide our customers with a customer reward program. This program allows our customers to accumulate membership points calculated according to the services purchased by the customers. Our customers may then redeem these points for travel awards and other gifts.

### **Supplier Relationship Management**

We have cultivated and maintained good relationships with our travel suppliers since our inception. We have a team of employees dedicated to enhance our relationship with existing travel suppliers and develop relationships with prospective travel suppliers.

Furthermore, we have developed an electronic confirmation system that enables participating hotel suppliers to receive our customers' reservation information and confirm such reservation through our online interface with the hotel supplier. We believe that the electronic confirmation system is a cost-effective and convenient way for hotels to interface with us. We have not had any material disputes with our travel suppliers with respect to the amount of commissions to which we were entitled.

### **Technology and Infrastructure**

We believe that the quality of our technology differentiates us from our competitors in China. Our goal has been to build a reliable, scalable, updated and secure infrastructure to fully support our customer service center and website operations.

Since inception, we have supported substantial growth in our offline and online traffic and transactions with our present architecture. Our proprietary booking software is integrated with our websites and customer service center operations. Our hardware platform for the Internet consists of Hewlett-Packard servers. We have contracted with Avaya Inc., Hewlett-Packard Company and Dell Inc. for warranty services for our hardware platform. We maintain our databases on HP Superdome, HP RX4640, HP DL740, HP DL580, HP DL585, and conduct daily backup functions for off-site storage. We access the Internet backbone via two 150 megabit ethernet lines for load balance and backup. Our customer service center operations are managed by an Avaya S8700 media server. We maintain all of our servers at our premises in Shanghai.

### **Competition**

In the hotel consolidation market, we compete primarily with other consolidators of hotel accommodations, such as eLong, Inc., which is controlled by IAC/InterActiveCorp, which owns several online travel businesses, including



Expedia, Hotels.com, Hotwire and the WWTE private label, and Mangocity.com. We also compete with traditional travel agencies. We believe that the hotel room booking volume from FITs of our main competitors is significantly lower than ours. However, as the travel business in China continues to grow, we may face competition from new players in the hotel consolidation market in China and foreign travel consolidators that may enter the China market. In the air-ticketing market, we compete primarily with other consolidators of air tickets with a multi-province airline ticket sales and fulfillment infrastructure in China, including eLong, Inc. and Mangocity.com. In the markets where we face local competition, our competitors generally conduct ticketing transactions in person, and not over the Internet or through customer service centers. Many local air-ticketing agencies are primarily involved in the wholesale business and do not directly serve individual travelers, who are our targeted customers. However, as the airline ticket distribution business continues to grow in China, we believe that more companies involved in the travel services industry may develop their services that compete with our air-ticketing business. We also compete with airlines, which in recent years have made efforts to improve their direct sales.

**Table of Contents****Intellectual Property**

Our intellectual property rights include trademarks and domain names associated with the name Ctrip and copyright and other rights associated with our websites, technology platform, booking software and other aspects of our business. We regard our intellectual property as a factor contributing to our success, although we are not dependent on any patents, intellectual property related contracts or licenses other than some commercial software licenses available to the general public. We rely on trademark and copyright law, trade secret protection, non-competition and confidentiality agreements with our employees to protect our intellectual property rights. We require our employees to enter into agreements to keep confidential all information relating to our customers, methods, business and trade secrets during and after their employment with us. Our employees are required to acknowledge and recognize that all inventions, trade secrets, works of authorship, developments and other processes made by them during their employment are our property.

We have registered our domain names www.ctrip.com and www.gotochina.com with www.register.com and www.opensrs.net, respectively, and the domain name www.ctrip.com.cn with China Internet Network Information Center, a domain name registration service in China, and have full legal rights over these domain names. We conduct our business under the Ctrip brand name and logo. We have registered the trademarks Ctrip and with the Trademark Office of the PRC State General Administration for Industry and Commerce, or SAIC. We have registered the trademark Ctrip and with the Registrar of Trademarks in Hong Kong. We have also registered the trademark Ctrip with the United States Patent and Trademark Office.

In 2007, we were selected by Forbes as one of the Top 100 Companies with Great Potential in China, and elected by Fortune China as one of the Best Employers of 2007 in China. In early 2008, **CTRIP** was also recognized as a Famous Chinese Trademark, which is the highest recognition for consumer brands granted by the State Industrial and Commercial Bureau. With these recognitions, we believe our trademark will be rigorously and actively protected by Industrial and Commercial Bureaus at both local and national levels. In early 2009, **CTRIP** was recognized as a Shanghai Well-known Brand, which is also a high recognition for consumer brands granted by the Shanghai municipal government.

**PRC Government Regulations**

Current PRC laws and regulations impose substantial restrictions on foreign ownership of the air-ticketing, travel agency, advertising and value-added telecommunications businesses in China. As a result, we conduct these businesses in China through contractual arrangements with our affiliated PRC entities as well as certain independent air-ticketing agencies and travel agencies. Our director, Min Fan, our officers, Jianmin Zhu, Tao Yang and Gangyi Yan, and a family member of a senior officer, Fengying Zhang, all of whom are PRC citizens, directly or indirectly own all or most of the equity in our affiliated Chinese entities as of December 31, 2008.

According to our PRC counsel, Commerce & Finance Law Offices, the ownership structures, businesses and operations of our subsidiaries and affiliated Chinese entities in China, as described in this annual report, comply with all existing PRC laws, rules and regulations.

***Restrictions on Foreign Ownership***

*Air-ticketing.* According to the Rules on Cognizance of Qualification for Civil Aviation Transporting Marketing Agencies (2006) and relevant foreign investment regulations regarding civil aviation business, a foreign investor currently cannot own 100% of an air-ticketing agency in China, except for Hong Kong and Macau aviation marketing agencies. In addition, foreign-invested air-ticketing agencies are not permitted to sell passenger tickets for domestic flights in China.

*Travel Agency.* On August 10, 2007, the National Tourism Administration and Ministry of Commerce jointly promulgated a notice on the establishment and operation of travel agencies owned by Hong Kong or Macau investors, which became effective on January 1, 2008. Currently, qualified foreign investors have been permitted to establish or own a travel agency upon the approval of the PRC government, subject to considerable restrictions as to its scope of business. For example, other than travel agencies with investments from Hong Kong or Macau investors in the Guangxi, Hunan, Hainan, Fujian, Jiangxi, Yunnan, Guizhou and Sichuan regions being permitted to arrange for the travel of residents in the aforementioned regions from mainland China to Hong Kong and Macau, foreign travel agencies cannot arrange for the travel of persons from mainland China to Hong Kong, Macau, Taiwan or any other

country. On February 20, 2009, the State Council promulgated the Travel Agency Regulations, which became effective on May 1, 2009. Pursuant to the Travel Agency Regulations, foreign investors are permitted to establish travel agencies in China in the form of joint ventures or wholly foreign owned enterprises. The new regulations lift the operating history and financial requirements on the foreign investors of foreign invested travel agencies as well as the restrictions on foreign invested travel agencies' ability to set up branches in China, both of which were required under the previously effective PRC laws and regulations.

*Online Advertising.* The principal regulations governing foreign ownership of advertising agencies in China are the Foreign Investment Industrial Guidance Catalogue (2007) and the Administrative Regulations Concerning Foreign Invested Advertising Enterprises (2008 Revision). Under these regulations, foreign investors are allowed to own 100% of an advertising agency in China subject to certain qualification requirements. However, for those advertising agencies that provide online advertising service, foreign ownership restrictions on the value-added telecommunications business are still applicable.

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*Value-added Telecommunications Business License.* The principal regulations governing foreign ownership of the telecommunications related value-added service provision business in China include:

Administrative Rules for Foreign Investments in Telecommunications Enterprises (2008 Revision); and

Foreign Investment Industrial Guidance Catalogue (2007).

Under these regulations, a foreign entity is prohibited from owning more than 50% of a PRC entity that provides value-added telecommunications services.

In July 2006, the Ministry of Information Industry issued the Circular on Intensifying the Administration of Foreign Investment in Value-added Telecommunication Business which states that a domestic company that holds an value-added telecommunications business license is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance in forms of resources, sites or facilities to foreign investors that conduct value-added telecommunications business illegally in China. Furthermore, the relevant trademarks and domain names used in the value-added telecommunications business shall be owned by the local value-added telecommunications license holder. Due to the lack of further necessary interpretation from the regulator, it remains unclear what impact the above circular will have on us or other Chinese Internet companies that have adopted the same or similar corporate and contractual structures as ours.

***General Regulation of Businesses***

*Air-ticketing.* The air-ticketing business is subject to the supervision of China National Aviation Transportation Association, or CNATA, and its regional branches. Prior to March 31, 2006, the principal regulation governing air-ticketing in China is the Administration on Civil Aviation Transporting Marketing Agency Business Regulations (1993). The said regulation was abolished by PRC government on January 24, 2008. Currently the principal regulation governing air-ticketing in China is the Rules on Cognizance of Qualification for Civil Aviation Transporting Marketing Agencies (2006) which became effective on March 31, 2006.

Under these regulations, starting from May 19, 2005, any entity that wishes to conduct air-ticketing business in China must apply for an air-ticketing permit from CNATA. The regulations provide for a transitional grace period for air-ticketing agencies that have obtained a valid license from CAAC or its regional branch prior to the promulgation of the new rules. These agencies are permitted to use their original licenses until such licenses expire.

*Travel Agency.* The travel industry is subject to the supervision of the China National Tourism Administration and local tourism administrations. The principal regulations governing travel agencies in China include:

Travel Agency Regulations, effective as of May 1, 2009; and

Implementing Rules of Travel Agency Regulations, effective as of May 3, 2009.

Under these regulations, a travel agency must obtain a license from the China National Tourism Administration to conduct cross-border travel business, and a license from the provincial-level tourism administration to conduct domestic travel agency business.

*Advertising.* The SAIC is responsible for regulating advertising activities in China. The principal regulations governing advertising (including online advertising) in China include:

Advertising Law (1994);

Administration of Advertising Regulations (1987); and

Implementing rules of the Administration of Advertising Regulations (2004).

Under these regulations, any entity conducting advertising activities must obtain an advertising permit from the local Administration of Industry and Commerce.

*Value-added Telecommunications Business and Online Commerce.* Our provision of travel-related content on our websites is subject to PRC laws and regulations relating to the telecommunications industry and Internet, and regulated by various government authorities, including the Ministry of Information Industry and the SAIC. The principal regulations governing the telecommunications industry and Internet include:

Telecommunications Regulations (2000);

The Administrative Measures for Telecommunications Business Operating Licenses, effective as of April 10, 2009; and

The Internet Information Services Administrative Measures (2000).

Under these regulations, Internet content provision services are classified as value-added telecommunications businesses, and a commercial operator of such services must obtain a value-added telecommunications business license from the appropriate telecommunications authorities to conduct any commercial value-added telecommunications operations in China.

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With respect to online commerce, there are no specific PRC laws at the national level governing online commerce or defining online commerce activities, and no government authority has been designated to regulate online commerce. There are existing regulations governing retail business that require companies to obtain licenses to engage in the business. However, it is unclear whether these existing regulations will be applied to online commerce.

### ***Regulation of Foreign Currency Exchange and Dividend Distribution***

**Foreign Currency Exchange.** The principal regulation governing foreign currency exchange in China is the Foreign Currency Administration Rules (2008 revision). Under these Rules, the RMB is freely convertible for trade and service-related foreign exchange transactions, but not for direct investment, loan or investment in securities outside China unless the prior approval of the State Administration for Foreign Exchange of the PRC, or SAFE is obtained. Pursuant to the Foreign Currency Administration Rules, foreign investment enterprises in China may purchase foreign currency without the approval of SAFE for trade and service-related foreign exchange transactions by providing commercial documents evidencing these transactions. They may also retain foreign exchange (subject to a cap approved by the SAFE) to satisfy foreign exchange liabilities or to pay dividends. In addition, if a foreign company acquires a company in China, the acquired company will also become a foreign investment enterprise. However, the relevant PRC government authorities may limit or eliminate the ability of foreign investment enterprises to purchase and retain foreign currencies in the future. In addition, foreign exchange transactions for direct investment, loan and investment in securities outside China are still subject to limitations and require approvals from SAFE.

**Dividend Distribution.** The principal regulations governing distribution of dividends of wholly foreign-owned companies include:

The Foreign Investment Enterprise Law (1986), as amended in October 2000;

Administrative Rules under the Foreign Investment Enterprise Law (2001);

Company Law of the PRC (2005); and

Enterprise Income Tax Law and its Implementation Rules (2007).

Under these regulations, foreign investment enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds, unless such reserve funds have reached 50% of their respective registered capital. These reserves are not distributable as cash dividends.

Under the EIT Law, dividends, interests, rent, royalties and gains on transfers of property payable by a foreign-invested enterprise in the PRC to its foreign investor which is a non-resident enterprise will be subject to a 10% withholding tax, unless such non-resident enterprise's jurisdiction of incorporation has a tax treaty with the PRC that provides for a reduced rate of withholding tax. According to Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income agreed between mainland China and Hong Kong Special Administrative Region in August 2006, dividends payable by an FIE in China to a company in Hong Kong which directly holds at least 25% of the equity interests in the FIE will be subject to a withholding tax of 5%.

Under the EIT Law, an enterprise established outside the PRC with its de facto management body within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its worldwide income. The de facto management body is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. It remains unclear how the PRC tax authorities will interpret such a board definition.

Notwithstanding the foregoing provision, the EIT Law also provides that, if a resident enterprise directly invests in another resident enterprise, the dividends received by the investing resident enterprise from the invested enterprise are exempted from income tax, subject to certain conditions. However, it remains unclear how the PRC tax authorities will interpret the PRC tax resident treatment of an offshore company, like us, having indirect ownership interests in PRC enterprises through intermediary holding vehicles.

Moreover, under the EIT Law, foreign ADS holders may be subject to a 10% withholding tax upon dividends payable by a Chinese entity and gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is sourced from within the PRC and we are classified as a PRC resident enterprise.

*Regulation of Income Taxes and Financial Subsidies.* See Item 5, Operating and Financial Review and Prospects Income Taxes and Financial Subsidies.

**Table of Contents***C. Organizational Structure*

The following table sets out the details of our subsidiaries as of December 31, 2008:

| <b>Name</b>  | <b>Country of Incorporation</b> | <b>Ownership Interest</b> |
|--|---------------------------------|---------------------------|
| Ctrip Computer Technology (Shanghai) Co., Ltd.           | China                           | 100%                      |
| Ctrip Travel Information Technology (Shanghai) Co., Ltd. | China                           | 100%                      |
| Ctrip Travel Network Technology (Shanghai) Co., Ltd.     | China                           | 100%                      |
| Ctrip Information Technology (Nantong) Co., Ltd.         | China                           | 100%                      |
| China Software Hotel Information System Co., Ltd.        | China                           | 90%                       |
| Starway Hotels (Shanghai) Co., Ltd.                      | China                           | 100%                      |
| Ctrip.com (Hong Kong) Limited                            | Hong Kong                       | 100%                      |
| Starway Hotels (Hong Kong) Limited                       | Hong Kong                       | 100%                      |
| C-Travel International Limited                           | The Cayman Islands              | 100%                      |

We conduct a majority of our business through our wholly-owned subsidiaries in China. Due to the current restrictions on foreign ownership of air-ticketing, travel agency, online advertising and value-added telecommunications businesses in China, we have conducted part of our operations in these businesses through a series of contractual arrangements between our PRC subsidiaries and our consolidated affiliated Chinese entities, including:

Beijing Ctrip;

Ctrip Commerce;

Guangzhou Ctrip;

Shanghai Huacheng;

Shanghai Ctrip;

Shenzhen Ctrip; and

Nantong Tongcheng.

As of December 31, 2008, Min Fan, our co-founder, shareholder, director and chief executive officer, Jianmin Zhu, our senior vice president, Tao Yang, our senior executive, Gangyi Yan, our senior executive, and Fengying Zhang, a family member of a senior officer, were principal record owners of our affiliated Chinese entities. Each of them has signed an irrevocable power of attorney to appoint our chief financial officer, Jane Jie Sun, as attorney-in-fact to vote on all matters of our affiliated Chinese entities for a period of ten years ending in 2016.

*D. Property, Plants and Equipment*

Our customer service center and principal sales, marketing and development facilities and administrative offices are located on owned premises comprising approximately 39,000 square meters in an economic development park in Shanghai, China. We have branch offices in Hong Kong, Beijing, Guangzhou, Shenzhen, Chengdu, Qingdao, Shenyang, Xiamen, Hangzhou, Wuhan, Nanjing and Sanya. We also maintain a sales network in more than 45 cities in China. We believe that we will be able to obtain adequate facilities, principally through the leasing of appropriate properties, to accommodate our expansion plans in the near future.

To support our anticipated future business expansion, we have acquired the land use right to a piece of land in Nantong, Jiangsu Province in January 2008 for approximately RMB49 million (US\$7.2 million). Nantong is approximately 110 kilometers north of Shanghai. In September 2008, we announced the commencement of construction of the Nantong customer service center. In December 2008, we entered into a construction agreement with Shanghai No. 1 Construction Co., Ltd. to construct the Nantong customer service center. The total contract value of the construction agreement was approximately RMB296 million. The aggregate investment for the Nantong



customer service center including land costs, construction costs and other improvement costs is expected to be approximately RMB450 million (US\$66 million) to RMB500 million (US\$73 million). Approximately RMB108 million was paid in 2008, with the remainder expected to be paid in next three years. The first phase of the Nantong customer service center is expected to go into operation in 2010.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

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### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this annual report on Form 20-F. This annual report contains forward-looking statements. See Introduction Forward-Looking Information. In evaluating our business, you should carefully consider the information provided under the caption Risk Factors in this annual report. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

#### ***A. Operating Results***

We are a leading consolidator of hotel accommodations and airline tickets in China. We aggregate information on hotels and flights and enable our customers to make informed and cost-effective hotel and flight bookings. We also offer packaged-tour products and other products and services.

In 2008, we derived 48%, 42%, 7% and 3% of our revenues from our hotel reservation, air ticketing, packaged-tour and other products and services, respectively.

#### **Major Factors Affecting the Travel Industry**

A variety of factors affect the travel industry in China, and hence our results of operations and financial condition, including:

*Growth in the Overall Economy and Demand for Travel Services in China.* We expect that our financial results will continue to be affected by the overall growth of the economy and demand for travel services in China and the rest of the world. According to the statistical report published on the website of National Bureau of Statistics of China on February 26, 2009, the gross domestic product, or GDP, of China grew from RMB16.0 trillion (US\$2.3 trillion) in 2004 to RMB30.1 trillion (US\$4.4 trillion) in 2008, representing a compound annual growth rate of 17%. GDP per capita in the same period rose from RMB12,336 (US\$1,808) to RMB22,640 (US\$3,318), representing a 16% compound annual growth rate. This growth led to a significant increase in the demand for travel services.

According to the statistical report published on the website of National Bureau of Statistics of China on February 26, 2009, domestic tourism spending grew from RMB471.1 billion (US\$69.0 billion) in 2004 to RMB874.9 billion (US\$128.2 billion) in 2008, representing a compound annual growth of 17%. We anticipate that demand for travel services in China will continue to increase in the foreseeable future as the economy in China continues to grow. However, any adverse changes in economic conditions of China and the rest of the world, such as the current global financial and economic crisis, could have a material adverse effect on the travel industry in China, which in turn would harm our business.

*Seasonality in the Travel Service Industry.* The travel service industry is characterized by seasonal fluctuations and accordingly our revenues may vary from quarter to quarter. To date, the revenues generated during the summer season of each year generally are higher than those generated during the winter season, mainly because the summer season coincides with the peak business and leisure travel season, while the winter season of each year includes the Chinese New Year holiday, during which our customers reduce their business activities. These seasonality trends are difficult to discern in our historical results because our revenues have grown substantially since inception. However, our future results may be affected by seasonal fluctuations in the use of our services by our customers.

*Disruptions in the Travel Industry.* Individual travelers tend to modify their travel plans based on the occurrence of events such as:

the outbreak of SARS, avian flu, H1N1 flu (swine flu) or any other serious contagious diseases;

increased prices in the hotel, airline or other travel-related industries.

increased occurrence of travel-related accidents;

natural disasters or poor weather conditions;

terrorist attacks or threats of terrorist attacks or war; and

general economic downturns.

In early 2003, several regions in Asia, including Hong Kong and China, were affected by the outbreak of SARS. The travel industry in China, Hong Kong and some other parts of Asia suffered tremendously as a result of the outbreak of SARS. Furthermore, in early 2008, severe snowstorms hit many areas of China and particularly affected southern China. The travel industry was severely and adversely affected during and after the snowstorms. Additionally, in May 2008, a major earthquake struck China's populous Sichuan province and was felt across much of the country, causing great loss of life, numerous injuries, property loss and disruption to the local economy. The earthquake had an immediate impact on our business as a result of the sharp decrease in travel in the relevant earthquake-affected areas in Sichuan province. Finally, in April 2009, an outbreak of H1N1 flu (swine flu) occurred in Mexico and the United States and human cases of the swine flu were discovered in China and Hong Kong. Our business and operating results were adversely affected in all cases.

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A recurrence of an outbreak of SARS, avian flu, swine flu or other contagious diseases, extreme unexpected bad weather or severe natural disasters would affect our business and operating results. Ongoing concerns regarding contagious disease or natural disasters, particularly its effect on travel, could negatively impact our China-based customers' desire to travel. If there is a recurrence of an outbreak of certain contagious diseases or natural disasters, travel to and from affected regions could be curtailed. Government advice regarding or restrictions on travel to and from these and other regions on account of outbreak of any contagious disease or occurrence of natural disasters could have a material adverse effect on our business and operating results.

**Major Factors Affecting Our Results of Operations****Revenues**

*Revenues Composition and Sources of Revenue Growth.* We have experienced significant revenue growth since we commenced operations in 1999. Our revenues grew from RMB354 million in 2004 to RMB1.6 billion (US\$233 million) in 2008, representing a compound annual growth rate of 46%.

We generate our revenues primarily from the hotel reservation and air-ticketing businesses. The table below sets forth the revenues from our principal lines of business as a percentage of our revenues for the periods indicated.

|                   | <b>Year-Ended December 31,</b> |             |             |
|-------------------|--------------------------------|-------------|-------------|
|                   | <b>2006</b>                    | <b>2007</b> | <b>2008</b> |
| Revenues:         |                                |             |             |
| Hotel reservation | 57%                            | 53%         | 48%         |
| Air ticketing     | 35%                            | 39%         | 42%         |
| Packaged-tour*    | 5%                             | 6%          | 7%          |
| Others            | 3%                             | 2%          | 3%          |
| Total revenues    | 100%                           | 100%        | 100%        |

\* Certain of our packaged-tour revenues were recorded on a gross basis. See Major Factors Affecting Our Results of Operations Revenues Packaged-tour.

As we generally do not take ownership of the products and services being sold and act as agent in substantially all of our transactions, our risk of loss due to obligations for cancelled hotel and airline ticket reservations is minimal.

Accordingly, we recognize revenues primarily based on commissions earned rather than transaction value.

Since current PRC laws and regulations impose substantial restrictions on foreign ownership of air-ticketing, travel agency, advertising and value-added telecommunications businesses in China, we conduct part of our air-ticketing and packaged-tour businesses through our affiliated Chinese entities. Historically, we generated a portion of our revenues from fees charged to these entities. See Arrangements with Affiliated Chinese Entities for a description of our relationship with these entities.

*Hotel Reservation.* Revenues from our hotel reservation business have been our primary source of revenues since our inception. In 2006, 2007 and 2008, revenues from our hotel reservation business accounted for RMB476 million, RMB677 million and RMB764 million (US\$112 million), respectively, or 57%, 53% and 48%, respectively, of our total revenues.

We derive our hotel reservation revenues through commissions from hotels, primarily based on the room rates paid by our customers. We recognize revenues when we receive confirmation from a hotel that a customer who booked the hotel through us has stayed and checked out from the hotel. While we generally agree in advance on fixed commissions with a particular hotel, we also enter into a commission arrangement with many of our hotel suppliers that we refer to as the ratchet system. Under the ratchet system, our commission per room night for a given hotel increases for the month if we sell in excess of a pre-agreed number of room nights with such hotel within the month.

*Air-Ticketing.* Since early 2002, our air-ticketing business has been growing rapidly. In 2006, 2007 and 2008, revenues from our air-ticketing business accounted for RMB293 million, RMB503 million and RMB659 million (US\$97 million), respectively, or 35%, 39% and 42% respectively, of our total revenues.

We conduct our air-ticketing business through our consolidated affiliated Chinese entities, as well as a network of independent air-ticketing service companies. Commissions from air-ticketing services rendered are recognized after air tickets are issued. We generally receive a higher commission rate per ticket as the total number of tickets we sell for an airline increases, subject to any applicable regulatory restrictions.

*Packaged-tour.* Our packaged-tour business has grown rapidly in the past three years. In 2006, 2007 and 2008, revenues from our packaged-tour business accounted for RMB42 million, RMB71 million and RMB109 million (US\$16 million), respectively. We conduct our packaged-tour business mainly through our consolidated affiliated Chinese entities, which bundle the packaged-tour products and receive referral fees from different travel suppliers for different components and services of the packaged tours sold through our transaction and service platform. Referral fees are recognized as net revenues after the packaged-tour services are rendered. Our consolidated affiliated Chinese entities also, from time to time, act as principal in connection with the packaged-tour services provided by them. When they act as principal, they recognize gross amounts received from customers as revenues after the packaged-tour services are rendered.

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*Other Products and Services.* Our other products and services primarily consist of Internet-related advertising services and sale of travel guidebooks and VIP membership cards. We place our customers' advertisements on our websites and in our introductory brochures. We conduct the advertising business through Ctrip Commerce, and we recognize revenues when Ctrip Commerce renders advertising services. We sell VIP membership cards that allow cardholders to enjoy certain priority in obtaining our services and receive discounts from many restaurants, clubs and bars in various cities in China. Revenues from the sale of travel guidebooks and VIP membership cards are recognized when the products are sold, provided that we do not have any significant outstanding obligations.

### ***Cost of Revenues***

Cost of revenues are costs directly attributable to rendering our revenues, which consist primarily of payroll compensation, telecommunication expenses, credit card charges and other direct expenses incurred in connection with our transaction and service platform. Payroll compensation accounted for 63%, 64% and 61% of our cost of revenues in 2006, 2007 and 2008, respectively. Telecommunication expenses remained unchanged at 14% of our cost of revenues from 2006 to 2008. Credit card charges accounted for 11%, 15% and 15% of our cost of revenues in 2006, 2007 and 2008, respectively.

Cost of revenues accounted for 20%, 20% and 22% of our net revenues in 2006, 2007 and 2008, respectively. We believe our relatively low ratio of cost of revenues to revenues is primarily due to competitive labor costs in China and high efficiency of our customer service system. Our cost efficiency was further enhanced by our website operations, which require significantly fewer service staff to operate and maintain. The increase of percentage of cost of revenues over net revenues in 2008 was largely due to the relatively higher cost of revenues as a result of increased revenue contribution from air-ticketing services and packaged tours, which was partially offset by our efforts to increase efficiency of customer service.

### ***Operating Expenses***

Operating expenses consist primarily of product development expenses, sales and marketing expenses, general and administrative expenses, all of which include share-based compensation expense. In 2008, we recorded RMB129 million (US\$19 million) of share-based compensation expense compared to RMB55 million and RMB87 million for 2006 and 2007, respectively. Share-based compensation expense is included in the same income statement category as the cash compensation paid to the recipient of the share-based award.

Product development expenses primarily include expenses we incur to develop our travel suppliers network and expenses we incur to develop, maintain and monitor our transaction and service platform. Product development expenses as a percentage of net revenues increased from 15% in 2007 to 16% in 2008, primarily due to the increased share-based compensation expenses and product development personnel.

Sales and marketing expenses primarily comprise payroll compensation and benefits for our sales and marketing personnel, advertising expenses, commissions for our marketing partners for referring customers to us, and production costs of marketing materials and membership cards. Our sales and marketing expenses as a percentage of net revenues decreased from 20% in 2007 to 19% in 2008, primarily due to a decrease in commission expenses.

General and administrative expenses consist primarily of payroll compensation, benefits and travel expenses for our administrative staff, professional service fees, as well as administrative office expenses. General and administrative expenses as a percentage of net revenues remained consistent at 12% from 2006 to 2008.

### ***Foreign Exchange Risk***

We are exposed to foreign exchange risk arising from various currency exposures. See Item 11, Quantitative and Qualitative Disclosure About Market Risk.

### ***Income Taxes and Financial Subsidies***

*Income Taxes.* Our effective income tax rate was 15%, 13% and 19% for 2006, 2007 and 2008, respectively. Prior to December 31, 2007, pursuant to the applicable tax laws in China, companies established in China were generally subject to EIT at a statutory rate of 33%. The 33% EIT rate applied to our subsidiaries and affiliated Chinese entities established in China, except for our subsidiaries, Ctrip Computer Technology, Ctrip Travel Information and Ctrip Travel Network, and our consolidated affiliated Chinese entity, Shenzhen Ctrip, as discussed below.



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On March 16, 2007, the National People's Congress, the Chinese legislature, passed the new EIT Law, which became effective on January 1, 2008. The EIT Law applies a uniform 25% enterprise income tax rate to both foreign invested enterprises and domestic enterprises. Under the EIT Law, enterprises that were established before March 16, 2007 and already enjoy preferential tax treatments will (i) in the case of preferential tax rates, continue to enjoy the tax rates which will be gradually increased to the new tax rates within five years from January 1, 2008 or (ii) in the case of preferential tax exemption or reduction for a specified term, continue to enjoy the preferential tax holiday until the expiration of such term. For certain enterprises established in special economic zones, including Pudong New Area, a transitional preferential income tax rate of 18%, 20%, 22%, 24% and 25% for the respective five-year transition period is allowed. The decrease in the effective tax rate for 2007 from 2006 was primarily due to an increase in deferred tax benefit resulting from the application of the tax rate of 25% under the EIT Law as of December 31, 2007, as required by applicable accounting guidelines. The increase in the effective tax rate for 2008 from 2007 was primarily due to changes to preferential tax treatment received under the new EIT Law.

On April 14, 2008, the Ministry of Science and Technology and the Ministry of Finance and State Administration of Taxation jointly issued Guokefahuo (2008) No.127, Administrative Measures for Assessment of High and New Technology Enterprises, or the Measures, and Catalogue of High and New Technology Domains Strongly Supported by the State, or the Catalogue, each of which is retroactively effective as of January 1, 2008. The Measures mainly set forth general guidelines regarding criteria as well as application procedures for qualification as a high and new technology enterprise under the EIT Law.

Pursuant to the EIT Law, companies established in China were generally subject to EIT at a statutory rate of 25%. The 25% EIT rate applies to our subsidiaries and affiliated Chinese entities established in China, except for our subsidiaries, Ctrip Computer Technology, Ctrip Travel Information and Ctrip Travel Network, and our consolidated affiliated Chinese entity, Shenzhen Ctrip.

In 2007 and 2008, Ctrip Computer Technology was designated as a high and new technology enterprise by the relevant PRC government authorities and thus was entitled to a preferential 15% EIT rate.

Ctrip Travel Information, historically enjoyed a preferential income tax rate of 15% as it is registered in Pudong New District, Shanghai. During the fourth quarter of 2004, Ctrip Travel Information was designated as a Software Development Company and thus obtained from the relevant tax bureau a full exemption of income tax for 2004 and a 50% reduction of the income tax statutory rate for the period from 2005 to 2007. In 2008, Ctrip Travel Information was designated as a high and new technology enterprise by the relevant PRC government authorities and thus was entitled to a preferential 15% EIT rate.

During the fourth quarter of 2007, Ctrip Travel Network was designated as a Software Development Company and thus obtained from the relevant tax bureau a 50% reduction of its statutory and local income tax rate for 2007. Ctrip Travel Network's qualification for the above preferential EIT rate was terminated in 2008 due to the promulgation of the EIT Law. In 2008, Ctrip Travel Network was designated as a high and new technology enterprise by the relevant PRC government authorities and thus was entitled to a preferential 15% EIT rate.

Shenzhen Ctrip was entitled to a preferential tax rate of 18% as granted by the local tax bureau based on its registration in the city of Shenzhen in China in 2008. Shenzhen Ctrip is entitled to a transitional preferential tax rate of 20% for 2009.

*Financial Subsidies.* In 2006, 2007 and 2008, our subsidiaries in China received business tax rebates in the form of financial subsidies from the government authorities in Shanghai in the amount of approximately RMB11 million, RMB21 million and RMB24 million (US\$4 million), respectively, which we recorded as other income on a cash basis. Such financial subsidies were granted to us at the sole discretion of the government authorities. We cannot assure you that our subsidiaries will continue to receive business tax rebates or other financial subsidies in the future.

**Critical Accounting Policies**



We prepare financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the financial reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and various other assumptions that are believed to be reasonable under the circumstances, which together form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on management's judgment.

*Revenue Recognition.* We describe our revenue recognition policies in our consolidated financial statements. We apply Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements* and Emerging Issues Task Force 99-19 *Reporting Revenue Gross as a Principal versus Net as an Agent* to our policies for revenue recognition and presentation of statement of operations. The factors we have considered include whether we are able to achieve the pre-determined specific performance targets by travel suppliers for recognition of the incentive commissions in addition to the fixed-rate and our risk of loss due to obligations for cancelled hotel and airline ticket reservations. As we operate primarily as an agent to the travel suppliers and our risk of loss due to obligations for cancelled hotel and airline ticket reservations is minimal, we recognize commissions on a net basis.

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*Investment.* We apply the Accounting Principles Board No. 18, The Equity Method of Accounting for Investments in Common Stock, or APB No. 18, in accounting for our investments. Under APB No. 18, the equity method is used for investments in entities in which we have the ability to exercise significant influence but do not own a majority equity interest or otherwise control. The cost method is used for investments over which we do not have the ability to exercise significant influence. For other investment, we apply Statement of Financial Accounting Standards No. 115,

Accounting for Certain Debt and Equity Securities, or SFAS No. 115. SFAS No. 115 requires that debt and equity securities be classified into one of three categories and accounted for as follows: (i) those held to maturity are reported at amortized cost; (ii) trading securities with unrealized holding gains and losses are included in earnings; and (iii) debt and equity securities not classified as held to maturity or as trading securities are classified as available for sale and reported at fair value. Unrealized gains and losses on available for sale securities are excluded from earnings and reported as accumulated other comprehensive income (loss), net of tax. We monitor our investments for other-than-temporary impairment by considering factors including, but not limited to, current economic and market conditions, the operating performance of the companies including current earnings trends and other company-specific information.

*Business Combination.* We apply Statement of Financial Accounting Standards No. 141, Business Combination, or SFAS No. 141, which requires that all business combinations be accounted for under the purchase method. The cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, equity instruments issued, and costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date. The excess of the cost of the acquisition over our interest in the fair value of the identifiable net assets acquired is recorded as goodwill.

*Goodwill, Intangible Assets and Long-Lived Assets.* In addition to the original cost of goodwill, intangible assets and long-lived assets, the recorded value of these assets is impacted by a number of policy elections, including estimated useful lives, residual values and impairment charges. Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, provides that intangible assets that have indefinite useful lives and goodwill will not be amortized but rather will be tested at least annually for impairment. Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-lived Assets requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from its undiscounted future cash flow. For 2007 and 2008, we did not recognize any impairment charges for goodwill, intangible assets or long-lived assets based on the expanding and prospective business of our subsidiaries and affiliated Chinese entities. Throughout the past year, there were no circumstances or events that indicated that the assets may be impaired. If different judgments or estimates had been utilized, material differences could have resulted in the amount and timing of the impairment charge.

*Customer Reward Program.* We offer a customer reward program that allows customers to receive travel awards and other gifts based on accumulated membership points that vary depending on the products and services purchased by the customers. Because we have an obligation to provide such travel awards and other gifts, we recognize liabilities and corresponding expenses for the related future obligations. As of December 31, 2007 and 2008, our accrued balance for the customer reward program were approximately RMB45 million and RMB58 million (US\$9 million), respectively. Our expenses for the customer reward program were approximately RMB42 million and RMB55 million (US\$8 million) for the years ended December 31, 2007 and 2008. We estimate our liabilities under our customer reward program based on accumulated membership points and our estimate of probability of redemption. If actual redemption differs significantly from our estimate, it will result in an adjustment to our liability and the corresponding expense.

*Share-Based Compensation.* In January 2006 we adopted Statement of Financial Accounting Standards No.123R, or SFAS No. 123R, using the modified prospective method and therefore have not restated prior periods results. Under the fair value recognition provisions of SFAS No.123R, we recognize share-based compensation net of an estimated forfeiture rate and therefore only recognize compensation cost for those shares expected to vest over the service period of the award. Prior to our adoption of SFAS No. 123R, we accounted for share-based payments under APB No. 25 and accordingly, recognized share-based compensation expense related to stock options with intrinsic value approach

with required disclosures and accounted for forfeitures as they occurred.

Under SFAS No. 123R, we applied the Black-Scholes valuation model in determining the fair value of options granted, which requires the input of highly subjective assumptions, including the expected life of the stock option, stock price volatility, and the pre-vesting option forfeiture rate. Expected life is based on historical exercise patterns, which we believe are representative of future behavior. We estimate expected volatility at the date of grant based on historical volatility. The assumptions used in calculating the fair value of stock options represent our best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our share-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical patterns of our stock options granted, exercised and forfeited. If our actual forfeiture rate is materially different from our estimate, the share-based compensation expense could be significantly different from what we have recorded in the current period. See Note 2 Share-based compensation in the consolidated financial statements for additional information.

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*Deferred Tax Valuation Allowances.* We provide a valuation allowance on our deferred tax assets to the extent we consider it to be more likely than not that we will be unable to realize all or part of such assets. Our future realization of our deferred tax assets depends on many factors, including our ability to generate taxable income within the period during which temporary differences reverse or before our tax loss carry-forwards expire, the outlook for the Chinese economy and overall outlook for our industry. We consider these factors at each balance sheet date and determine whether valuation allowances are necessary. As of December 31, 2007 and 2008, we recorded deferred tax assets of RMB11.3 million and RMB8.8 million (US\$1.3 million), respectively. If, however, unexpected events occur in the future that would prevent us from realizing all or a portion of our net deferred tax assets, an adjustment would result in a charge to income in the period in which such determination was made. As of December 31, 2007 and 2008, we did not record any valuation allowances to reduce our deferred tax assets, as we believed that our deferred tax asset amounts were more likely than not to be realized based on our estimate of future taxable income.

*Allowance for doubtful accounts.* Accounts receivable are recorded at the invoiced amount and do not bear interest. We provide a general provision for doubtful accounts for the outstanding trade receivable balances based on historical experience and information available. Additionally, we make specific bad debt provisions based on (i) our specific assessment of the collectibility of all significant accounts; and (ii) any specific knowledge we have acquired that might indicate that an account is uncollectible. The facts and circumstances of each account may require us to use substantial judgment in assessing its collectibility. As of the end of December 31, 2007 and 2008, the allowance for doubtful accounts was RMB3 million and RMB12,388 (US\$1,816), respectively.

**Results of Operations**

The following table sets forth a summary of our consolidated statements of operations for the periods indicated both in amount and as a percentage of net revenues.

|   | For the Year Ended December 31, |      |            |      |            |            |      |
|---|---------------------------------|------|------------|------|------------|------------|------|
|   | 2006                            |      | 2007       |      |            | 2008       |      |
|   | RMB                             |      | RMB        |      | RMB        | US\$       |      |
|   | (in                             |      | (in        |      | (in        | (in        |      |
|   | thousands)                      | %    | thousands) | %    | thousands) | thousands) | %    |
| Revenues:                                     |                                 |      |            |      |            |            |      |
| Hotel reservation                             | 476,495                         | 61   | 676,511    | 56   | 763,727    | 111,942    | 52   |
| Air ticketing                                 | 292,701                         | 38   | 503,453    | 42   | 659,398    | 96,651     | 44   |
| Packaged-tour <sup>(1)</sup>                  | 41,702                          | 5    | 71,496     | 6    | 109,245    | 16,012     | 7    |
| Others  | 23,129                          | 3    | 35,818     | 3    | 55,969     | 8,204      | 4    |
| Total revenues                                | 834,027                         | 107  | 1,287,278  | 107  | 1,588,339  | 232,809    | 107  |
| Less: Business tax and related surcharges     | (54,075)                        | (7)  | (88,167)   | (7)  | (106,335)  | (15,586)   | (7)  |
| Net revenues                                  | 779,952                         | 100  | 1,199,111  | 100  | 1,482,004  | 217,223    | 100  |
| Cost of revenues                              | (153,132)                       | (20) | (236,226)  | (20) | (326,610)  | (47,872)   | (22) |
| Gross profit                                  | 626,820                         | 80   | 962,885    | 80   | 1,155,394  | 169,351    | 78   |
| Operating expenses:                           |                                 |      |            |      |            |            |      |
| Product development <sup>(2)</sup>            | (105,938)                       | (14) | (177,302)  | (15) | (235,800)  | (34,562)   | (16) |
| Sales and marketing <sup>(2)</sup>            | (172,492)                       | (22) | (243,314)  | (20) | (286,693)  | (42,022)   | (19) |
| General and administrative <sup>(2)</sup>     | (93,174)                        | (12) | (137,944)  | (12) | (171,694)  | (25,166)   | (12) |
| Total operating expenses                      | (371,604)                       | (48) | (558,560)  | (47) | (694,187)  | (101,750)  | (47) |
| Income from operations                        | 255,216                         | 33   | 404,325    | 34   | 461,207    | 67,601     | 31   |
| Interest income                               | 15,632                          | 2    | 16,704     | 1    | 31,100     | 4,559      | 2    |
| Other income                                  | 11,214                          | 1    | 35,297     | 3    | 54,945     | 8,053      | 4    |
| Income before income tax expense and minority | 282,062                         | 36   | 456,326    | 38   | 547,252    | 80,213     | 37   |

|                    |          |     |          |     |           |          |     |
|--------------------|----------|-----|----------|-----|-----------|----------|-----|
| interests          |          |     |          |     |           |          |     |
| Income tax expense | (41,277) | (5) | (58,006) | (5) | (102,914) | (15,084) | (7) |
| Minority interests | (221)    |     | 4        |     | (230)     | (34)     |     |
| Net income         | 240,564  | 31  | 398,324  | 33  | 444,108   | 65,095   | 30  |

(1) Certain of our packaged-tour revenues were booked on a gross basis. See Major Factors Affecting Our Results of Operations Revenues Packaged-tour.

(2) Share-based compensation was included in the associated operating expense categories as follows:

|                            | 2006       |     | For the Year Ended December 31, |     |            |            | 2008 |  |
|----------------------------|------------|-----|---------------------------------|-----|------------|------------|------|--|
|                            | RMB        |     | RMB                             |     | RMB        | US\$       |      |  |
|                            | (in        |     | (in                             |     | (in        | (in        |      |  |
|                            | thousands) | %   | thousands)                      | %   | thousands) | thousands) | %    |  |
| Product development        | (13,694)   | (2) | (22,708)                        | (2) | (32,666)   | (4,788)    | (2)  |  |
| Sales and marketing        | (8,558)    | (1) | (13,649)                        | (1) | (18,816)   | (2,758)    | (1)  |  |
| General and administrative | (32,430)   | (4) | (50,557)                        | (4) | (77,035)   | (11,291)   | (5)  |  |

Any discrepancies in the above table between the amounts/percentages identified as total amounts/percentages and the sum of the amounts/percentages listed therein are due to rounding.

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### ***2008 compared to 2007***

#### ***Revenues***

Total revenues were RMB1.6 billion (US\$233 million) in 2008, an increase of 23% over RMB1.3 billion in 2007. This revenues growth was principally driven by the substantial volume growth in hotel room nights sold and air tickets sold in 2008.

*Hotel Reservation.* Revenues from our hotel reservation business increased by 13% to RMB764 million (US\$112 million) in 2008 from RMB677 million in 2007, primarily as a result of the continued rapid growth in our hotel room nights sales volume. The total number of hotel room nights sold in 2008 increased by 14% from 2007. In 2008, the average commission per room night remained substantially unchanged as compared with that in 2007.

*Air-Ticketing.* Revenues from our air-ticketing business increased by 31% to RMB659 million (US\$97 million) in 2008 from RMB503 million in 2007, primarily due to strong growth of air tickets sales volume as we continued to significantly expand our air ticketing capabilities. The total number of air tickets sold in 2008 increased by 41% from 2007. In 2008, the average commission per ticket sold decreased by 6% from 2007, which was caused by a decrease in per ticket sales price of air tickets.

*Packaged-tour.* Packaged-tour revenues increased by 53% from RMB71 million in 2007 to RMB109 million (US\$16 million) in 2008, as we continued growing our packaged-tour business product and service offerings.

*Other businesses.* Revenues from other businesses increased by 56% from RMB36 million in 2007 to RMB56 million (US\$8 million) in 2008 primarily due to increased sales of air-ticket insurance and advertising services.

#### ***Business tax and related surcharges***

Our business tax and related surcharges increased by 21% from RMB88 million in 2007 to RMB106 million (US\$16 million) in 2008 as a result of increased revenues in all of our business lines.

#### ***Cost of Revenues***

Cost of revenues in 2008 increased by 38% to RMB327 million (US\$48 million) from RMB236 million in 2007. This increase was primarily attributable to increased costs associated with our rapidly growing air-ticketing and packaged-tour businesses and, to a less extent, the expansion of our hotel reservation business. Additionally, our customer service personnel increased to 4,700 in 2008 from 3,700 in 2007.

#### ***Operating Expenses***

Operating expenses include product development expenses, sales and marketing expenses and general and administrative expenses.

*Product Development.* Product development expenses increased by 33% to RMB236 million (US\$35 million) in 2008 from RMB177 million in 2007, primarily due to an increase in product development personnel to 2,000 employees in 2008 from 1,500 employees in 2007 as we expanded our air ticketing and packaged-tour businesses and an increase of RMB10 million (US\$1.5 million) in share-based compensation expenses from 2007 to 2008.

*Sales and Marketing.* Sales and marketing expenses increased by 18% to RMB287 million (US\$42 million) in 2008 from RMB243 million in 2007, primarily attributable to the increased salary and benefit expenses as we increased our sales and marketing staff to 1,450 employees in 2008 from 1,200 employees in 2007, an increase in advertisement expenses and marketing and promotion expenses, as well as an increase in share-based compensation expenses from 2007 to 2008.

*General and Administrative.* General and administrative expenses increased by 24% to RMB172 million (US\$25 million) in 2008 from RMB138 million in 2007, primarily due to an increase of RMB26 million (US\$4 million) in share-based compensation expenses and an increase in general and administrative personnel to 600 in 2008 from 500 in 2007.

#### ***Interest Income***

Interest income increased by 86% to RMB31 million (US\$5 million) in 2008 from RMB17 million in 2007 due to the increased cash generated from operations.

#### ***Other Income***

Other income increased by 56% to RMB55 million (US\$8 million) in 2008 from RMB35 million in 2007, primarily due to increases in foreign exchange gains and subsidy income.

#### ***Income Tax Expense***

Income tax expense was RMB103 million (US\$15 million) in 2008, an increase of 77% over RMB58 million in 2007, primarily due to the increase of our taxable income as well as the increase of our effective income tax rate in 2008. Our effective income tax rate in 2008 was 19%, as compared to 13% in 2007, primarily due to changes of preferential tax treatment that we received under the EIT Law.

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### ***2007 compared to 2006***

#### ***Revenues***

Total revenues were RMB1,287 million in 2007, an increase of 54% over RMB834 million in 2006. This revenue growth was principally driven by the substantial volume growth in hotel room nights booked and air tickets sold in 2007.

*Hotel Reservation.* Revenues from our hotel reservation business increased by 42% to RMB677 million in 2007 from RMB476 million in 2006, primarily as a result of the continued rapid growth in our hotel room nights sales volume. The total number of hotel room nights booked in 2007 was approximately 9.6 million compared to over 6.8 million in 2006. In 2007, the average commission per room night was approximately RMB70, remain consistent with 2006.

*Air-Ticketing.* Revenues from our air-ticketing business increased by 72% to RMB503 million in 2007 from RMB293 million in 2006, primarily due to strong growth of air tickets sales volume as we continued to expand our air ticketing capabilities significantly. The total number of air tickets sold in 2007 was approximately 10.7 million, compared to approximately 6.4 million in 2006. In 2007, the average commission per ticket sold increased to RMB47 from RMB46 in 2006.

*Packaged-tour.* Packaged-tour revenues increased by 71% from RMB42 million in 2006 to RMB71 million in 2007, as we continued growing our packaged-tour business.

*Other businesses.* Revenues from other businesses increased by 55% from RMB23 million in 2006 to RMB36 million in 2007 primarily due to increased sales of air-ticket insurance and advertising service.

#### ***Business tax and related surcharges***

Our business tax and related surcharges increased by 63% from RMB54 million in 2006 to RMB88 million in 2007 as a result of our increased revenues in all of our business lines.

#### ***Cost of Revenues***

Cost of revenues in 2007 increased by 54% to RMB236 million from RMB153 million in 2006. This increase was primarily attributable to increased costs associated with our air-ticketing and packaged-tour businesses and, to a less extent, the expansion of our hotel reservation business.

#### ***Operating Expenses***

Operating expenses include product development expenses, sales and marketing expenses and general and administrative expenses.

*Product Development.* Product development expenses increased by 67% to RMB177 million in 2007 from RMB106 million in 2006, primarily due to increase of product development personnel in 2006 as we expanded our air ticketing and packaged-tour businesses and an increase of RMB9 million in share-based compensation expenses from 2006 to 2007.

*Sales and Marketing.* Sales and marketing expenses increased by 41% to RMB243 million in 2007 from RMB172 million in 2006, primarily attributable to increased salary and benefit expenses due to an increase in sales and marketing staff, advertisements expenses and marketing and promotion expenses, as well as an increase of RMB5 million in share-based compensation expenses from 2006 to 2007.

*General and Administrative.* General and administrative expenses increased by 48% to RMB138 million in 2007 from RMB93 million in 2006, primarily due to an increase of RMB18 million in share-based compensation charges and an increase in general and administrative personnel.

#### ***Interest Income***

Interest income increased to RMB17 million in 2007 from RMB16 million in 2006 due to the increased cash generated from operations.

#### ***Other Income***

Other income increased by 215% to RMB35 million in 2007 from RMB11 million in 2006, primarily due to increase of foreign exchange gains and subsidy income.

#### ***Income Tax Expense***

Income tax expense was RMB58 million in 2007, an increase of 41% over RMB41 million in 2006, primarily due to the increase of our taxable income in 2007. Our effective income tax rate in 2007 was 13%, as compared to 15% in 2006, primarily due to an increase in deferred tax benefit resulting from the application of the tax rate of 25% under



the EIT Law as of December 31, 2007, as required by applicable accounting guidelines.

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*Liquidity.* The following table sets forth the summary of our cash flows for the periods indicated:

|   | <b>For the Year Ended December 31,</b> |                       |             |             |
|---|--|-----------------------|-------------|-------------|
|   | <b>2006</b>                            | <b>2007</b>           | <b>2008</b> |             |
|   | <b>RMB</b>                             | <b>RMB</b>            | <b>RMB</b>  | <b>US\$</b> |
|   |  | <b>(in thousands)</b> |             |             |
| Net cash provided by operating activities           | 347,892                                | 485,581               | 590,879     | 86,607      |
| Net cash used in investing activities               | (206,973)                              | (269,583)             | (498,727)   | (73,100)    |
| Net cash (used in)/provided by financing activities | (27,130)                               | 16,367                | (72,088)    | (10,566)    |
| Net increase in cash and cash equivalents           | 109,331                                | 220,025               | 5,409       | 793         |
| Cash and cash equivalents at beginning of year      | 735,062                                | 844,393               | 1,064,418   | 156,016     |
| Cash and cash equivalents at end of year            | 844,393                                | 1,064,418             | 1,069,827   | 156,809     |

Net cash provided by operating activities was RMB591 million (US\$87 million) in 2008, compared to RMB486 million in 2007 and RMB348 million in 2006, primarily due to the increase in our net income resulting from our increased transaction volume.

Net cash used in investing activities amounted to RMB499 million (US\$73 million) in 2008, compared to net cash used in investing activities of RMB270 million in 2007. This increase in 2008 from 2007 was primarily due to our RMB266 million (US\$39 million) investment in Home Inns, the RMB31 million (US\$5 million) used in our acquisition of Software Hotel Information and the RMB49 million (US\$7 million) used in our acquisition of land use rights in connection with the Nantong customer service center, partially offset by the RMB106 million (US\$16 million) decrease in cash outflow of short-term investments. Net cash used in investing activities amounted to RMB270 million in 2007, compared to net cash used in investing activities of RMB207 million in 2006. This increase in 2007 from 2006 was primarily due to our investment in time deposits, construction of our new facilities and purchase of additional servers, workstations, computers, computer software and other items related to our network infrastructure.

Net cash used in financing activities amounted to RMB72 million (US\$11 million) in 2008, compared to net cash provided by financing activities of RMB16 million in 2007 and net cash used in financing activities of RMB27 million in 2006. This change in 2008 was primarily due to RMB112 million (US\$16 million) of dividends paid to our shareholders in 2008, which were offset by the RMB40 million (US\$6 million) we received from employees' exercise of share options. The change in 2007 from 2006 was primarily due to proceeds of RMB88 million from the exercise of share options, which were offset by RMB72 million of dividends paid to shareholders.

***Capital Resources***

As of December 31, 2008, our primary source of liquidity was RMB1,070 million (US\$157 million) of cash. Except as disclosed in this annual report, we have no outstanding bank loans or financial guarantees or similar commitments to guarantee the payment obligations of third parties. We believe that our current cash and cash equivalents and cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for the foreseeable future. We may, however, require additional cash resources due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue.

As of December 31, 2008, our primary capital commitment was RMB269 million (US\$39 million) in connection with our Nantong customer service center. The aggregate investment for the Nantong customer service center, including land costs, construction costs and other improvement costs, is expected to be approximately RMB450 million (US\$66 million) to RMB500 million (US\$73 million).

***C. Research and Development, Patents and Licenses, Etc.***

Our research and development efforts consist of continuing to develop our proprietary technology as well as incorporating new technologies from third parties. We intend to continue to upgrade our proprietary booking, customer relationship management and yield management software to keep up with the continued growth in our transaction volume and the rapidly evolving technological conditions. We will also seek to continue to enhance our

electronic confirmation system and promote such system with more hotel suppliers, as we believe that the electronic confirmation system is a cost-effective and convenient way for hotels to interface with us.

In addition, we have utilized and will continue to utilize the products and services of third parties to support our technology platform.

*D. Trend Information*

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2008 to December 31, 2008 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

**Table of Contents***E. Off-Balance Sheet Arrangements*

In connection with our air-ticketing business, we, on behalf of our affiliated Chinese entities, are required by CAAC to provide guarantees for tickets obtained from various airlines. As of December 31, 2008, the amount under these guarantee arrangements was approximately RMB617 million (US\$90 million). Based on historical experience and information currently available, we do not believe that it is probable that we will be required to pay any amount under these guarantee arrangements. Therefore, we have not recorded any liability beyond what is required in connection with these guarantee arrangements.

*F. Tabular Disclosure of Contractual Obligations*

The following sets forth our contractual obligations as of December 31, 2008:

|  | Payments Due by Period |                     |                           |              | More Than<br>5<br>Years |
|--|------------------------|---------------------|---------------------------|--------------|-------------------------|
|  | Total                  | Less Than 1<br>Year | 1-3<br>Years              | 3-5<br>Years |                         |
|  |                        |                     | <i>(in RMB thousands)</i> |              |                         |
| Operating lease obligations  | 31,213                 | 23,298              | 7,915                     |              |                         |
| Purchase obligations   | 295,646                | 228,379             | 67,267                    |              |                         |
| Liabilities incurred for purchase a<br>subsidiary                              | 42,000                 | 42,000              |                           |              |                         |
| Liabilities incurred for minority<br>interest in a variable interest<br>entity | 2,375                  | 1,562               | 813                       |              |                         |
|  | 371,234                | 295,239             | 75,995                    |              |                         |

Operating lease obligations for the years 2009, 2010 and 2011 are RMB23 million, RMB6 million and RMB2 million, respectively. Rental expenses amounted to approximately RMB17 million, RMB25 million and RMB17 million (US\$2.5 million) for the years ended December 31, 2006, 2007 and 2008, respectively. Rental expense is charged to the statements of income when incurred.

We have outstanding purchase obligations totaling RMB296 (US\$43 million), which are mainly related to the construction of our Nantong customer service center. While the table above indicates our contractual obligations as of December 31, 2008, the actual amounts we are eventually required to pay may be different in the event that any agreements are renegotiated, cancelled or terminated.

*G. Safe Harbor*

This annual report on Form 20-F contains forward-looking statements that reflect our current expectations and views of future events. These statements are made under the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as "may," "will," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate," "is/are likely to" or other and similar expressions. We have forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things:

our anticipated growth strategies;

our future business development, results of operations and financial condition;

our ability to continue to control costs and maintain profitability; and

the expected growth of and change in the travel and online commerce industries in China.

The forward-looking statements included in this annual report on Form 20-F are subject to risks, uncertainties and assumptions about our company. Our actual results of operations may differ materially from the forward-looking

statements as a result of risk factors described under Risk Factors included elsewhere in this annual report on Form 20-F, including the following risks:

the slow-down of economic growth in China and the global economic downturn may materially and adversely affect our growth and profitability;

general declines or disruptions in the travel industry may materially and adversely affect our business and results of operations;

the trading price of our ADSs has been volatile historically and may continue to be volatile regardless of our operating performance;

if we are unable to maintain existing relationships with travel suppliers and strategic alliances, or establish new arrangements with travel suppliers and strategic alliances similar to those we currently have, our business may suffer;

if we fail to further increase our brand recognition, we may face difficulty in obtaining new business partners and customers, and our business may be harmed;

if we do not compete successfully against new and existing competitors, we may lose our market share, and our profitability may be adversely affected;

our quarterly results are likely to fluctuate because of seasonality in the travel industry in China;

our business may be harmed if our infrastructure and technology are damaged or otherwise fail or become obsolete;

our business may be severely disrupted if we lose the services of our key executives;

inflation in China and in other countries may disrupt our business and have an adverse effect on our financial condition and results of operations;

our strategy to acquire or invest in complementary businesses and assets involves significant risks and uncertainty that may prevent us from achieving our objectives and harm our financial condition and results of operations; and

if the ownership structure of our affiliated Chinese entities and the contractual arrangements among us, our consolidated affiliated Chinese entities and their shareholders are found to be in violation of any PRC laws or regulations, we and/or our affiliated Chinese entities may be subject to fines and other penalties, which may adversely affect our business and results of operations.

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These risks are not exhaustive. Other sections of this annual report include additional factors that could adversely impact our business and financial performance. You should read these statements in conjunction with the risk factors disclosed in Item 3.D, Risk Factors and other risks outlined in our other filings with the Securities and Exchange Commission. Moreover, we operate in an emerging and evolving environment. New risk factors may emerge from time to time, and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES*****A. Directors and Senior Management***

The names of our current directors and senior management, their ages as of the date of this annual report and the principal positions with Ctrip.com International, Ltd. held by them are as follows:

| <b>Directors and Executive Officers</b> | <b>Age</b> | <b>Position/Title</b>                                   |
|---|------------|---|
| James Jianzhang Liang                   | 39         | Co-founder; Chairman of the Board                       |
| Min Fan                                 | 44         | Co-founder; Chief Executive Officer; Executive Director |
| Jane Jie Sun                            | 40         | Chief Financial Officer                                 |
| Neil Nanpeng Shen(1)                    | 41         | Co-founder; Independent Director                        |
| Qi Ji                                   | 42         | Co-founder; Independent Director                        |
| Gabriel Li(1)                           | 41         | Deputy Chairman of the Board, Independent Director      |
| JP Gan(1) (2)                           | 37         | Independent Director                                    |
| Suyang Zhang(2)                         | 50         | Independent Director                                    |
| Jianmin Zhu                             | 40         | Senior Vice President                                   |
| Tao Yang                                | 33         | Senior Vice President                                   |
| Maohua Sun                              | 37         | Vice President  |
| James Lan Tang                          | 41         | Vice President  |
| Shaw Xiaoliang Ding                     | 44         | Vice President  |
| Cindy Xiaofan Wang                      | 34         | Vice President  |
| Yuxiang Zhuang                          | 33         | Vice President  |
| Dongjie Guo                             | 42         | Vice President  |

(1) Member of  
Audit  
Committee.

(2) Member of  
Compensation  
Committee.

Each of the foregoing directors, will hold office until such director's successor is elected and duly qualified, or until such director's earlier death, bankruptcy, insanity, resignation or removal. There are no family relationships among any of the directors or executive officers of our company.

**Biographical Information**

*James Jianzhang Liang* is one of the co-founders of our company. Mr. Liang served as our chief executive officer from 2000 to January 2006 and has served as a member of our board of directors since our inception. He has been the chairman of our board since August 2003. Prior to founding our company, Mr. Liang held a number of technical and managerial positions with Oracle Corporation from 1991 to 1999 in the United States and China, including the head of

the ERP consulting division of Oracle China from 1997 to 1999. Mr. Liang currently serves on the board of Home Inns. Mr. Liang received his Master's and Bachelor's degrees from Georgia Institute of Technology. He also attended an undergraduate program at Fudan University.

*Min Fan* is one of the co-founders of our company and has served as the chief executive officer of our company since January 2006 and as our director since October 2006. Mr. Fan served as our chief operating officer from November 2004 to January 2006. Prior to that, he served as our executive vice president from 2000 to November 2004. From 1997 to 2000, Mr. Fan was the chief executive officer of Shanghai Travel Service Company, a leading domestic travel agency in China. From 1990 to 1997, he served as the deputy general manager and in a number of other senior positions at Shanghai New Asia Hotel Management Company, which was one of the leading hotel management companies in China. Mr. Fan currently serves on the boards and compensation committees of Perfectenergy International, Ltd. and China Edu Corporation. Mr. Fan obtained his Master's and Bachelor's degrees from Shanghai Jiao Tong University. He also studied at the Lausanne Hotel Management School of Switzerland in 1995.

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*Jane Jie Sun* has served as our chief financial officer since December 2005. Ms. Sun has extensive experience in U.S. Securities and Exchange Commission, or the SEC reporting, finance and accounting. Prior to joining us, Ms. Sun served as the head of the SEC and External Reporting Division of Applied Materials, Inc., where she worked from 1997 to 2005. Prior to joining Applied Materials, Inc., Ms. Sun worked with KPMG LLP in Silicon Valley, California for five years. Ms. Sun is a member of American Institute of Certified Public Accountants and a member of State of California Certified Public Accountant. Ms. Sun received her Bachelor's Degree from the Business School of University of Florida with High Honors. She also attended the undergraduate program at the Beijing University Law School.

*Neil Nanpeng Shen* is one of the co-founders of our company and has been our company's director since our inception. Mr. Shen is the founding managing partner of Sequoia Capital China. Mr. Shen served as our chief financial officer from 2000 to October 2005 and as president from August 2003 to October 2005. Prior to founding our company, Mr. Shen had worked for more than eight years in the investment banking industry in New York and Hong Kong. Currently, Mr. Shen is the co-chairman of Home Inns, an independent director of Focus Media Holding Limited, a Nasdaq-listed media advertising company based in China, and a non-executive director of E-House (China) Holdings Limited, a leading real estate services company based in China and listed in the New York Stock Exchange. He was awarded Economic Figure of the Year by CCTV in 2006 and was voted as the Top Venture Capitalist in China by Zero2IPO, Forbes Magazine and Global Entrepreneur Magazine. Mr. Shen received his Master's degree from the School of Management at Yale University and his Bachelor's degree from Shanghai Jiao Tong University.

*Qi Ji* is one of the co-founders of our company. He has served as our director since our inception. Other than performing his duties as a director of our company, Mr. Ji is not involved in our daily operations and business affairs. Mr. Ji is the chief executive officer of Powerhill Holdings Ltd, and both chief executive officer and a director of Hanting Hotels, Inc.. He was the chief executive officer of Home Inns from 2002 to January 2005. He was the chief executive officer and the president of our company from 1999 to early 2002 consecutively. Prior to founding our company, he served as the chief executive officer of Shanghai Sunflower High-Tech Group which he founded in 1997. He headed the East China Division of Beijing Zhonghua Yinghua Intelligence System Co., Ltd. from 1995 to 1997. He received both his Master's and Bachelor's degrees from Shanghai Jiao Tong University.

*Gabriel Li* has served at different times on our board of directors since 2000. Mr. Li has been deputy chairman of our board since August 2003. Mr. Li is the managing director and investment committee member of Orchid Asia Group Management, a private equity firm focused on investment in China and Asia for over the past 10 years. Prior to Orchid Asia, Mr. Li was a managing director at the Carlyle Group in Hong Kong, overseeing Asian technology investments. From 1997 to 2000, he was at Orchid Asia's predecessor, where he made numerous investments in China and North Asia. Previously, he was a management consultant at McKinsey & Co in Hong Kong and Los Angeles. Mr. Li graduated summa cum laude from the University of California at Berkeley, earned his Master's degree in Science from the Massachusetts Institute of Technology and his Master's degree in Business Administration from Stanford Business School.

*JP Gan* has served as our director since 2002. Mr. Gan is a managing director of Qiming Venture Partners. From 2005 to 2006, Mr. Gan was the chief financial officer of KongZhong Corporation, a Nasdaq listed wireless internet company. Prior to joining KongZhong, Mr. Gan was a director of The Carlyle Group responsible for venture capital investments in the Greater China region from 2000 to 2005. Mr. Gan worked at the investment banking division of Merrill Lynch, in Hong Kong from 1999 to 2000, and worked at Price Waterhouse in the United States from 1994 to 1997. Mr. Gan obtained his Masters of Business Administration from the University Of Chicago Graduate School of Business and his Bachelor of Business Administration from the University of Iowa. He is a Certified Public Accountant in the United States.

*Suyang Zhang* has served as our director since November 2004. He previously served as our director from December 1999 to June 2004. Mr. Zhang is currently a vice president of IDG Technology Venture Investment Inc., where he has worked since 1996, and general manager of Shanghai Pacific Technology Venture Fund Co., Ltd., where he has worked since 1994. Mr. Zhang has led his firms' investments in a number of high-tech projects in the areas of electronics, telecommunications and software in recent years. He previously served as a division manager of Shanghai Bell, deputy director of Shanghai Telephone Equipment Manufacturing Company, and general manager of Shanghai



Vantone Industrial Co. Ltd. He currently serves on the boards of several companies, including Baud Data Communications Co., Ltd. Mr. Zhang holds a Bachelor of Electronics Engineering from Shanghai University and an Executive Masters of Business Administration from China European International Business School.

*Jianmin Zhu* has served as our senior vice president since January 2008. Prior to joining us, he worked with several software and system integration companies, including Compaq and RPTI International Ltd. He was a senior consultant at Compaq from 1999 to 2000 and technical director of RPTI International Ltd. from 1995 to 1998. Mr. Zhu received his Bachelor's degree from Shanghai Jiao Tong University.

*Tao Yang* has served as our senior vice president since January 2008. He has served in a number of managerial positions in our company since 2000. From February 1999 to March 2000, Mr. Yang served as sales manager of Global Sources Ltd., a worldwide trading information provider. Mr. Yang holds a Bachelor's degree in Mechanical Engineering from Shanghai Jiao Tong University.

*Maohua Sun* has served as our vice president since January 2005. Ms. Sun joined us in 2000 and has held a number of managerial positions at our company. Prior to joining us, Ms. Sun worked at the Jinjiang Group, a hotel management company in China, from 1994 to 2000. Ms. Sun received her Bachelor's degree from Shanghai Jiao Tong University.

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*James Lan Tang* has served as our vice president since April 2005. Prior to joining us, he worked as a marketing manager in Perfetti Van Melle Co. Ltd. in Shanghai from 2000 to 2005. Prior to that, Mr. Tang worked as a marketing manager and a financial analysis manager at YueSai Kan Coty Cosmetics Inc. in Shanghai from 1997 to 2000. Mr. Tang received his Bachelor's degree from Shanghai Jiao Tong University and Master's degree in Economics from Virginia Commonwealth University in the United States.

*Shaw Xiaoliang Ding* has served as our vice president since 2007. Prior to joining us, he was general manager of Beijing Jianguo Hotel, a very first joint-ventured hotel in China, from late 2004 to February 2007. Previously, he was general manager of marketing division of Beijing Tourism Group, one of the largest tourism enterprises in China, from August 2001 to December 2004. From 1994 to 2001, Mr. Ding held various senior positions at Beijing International Hotel, Hualong International Hotel Management Company and Intel (China) Corporation. Mr. Ding received his Master's degree from Business School of Rutgers University and his Bachelor's degree from Beijing Institute of International Politics.

*Cindy Xiaofan Wang* has served as our vice president since January 2008. Ms. Wang joined us in 2001 and has held a number of managerial positions at our company. Prior to joining us, she served as finance manager in China eLabs, a venture capital firm from 2000 to 2001. Previously, Ms. Wang worked with PricewaterhouseCoopers Zhongtian CPAs Company Limited. Ms. Wang received her Master's degree from Catholic University Leuven, Belgium and her Bachelor's degree from Shanghai Jiao Tong University.

*Yuxiang Zhuang* has served as our vice president since January 2008. He has served in a number of managerial positions in our company since 2000. Prior to joining us, he worked as assistant general manager in Shanghai Ba-shi Travel Agency from July 1998 to February 2000. Mr. Zhuang received his Bachelor's degree from Fudan University.

*Dongjie Guo* has served as our vice president since March 2008. Prior to joining us, he worked as marketing director in Beijing Tourism Group, one of the largest tourism enterprises in China, from September 2007 to March 2008. From July 1998 to August 2007, Mr. Guo served as vice president and the president of China Comfort Travel Service Group consecutively. From 1988 to 1998, Mr. Guo held various senior positions at China Youth Travel Service Group. Mr. Guo received his Master's degree in Business Administration from Fordham University and his Bachelor's degree in Literature from Beijing University.

### ***B. Compensation***

We have entered into a standard form of director agreement with each of our directors. Under these agreements, we paid cash compensation (inclusive of directors' fees) to our directors in an aggregate amount of US\$459,446 in 2008. Directors are reimbursed for all expenses incurred in connection with each Board of Directors meeting and when carrying out their duties as directors of our company. See *Employee's Stock Option Plans* for options granted to our directors in 2008.

We have entered into standard forms of employment agreements with our executive officers. Under these agreements, we paid cash compensation to our executive officers in an aggregate amount of US\$772,892 in 2008. These agreements provide for terms of service, salary and additional cash compensation arrangements, all of which have been reflected in the 2008 aggregate compensation amount. See *Employee's Stock Option Plans* for options granted to our executive officers in 2008.

### ***Employee's Stock Option Plans***

Our board of directors has adopted four stock option plans, namely, the 2007 Share Incentive Plan, or the 2007 Plan, the 2005 Employee's Stock Option Plan, or the 2005 Plan, the 2003 Employee's Option Plan, or the 2003 Plan, and the 2000 Employee's Stock Option Plan, or the 2000 Plan. The terms of the 2005 Plan, the 2003 Plan and the 2000 Plan are substantially similar. The purpose of the plans is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, officers and directors and to promote the success of our business. Our board of directors believes that our company's long-term success is dependent upon our ability to attract and retain superior individuals who, by virtue of their ability and qualifications, make important contributions to our business.

We have granted options to purchase our ordinary shares under the 2000 Plan, all of which were exercised as of April 30, 2009. We have not granted any options under the 2000 Plan since April 2003 and will not issue any additional options under the 2000 Plan.

We have reserved an aggregate of 1,187,510 of our ordinary shares for issuance under the 2003 Plan, under which 7,251 options were issued and outstanding as of April 30, 2009. All of the outstanding options under the 2003 Plan are held by employees who are not senior executives or directors. The 2003 Plan terminated automatically in 2008.

We have reserved an aggregate of 3,000,000 ordinary shares for issuance under the 2005 Plan, under which 2,063,502 options were issued and outstanding as of April 30, 2009.

Under the 2007 Plan, the maximum aggregate number of ordinary shares which may be issued pursuant to awards was 3,000,000 as of the first business day of 2009, with annual increases of 1,000,000 ordinary shares on the first business day of each subsequent calendar year until the termination of the plan. Under the 2007 Plan, 1,489,766 options were issued and outstanding as of April 30, 2009.

On November 17, 2008, our board of directors amended our 2007 Plan. The main substantive amendments relate to the addition of provisions that explicitly allow us to adjust the exercise price per share of an option under the plan.

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In February 2009, our board of directors approved to reduce the exercise price of all outstanding unvested options that were granted by us in 2007 and 2008 under our 2007 Plan to the then fair market value of our ordinary shares underlying such options. The then fair market value was based on the closing price of our ADSs traded on the Nasdaq as of February 10, 2009, which was the last trading day prior to the board approval. In addition, our board of directors approved to change the vesting commencement date of these unvested options to February 10, 2009 with a new vesting period. Other terms of the option grants remain unchanged. As of the date of this annual report on Form 20-F, all option grantees affected by such changes have entered into amendments to their original share option agreements with us.

The following table summarizes, as of April 30, 2009, the outstanding options granted under our 2005 and 2007 Plans to the individual executive officers and directors named below, and to the other optionees in the aggregate. The table gives effect to the amendments described above.

|                          | <b>Ordinary<br/>Shares<br/>Underlying<br/>Options<br/>Granted</b> | <b>Exercise Price<br/>(US\$/Share)</b> | <b>Date of Grant</b> | <b>Date of Expiration</b> |
|--------------------------|---|--|----------------------|---------------------------|
| James Jianzhang<br>Liang | 76,667  | 19.455                                 | January 24, 2005     | January 24, 2010          |
|                          | 100,000   | 26.225                                 | December 9, 2005     | December 9, 2010          |
|                          | 16,667  | 58.39                                  | February 13, 2007    | February 13, 2012         |
|                          | 33,333  | 38.16                                  | February 13, 2007    | February 10, 2014         |
|                          | 50,000  | 38.16                                  | January 7, 2008      | February 10, 2014         |
|                          | 20,000  | 37.56                                  | January 23, 2009     | January 23, 2014          |
| Qi Ji                    | 3,333   | 77.02                                  | August 13, 2007      | August 13, 2012           |
|                          | 6,667   | 38.16                                  | August 13, 2007      | February 10, 2014         |
| Neil Nanpeng<br>Shen     | 40,000  | 19.455                                 | January 24, 2005     | January 24, 2010          |
|                          | 7,000   | 58.39                                  | February 13, 2007    | February 13, 2012         |
|                          | 14,000  | 38.16                                  | February 13, 2007    | February 10, 2014         |
| Min Fan                  | 120,000   | 19.455                                 | January 24, 2005     | January 24, 2010          |
|                          | 100,000   | 26.225                                 | December 9, 2005     | December 9, 2010          |
|                          | 66,667  | 58.39                                  | February 13, 2007    | February 13, 2012         |
|                          | 133,333   | 38.16                                  | February 13, 2007    | February 10, 2014         |
|                          | 250,000   | 38.16                                  | January 7, 2008      | February 10, 2014         |
|                          | 100,000   | 37.56                                  | January 23, 2009     | January 23, 2014          |
| Jane Jie Sun             | 70,000  | 26.225                                 | December 9, 2005     | December 9, 2010          |
|                          | 33,333  | 58.39                                  | February 13, 2007    | February 13, 2012         |
|                          | 66,667  | 38.16                                  | February 13, 2007    | February 10, 2014         |
|                          | 150,000   | 38.16                                  | January 7, 2008      | February 10, 2014         |
|                          | 60,000  | 37.56                                  | January 23, 2009     | January 23, 2014          |
| JP Gan                   | 10,000  | 22.56                                  | May 13, 2005         | May 13, 2010              |
|                          | 7,000   | 58.39                                  | February 13, 2007    | February 13, 2012         |
|                          | 14,000  | 38.16                                  | February 13, 2007    | February 10, 2014         |
| Suyang Zhang             | 20,000  | 19.455                                 | January 24, 2005     | January 24, 2010          |
|                          | 7,000   | 58.39                                  | February 13, 2007    | February 13, 2012         |
|                          | 14,000  | 38.16                                  | February 13, 2007    | February 10, 2014         |
| Gabriel Li               | 7,000   | 58.39                                  | February 13, 2007    | February 13, 2012         |
|                          | 14,000  | 38.16                                  | February 13, 2007    | February 10, 2014         |

|                 |           |                      |  |   |
|-----------------|-----------|----------------------|--|---|
| Other Employees | 1,942,601 | From 19.455 to 77.02 | From January 24, 2005 to<br>January 23, 2009 | From January 24, 2010 to<br>February 10, 2014 |
| Total           | 3,553,268 |                      |  |   |

The following paragraphs summarize the principal terms of our 2000, 2003 and 2005 Plans.

*Termination of Options.* Where the option agreement permits the exercise or purchase of the options granted for a certain period of time following the recipient's termination of service with us, or the recipient's disability or death, the options will terminate to the extent not exercised or purchased on the last day of the specified period or the last day of the original term of the options, whichever occurs first.

*Administration.* Our stock option plans are administered by our board of directors or a committee designated by our board of directors constituted to comply with applicable laws. In each case, our board of directors or the committee it designates will determine the provisions, terms and conditions of each option grant, including, but not limited to, the option vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment upon settlement of the award, payment contingencies and satisfaction of any performance criteria.

*Vesting Schedule.* One-third of the options granted under our stock option plans vest 12 months after a specified vesting commencement date; an additional one-third vest 24 months after the specified vesting commencement date and the remaining one-third vest 36 months after the specified vesting commencement date, subject to the optionee continuing to be a service provider on each of such dates.

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*Option Agreement.* Options granted under our stock option plans are evidenced by an option agreement that contains, among other things, provisions concerning exercisability and forfeiture upon termination of employment or consulting arrangement (by reason of death, disability or otherwise), as determined by our board.

*Transfer Restrictions.* Options granted under any of our 2000, 2003 and 2005 Plans may not be transferred in any manner by the optionee other than by will or the laws of succession and are exercisable during the lifetime of the optionee only by the optionee.

*Option Exercise.* The term of options granted under the 2000 Plan may not exceed ten years from the date of grant. The term of options granted under the 2003 Plan may not exceed five years from the date of grant. The term of options granted under the 2005 Plan may not exceed ten years from the date of grant. As of the date hereof, under the relevant option agreements, all the options granted to our employees have the expiration term of five years from the date of grant thereof. These share options are vested over a period of three years. The consideration to be paid for our ordinary shares upon exercise of an option or purchase of shares underlying the option will be determined by the stock option plan administrator and may include cash, check, ordinary shares, a promissory note, consideration received by us under a cashless exercise program implemented by us in connection with our stock option plans, or any combination of the foregoing methods of payment.

*Third-Party Acquisition.* If a third party acquires us through the purchase of all or substantially all of our assets, a merger or other business combination, all outstanding options or share purchase rights will be assumed or equivalent options or rights substituted by the successor corporation or parent or subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the options or share purchase rights, all options or share purchase rights will become fully vested and exercisable immediately prior to such transaction and all unexercised awards will terminate.

*Termination or Amendment of Plans.* The 2003 Plan terminated automatically in 2008. Unless terminated earlier, 2000 and 2005 Plans will terminate automatically in 2009. Our board of directors has the authority to amend or terminate our stock option plans subject to shareholder approval to the extent necessary to comply with applicable law. However, no such action may (i) impair the rights of any optionee unless agreed by the optionee and the stock option plan administrator, or (ii) affect the stock option plan administrator's ability to exercise the powers granted to it under our stock option plans.

The following paragraphs summarize the terms of our 2007 Plan, which was amended and restated effective November 17, 2008:

*Plan Administration.* Our board of directors, or a committee designated by our board or directors, will administer the plan. The committee or the full board of directors, as appropriate, will determine the provisions and terms and conditions of each option grant, and may at their absolute discretion adjust the exercise price of an option grant. The exercise price per share subject to an option may be reduced by the committee or the full board of directors, without shareholder or option holder approval.

*Award Agreements.* Options and stock purchase rights granted under our plan are evidenced by a stock option agreement or a stock purchase right agreement, as applicable, that sets forth the terms, conditions and limitations for each grant.

*Eligibility.* We may grant awards to our employees, directors and consultants or any of our related entities, which include our subsidiaries or any entities which are not subsidiaries but are consolidated in our consolidated financial statements prepared under U.S. GAAP.

*Acceleration of Options upon Corporate Transactions.* The outstanding options will terminate and accelerate upon occurrence of a change of control corporate transaction where the successor entity does not assume our outstanding options under the plan. In such event, each outstanding option will become fully vested and immediately exercisable, and the transfer restrictions on the awards will be released and the repurchase or forfeiture rights will terminate immediately before the date of the change of control transaction provided that the grantee's continuous service with us shall not be terminated before that date.

*Term of the Options.* The term of each option grant shall be stated in the stock option agreement, provided that the term shall not exceed ten years from the date of the grant, and in the case of incentive share options, five years from the date of the grant.

*Vesting Schedule.* In general, the plan administrator determines, or the stock option agreement specifies, the vesting schedule. One-third of the options granted under our stock option plans vest 24 months after a specified vesting commencement date, an additional one-third vest 36 months after the specified vesting commencement date and the remaining one-third vest 48 months after the specified vesting commencement date, subject to other terms under the option plan.

*Other Equity Awards.* In addition to stock options, we may also grant to our employees, directors and consultants or any of our related entities share appreciation rights, restricted share awards, restricted share unit awards, deferred share awards, dividend equivalents and share payment awards, with such terms and conditions as our board of directors (or, if applicable, the compensation committee) may, subject to the terms of the plan, establish.

*Transfer Restrictions.* Options to purchase our ordinary shares may not be transferred in any manner by the optionee other than by will or the laws of succession and may be exercised during the lifetime of the optionee only by the optionee.

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*Termination or Amendment of the Plan.* Unless terminated earlier, the plan will terminate automatically in 2017. Our board of directors has the authority to amend or terminate the plan subject to shareholder approval to the extent necessary to comply with applicable law, regulation or stock exchange rule. We must also generally obtain approval of our shareholders to (i) increase the number of shares available under the plan (other than any adjustment as described above), (ii) permit the grant of options with an exercise price that is below fair market value on the date of grant, (iii) extend the exercise period for an option beyond ten years from the date of grant, or (iv) results in a material increase in benefits or a change in eligibility requirements.

### ***C. Board Practices***

In 2008, our directors held meetings or passed resolutions by unanimous written consent 15 times. No director participated in fewer than 75% of all the meetings of our board and its committees on which he served. No director is entitled to any severance benefits upon termination of his directorship with us. As of the date of this annual report, a majority of our directors meet the independence definition under The Nasdaq Stock Market, Inc. Marketplace Rules, or the Nasdaq Rules.

### **Committees of the Board of Directors**

*Audit Committee.* Our audit committee reports to the board regarding the appointment of our independent auditors, the scope and results of our annual audits, compliance with our accounting and financial policies and management's procedures and policies relatively to the adequacy of our internal accounting controls.

As of the date of this annual report, our audit committee consists of Messrs. Gan, Li and Shen. All of these directors meet the audit committee independence standard under Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. The independence definition under Rules 5605 of the Nasdaq Rules is met by Messrs. Gan, Li and Shen. In addition, all the members of our audit committee qualify as audit committee financial experts as defined in the relevant Nasdaq Rules. In 2008, our audit committee held meetings or passed resolutions by unanimous written consent five times.

*Compensation Committee.* Our compensation committee reviews and evaluates and, if necessary, revises the compensation policies adopted by the management. Our compensation committee also determines all forms of compensation to be provided to our senior executive officers. In addition, the compensation committee reviews all annual bonuses, long-term incentive compensation, share options, employee pension and welfare benefit plans. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. As of the date of this annual report, our compensation committee consists of Messrs. Zhang and Gan, both of whom meet the independence definition under the Nasdaq Rules. In 2008, our compensation committee held three meetings.

### **Duties of Directors**

Under Cayman Islands law, our directors have a duty of loyalty to act honestly and in good faith in the best interests of our company. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association. We have the right to take legal action if a duty owed by our directors is breached.

### **Terms of Directors and Officers**

All directors hold office until their successors have been duly elected and qualified unless such office is vacated earlier in accordance with the articles of association. A director may only be removed by the shareholders who appointed such director, except in the case of ordinary directors, who may be removed by ordinary resolutions of the shareholders. Officers are elected by and serve at the discretion of the board of directors.

### ***D. Employees***

As of December 31, 2008, we had approximately 9,050 employees, including 600 in management and administration, 5,000 in our customer service center, 1,450 in sales and marketing, and 2,000 in product development including supplier management personnel and technical support personnel. Most of our employees are based in Shanghai, Beijing, Guangzhou and Shenzhen, and we have certain on-site sales and marketing staffs in over 45 major cities in China. We consider our relations with our employees to be good.

### ***E. Share Ownership***



As of April 30, 2009, 33,545,267 of our ordinary shares were outstanding, excluding shares issuable upon exercise of outstanding options. Our shareholders are entitled to vote together as a single class on all matters submitted to shareholders vote. No shareholder has different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

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The following table sets forth information with respect to the beneficial ownership of our ordinary shares, taking into account the aggregate number of ordinary shares underlying share options that were outstanding as of, and exercisable within 60 days after, April 30, 2009, by each of our directors and senior management. For information regarding share options granted to our directors and senior executive officers, see Item 6.B, Compensation of Directors and Executive Officer. Except as otherwise noted, the address of each person listed in the table is c/o Ctrip.com International, Ltd., 99 Fu Quan Road, Shanghai 200335, People's Republic of China.

|   | <b>Ordinary Shares<br/>Beneficially Owned<sup>(1)</sup></b> |                        |
|---|---|------------------------|
|   | <b>Number</b>   | <b>%<sup>(2)</sup></b> |
| <b>Directors and Senior Management:</b>   |   |                        |
| James Jianzhang Liang <sup>(3)</sup>  | 606,987   | 1.8%                   |
| Min Fan <sup>(4)</sup>  | 398,071   | 1.2%                   |
| Neil Nanpeng Shen <sup>(5)</sup>  | 167,000   | *                      |
| Jane Jie Sun <sup>(6)</sup>   | 103,334   | *                      |
| Other directors and executive officers as a group, each of whom individually owns less than 0.1% <sup>(7)</sup> | 195,005   | *                      |
| All directors and officers as a group <sup>(8)</sup>  | 1,470,397   | 4.3%                   |
| <b>Principal Shareholders:</b>  |   |                        |
| Entities affiliated with Lone Spruce, L.P. <sup>(9)</sup>   | 4,224,811   | 12.6%                  |
| Credit Suisse <sup>(10)</sup>   | 2,511,160   | 7.5%                   |
| Schroeder Investment Management North America Inc. <sup>(11)</sup>  | 1,956,044   | 5.8%                   |
| Entities affiliated with Morgan Stanley <sup>(12)</sup>   | 1,661,700   | 5.0%                   |

\* Less than 1% of our total outstanding shares.

- Notes:
- (1) Beneficial ownership is determined in accordance with the rules of the SEC, and includes voting or investment power with respect to the securities.
  - (2) For each person and group included in this table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of 33,545,267, being the number of ordinary shares outstanding as of April 30, 2009, and the number of ordinary shares underlying share options held by such person or group that were exercisable within 60 days after April 30, 2009.
  - (3) Includes 413,653 ordinary shares held by Mr. Liang and 193,334 ordinary shares that were issuable upon exercise of options exercisable within 60 days after April 30, 2009 held by Mr. Liang.
  - (4) Includes 111,404 ordinary shares held by Perfectpoint International Limited, a British Virgin Islands company owned by Mr. Fan and 286,667 ordinary shares that were issuable upon exercise of options exercisable within 60 days after April 30, 2009 held by Mr. Fan.
  - (5) Includes 120,000 ordinary shares held by Mr. Shen and Smart Master International Limited, a British Virgin Islands company owned by Mr. Shen and 47,000 ordinary shares that were issuable upon exercise of options exercisable within 60 days after April 30, 2009 held by Mr. Shen. Mr. Shen's

business address is Suite 2215, Two Pacific Place, 88 Queensway Road, Hong Kong.

- (6) Includes 103,334 ordinary shares held by Ms. Sun that were issuable upon exercise of options exercisable within 60 days after April 30, 2009.
- (7) Includes 73,854 ordinary shares and 121,151 ordinary shares that were issuable upon exercise of options exercisable within 60 days after April 30, 2009 held by twelve of our current directors and executive officers as a group.
- (8) Includes 718,911 ordinary shares and 751,486 ordinary shares that were issuable upon exercise of options exercisable within 60 days after April 30, 2009 held by all of our current directors and executive officers as a group.
- (9) Includes 4,224,811 ordinary shares held by entities affiliated with Lone Spruce, L.P., which we refer to collectively as Lone Spruce. Information regarding beneficial ownership is reported as of March 3, 2009, based on the information contained in the Schedule 13G filed by Lone Spruce with the SEC on March 13, 2009. Please see this Schedule 13G for information relating to Lone Spruce. The address for Lone Spruce is Two Greenwich Plaza, Greenwich, Connecticut 06830, the United States of America.
- (10) Information regarding beneficial ownership is reported as of December 31, 2008, based on the information contained in the Schedule 13G filed by Credit Suisse with the SEC on February 18, 2009. Please see this Schedule 13G filed by Credit Suisse on February 18, 2009 for information relating to Credit Suisse. The address of Credit Suisse is Uetlibergstrasse 231, P.O. Box 900, CH 8070 Zurich, Switzerland.
- (11) Information regarding beneficial ownership is reported as of December 31, 2008, based on the information contained in the Schedule 13G filed by Schroeder Investment Management North America Inc., or Schroeder, with the SEC on February 13, 2009. Please see this Schedule 13G filed by Schroeder on February 13, 2009 for information relating to Schroeder. The address for Schroeder is 875 Third Avenue, 21<sup>st</sup> Floor, New York, NY 10022, the United States of America.
- (12) Includes 1,661,700 ordinary shares held by entities affiliated with Morgan Stanley, which we refer to collectively as Morgan Stanley. Information regarding beneficial ownership is reported as of April 1, 2009, based on the information contained in the Schedule 13G filed by Morgan Stanley with the SEC on April 7, 2009. Please see this Schedule 13G for information relating to Morgan Stanley. The address for Morgan Stanley is 1585 Broadway, New York, NY 10036, the United States of America.

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As of December 31, 2008, 33,468,023 of our ordinary shares were issued and outstanding. Based on a review of the register of members maintained by our Cayman Islands registrar, we believe that as of December 31, 2008, 33,418,418 ordinary shares, or 99.9% of our total outstanding ordinary shares, were held by two record shareholders in the United States, including 33,066,781 ordinary shares held of record by The Bank of New York Mellon, the depositary of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

### **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

#### *A. Major Shareholders*

Please refer to Item 6, Share Ownership.

#### *B. Related Party Transactions*

##### **Arrangements with Consolidated Affiliated Chinese Entities**

Current PRC laws and regulations impose substantial restrictions on foreign ownership of the air-ticketing, travel agency, advertising and value-added telecommunications businesses in China. Therefore, we conduct part of our operations in our non-hotel reservation businesses through a series of agreements between our PRC subsidiaries and our affiliated Chinese entities, which hold the licenses and approvals for conducting the air-ticketing, travel agency, and value-added telecommunications businesses in China. We do not hold any ownership interest in our affiliated Chinese entities. As of December 31, 2008, our director and chief executive officer, Min Fan, our officers, Jianmin Zhu, Tao Yang and Gangyi Yan and a family member of a senior officer, Fengying Zhang, were the principal record owners of our affiliated Chinese entities. In 2008, Qi Ji, a co-founder, shareholder and director of our company transferred all of his interests in Ctrip Commerce, Beijing Ctrip and Shanghai Huacheng to Tao Yang.

As of December 31, 2008:

Tao Yang and Ctrip Commerce owned 35.56% and 64.44%, respectively, of Beijing Ctrip.

Tao Yang and Min Fan owned 10.2% and 89.8%, respectively, of Ctrip Commerce.

Ctrip Commerce and Tao Yang owned 90% and 8.33% of Shanghai Huacheng, respectively.

Min Fan and Jianmin Zhu owned 90% and 10%, respectively, of Guangzhou Ctrip as well as Shenzhen Ctrip.

Min Fan and Gangyi Yan owned 89.8% and 8.4%, respectively, of Shanghai Ctrip.

Fengying Zhang owned 100% of the equity interest in Nantong Tongcheng.

We believe that the terms of these agreements are no less favorable than the terms that we could obtain from disinterested third parties. The terms of the agreements with the same title between us and our respective affiliated Chinese entities are almost identical except for the amount of the business loans to the shareholders of each entity and the amount of service fees paid by each entity. We believe that Messrs. Fan, Zhu, Yang and Yan and Ms. Zhang will not receive any personal benefits from these agreements except as shareholders of our company. According to our PRC counsel, Commerce & Finance Law Offices, these agreements are valid, binding and enforceable under the current laws and regulations of China. The principal terms of these agreements are described below.

*Powers of Attorney.* Each of Messrs. Fan, Zhu, Yang and Yan and Ms. Zhang has irrevocably appointed our Chief Financial Officer, Jane Jie Sun, as attorney-in-fact to vote on their behalf on all matters they are entitled to vote on, including matters relating to the transfer of any or all of their respective equity interests in our affiliated Chinese entities and the appointment of the chief executive officer of our affiliated Chinese entities. The appointment of Ms. Sun as the attorney-in-fact will terminate if she is no longer employed by one of our subsidiaries in China. The term of each of the powers of attorney is ten years.

*Exclusive Technical Consulting and Services Agreements.* Ctrip Computer Technology and Ctrip Travel Network provide our affiliated Chinese entities with technical consulting and related services and staff training and information services. We also maintain their network platforms. The initial term of these agreements is ten years. In consideration

for our services, our affiliated Chinese entities agree to pay our service fees, which are subject to quarterly adjustment based on their actual operating results. For 2008, Ctrip Commerce paid Ctrip Computer Technology an average quarterly fee of RMB752,000 (US\$110,250) based on the volume of services provided; Beijing Ctrip paid Ctrip Computer Technology and Ctrip Travel Network a quarterly fee based on the number of air tickets sold and the number of packaged-tour products sold in the quarter, at an average rate of RMB41 (US\$6) per ticket and RMB213 (US\$31) per person per tour; Shanghai Huacheng paid Ctrip Computer Technology and Ctrip Travel Network a quarterly fee based on the number of air tickets sold in the quarter, at an average rate of RMB41 (US\$6) per ticket; Guangzhou Ctrip paid Ctrip Computer Technology and Ctrip Travel Network a quarterly fee based on the number of air tickets sold and the number of packaged-tour products sold in the quarter, at an average rate of RMB26 (US\$4) per ticket and RMB10 (US\$1) per person per tour; Shanghai Ctrip paid Ctrip Computer Technology a quarterly fee based on the number of air tickets sold and the number of packaged-tour products sold in the quarter, at an average rate of RMB29 (US\$4) per ticket and RMB208 (US\$31) per person per tour; Shenzhen Ctrip paid Ctrip Computer Technology and Ctrip Travel Network a quarterly fee based on the number of air tickets sold in the quarter, at an average rate of RMB8 (US\$1) per ticket; and Chengdu Ctrip paid Ctrip Computer Technology and Ctrip Travel Network a quarterly fee based on the number of air tickets sold in the quarter, at an average rate of RMB19 (US\$3) per ticket.

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*Share Pledge Agreements.* Messrs. Fan, Zhu, Yang and Yan and Ms. Zhang have pledged their respective equity interests in our affiliated Chinese entities as a guarantee for the payment by our affiliated Chinese entities of technical and consulting services fees to us under the exclusive technical consulting and services agreements described above. In the event any of our affiliated Chinese entity breaches any of its obligations under the service agreement with us, we are entitled to sell the equity interests held by Messrs. Fan, Zhu, Yang, Yan and/or, Ms. Zhang as the case may be, and retain the proceeds from such sale or require any of them to transfer his or her equity interest without consideration to the Chinese citizen(s) designated by us. We will endeavor to enforce our rights in full under the share pledge agreement in the event that any affiliated Chinese entity breaches its obligations under the exclusive technical consulting and services agreement with us.

*Trademark License Agreements.* We grant certain of our affiliated Chinese entities licenses to use our registered trademarks on their websites for a license fee of RMB3,000 (US\$411) per year, if necessary. These agreements were terminated in 2008.

*Software License Agreements.* We grant our affiliated Chinese entities the right to use our software for a royalty fee of RMB3,000 (US\$411) per year. These agreements were terminated in 2008.

*Business Loan Arrangements.* Due to government restrictions on foreign ownership of air-ticketing, travel agencies, and value-added telecommunications businesses in China, we have made business loan arrangements with Messrs. Fan, Zhu Yang and Ms. Zhang with the sole and exclusive purpose of providing funds necessary for the capitalization or acquisition of our affiliated Chinese entities. These loan amounts were injected into the affiliated Chinese entities as capitals and cannot be accessed for any personal uses. In the event that the PRC government lifts its substantial restrictions on foreign ownership of the air-ticketing, travel agency, or value-added telecommunications business in China, as applicable, we will exercise our exclusive option to purchase all of the outstanding equity interests of our affiliated Chinese entities, as described in the following paragraph, and the business loan arrangements will be cancelled in connection with such purchase. However, it is uncertain when, if at all, the PRC government will lift any or all of these restrictions.

The following table sets forth, as of December 31, 2008, the amount of each business loan arrangement, the date the loan arrangement was entered into, the principal, interest, maturity date and outstanding balance of the business loan, the borrower and the affiliated Chinese entity.

| <b>Date of Loan Agreement</b> | <b>Borrower</b> | <b>Affiliated Chinese Entity</b> | <b>Principal (in thousands of RMB)</b> | <b>Principal (in thousands of US\$)</b> | <b>Interest</b> | <b>Maturity Date</b> | <b>Outstanding Balance (in thousands of RMB)</b> | <b>Outstanding Balance (in thousands of US\$)</b> |
|-------------------------------|-----------------|----------------------------------|--|---|-----------------|----------------------|--|---|
| September 10, 2003            | Tao Yang*       | Beijing Ctrip                    | 1,549.5                                | 227.1                                   | None            | September 10, 2013   | 1,549.5  | 227.1   |
| September 10, 2003            | Min Fan         | Commerce Ctrip                   | 980.0                                  | 143.6                                   | None            | September 10, 2013   | 980.0  | 143.6   |
| September 10, 2003            | Tao Yang*       | Commerce Ctrip                   | 1,020.0                                | 149.5                                   | None            | September 10, 2013   | 1,020.0  | 149.5   |
| January 15, 2004              | Min Fan         | Commerce Ctrip                   | 4,100.0                                | 601.0                                   | None            | January 15, 2014     | 4,100.0  | 601.0   |
| October 11, 2006              | Min Fan         | Commerce Ctrip                   | 3,900.0                                | 571.6                                   | None            | January 15, 2014     | 3,900.0  | 571.6   |
| September 10, 2003            | Min Fan         | Guangzhou Ctrip                  | 450.0                                  | 66.0                                    | None            | September 10, 2013   | 450.0  | 66.0  |
| March 1, 2004                 | Min Fan         | Guangzhou Ctrip                  | 1,350.0                                | 197.9                                   | None            | March 1, 2014        | 1,350.0  | 197.9   |
| August 1, 2004                |                 |                                  | 50.0                                   | 7.3                                     | None            |                      | 50.0   | 7.3   |

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|                  |          |           |          |         |      |           |          |         |
|------------------|----------|-----------|----------|---------|------|-----------|----------|---------|
|                  | Jianmin  | Guangzhou |          |         |      | August 1, |          |         |
|                  | Zhu      | Ctrip     |          |         |      | 2014      |          |         |
| August 1, 2004   | Jianmin  | Guangzhou |          |         |      | August 1, |          |         |
|                  | Zhu      | Ctrip     | 150.0    | 22.0    | None | 2014      | 150.0    | 22.0    |
| May 11, 2006     | Jianmin  | Guangzhou |          |         |      | August 1, |          |         |
|                  | Zhu      | Ctrip     | 100.0    | 14.7    | None | 2014      | 100.0    | 14.7    |
| May 11, 2006     | Min Fan  | Guangzhou |          |         |      | March 1,  |          |         |
|                  |          | Ctrip     | 900.0    | 131.9   | None | 2014      | 900.0    | 131.9   |
| October 30, 2003 | Min Fan  | Shanghai  |          |         |      | October   |          |         |
|                  |          | Ctrip     | 4,290.0  | 628.8   | None | 30, 2013  | 4,290.0  | 628.8   |
| May 26, 2006     | Min Fan  | Shanghai  |          |         |      | October   |          |         |
|                  |          | Ctrip     | 1,190.0  | 174.4   | None | 30, 2013  | 1,190.0  | 174.4   |
| February 6, 2004 | Min Fan  | Shenzhen  |          |         |      | February  |          |         |
|                  |          | Ctrip     | 1,350.0  | 197.9   | None | 6, 2014   | 1,350.0  | 197.9   |
| August 1, 2004   | Jianmin  | Shenzhen  |          |         |      | August 1, |          |         |
|                  | Zhu      | Ctrip     | 150.0    | 22.0    | None | 2014      | 150.0    | 22.0    |
| April 24, 2006   | Min Fan  | Shenzhen  |          |         |      | February  |          |         |
|                  |          | Ctrip     | 900.0    | 131.9   | None | 6, 2014   | 900.0    | 131.9   |
| April 24, 2006   | Jianmin  | Shenzhen  |          |         |      | August 1, |          |         |
|                  | Zhu      | Ctrip     | 100.0    | 14.7    | None | 2014      | 100.0    | 14.7    |
| April 12, 2004   | Tao      |           |          |         |      | April 12, |          |         |
|                  | Yang*    | Huacheng  | 250.0    | 36.6    | None | 2014      | 250.0    | 36.6    |
| March 7, 2008    | Fengying | Nantong   |          |         |      | March 6,  |          |         |
|                  | Zhang    | Tongcheng | 10,000.0 | 1,465.7 | None | 2015      | 10,000.0 | 1,465.7 |

\* In 2008, Mr. Tao Yang acquired from Mr. Qi Ji all of his interests in Ctrip Commerce, Beijing Ctrip and Shanghai Huacheng. At the same time, Mr. Tao Yang also assumed all of the outstanding business loans of Mr. Qi Ji.

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*Exclusive Option Agreements.* As consideration for our entering into the business loan arrangements described above, each of Messrs. Fan, Zhu, Yang, Yan and Ms. Zhang has granted us an exclusive, irrevocable option to purchase all of their equity interests in our affiliated Chinese entities at any time we desire, subject to compliance with the applicable PRC laws and regulations. If we exercise these options, we will cancel the outstanding business loans we extended to Messrs. Fan, Yang, Zhu and Ms. Zhang to fund our affiliated Chinese entities.

*Operating Agreements.* We guarantee the performance by our affiliated Chinese entities of contracts, agreements or transactions with third parties relating to the business operations of our affiliated Chinese entities. As consideration for our entering into these performance guarantees, our affiliated Chinese entities agree to pledge their accounts receivable and all of their assets for our benefit.

In addition, our affiliated Chinese entities and their shareholders agree not to enter into any transaction that would affect the assets, obligations, rights or operations of our affiliated Chinese entities without our prior written consent. They also agree to accept our guidance with respect to day-to-day operations, financial management systems and the appointment and dismissal of key employees.

### **Stock Option Grants**

Please refer to Item 6, Employee s Stock Option Plans.

### **Purchase of Shares of Home Inns**

We have two directors in common with Home Inns. During the period from September 12 to December 31, 2008, we purchased on the open market ADSs of Home Inns representing an aggregate of 6,324,980 of Home Inns ordinary shares, or a 9% stake in Home Inns for RMB266 million (US\$39 million).

### **Commissions from Home Inns and its affiliates**

As of December 31, 2008, we held approximately a 9% stake in Home Inns, one of our hotel suppliers, and have two directors in common with it. We have recently acquired additional stake in Home Inns in a private placement transaction, increasing our ownership to approximately 18.25%. Home Inns and its affiliates have entered into agreements with us to provide hotel rooms for our customers. Total commissions from Home Inns and its affiliates amounted to RMB6.3 million, RMB8.9 million and RMB14.8 million (US\$2.2 million) for the years ended December 31, 2006, 2007 and 2008, respectively. These commissions were paid to us in our ordinary course of business on terms substantially similar to those for our unrelated hotel suppliers.

### **Commissions from Hanting Hotels Inc. and its affiliates (collectively, Hanting )**

One of our hotel suppliers, Hanting, has a director in common with our company and a director who is a family member of one of our officers. Hanting has entered into agreements with us to provide hotel rooms for our customers. Total commissions Hanting paid us amounted to RMB1.4 million, RMB5.6 million and RMB7.5 million (US\$1.1 million) for the years ended December 31, 2006, 2007 and 2008, respectively. These commissions were paid to us in our ordinary course of business on terms substantially similar to those for our unrelated hotel suppliers.

### **Advertising expenses to Focus Media Holding Ltd.**

One of our advertising suppliers, Focus Media Holding Ltd., has a director in common with our company. Focus Media Holding Ltd. has entered into agreements with us to provide certain advertising services for us. Total advertising expenses to Focus Media Holding Ltd. amounted to RMB1.5 million, zero and zero for the years ended December 31, 2006, 2007 and 2008, respectively. These advertising expenses were incurred by us in our ordinary course of business on terms substantially similar to those for unrelated advertising suppliers.

### **Certain Leased Property in Shanghai**

We lease 1,223 square meters of our premises in Shanghai from a company controlled by a family member of one of our directors. Total rental expenses for the leased property amounted to RMB550,000, RMB281,650 and zero for the years ended December 31, 2006, 2007 and 2008, respectively.

### **Printing expense to Joyu Tourism Operating Group**

We entered into printing agreements with TripTX Travel Media Group, one of the subsidiaries of Joyu Tourism Operating Group. Joyu Tourism Operating Group has a director in common with our company. Total editing expenses to Joyu Tourism Operating Group amounted to zero, zero and RMB2.2 million (US\$0.3 million) for the years ended December 31, 2006, 2007 and 2008.

### *C. Interests of Experts and Counsel*



Not applicable.

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**ITEM 8. FINANCIAL INFORMATION**

***A. Consolidated Statements and Other Financial Information***

We have appended consolidated financial statements filed as part of this annual report.

**Legal Proceedings**

We are not currently a party to any pending material litigation or other legal proceeding and are not aware of any pending or threatened litigation or other legal proceeding that may have a material adverse impact on our business or operations. However, we may be subject to various legal proceedings and claims that are incidental to our ordinary course of business.

**Dividend Policy**

Our board and shareholders approved a distribution of 30% of our audited net income for 2004 to our shareholders as dividends. On July 8, 2005, we distributed dividends in the aggregate amount of US\$5 million to our shareholders of record as of June 30, 2005, at a dividend rate of RMB1.26, or US\$0.1525, per ordinary share.

Our board and shareholders approved a distribution of 30% of our audited net income for 2005 to our shareholders as dividends. On July 14, 2006, we distributed dividends in the aggregate amount of US\$8 million to our shareholders of record as of June 30, 2006, at a dividend rate of RMB2.04, or US\$0.255, per ordinary share.

In October 2006, our shareholders approved a distribution of 30% of our net income for 2006 to our shareholders as dividends. On July 6, 2007, we distributed dividends in the aggregate amount of RMB72 million (US\$9.5 million) to our shareholders of record as of June 29, 2007, at a dividend rate of RMB2.11, or US\$0.277, per ordinary share.

On June 15, 2007, our shareholders approved the distribution of 30% of our net income for 2007 to our shareholders as dividends. On July 7, 2008, we distributed dividends in the aggregate amount of RMB112 million (US\$16 million) to our shareholders of record as of June 12, 2008, at a dividend rate of RMB3.38, or US\$0.488, per ordinary share.

On November 23, 2007, our board of directors declared a dividend of one ordinary share purchase right for each of our ordinary shares outstanding as of the close of business on December 3, 2007. See Item 10, Additional Information Memorandum and Articles of Association Shareholder Rights Plan.

We have received dividends from our subsidiaries, which have received consulting or other fees from our affiliated Chinese entities. In accordance with current PRC laws and regulations, our subsidiaries and affiliated Chinese entities in China are required to allocate to their general reserves at least 10% of their respective after-tax profits for the year determined in accordance with Chinese accounting standards and regulations. Each of our subsidiaries and affiliated Chinese entities in China may stop allocations to its general reserve if such reserve has reached 50% of its registered capital. In addition, Ctrip Computer Technology, Ctrip Travel Information, Ctrip Travel Network and Ctrip Information Technology are required to allocate portions of their respective after-tax profits to their enterprise expansion funds and staff welfare and bonus funds at the discretion of their boards of directors. Allocations to these statutory reserves and funds can only be used for specific purposes and are not transferable to us in forms of loans, advances, or cash dividends.

Our board of directors has complete discretion as to whether we will distribute dividends in the future. Even if our board of directors determines to distribute dividends, the form, frequency and amount of our dividends will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, tax exposure and other factors as the board of directors may deem relevant. Any dividend we declare will be paid to the holders of ADSs, subject to the terms of the deposit agreement, to the same extent as holders of our ordinary shares, less the fees and expenses payable under the deposit agreement. Any dividend we declare will be distributed by the depositary bank to the holders of our ADSs. Cash dividends on our ordinary shares, including those represented by the ADSs, if any, will be paid in U.S. dollars.

***B. Significant Changes***

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

**Table of Contents****ITEM 9. THE OFFER AND LISTING***A. Offering and Listing Details.*

Our ADSs have been listed on the Nasdaq Global Market since December 9, 2003. Our ADSs are traded under the symbol CTRP.

The following table provides the high and low trading prices for our ADSs on the Nasdaq Global Market for the periods presented and all prices have been retroactively adjusted to reflect the change in ratio effective on July 31, 2007 for all periods presented.

|                | <b>Sales Price (US\$)</b> |            |
|----------------|---------------------------|------------|
|                | <b>High</b>               | <b>Low</b> |
| 2004           | 14.23                     | 5.66       |
| 2005           | 16.68                     | 9.04       |
| 2006           | 32.66                     | 13.91      |
| 2007           | 63.24                     | 27.53      |
| First Quarter  | 37.34                     | 27.53      |
| Second Quarter | 41.05                     | 33.27      |
| Third Quarter  | 52.89                     | 35.91      |
| Fourth Quarter | 63.24                     | 45.56      |
| 2008           | 70.89                     | 16.41      |
| First Quarter  | 63.00                     | 40.04      |
| Second Quarter | 70.89                     | 45.36      |
| Third Quarter  | 54.87                     | 34.26      |
| Fourth Quarter | 40.88                     | 16.41      |

**Monthly Highs and Lows**

|                                 |       |       |
|---------------------------------|-------|-------|
| November 2008                   | 34.17 | 16.41 |
| December 2008                   | 24.03 | 18.92 |
| January 2009                    | 24.80 | 18.50 |
| February 2009                   | 23.46 | 18.39 |
| March 2009                      | 30.86 | 19.00 |
| April 2009                      | 32.00 | 26.40 |
| May 2009 (through May 22, 2009) | 43.51 | 30.51 |

*B. Plan of Distribution*

Not applicable.

*C. Markets*

Our ADSs, have been listed on the Nasdaq Global Market since December 9, 2003 under the symbol CTRP.

*D. Selling Shareholders*

Not applicable.

*E. Dilution*

Not applicable.

*F. Expenses of the Issue*

Not applicable.

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### **ITEM 10. ADDITIONAL INFORMATION**

#### *A. Share Capital*

Not applicable.

#### *B. Memorandum and Articles of Association*

The following are summaries of material provisions of our amended and restated memorandum and articles of association.

*General.* All of our outstanding ordinary shares are fully paid and non-assessable. Certificates representing the ordinary shares are issued in registered form. Our shareholders who are nonresidents of the Cayman Islands may freely hold and vote their shares.

*Dividends.* The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Law.

*Voting Rights.* Each ordinary share is entitled to one vote on all matters upon which the ordinary shares are entitled to vote. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of our board of directors or any other shareholder present in person or by proxy and holding at least ten percent of the shares giving a right to vote at the meeting.

A quorum required for a meeting of shareholders consists of at least two shareholders present or by proxy or, if a corporation or other non-natural person, by its duly authorized representative. Shareholders' meetings are held annually and may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding in the aggregate 10.0% or more of our voting share capital. Advance notice of at least seven days is required for the convening of our annual general shareholders' meeting and other shareholders' meetings.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast in a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the ordinary shares. A special resolution is required for matters such as a change of name or amending the memorandum and articles of association. Holders of the ordinary shares may by ordinary resolution, among other things, make changes in the amount of our authorized share capital and consolidate and divide all or any of our share capital into shares of larger amount than our existing share capital and cancel any shares.

*Liquidation.* On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of shares), assets available for distribution among the holders of ordinary shares shall be distributed among the holders of our ordinary shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

*Calls on Shares and Forfeiture of Shares.* Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time and place of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

*Redemption of Shares.* Subject to the provisions of the Companies Law, we may issue shares on the terms that they are, or at our option or at the option of the holders are, subject to redemption on such terms and in such manner as may be determined by special resolution.

*Variations of Rights of Shares.* All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied either with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class.

#### ***Shareholder Rights Plan***

On November 23, 2007, our board of directors declared a dividend of one ordinary share purchase right, or a Right, for each of our ordinary shares outstanding at the close of business on December 3, 2007. As long as the Rights are attached to the ordinary shares, we will issue one Right (subject to adjustment) with each new ordinary share so that all such ordinary shares will have attached Rights. When exercisable, each Right will entitle the registered holder to purchase from us one ordinary share at a price of \$700 per ordinary share, subject to adjustment.

The Rights will expire on November 23, 2017, subject to our right to extend such date and are exercisable upon the earlier of (i) 10 days following a public announcement that a person or group of affiliated or associated persons has

acquired, or obtained the right to acquire, beneficial ownership of 20% or more of the voting securities of our company, or (ii) 10 business days following the commencement or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a person or group of 20% or more of the voting securities of our company. Upon exercise, all Rights holders except the potential acquirer will be entitled to acquire our ordinary shares at a discount. We are entitled to redeem the Rights in whole at any time on or before the tenth day following acquisition by a person or group of 20% or more of our voting securities (which for these purposes include ADSs representing ordinary shares).

The Rights were not distributed in response to any specific effort to acquire control of our company.

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### *C. Material Contracts*

We have not entered into any material contracts other than in the ordinary course of business for the two years immediately preceding the date of this annual report and other than those described in Item 4, Information on the Company, or elsewhere in this annual report on Form 20-F.

### *D. Exchange Controls*

See Item 4. Information on the Company B. Business Overview PRC Government Regulations Regulations of Foreign Currency Exchange and Dividend Distribution.

### *E. Taxation*

The following summary of the material Cayman Islands and U.S. federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws not addressed herein.

#### **Cayman Islands Taxation**

In the opinion of our Cayman Islands counsel, Maples and Calder, the Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

#### **U.S. Federal Income Taxation**

The following discussion describes the material U.S. federal income tax consequences to U.S. Holders (as defined below) under present law of an investment in the ADSs or ordinary shares. This summary applies only to U.S. Holders that hold the ADSs or ordinary shares as capital assets and that have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States as in effect on the date of this annual report and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this annual report, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

banks;

insurance companies;

broker dealers;

traders that elect to mark to market;

tax-exempt entities;

persons liable for alternative minimum tax;

U.S. expatriates;

regulated investment companies or real estate investment trusts;

persons holding an ADS or ordinary share as part of a straddle, hedging, conversion or integrated transaction;

holders that actually or constructively own 10% or more of the total combined voting power of all classes of our voting stock;

persons holding ADSs or ordinary shares through partnerships or other pass-through entities; or

persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee share option or otherwise as compensation.

**INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE APPLICATION OF THE U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE, LOCAL AND FOREIGN TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF ADSs OR ORDINARY SHARES.**

The discussion below of the U.S. federal income tax consequences to U.S. Holders will apply to you if you are a beneficial owner of ADSs or ordinary shares and you are, for U.S. federal income tax purposes,  
an individual who is a citizen or resident of the United States;

a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any State thereof or the District of Columbia;

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an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial trust decisions or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If you are a partner in a partnership or other entity taxable as a partnership that holds ADSs or ordinary shares, your tax treatment generally will depend on your status and the activities of the partnership.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement have been and will be complied with in accordance with their terms. If you hold ADSs, you should be treated as the holder of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes.

The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming, by U.S. Holders of ADSs, of foreign tax credits for U.S. federal income tax purposes. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate U.S. Holders, as described below. Accordingly, the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders could be affected by future actions that may be taken by the U.S. Treasury or parties to whom ADSs are pre-released.

*Taxation of Dividends and Other Distributions on the ADSs or Ordinary Shares*

Subject to the passive foreign investment company rules discussed below, the gross amount of all our distributions to you with respect to the ADSs or ordinary shares generally will be included in your gross income as dividend income on the date of receipt by the depository, in the case of ADSs, or by you, in the case of ordinary shares, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits, such excess amount will be treated first as a tax-free return of your tax basis in your ADSs or ordinary shares, and then, to the extent such excess amount exceeds your tax basis, as capital gain. We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will generally be treated as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above. Any dividends we pay will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

With respect to certain non-corporate U.S. Holders (including individual U.S. Holders), for taxable years beginning before January 1, 2011, dividends may be taxed at the lower capital gains rate applicable to qualified dividend income, provided that (1) the ADSs or ordinary shares are readily tradable on an established securities market in the United States or we are eligible for the benefits of a qualifying income tax treaty with the United States that includes an exchange of information program; (2) we are neither a passive foreign investment company nor treated as such with respect to you (as discussed below) for our taxable year in which the dividend was paid and the preceding taxable year; and (3) certain holding period requirements are met. U.S. Treasury guidance indicates that common or ordinary shares, or ADSs representing such shares, are considered for the purpose of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on the Nasdaq Global Market, as are our ADSs (but not our ordinary shares). If we are treated as a resident enterprise for PRC tax purposes under the EIT Law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. For more information regarding the EIT Law, see Item 3, Key Information Risk Factors Risks Related to Our Company Our subsidiaries and affiliated Chinese entities in China are subject to restrictions on paying dividends or making other payments to us, which may restrict our ability to satisfy our liquidity requirements. You should consult your tax advisors regarding the availability of the lower capital gains rate applicable to qualified dividend income for dividends paid with respect to our ADSs or ordinary shares and any possible change in law relating to the availability of such lower rate for dividends paid by us.

Dividends will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of



calculating the foreign tax credit limitation will in general be limited to the gross amount of the dividend, multiplied by the reduced tax rate applicable to qualified dividend income and divided by the highest tax rate normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to the ADSs or ordinary shares will be passive category income or, in the case of certain U.S. Holders, general category income.

If PRC withholding taxes apply to dividends paid to you with respect to our ADSs or ordinary shares, subject to certain conditions and limitations, such PRC withholding taxes may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. For more information, see Item 3, Key Information Risk Factors Risks Related to Our Company Our subsidiaries and affiliated Chinese entities in China are subject to restrictions on paying dividends or making other payments to us, which may restrict our ability to satisfy our liquidity requirements. The rules relating to the determination of the foreign tax credit are complex and you should consult your tax advisors regarding the availability of a foreign tax credit in your particular circumstances.

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### *Taxation of Disposition of ADSs or Ordinary Shares*

Subject to the passive foreign investment company rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS or ordinary share equal to the difference between the amount realized for the ADS or ordinary share and your tax basis in the ADS or ordinary share. Your tax basis in an ADS or ordinary share generally will be equal to the cost of such ADS or ordinary share. The gain or loss generally will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the ADS or ordinary share for more than one year, you will be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will generally be treated as U.S. source income or loss for foreign tax credit limitation purposes. However, if we are treated as a resident enterprise for PRC tax purposes, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. In such event, if PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares, a U.S. Holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat the gain as PRC source income. For more information, see Item 3, **Key Information** **Risk Factors** **Risks Related to Our Company**. Our subsidiaries and affiliated Chinese entities in China are subject to restrictions on paying dividends or making other payments to us, which may restrict our ability to satisfy our liquidity requirements. You should consult your tax advisors regarding the proper treatment of gain or loss in your particular circumstances.

### *Passive Foreign Investment Company*

Based on the market price of our ADSs, the value of our assets, and the composition of our assets and income, we do not believe that we were a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for the taxable year ended December 31, 2008. A non-U.S. corporation will be a PFIC for any taxable year if either:

at least 75% of its gross income for such year is passive income, or

at least 50% of the value of its assets (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income (the **asset test**).

We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock. In applying this rule, however, it is not clear whether the contractual arrangements between us and our affiliated Chinese entities will be treated as ownership of stock.

We must make a separate determination after the close of each year as to whether we were a PFIC for that year. Accordingly, we cannot assure you that we will not be a PFIC for our current taxable year ending December 31, 2009 or any future taxable year. Because the value of our assets for purposes of the asset test generally will be determined by reference to the market price of our ADSs and ordinary shares, fluctuations in the market price of our ADSs or ordinary shares may cause us to become a PFIC. If we are a PFIC for any year during which you hold ADSs or ordinary shares, we generally will continue to be treated as a PFIC with respect to you for all succeeding years during which you hold ADSs or ordinary shares, unless we cease to be a PFIC and you make a deemed sale election with respect to the ADSs or ordinary shares, as applicable. If such election is made, you will be deemed to have sold the ADSs or ordinary shares you hold at their fair market value and any gain from such deemed sale would be subject to the consequences described below. After the deemed sale election, your ADSs or ordinary shares with respect to which such election was made will not be treated as shares in a PFIC unless we subsequently become a PFIC. For each taxable year that we are treated as a PFIC with respect to you, you will be subject to special tax rules with respect to any **excess distribution** that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ADSs or ordinary shares, unless you make a **mark-to-market** election as discussed below. Under these special tax rules:

the excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares,

the amount allocated to the current taxable year, and any taxable years in your holding period prior to the first taxable year in which we became a PFIC, will be treated as ordinary income, and

the amount allocated to each other year will be subject to the highest tax rate in effect for individuals or corporations, as applicable, for each such year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

A U.S. Holder of marketable stock (as defined below) in a PFIC may make a mark-to-market election for such stock to elect out of the tax treatment discussed in the preceding paragraph. If you make a valid mark-to-market election for our ADSs or ordinary shares, you will include in income for each year that we are treated as a PFIC with respect to you an amount equal to the excess, if any, of the fair market value of the ADSs or ordinary shares you hold as of the close of the year over your adjusted basis in such ADSs or ordinary shares. You will be allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or ordinary shares over their fair market value as of the close of the year. However, deductions will be allowable only to the extent of any net mark-to-market gains on the ADSs or ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as any gain on the actual sale or other disposition of the ADSs or ordinary shares, will be treated as ordinary income. The mark-to-market election is available only for marketable stock, which is stock that is traded in other than *de minimis* quantities on at least 15 days during each calendar quarter (regularly traded) on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. Our ADSs are listed on the Nasdaq Global Market, which is a qualified exchange or other market for these purposes. Consequently, if the ADSs continue to be listed on the Nasdaq Global Market and are regularly traded, and you are a holder of ADSs, we expect that the mark-to-market election would be available to you were we to be or become a PFIC. You should consult your tax advisors as to the availability and desirability of a mark-to-market election.

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Alternatively, if a non-U.S. corporation is a PFIC, a U.S. holder of shares in that corporation may avoid taxation under the rules described above by making a qualified electing fund election to include in income its share of the corporation's income on a current basis. However, you can make a qualified electing fund election with respect to your ADSs or ordinary shares only if we agree to furnish you annually with certain tax information, and we currently do not intend to prepare or provide such information.

You are urged to consult your tax advisor regarding the application of the PFIC rules to your investment in ADSs or ordinary shares.

### *Information Reporting and Backup Withholding*

Dividend payments with respect to ADSs or ordinary shares and proceeds from the sale, exchange or redemption of ADSs or ordinary shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a U.S. Holder that furnishes a correct taxpayer identification number and makes any other required certification or that is otherwise exempt from backup withholding. U.S. Holders that are required to establish their exempt status generally must provide such certification on Internal Revenue Service Form W-9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information in a timely manner.

### *F. Dividends and Paying Agents*

Not applicable.

### *G. Statement by Experts*

Not applicable.

### *H. Documents on Display*

We have previously filed with the SEC our registration statement on Form F-1, as amended and prospectus under the Securities Act, with respect to our ordinary shares. We have also previously filed with the SEC our registration statement on Form F-2, as amended, and prospectus under the Securities Act, with respect to the sale of 1,914,000 ADSs by certain selling shareholders. We have also previously filed with the SEC our registration statement on Form F-3 and prospectus under the Securities Act, with respect to the sale of 13,290,000 ADSs by a selling shareholder. We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F: (1) within six months after the end of each fiscal year, which is December 31, for fiscal years ending before December 15, 2011; and (2) within four months after the end of each fiscal year for fiscal years ending on or after December 15, 2011. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the SEC's public reference room located at Room 1580, 100F Street, NE, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

Our financial statements have been prepared in accordance with U.S. GAAP.

We will furnish our shareholders with annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP.

### *I. Subsidiary Information*

For a list of our subsidiaries, see Item 4.C, Organizational Structure.



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### **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

*Interest Rate Risk.* Our exposure to interest rate risk for changes in interest rates relates primarily to the interest income generated by excess cash deposited in banks. We have not used any derivative financial instruments to hedge interest rate risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates. Based on our cash balance as of December 31, 2008, a one basis point decrease in interest rates would result in approximately RMB310,000 decreases in our interest income on an annual basis. Our future interest income may fluctuate in line with changes in interest rates. However, the risk associated with fluctuating interest rates is principally confined to our interest-bearing cash deposits, and, therefore, our exposure to interest rate risk is limited.

*Foreign Exchange Risk.* We are exposed to foreign exchange risk arising from various currency exposures. Some of our expenses are denominated in foreign currencies while almost all of our revenues are denominated in RMB. As we hold assets dominated in U.S. dollars, including our bank deposits, any changes against our functional currencies could potentially result in a charge to our income statement and a reduction in the value of our U.S. dollar denominated assets. We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency risk. See Risk Factors Risks Related to Doing Business in China Future movements in exchange rates between the U.S. dollar and RMB may adversely affect the value of our ADSs.

### **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

## **PART II**

### **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

### **ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

On July 31, 2007, we effected a change of the ratio of our ADSs to ordinary shares from one (1) ADS representing one (1) ordinary share to one (1) ADS representing one-half (0.5) of an ordinary share.

On November 23, 2007, our board of directors declared a dividend of one ordinary share purchase right for each of our ordinary shares outstanding at the close of business on December 3, 2007. See Item 10, Memorandum and Articles of Association.

### **ITEM 15. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

As required by Rule 13a-15(b) under the Exchange Act, our management, including our chief executive officer, Min Fan, and our chief financial officer, Jane Jie Sun, performed an evaluation of the effectiveness of our disclosure controls and procedures, as that term is defined in Rules 13a-15(e) of the Exchange Act, as of the end of the period covered by this annual report. Based on that evaluation, our management has concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

#### **Report of Management on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with GAAP, and that receipts and expenditures of our company are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use or disposition of our company's assets that could have a material effect on the consolidated financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may

deteriorate.

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Our management conducted an evaluation of the effectiveness of our company's internal control over financial reporting as of December 31, 2008 based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2008.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company, our independent registered public accounting firm, audited the effectiveness of our company's internal control over financial reporting as of December 31, 2008, as stated in its report, which appears on page F-2 of this Form 20-F.

**Changes in Internal Control over Financial Reporting**

As required by Rule 13a-15(d), under the Exchange Act, our management, including our chief executive officer and our chief financial officer, also conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the period covered by this report have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, it has been determined that there has been no such change during the period covered by this annual report.

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

See Item 6.C, Board Practices.

**ITEM 16B. CODE OF ETHICS**

Our board of directors has adopted a code of ethics that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our chief executive officer, chief financial officer, financial controller, vice presidents and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as an exhibit to our annual report on Form 20-F for our fiscal year 2003, and posted the code on our [www.ctrrip.com](http://www.ctrrip.com) website. On March 3, 2009, our board of directors approved amendments to our code of ethics. We have filed our amended code of business conduct and ethics as Exhibit 11.1 to this annual report on Form 20-F. We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person's written request.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, our principal external auditors, for the periods indicated. We did not pay any tax related or other fees to our auditors during the periods indicated below.

|                               | <b>For the Year Ended December 31,</b> |             |             |
|-------------------------------|--|-------------|-------------|
|                               | <b>2007</b>                            | <b>2008</b> | <b>2008</b> |
|                               | <b>RMB</b>                             | <b>RMB</b>  | <b>US\$</b> |
| Audit fees <sup>(1)</sup>     | 6,339,639                              | 6,218,715   | 911,501     |
| All other fees <sup>(2)</sup> | 1,298,396                              |             |             |

(1) Audit fees means the aggregate fees for professional services rendered by our principal auditors for the interim review of quarterly financial statements and the audit of our



annual financial  
statements in  
2007 and 2008.

- (2) All other fees  
means the  
aggregate fees  
for services  
rendered in  
connection with  
our filing of the  
Form F-3 in  
2007.

Our audit committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services and tax services, as well as, to a very limited extent, specifically designated non-audit services which, in the opinion of the audit committee, will not impair the independence of the registered public accounting firm. The independent registered public accounting firm and our management are required to report to the audit committee on the quarterly basis regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

We are in compliance with Rule 10A-3 under the Exchange Act and The Nasdaq Stock Market, Inc. Marketplace Rules, or Nasdaq Marketplace Rules, with respect to the audit committee.

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**ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

On July 30, 2008 and September 30, 2008, our board of directors and shareholders respectively approved a share repurchase plan, pursuant to which we were authorized to purchase our own ADSs with an aggregate value of US\$15 million by a repurchase of corresponding ordinary shares from the depositary, to be funded out of our capital. Under the plan, Messrs. Min Fan and Ms. Jane Jie Sun and any person specifically nominated in writing by either of them for such purpose was authorized to effect a share repurchase on the open market at prevailing market prices and/or in negotiated transactions off the market from time to time as market conditions, in their judgment, warrant, in accordance with all applicable requirements of Rule 10b-18 under the Securities Exchange Act of 1934, as amended, and on the terms set out in the resolutions of our board of directors approving such share repurchase. As of the date of this annual report on Form 20-F, we have not purchased any of our own ADSs under this share repurchase plan.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

Rule 5635(c) of the Nasdaq Rules requires a Nasdaq listed company to obtain its shareholders' approval of all equity compensation plans, including stock plans, and any material amendments to such plans. Rule 5615 of the Nasdaq Rules permits a foreign private issuer like our company to follow home country practice in certain corporate governance matters. Upon board approval, on November 17, 2008, we amended our 2007 Plan. We believe that some of the amendments are material changes to the then existing plan. Our Cayman Islands counsel has provided a letter to Nasdaq dated November 11, 2008 certifying that under Cayman Islands law, we are not required to obtain shareholders' approval for amendments to our existing equity incentive plan. Nasdaq has acknowledged the receipt of such letter and our home country practice with respect to approval for amendments to our equity incentive plan. Rule 5605(c)(2)(A) of the Nasdaq Rules require a Nasdaq listed company to have an audit committee of at least three members, each of whom must be independent as defined under Rule 5605(a)(2). Mr. Neil Nanpeng Shen, a member of our audit committee, was our chief financial officer until October 2005 and therefore was not considered an independent director under Rule 5605. Rule 5615 of the Nasdaq Rules permits foreign private issuers like our company to follow home country practice in certain corporate governance matters. Our Cayman Islands counsel has provided a letter to Nasdaq certifying that under Cayman Islands law, we are not required to establish or maintain an audit committee, and Cayman Islands law contains no requirement with respect to the independence of directors or the constitution of any audit committee that may be created. Nasdaq has acknowledged the receipt of such letter and our home country practice with respect to the audit committee. On May 20, 2009, our board of directors determined that Mr. Shen, as of December 31, 2008, satisfied and, as of the date of this annual report, satisfy the independence requirements under the Nasdaq Rules.

Other than the home country practices described above, we are not aware of any significant ways in which our corporate governance practices differ from those followed by U.S. domestic companies under the Nasdaq Market Rules.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

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

**ITEM 18. FINANCIAL STATEMENTS**

The consolidated financial statements for Ctrip.com International, Ltd. and its subsidiaries are included at the end of this annual report.

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**ITEM 19. EXHIBITS**

| <b>Exhibit<br/>Number</b> | <b>Document</b>   |
|---------------------------|---|
| 1.1                       | Amended and Restated Memorandum and Articles of Association of Ctrip.com International, Ltd. (incorporated by reference to Exhibit 3.2 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 25, 2003), as amended (amendment incorporated by reference to Exhibit 99.2 to our Report of Foreign Private Issuer on Form 6-K filed with the Commission on October 17, 2006)  |
| 2.1                       | Specimen American Depositary Receipt of Ctrip.com International, Ltd. (incorporated by reference to Exhibit 4.1 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 25, 2003)   |
| 2.2                       | Specimen Stock Certificate of Ctrip.com International, Ltd. (incorporated by reference to Exhibit 4.2 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 25, 2003)   |
| 2.3                       | Rights Agreement dated as of November 23, 2007 between Ctrip.com International, Ltd. and The Bank of New York, as Rights Agent (incorporated by reference to Exhibit 4.1 from our Report of Foreign Private Issuer on Form 6-K filed with the Securities and Exchange Commission on November 23, 2007)  |
| 2.4                       | Deposit Agreement dated as of December 8, 2003, as amended and restated as of August 11, 2006, and as further amended and restated as of December 3, 2007, among Ctrip.com International, Ltd., The Bank of New York as Depositary, and all Owners and Beneficial from time to time of American Depositary Receipts issued thereunder (incorporated by reference to Exhibit 2.4 from our Annual Report on Form 20-F (file no. 001-33853) filed with the Securities and Exchange Commission on April 29, 2008) |
| 4.1                       | Form of Ctrip.com International, Ltd. Stock Option Plans (incorporated by reference to Exhibit 10.1 from our Registration Statement on Form F-1 (file no. 333-110455) and Exhibit 10.23 from our Registration Statement on Form F-2 (file no. 333-121080) filed with the Securities and Exchange Commission on November 13, 2003 and December 8, 2004, respectively)  |
| 4.2                       | Form of Indemnification Agreement with the Registrant's directors and executive officers (incorporated by reference to Exhibit 10.2 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)   |
| 4.3                       | Translation of Form of Labor Contract for Employees of the Registrant's subsidiaries in China (incorporated by reference to Exhibit 10.3 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)  |
| 4.4                       | Employment Agreement between the Registrant and James Jianzhang Liang (incorporated by reference to Exhibit 10.4 from our Registration Statement on Form F-1 (file no.  |

333-110455) filed with the Securities and Exchange Commission on November 13, 2003)

- 4.5 Employment and Confidentiality Agreement between the Registrant and Jane Jie Sun (incorporated by reference to Exhibit 4.5 from our Annual Report on Form 20-F (file no. 000-50483) filed with the Securities and Exchange Commission on June 26, 2006)
- 4.6 Employment Agreement, between the Registrant and Min Fan (incorporated by reference to Exhibit 10.6 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)
- 4.7 Translation of Form of Consulting and Services Agreement between Ctrip Computer Technology (Shanghai) Co., Ltd. and an Affiliated Chinese Entity of the Registrant, as currently in effect (incorporated by reference to Exhibit 10.7 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)
- 4.8 Translation of Form of Business Loan Agreement between Ctrip.com (Hong Kong) Limited and a Shareholder of an Affiliated Chinese Entity of the Registrant, as currently in effect (incorporated by reference to Exhibit 10.8 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)
- 4.9 Translation of Form of Exclusive Option Agreement among Ctrip.com (Hong Kong) Limited, an Affiliated Chinese Entity of the Registrant and the Shareholder of the Entity, as currently in effect (incorporated by reference to Exhibit 10.9 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)
- 4.10 Translation of Form of Share Pledge Agreement among Ctrip Computer Technology (Shanghai) Co., Ltd. and a Shareholder of an Affiliated Chinese Entity of the Registrant, as currently in effect (incorporated by reference to Exhibit 10.10 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)

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| <b>Exhibit Number</b> | <b>Document</b>  |
|-----------------------|--|
| 4.11                  | Translation of Form of Trademark License Agreement between Ctrip Computer Technology (Shanghai) Co., Ltd. and an Affiliated Chinese Entity of the Registrant, as currently in effect (incorporated by reference to Exhibit 10.11 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)             |
| 4.12                  | Translation of Form of Software License Agreement between Ctrip Computer Technology (Shanghai) Co., Ltd. and an Affiliated Chinese Entity of the Registrant, as currently in effect (incorporated by reference to Exhibit 10.12 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)              |
| 4.13                  | Translation of Form of Operating Agreement between Ctrip Computer Technology (Shanghai) Co., Ltd. and an Affiliated Chinese Entity of the Registrant, as currently in effect (incorporated by reference to Exhibit 10.13 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)                     |
| 4.14                  | Translation of Lease Agreement dated May 1, 2003 between Ctrip Travel Information Technology (Shanghai) Co., Ltd. and Yu Zhong (Shanghai) Consulting Co., Ltd. (incorporated by reference to Exhibit 10.14 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)                                   |
| 4.15                  | Translation of Form of Power of Attorney by a shareholder of an Affiliated Chinese Entity of the Registrant, as currently in effect (incorporated by reference to Exhibit 10.15 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)  |
| 4.16                  | Confidentiality and Non-Competition Agreement, effective as of September 10, 2003, between the Registrant and Qi Ji (incorporated by reference to Exhibit 10.16 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)  |
| 4.17                  | Form of Director Agreement between the Registrant and its director (incorporated by reference to Exhibit 4.20 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on May 11, 2004)   |
| 4.18                  | Land Early Development Cost Compensation Agreement dated February 3, 2005 between Shanghai Hong Qiao Lin Kong Economic Development Park Co., Ltd. and Ctrip Travel Information Technology (Shanghai) Co., Ltd. (incorporated by reference to Exhibit 4.18 from our Annual Report on Form 20-F (file no. 000-50483) filed with the Securities and Exchange Commission on June 22, 2005) |
| 4.19                  | Translation of Construction Agreement dated February 13, 2006 between Shanghai No. 1 Construction Co., Ltd. and Ctrip Travel Network Technology (Shanghai) Co., Ltd.   |

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(incorporated by reference to Exhibit 4.5 from our Annual Report on Form 20-F (file no. 000-50483) filed with the Securities and Exchange Commission on June 26, 2006)

- 4.20 Translation of State Land Use Right Assignment Contract dated February 25, 2008 between Nantong Land Resource Bureau and Ctrip Information Technology (Nantong) Co., Ltd. (incorporated by reference to Exhibit 4.21 from our Annual Report on Form 20-F (file no. 001-33853) filed with the Securities and Exchange Commission on April 29, 2008)
- 4.21\* Ctrip.com International, Ltd. 2007 Share Incentive Plan, as amended and restated as of November 17, 2008
- 4.22\* Summary of key terms of the form revolving credit facility agreement between each of Ctrip Computer Technology (Shanghai) Co., Ltd., Ctrip Travel Information Technology (Shanghai) Co., Ltd. and Ctrip Travel Network Technology (Shanghai) Co., Ltd. and our consolidated affiliated Chinese entity, Shanghai Huacheng Southwest Travel Agency Co., Ltd., and China Merchants Bank, Shanghai Branch
- 4.23 Purchase Agreement dated May 7, 2009 between Ctrip.com International, Ltd. and Home Inns & Hotels Management Inc. (incorporated by reference to Exhibit 99.(B) from our General Statement of Acquisition of Beneficial Ownership on Schedule 13D (file no. 005-82520) filed with the Securities Exchange Commission on May 21, 2009)
- 4.24 Registration Rights Agreement dated May 7, 2009 between Ctrip.com International, Ltd. and Home Inns & Hotels Management Inc. (incorporated by reference to Exhibit 99.(C) from our General Statement of Acquisition of Beneficial Ownership on Schedule 13D (file no. 005-82520) filed with the Securities Exchange Commission on May 21, 2009)
- 8.1\* Subsidiaries and Variable Interest Entities of the Registrant
- 11.1\* Code of Business Conduct and Ethics of the Registrant, as amended and restated as of March 3, 2009

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| <b>Exhibit<br/>Number</b> | <b>Document</b>   |
|---------------------------|---|
| 12.1*                     | Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 12.2*                     | Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 13.1*                     | Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 13.2*                     | Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 15.1*                     | Consent of Maples and Calder  |
| 15.2*                     | Consent of Commerce & Finance Law Offices   |
| 15.3*                     | Consent of PricewaterhouseCoopers Zhong Tian CPAs Limited Company                               |

\* Filed with this  
annual report on  
Form 20-F.

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**SIGNATURES**

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

CTRIP.COM INTERNATIONAL, LTD.

By /s/ Min Fan

**Name: Min Fan**

**Title: Chief Executive Officer**

Date: May 26, 2009



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**CTRIP.COM INTERNATIONAL, LTD.  
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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Ctrip.com International, Ltd.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Ctrip.com International, Ltd. (the Company) and its subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing in item 15 of the accompanying Form 20-F. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers Zhong Tian CPAs Limited Company

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, the People's Republic of China

May 26, 2009

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**CTRIP.COM INTERNATIONAL, LTD.**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008**

|   | <b>2006<br/>RMB</b> | <b>2007<br/>RMB</b> | <b>2008<br/>RMB</b>  | <b>2008<br/>US\$</b> |
|---|---------------------|---------------------|----------------------|----------------------|
| Revenues:   |                     |                     |                      |                      |
| Hotel reservation                                       | 476,494,606         | 676,511,238         | 763,726,817          | 111,942,369          |
| Air-ticketing   | 292,701,199         | 503,453,383         | 659,398,301          | 96,650,539           |
| Packaged-tour   | 41,702,488          | 71,495,585          | 109,244,749          | 16,012,422           |
| Others  | 23,128,346          | 35,818,022          | 55,968,929           | 8,203,581            |
| Total revenues  | 834,026,639         | 1,287,278,228       | 1,588,338,796        | 232,808,911          |
| Less: business tax and related surcharges               | (54,075,096)        | (88,167,081)        | (106,334,164)        | (15,585,806)         |
| Net revenues  | 779,951,543         | 1,199,111,147       | 1,482,004,632        | 217,223,105          |
| Cost of revenues  | (153,131,864)       | (236,226,063)       | (326,610,463)        | (47,872,549)         |
| <b>Gross profit</b>                                     | <b>626,819,679</b>  | <b>962,885,084</b>  | <b>1,155,394,169</b> | <b>169,350,556</b>   |
| Operating expenses:                                     |                     |                     |                      |                      |
| Product development                                     | (105,938,184)       | (177,301,995)       | (235,800,504)        | (34,562,185)         |
| Sales and marketing                                     | (172,491,625)       | (243,314,529)       | (286,693,188)        | (42,021,720)         |
| General and administrative                              | (93,173,911)        | (137,943,756)       | (171,693,601)        | (25,165,790)         |
| Total operating expenses                                | (371,603,720)       | (558,560,280)       | (694,187,293)        | (101,749,695)        |
| <b>Income from operations</b>                           | <b>255,215,959</b>  | <b>404,324,804</b>  | <b>461,206,876</b>   | <b>67,600,861</b>    |
| Interest income   | 15,632,481          | 16,703,553          | 31,100,097           | 4,558,461            |
| Other income  | 11,213,801          | 35,297,223          | 54,944,595           | 8,053,440            |
| Income before income tax expense and minority interests | 282,062,241         | 456,325,580         | 547,251,568          | 80,212,762           |
| Income tax expense                                      | (41,277,020)        | (58,005,983)        | (102,913,404)        | (15,084,412)         |
| Minority interests                                      | (221,374)           | 4,013               | (230,291)            | (33,755)             |
| <b>Net income</b>                                       | <b>240,563,847</b>  | <b>398,323,610</b>  | <b>444,107,873</b>   | <b>65,094,595</b>    |
| Other comprehensive income:                             |                     |                     |                      |                      |

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|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Foreign currency translation adjustments                                    | (8,459,660)  | (20,321,443) | (41,382,067) | (6,065,528)  |
| Unrealized securities holding losses  |              |              | (98,126,616) | (14,382,795) |
| Comprehensive income  | 232,104,187  | 378,002,167  | 304,599,190  | 44,646,272   |
| Earnings per ordinary share   |              |              |              |              |
| Basic   | 7.44         | 12.10        | 13.32        | 1.95         |
| Diluted   | 7.23         | 11.67        | 12.90        | 1.89         |
| Earnings per ADS  |              |              |              |              |
| Basic   | 3.72         | 6.05         | 6.66         | 0.98         |
| Diluted   | 3.62         | 5.84         | 6.45         | 0.95         |
| Weighted average ordinary shares outstanding                                |              |              |              |              |
| Basic shares  | 32,342,998   | 32,927,454   | 33,352,845   | 33,352,845   |
| Diluted shares  | 33,268,220   | 34,121,390   | 34,424,549   | 34,424,549   |
| Share-based compensation included in operating expense above is as follows: |              |              |              |              |
| Product development   | (13,694,058) | (22,707,705) | (32,666,099) | (4,787,995)  |
| Sales and marketing   | (8,557,942)  | (13,648,562) | (18,815,878) | (2,757,915)  |
| General and administrative  | (32,430,027) | (50,557,618) | (77,035,498) | (11,291,388) |

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

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**CTRIP.COM INTERNATIONAL, LTD.  
CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2007 AND 2008**

|   | <b>2007<br/>RMB</b>  | <b>2008<br/>RMB</b>  | <b>2008<br/>US\$</b> |
|---|----------------------|----------------------|----------------------|
| <b>ASSETS</b>                                 |                      |                      |                      |
| Current assets:                               |                      |                      |                      |
| Cash and cash equivalents                     | 1,064,418,278        | 1,069,827,364        | 156,808,701          |
| Restricted cash                               | 6,600,000            | 6,600,000            | 967,387              |
| Short-term investment                         | 141,174,094          | 176,585,908          | 25,882,874           |
| Accounts receivable, net                      | 260,683,770          | 274,302,454          | 40,205,563           |
| Due from related parties                      | 2,138,947            | 3,012,023            | 441,484              |
| Prepayments and other current assets          | 61,350,652           | 92,138,483           | 13,505,091           |
| Deferred tax assets, current                  | 11,275,767           | 8,840,772            | 1,295,826            |
| <b>Total current assets</b>                   | <b>1,547,641,508</b> | <b>1,631,307,004</b> | <b>239,106,926</b>   |
| Long-term deposits                            | 147,092,990          | 145,500,002          | 21,326,494           |
| Land use rights                               | 65,083,814           | 111,510,231          | 16,344,482           |
| Property, equipment and software              | 267,194,788          | 346,117,083          | 50,731,709           |
| Investments                                   | 80,416,250           | 237,943,497          | 34,876,291           |
| Goodwill                                      | 14,595,849           | 63,689,736           | 9,335,249            |
| Intangible assets                             | 2,918,809            | 24,498,763           | 3,590,878            |
| <b>Total assets</b>                           | <b>2,124,944,008</b> | <b>2,560,566,316</b> | <b>375,312,029</b>   |
| <b>LIABILITIES</b>                            |                      |                      |                      |
| Current liabilities:                          |                      |                      |                      |
| Accounts payable                              | 230,904,562          | 138,657,593          | 20,323,576           |
| Due to related parties                        | 249,910              | 249,910              | 36,630               |
| Salary and welfare payable                    | 65,497,142           | 65,590,151           | 9,613,800            |
| Taxes payable                                 | 49,079,149           | 54,745,686           | 8,024,285            |
| Advances from customers                       | 96,672,341           | 187,576,416          | 27,493,795           |
| Accrued liability for customer reward program | 44,659,657           | 58,046,062           | 8,508,034            |
| Dividend payable                              | 119,497,083          |                      |                      |
| Other payables and accruals                   | 65,481,300           | 121,171,707          | 17,760,602           |
| <b>Total current liabilities</b>              | <b>672,041,144</b>   | <b>626,037,525</b>   | <b>91,760,722</b>    |
| <b>Other long-term payables</b>               | <b>1,625,000</b>     | <b>812,500</b>       | <b>119,091</b>       |
| <b>Total liabilities</b>                      | <b>673,666,144</b>   | <b>626,850,025</b>   | <b>91,879,813</b>    |

|   |                      |                      |                    |
|---|----------------------|----------------------|--------------------|
| <b>Minority interests</b>   | 1,158,767            | 2,628,093            | 385,210            |
| <b>Commitments and contingencies (note 16)</b>  |                      |                      |                    |
| <b>Shareholders' equity</b>   |                      |                      |                    |
| Share capital (US\$0.01 par value; 100,000,000 shares authorized, 33,193,693 and 33,468,023 share issued and outstanding as of December 31, 2007 and 2008, respectively.) | 2,742,210            | 2,761,259            | 404,728            |
| Additional paid-in capital  | 791,336,910          | 967,687,772          | 141,837,709        |
| Statutory reserves  | 60,869,845           | 75,948,298           | 11,132,033         |
| Accumulated other comprehensive loss  | (36,420,706)         | (175,929,389)        | (25,786,645)       |
| Retained earnings   | 631,590,838          | 1,060,620,258        | 155,459,181        |
| <b>Total shareholders' equity</b>   | <b>1,450,119,097</b> | <b>1,931,088,198</b> | <b>283,047,006</b> |
| <b>Total liabilities and shareholders' equity</b>   | <b>2,124,944,008</b> | <b>2,560,566,316</b> | <b>375,312,029</b> |

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

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**CTRIP.COM INTERNATIONAL, LTD.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008**

|   | Ordinary shares<br>(US\$0.01 par value) |                     | Additional                |                              | Deferred                           | Other  |                             | Total                         |
|---|---|---------------------|---------------------------|------------------------------|------------------------------------|--|-----------------------------|-------------------------------|
|   | Number<br>of shares                     | Par<br>Value<br>RMB | paid-in<br>capital<br>RMB | Statutory<br>reserves<br>RMB | share-based<br>compensation<br>RMB | cumulative<br>comprehensive<br>income<br>RMB | Retained<br>earnings<br>RMB | shareholders<br>equity<br>RMB |
| Balance as of<br>December 31,<br>2005             | 32,037,609                              | 2,652,142           | 524,928,856               | 41,769,481                   | (465,255)                          | (7,639,603)                                  | 203,469,983                 | 764,715,604                   |
| Exercise of<br>share option                       | 612,144                                 | 48,747              | 48,315,540                |                              |                                    |  |                             | 48,364,287                    |
| Adoption of<br>SFAS<br>No. 123R                   |   |                     | (465,255)                 |                              | 465,255                            |  |                             |                               |
| Share-based<br>compensation                       |   |                     | 54,682,027                |                              |                                    |  |                             | 54,682,027                    |
| Appropriations<br>to statutory<br>reserves        |   |                     |                           | 12,018,430                   |                                    |  | (12,018,430)                |                               |
| Dividends   |   |                     |                           |                              |                                    |  | (72,169,155)                | (72,169,155)                  |
| Foreign<br>currency<br>translation<br>adjustments |   |                     |                           |                              |                                    | (8,459,660)                                  |                             | (8,459,660)                   |
| Net income  |   |                     |                           |                              |                                    |  | 240,563,847                 | 240,563,847                   |
| Balance as of<br>December 31,<br>2006             | 32,649,753                              | 2,700,889           | 627,461,168               | 53,787,911                   |                                    | (16,099,263)                                 | 359,846,245                 | 1,027,696,950                 |
| Exercise of<br>share option                       | 543,940                                 | 41,321              | 76,961,857                |                              |                                    |  |                             | 77,003,178                    |
| Share-based<br>compensation                       |   |                     | 86,913,885                |                              |                                    |  |                             | 86,913,885                    |
| Appropriations<br>to statutory<br>reserves        |   |                     |                           | 7,081,934                    |                                    |  | (7,081,934)                 |                               |
| Dividends   |   |                     |                           |                              |                                    |  | (119,497,083)               | (119,497,083)                 |
| Foreign<br>currency<br>translation<br>adjustments |   |                     |                           |                              |                                    | (20,321,443)                                 |                             | (20,321,443)                  |
| Net income  |   |                     |                           |                              |                                    |  | 398,323,610                 | 398,323,610                   |



|   |            |           |             |            |               |               |               |
|---|------------|-----------|-------------|------------|---------------|---------------|---------------|
| Balance as of<br>December 31,<br>2007             | 33,193,693 | 2,742,210 | 791,336,910 | 60,869,845 | (36,420,706)  | 631,590,838   | 1,450,119,097 |
| Exercise of<br>share option                       | 274,330    | 19,049    | 47,833,387  |            |               |               | 47,852,436    |
| Share-based<br>compensation                       |            |           | 128,517,475 |            |               |               | 128,517,475   |
| Appropriations<br>to statutory<br>reserves        |            |           |             | 15,078,453 |               | (15,078,453)  |               |
| Foreign<br>currency<br>translation<br>adjustments |            |           |             |            | (41,382,067)  |               | (41,382,067)  |
| Unrealized<br>securities<br>holding losses        |            |           |             |            | (98,126,616)  |               | (98,126,616)  |
| Net income  |            |           |             |            |               | 444,107,873   | 444,107,873   |
| Balance as of<br>December 31,<br>2008             | 33,468,023 | 2,761,259 | 967,687,772 | 75,948,298 | (175,929,389) | 1,060,620,258 | 1,931,088,198 |

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

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**CTRIP.COM INTERNATIONAL, LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008**

|   | <b>2006<br/>RMB</b> | <b>2007<br/>RMB</b> | <b>2008<br/>RMB</b> | <b>2008<br/>US\$</b> |
|---|---------------------|---------------------|---------------------|----------------------|
| <b>Cash flows from operating activities:</b>                                  |                     |                     |                     |                      |
| Net income  | 240,563,847         | 398,323,610         | 444,107,873         | 65,094,595           |
| Adjustments to reconcile net income to cash provided by operating activities: |                     |                     |                     |                      |
| Foreign exchange gain not related to operating expense                        |                     |                     | (16,773,145)        | (2,458,504)          |
| Share-based compensation  | 54,682,027          | 86,913,885          | 128,517,475         | 18,837,298           |
| Provision for doubtful accounts   | 141,462             | 3,643,214           | 126,608             | 18,557               |
| Depreciation of property, equipment and software                              | 12,254,080          | 24,773,735          | 35,574,685          | 5,214,318            |
| Amortization of intangible assets and land use rights                         | 1,960,182           | 1,505,050           | 2,625,968           | 384,898              |
| Minority interests  | 221,374             | (4,013)             | 230,291             | 33,755               |
| Deferred income tax (benefit) provision                                       | (780,980)           | (8,359,616)         | 2,802,900           | 410,832              |
| Loss from disposal of property, equipment and software                        | 680,494             | 1,164,610           | 369,589             | 54,172               |
| Changes in current assets and liabilities:                                    |                     |                     |                     |                      |
| Increase in accounts receivable   | (77,556,256)        | (137,176,380)       | (9,784,687)         | (1,434,179)          |
| Increase in due from related parties  | (288,751)           | (1,199,947)         | (873,076)           | (127,970)            |
| Increase in prepayments and other current assets                              | (14,526,301)        | (18,098,226)        | (18,836,059)        | (2,760,873)          |
| (Increase) Decrease in long-term deposits                                     | (25,890,183)        | (66,918,006)        | 1,592,988           | 233,490              |
| Increase in accounts payable  | 79,054,806          | 79,496,364          | (92,578,544)        | (13,569,592)         |
| Decrease in due to related parties  | (683,344)           | (157,218)           |                     |                      |
| Increase (Decrease) in salary and welfare payable                             | 11,434,209          | 32,719,032          | (2,585,217)         | (378,925)            |
| Increase in taxes payable   | 18,863,360          | 14,165,757          | 4,739,538           | 694,692              |
| Increase in advances from customers   | 10,861,282          | 58,493,475          | 83,892,010          | 12,296,374           |
| Increase in accrued liability for customer reward program                     | 9,790,519           | 15,092,945          | 13,386,405          | 1,962,097            |
| Increase in other payables and accruals                                       | 27,110,163          | 1,202,469           | 14,343,270          | 2,102,348            |
| Net cash provided by operating activities                                     | 347,891,990         | 485,580,740         | 590,878,872         | 86,607,383           |
| <b>Cash flows from investing activities:</b>                                  |                     |                     |                     |                      |
| Purchase of property, equipment and software                                  | (96,572,815)        | (126,846,348)       | (115,372,416)       | (16,910,578)         |
| Purchase of land use right  | (26,839,219)        |                     | (48,912,729)        | (7,169,326)          |
| Cash paid for new investments and acquisition                                 | (81,166,250)        | (142,736,594)       | (333,441,792)       | (48,873,843)         |
| Purchase of intangible assets   | (2,395,071)         |                     | (1,000,000)         | (146,574)            |

|   |               |               |               |              |
|---|---------------|---------------|---------------|--------------|
| Net cash used in investing activities                                       | (206,973,355) | (269,582,942) | (498,726,937) | (73,100,321) |
| <b>Cash flows from financing activities:</b>                                |               |               |               |              |
| Proceeds from exercise of share option                                      | 40,143,700    | 88,045,825    | 40,178,626    | 5,889,135    |
| Cash received from minority investors                                       |               | 490,000       |               |              |
| Dividends paid  | (67,273,747)  | (72,169,155)  | (112,266,834) | (16,455,380) |
| Net cash (used in) provided by financing activities                         | (27,130,047)  | 16,366,670    | (72,088,208)  | (10,566,245) |
| Effect of foreign exchange rate changes on cash and cash equivalents        | (4,457,882)   | (12,338,794)  | (14,654,641)  | (2,147,987)  |
| Net increase in cash and cash equivalents                                   | 109,330,706   | 220,025,674   | 5,409,086     | 792,830      |
| Cash and cash equivalents, beginning of year                                | 735,061,898   | 844,392,604   | 1,064,418,278 | 156,015,871  |
| Cash and cash equivalents, end of year                                      | 844,392,604   | 1,064,418,278 | 1,069,827,364 | 156,808,701  |
| <b>Supplemental disclosure of cash flow information</b>                     |               |               |               |              |
| Cash paid during the year for income taxes                                  | 33,822,731    | 52,918,146    | 90,079,204    | 13,203,255   |
| <b>Supplemental schedule of non-cash investing and financing activities</b> |               |               |               |              |
| Accruals related to purchase of property, equipment and software            | (17,470,657)  | (26,301,297)  | (23,785,033)  | (3,486,264)  |
| Liabilities incurred for acquisitions                                       |               |               | (42,600,000)  | (6,244,045)  |

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

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**CTRIP.COM INTERNATIONAL, LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts expressed in RMB unless otherwise stated)

**1. ORGANIZATION AND NATURE OF OPERATIONS**

The accompanying consolidated financial statements include the financial statements of Ctrip.com International, Ltd. (the Company), its subsidiaries and certain variable interest entities (VIE or VIEs). The Company, its subsidiaries and the consolidated VIEs are collectively referred to as the Group.

The Group is principally engaged in the provision of travel related services including hotel reservation, air-ticketing, packaged-tour services, as well as, to a much lesser extent, Internet-related advertising and other related services.

**2. PRINCIPAL ACCOUNTING POLICIES*****Basis of presentation***

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP).

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses during the reporting periods. Actual results could materially differ from those estimates.

***Consolidation***

The consolidated financial statements include the financial statements of the Company, its subsidiaries and certain VIEs. All significant transactions and balances between the Company, its subsidiaries and certain VIEs have been eliminated upon consolidation.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to appoint or remove the majority of the members of the board of directors; to cast a majority of votes at the meeting of the board of directors or to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

The Company adopts Financial Accounting Standards Board (FASB) Interpretation No. 46 - *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*, as amended, (FIN 46R). FIN 46R requires certain VIEs to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Accordingly, the financial statements of the following VIEs are consolidated into the Company's financial statements since July 1, 2003 or their respective date of establishment/acquisition, whichever is later:

| Name of VIE  | Date of establishment/acquisition |
|--|-----------------------------------|
| Beijing Ctrip International Travel Agency Co., Ltd. (Beijing Ctrip)  | Acquired on January 15, 2002      |
| Shanghai Ctrip Commerce Co., Ltd. (Shanghai Ctrip Commerce)  | Established on July 18, 2000      |
| Shanghai Huacheng Southwest Travel Agency Co., Ltd. (Shanghai Huacheng)  | Established on March 13, 2001     |
| Guangzhou Ctrip International Travel Agency Co., Ltd. (Guangzhou Ctrip)  | Established on April 28, 2003     |
| Shanghai Ctrip International Travel Agency Co., Ltd. (Shanghai Ctrip formerly Shanghai Ctrip Charming International Travel Agency Co., Ltd.) | Acquired on September 23, 2003    |
| Shenzhen Ctrip Travel Agency Co., Ltd. (Shenzhen Ctrip)  | Established on April 13, 2004     |
| Nantong Tongcheng Information Technology Co., Ltd. (Nantong Tongcheng)   | Established on April 16, 2007     |



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The Company has voting control over the above VIEs based on the irrevocable powers of attorney and other related agreements between the Company and the principal shareholders of the VIEs, which consist of four senior officers and a family member of a senior officer of the Company. Such officers and a family member of a senior officer collectively own a 100% equity interest in all of the VIEs except for Shanghai Huacheng and Shanghai Ctrip which are 1.67% and 1.8% owned by third parties, respectively.

***Variable interest entities***

As of December 31, 2008, the Company conducts a part of its operations through a series of agreements with certain VIEs as stated in above. These VIEs are used solely to facilitate the Group's participation in Internet content provision, advertising business, travel agency and air-ticketing services in the PRC where foreign ownership is restricted. Shanghai Ctrip Commerce is a domestic company incorporated in Shanghai, the PRC. Shanghai Ctrip Commerce holds a value-added telecommunications business license and is primarily engaged in the provision of advertising business on the Internet website. Two senior officers of the Company collectively hold 100% of the equity interest in Shanghai Ctrip Commerce. The registered capital of Shanghai Ctrip Commerce as of December 31, 2008 was RMB10,000,000.

Shanghai Huacheng is a domestic company incorporated in Shanghai, the PRC. Shanghai Huacheng holds a domestic travel agency license and an air transport sales agency license and mainly provides domestic tour services and air-ticketing services. Shanghai Ctrip Commerce and a senior officer of the Company collectively hold 98.33% of the equity interest in Shanghai Huacheng. The registered capital of Shanghai Huacheng as of December 31, 2008 was RMB3,000,000. In March 2009, the registered capital of Shanghai Huacheng increased to RMB70,000,000.

Beijing Ctrip is a domestic company incorporated in Beijing, the PRC. Beijing Ctrip holds an air transport sales agency license, domestic and cross-border travel agency license and is mainly engaged in the provision of air-ticketing services and packaged tour services. A senior officer of the Company and Shanghai Ctrip Commerce collectively hold 100% of the equity interest in Beijing Ctrip. The registered capital of Beijing Ctrip as of December 31, 2008 was RMB4,500,000. In March 2009, the registered capital of Beijing Ctrip increased to RMB40,000,000.

Guangzhou Ctrip is a domestic company incorporated in Guangzhou, the PRC. Guangzhou Ctrip holds air transport sales agency license, domestic and cross-border travel agency license and is mainly engaged in the provision of air-ticketing services and packaged tour services. Two senior officers of the Company collectively hold 100% of the equity interest in Guangzhou Ctrip. The registered capital of Guangzhou Ctrip as of December 31, 2008 was RMB3,000,000.

Shanghai Ctrip is a domestic company incorporated in Shanghai, the PRC. Shanghai Ctrip holds domestic and cross-border travel agency licenses, air transport sales agency license and mainly provides domestic and cross-border tour services. Two senior officers of the Company collectively control 98.2 % of the equity interest in Shanghai Ctrip. The registered capital of Shanghai Ctrip as of December 31, 2008 was RMB5,000,000.

Shenzhen Ctrip is a domestic company incorporated in Shenzhen, the PRC. Shenzhen Ctrip holds air transport sales agency license and domestic travel agency license and is engaged in the provision of air-ticketing service. Two senior officers of the Company collectively hold 100% of the equity interest in Shenzhen Ctrip. The registered capital of Shenzhen Ctrip as of December 31, 2008 was RMB2,500,000.

Nantong Tongcheng is a domestic company incorporated in Nantong, the PRC. Nantong Tongcheng was established in April 2007. Nantong Tongcheng holds a value-added telecommunications business license. A family member of senior officer holds 100% of the equity interest in Nantong Tongcheng. The registered capital of Nantong Tongcheng as of December 31, 2008 was RMB10,000,000.

The capital injected by senior officers or senior officer's family member are funded by the Company and are recorded as long-term business loans to related parties. The Company does not have any ownership interest in these VIEs. As of December 31, 2008, the Company has various agreements with its consolidated VIEs, including loan agreements, exclusive technical consulting and services agreements, share pledge agreements, exclusive option agreements and other operating agreements.

Details of certain key agreements with the VIEs are as follows:

***Powers of Attorney:*** The equity owners of the VIEs irrevocably appointed the Company's officers to vote on their behalf on all matters they are entitled to vote on, including matters relating to the transfer of any or all of their

respective equity interests in VIEs and the appointment of the chief officer of the VIEs.

***Share Pledge Agreements:*** The equity owners pledge their respective equity interests in the VIEs as a guarantee for the payment by the VIEs of technical and consulting services fees under the exclusive technical consulting and services agreements.

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***Exclusive Technical Consulting and Services Agreements:*** The Company provides the VIEs with technical consulting and related services and information services. The Company is the exclusive provider of these services. The initial term of these agreements is ten years. In consideration for those services, the VIEs agree to pay the Company service fees. The service fees are eliminated upon consolidation.

***Business Loan Agreement:*** Loans were granted to certain directors and officers with the sole and exclusive purpose of providing funds necessary for the capitalization and acquisition of the VIEs. As soon as the Chinese government lifts its substantial restrictions on foreign ownership of the air-ticketing, travel agency, advertising, or Internet content provision business in the PRC, as applicable, the Company will exercise its exclusive option to purchase all outstanding equity interest of the VIEs and the Business Loan Agreements will be cancelled.

### ***Foreign currencies***

The Company's reporting currency is the Renminbi ( RMB ). The Company, and its subsidiaries and VIEs, with an exception of the subsidiaries Ctrip.com (Hong Kong) Limited, C-Travel International Limited ( C-Travel ) and Starway Hotels (Hong Kong) Limited ( Starway Hong Kong ), use RMB as their functional currency. The Company's functional currency is the currency of the primary economic environment in which it operates, which is RMB for most of the Company's subsidiaries and VIEs. The Company's subsidiaries Ctrip.com (Hong Kong) Limited and Starway Hong Kong operate primarily using the Hong Kong dollar ( HK\$ ), and C-Travel operates primarily using the United States dollars ( US\$ ), and therefore, the HK\$ and US\$ have been determined to be the functional currency for the subsidiaries, respectively.

Transactions denominated in currencies other than functional currencies are translated at the exchange rates quoted by the People's Bank of China (the PBOC ) or The Hong Kong and Shanghai Banking Corporation Limited (the HSBC ) prevailing at the dates of the transaction for PRC and Hong Kong subsidiaries respectively. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of income. Monetary assets and liabilities denominated in foreign currencies are translated using the applicable exchange rates quoted by the PBOC or HSBC at the balance sheet dates. All such exchange gains and losses are included in the statements of income. The exchange differences for the translation of group companies' balances are included in foreign currency translation adjustments, which is a separate component of shareholders' equity on the consolidated financial statements. Translations of amounts from RMB into US\$ are solely for the convenience of the reader and were calculated at the rate of US\$1.00 = RMB6.8225, on December 31, 2008, representing the noon buying rate in the City of New York for cable transfers of RMB, as certified for customs purposes by the Federal Reserve Bank of New York. No representation is intended to imply that the RMB amounts could have been, or could be, converted, realized or settled into US\$ at that rate on December 31, 2008, or at any other rate.

### ***Stock Split***

On March 31, 2006, the Company announced a change in the ratio of its ADSs to ordinary shares from one ADS representing two ordinary shares to one ADS representing one ordinary share, effective on April 11, 2006. For Ctrip's ADS holders, this ratio change had the same effect as a two-for-one ADS split.

On July 12, 2007, the Company announced a change in the ratio of its ADSs to ordinary shares from one ADS representing one ordinary share to two ADSs representing one ordinary share, effective on July 30, 2007. For Ctrip's ADS holders, this ratio change had the same effect as a two-for-one ADS split.

All shares and per share amount in this consolidated financial statements and related notes have been retroactively adjusted to reflect the change in ratio for all periods presented.

### ***Cash and cash equivalents***

Cash includes currency on hand and deposits held by financial institutions that can be added to or withdrawn without limitation. Cash equivalents represent short-term, highly liquid investments that are readily convertible to known amounts of cash and with original maturities from the date of purchase of generally three months or less. Our cash and cash equivalents represent cash on hand and demand deposits placed with banks or other financial institutions.

### ***Restricted cash***

Restricted cash represents cash that cannot be withdrawn without the permission of a third party. The Group's restricted cash is substantially cash balance on deposit required by one of its business partners.





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Short-term investment represents bank certificates of deposit placed with banks or other financial institutions with original maturities from the date of purchase of more than three months.

***Property, equipment and software***

Property, equipment and software are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the following estimated useful lives, taking into account any estimated residual value:

|                           |   |
|---------------------------|---|
| Building                  | 20-30 years   |
| Leasehold improvements    | Lesser of the term of the lease or the estimated useful lives of the assets |
| Website-related equipment | 5 years   |
| Computer equipment        | 3-5 years   |
| Furniture and fixtures    | 3-5 years   |
| Software                  | 5 years   |

Construction in progress is stated at cost. Construction in progress refers to costs associated with the Nantong customer service center before the buildings are put into service. All direct costs related to the new buildings are capitalized as construction in progress until it is substantially completed and available for use.

***Investments***

The Company applies the Accounting Principles Board ( APB ) No. 18, The Equity Method of Accounting for Investments in Common Stock ( APB No. 18 ) in accounting for our investments. Under APB No. 18, equity method is used for investments in entities in which the company has the ability to exercise significant influence but does not own a majority equity interest or otherwise controls. Cost method is used for investments over which the company does not have the ability to exercise significant influence.

The Company applies Statement of Financial Accounting Standards ( SFAS ) No. 115, Accounting for Certain Debt and Equity Securities. ( SFAS No. 115 ). SFAS No. 115 requires that debt and equity securities be classified into one of three categories and accounted for as follows: (i) debt securities that the Company has the positive intent and the ability to hold to maturity are classified as held to maturity and reported at amortized cost; (ii) debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities with unrealized holding gains and losses included in earnings; (iii) debt and equity securities not classified as held to maturity or as trading securities are classified as available for sale and reported at fair value. Unrealized gains and losses on available for sale securities are excluded from earnings and reported as accumulated other comprehensive income (loss), net of tax.

The Company monitors its investments for other-than-temporary impairment by considering factors including, but not limited to, current economic and market conditions, the operating performance of the companies including current earnings trends and other company-specific information.

***Fair value measurement***

The Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair value measurement ( SFAS No. 157 ) on January 1, 2008. SFAS No.157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The standard outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. Under GAAP, certain assets and liabilities must be measured at fair value, and SFAS No. 157 details the disclosures that are required for items measured at fair value.

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The available-for-sale investments must be measured under SFAS No. 157. The Company does not have any financial liabilities which must be measured at fair value on a recurring basis. We measure our financial assets using inputs from the following three levels of the fair value hierarchy. The three levels are as follows:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets that the management has the ability to access at the measurement date.

Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 includes unobservable inputs that reflect the management's assumptions about the assumptions that market participants would use in pricing the asset. The management develops these inputs based on the best information available, including the own data.

### ***Business combinations***

Statement of Financial Accounting Standards No. 141, *Business Combination* (SFAS No. 141) requires that all business combinations be accounted for under the purchase method. The cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, equity instruments issued, and costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date. The excess of the cost of the acquisition over our interest in the fair value of the identifiable net assets acquired is recorded as goodwill.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of products and forecasted life cycle and forecasted cash flows over that period. Although we believe that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

### ***Acquisitions***

*China Software Hotel Information System Co., Ltd (Software Hotel Information)*

In July 2008, the Company reached agreement to purchase 90% equity of Software Hotel Information, a leading hotel management system provider in China, to support the Group's hotel services and develop and expand its comprehensive travel related business. Total purchase price for this acquisition amounted to RMB80 million, with up to RMB10 million in additional contingent consideration, which is determined by a multiple applied to the averaged net profit for year 2007 and 2008 determined in accordance with PRC accounting regulations. RMB38 million has been paid by the end of 2008, and the remaining amount will be paid in 2009 on quarterly basis. In April 2009, RMB90 million was agreed and determined as the final purchase price of this acquisition.

As the Company obtained effective control over the Board and operation of Software Hotel Information at the end of December 2008, the Company designated December 31, 2008 as the acquisition date. The balance sheet of Software Hotel Information is consolidated in the Group's balance sheet and no income statement is consolidated. Software Hotel Information's results are not material to any periods included in this filing.

**Table of Contents****Purchase Price Allocation**

Under business combination accounting, the total purchase price was allocated to Software Hotel Information's net tangible and identifiable intangible assets based on their estimated fair values as set forth below. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill. The following preliminary purchase price allocation as set out below is based on management preliminary estimates as of December 31, 2008.

|                                      | Fair Value<br><b>RMB</b> |
|--------------------------------------|--------------------------|
| Cash and cash equivalents            | 6,842,192                |
| Accounts receivable                  | 3,605,050                |
| Prepayments and other current assets | 12,678,254               |
| Deferred tax assets                  | 367,905                  |
| <br>Current assets                   | <br>23,493,401           |
| <br>Intangible assets                | <br>20,719,610           |
| Property, equipment and software     | 1,414,912                |
| Investment                           | 1,000,000                |
| <br>Non current assets               | <br>23,134,522           |
| <br>Accounts payable                 | <br>(331,575)            |
| Salary and welfare payable           | (2,678,226)              |
| Taxes payable                        | (921,643)                |
| Advances from customers              | (7,012,065)              |
| Other payables and accruals          | (2,574,457)              |
| <br>Current liabilities              | <br>(13,517,966)         |
| <br>Minority interest                | <br>(1,239,035)          |
| <br>Net assets acquired              | <br>31,870,922           |
| <br>Goodwill                         | <br>48,129,078           |
| <br>Total purchase price             | <br>80,000,000           |

In performing the preliminary purchase price allocation, the Company considered, among other factors, the intention for future use of acquired assets, analyses of historical financial performance and estimates of future performance of

Software Hotel Information's products. The fair value of intangible assets was determined on a reasonable valuation prepared by the Company by using an income approach and estimates and assumptions provided by management. The following table sets forth the components of intangible assets associated with the Software Hotel Information acquisition:

|                        | Fair value<br><b>RMB</b> | Useful<br>lives |
|------------------------|--------------------------|-----------------|
| Technology patent      | 9,240,000                | 5 years         |
| Non-compete agreements | 11,479,610               | 5 years         |
|                        | 20,719,610               |                 |

Technology patent represents a combination of software patents and trade secrets related to the design and development of its software products. The Company determines the amortization period of 5 years based on the estimated useful life of the technology patent.

Non-compete agreements were signed between Software Hotel Information and its key executives and employees. These agreements prohibit the key employees work for any existing or potential competitors for 5 years after they leave Software Hotel Information.

There is only one reporting unit in the Group. The goodwill arose from this acquisition has been allocated to this reporting unit. None of the goodwill acquired is expected to be deductible for income tax purposes.

**Table of Contents*****Goodwill and other intangible assets***

Statement of Financial Accounting Standards No. 141, *Business Combination* ( SFAS No. 141 ) requires that all business combinations be accounted for under the purchase method and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ( SFAS No. 142 ) requires that ratable amortization of goodwill be replaced with tests of the goodwill's impairment performed at least annually and that identifiable intangible assets other than goodwill be amortized over their estimated useful lives.

Separately identifiable intangible assets that have determinable lives continued to be amortized and consisted primarily of a cross-border travel agency license, non-compete agreements and technology patent as of December 31, 2008. As required under SFAS No. 142, the Company amortizes intangible assets on a straight-line basis over their estimated useful lives, which is five to eight years. The estimated life of amortized intangibles is reassessed if circumstances occur that indicate the life has changed. Other intangible assets that have indefinite useful life primarily include a golf membership certificate and a domain name as of December 31, 2008. The Company evaluates indefinite-lived intangible assets each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, the asset is tested for impairment.

The Company reviews goodwill and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable, and also reviews goodwill and intangibles with indefinite lives annually for impairment. No impairment on goodwill and other intangible assets was recognized for the years ended December 31, 2006, 2007 and 2008 in accordance with SFAS No. 142.

***Impairment of long-lived assets***

The Group applies provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which addresses the financial accounting and reporting for the recognition and measurement of impairment losses for long-lived assets. In accordance with these standards, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Group recognizes impairment of long-lived assets in the event that the carrying amount of such assets exceeds the fair value. No impairment of long-lived assets was recognized for the years ended December 31, 2006, 2007, and 2008.

***Financial instruments***

Financial instruments of the Group primarily comprise of cash and cash equivalents, restricted cash, short-term investment, accounts receivable, due from related parties, accounts payable, due to related parties, advances from customers and other payables. As of December 31, 2007 and 2008, their carrying values approximated their fair values.

***Accrued liability for customer reward program***

The Group's customers participate in a reward program, which provides travel awards and other gifts to members based on accumulated membership points that vary depending on the services rendered and fees paid. The estimated incremental costs to provide free travel and other gifts are recognized as sales and marketing expense in the statements of income and accrued for as a current liability as members accumulate points. As members redeem awards or their entitlements expire, the accrued liability is reduced correspondingly. As of December 31, 2007 and 2008, the Group's accrued liability for its customer reward program amounted to RMB44,659,657 and RMB58,046,062, respectively, based on the estimated liabilities under the customer reward program.

***Revenue recognition***

The Group conducts its principal businesses primarily through Ctrip Computer Technology (Shanghai) Co., Ltd. ( Ctrip Computer Technology ), Ctrip Travel Information Technology (Shanghai) Co., Ltd. ( Ctrip Travel Information ), Ctrip Travel Network Technology (Shanghai) Co., Ltd. ( Ctrip Travel Network ). Some of the operations of Ctrip Computer Technology and Ctrip Travel Network are conducted through a series of services and other agreements with the VIEs.

Ctrip Computer Technology, Ctrip Travel Information, Ctrip Travel Network, Ctrip Information Technology, Starway Shanghai and the VIEs are subject to business tax and related surcharges on the services provided in the PRC. In the statements of income, business tax and related surcharges are deducted from revenues to arrive at net revenues.

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**Table of Contents***Hotel reservation services*

The Group receives commissions from travel suppliers for hotel room reservations through the Group's transaction and service platform. Commissions from hotel reservation services rendered are recognized after hotel customers have completed their stay at the applicable hotel and upon confirmation of pending payment of the commissions by the hotel. Contracts with certain travel suppliers contain incentive commissions typically subject to achieving specific performance targets and such incentive commissions are recognized when it is reasonably assured that the Group is entitled to such incentive commissions. The Group generally receives incentive commissions from monthly arrangements with hotels based on the number of hotel room reservations where customers have completed their stay. The Group presents revenues from such transactions on a net basis in the statements of income as the Group, generally, does not assume inventory risks and has no obligations for cancelled hotel reservations.

*Air-ticketing services*

The Group receives commissions from travel suppliers for air-ticketing services through the Group's transaction and service platform under various services agreements. Commissions from air-ticketing services rendered are recognized after air tickets are issued. The Group presents revenues from such transactions on a net basis in the statements of income as the Group, generally, does not assume inventory risks and has no obligations for cancelled airline ticket reservations.

*Packaged-tour*

The Group receives referral fees from travel product providers for packaged-tour products and services through the Group's transaction and service platform. Referral fees are recognized as commissions on a net basis after the packaged-tour service are rendered and collections are reasonably assured.

Shanghai Ctrip, Beijing Ctrip, Guangzhou Ctrip and Shenzhen Ctrip conduct domestic and cross-border travel tour services. Revenues, mainly referral fees, are recognized as commissions on a net basis after the services are rendered. In cases where these entities undertake the majority of the business risks and acts as principal related to the travel tour services provided, revenues are recognized at gross amounts received from customers after the services are rendered.

*Other businesses*

Other businesses comprise primarily of Internet-related advertising services, the sale of insurance, air-ticket delivery services and the sale of travel guidebooks and VIP membership cards.

Shanghai Ctrip Commerce receives advertising revenues, which principally represent the sale of banners or sponsorship on the website from customers. Advertising revenues are recognized ratably over the fixed term of the agreement as services are provided.

Revenues from the sale of travel guidebooks and VIP membership cards are recognized when the products are sold, provided that no significant obligations remained with the Group.

***Allowance for doubtful accounts***

Accounts receivable are recorded at the invoiced amount and do not bear interest. We provide a general provision for doubtful accounts for the outstanding trade receivable balances based on historical experience and information available. Additionally, we make specific bad debt provisions based on (i) our specific assessment of the collectibility of all significant accounts; and (ii) any specific knowledge we have acquired that might indicate that an account is uncollectible. The facts and circumstances of each account may require us to use substantial judgment in assessing its collectibility. The following table summarized the details of the Company's allowance for doubtful accounts:

|                                 | <b>2006<br/>RMB</b> | <b>2007<br/>RMB</b> | <b>2008<br/>RMB</b> |
|---------------------------------|---------------------|---------------------|---------------------|
| Balance at beginning of year    |                     | 8,469               | 3,002,114           |
| Provision for doubtful accounts | 141,462             | 3,643,214           | 126,608             |
| Write-offs                      | (132,993)           | (649,569)           | (3,116,334)         |
| Balance at end of year          | 8,469               | 3,002,114           | 12,388              |



***Cost of revenues***

Cost of revenues consists primarily of payroll compensation of customer service center personnel, telecommunication expenses, credit card service fee, direct cost of principal travel tour services, depreciation, rentals and related expenses incurred by the Group's transaction and service platform which are directly attributable to the rendering of the Group's travel related services and other businesses.

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**Table of Contents*****Product development***

Product development expenses include expenses incurred by the Group to develop the Group's travel supplier networks as well as to maintain, monitor and manage the Group's transaction and service platform. The Group recognizes website and software development costs in accordance with Statement of Position (SOP) No. 98-1

*Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. As such, the Group expenses all costs that are incurred in connection with the planning and implementation phases of development and costs that are associated with repair or maintenance of the existing websites or the development of software and websites content.

***Sales and marketing***

Sales and marketing expenses consist primarily of costs of payroll and related compensation for the Company's sales and marketing personnel, advertising expenses, and other related marketing and promotion expenses. Advertising expenses, amounting to RMB25,230,545, RMB35,658,739 and RMB49,033,162 for the years ended December 31, 2006, 2007 and 2008, respectively, are charged to the statements of income as incurred.

***Share-based compensation***

*Adoption of SFAS No. 123R, Share-Based Payment (SFAS No. 123R)*

Effective January 1, 2006 the Company has adopted SFAS No. 123R, which replaced SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123) and superseded APB No. 25, *Accounting for Stock Issued to Employees* (APB No. 25). The Company adopted SFAS No. 123R using the modified prospective approach and accordingly prior periods have not been restated to reflect the impact of SFAS No. 123R. In accordance with SFAS No. 123R, all grants of stock options are recognized in the financial statements based on their grant date fair values. The valuation provisions of SFAS No. 123R apply to new awards, to awards granted to employees before the adoption of SFAS No. 123R whose related requisite services had not been provided, and to awards which were subsequently modified or cancelled. In March 2005, the SEC issued Staff Accounting Bulletin (SAB) No. 107 (SAB No. 107) relating to SFAS No. 123R. The Company has applied the provisions of SAB No. 107 in its adoption of SFAS No. 123R. Staff Accounting Bulletin No. 110 (SAB No. 110) issued by the U.S. Securities and Exchange Commission (SEC) was effective for the Company beginning in the first quarter of 2008. SAB 110 amends the SEC's views discussed in SAB No. 107 regarding the use of the simplified method in developing estimates of the expected lives of share options in accordance with SFAS No. 123(R). The amendment, in part, allowed the continued use, subject to specific criteria, of the simplified method in estimating the expected lives of share options granted after December 31, 2007. We will continue to use the simplified method until we have the historical data necessary to provide reasonable estimates of expected lives for certain options granted after 2008 in accordance with SAB No. 107, as amended by SAB No. 110.

SFAS No. 123R requires that the deferred share-based compensation on the consolidated balance sheet on the date of adoption be netted against additional paid-in capital. As of January 1, 2006, there was a balance of RMB465,255 of deferred share-based compensation that was netted against additional paid-in capital.

SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Share-based compensation expense was recorded net of estimated forfeitures such that expense was recorded only for those share-based awards that are expected to vest. Under SFAS No. 123R, the Company applied the Black-Scholes valuation model in determining the fair value of options granted. Risk-free interest rates are based on US Treasury yield for the terms consistent with the expected life of award at the time of grant. Expected life is based on historical exercise patterns, for options granted before 2008 which the Company has historical data of and believes are representative of future behavior. For options granted during 2008, the Company used simplified method to estimate its expected life, as there are no historical data for options which follow four year vesting period (all options granted before 2008 had three year vesting period). Expected dividend yield is determined in view of the Company's historical dividend payout rate and future business plan. The Company estimates expected volatility at the date of grant based on historical volatilities. The Company recognizes compensation expense on all share-based awards on a straight-line basis over the requisite service period. Forfeiture rate is estimated based on historical forfeiture patterns and adjusted to reflect future change in circumstances and facts, if any. If actual forfeitures differ from those estimates, we may need to revise those estimates

used in subsequent periods.

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**Table of Contents***Share option plans*

On April 15, 2003, the Company adopted a 2003 share option plan that provides for the issuance of up to 1,187,510 ordinary shares ( 2003 Option Plan ). Under this share option plan, the directors may, at their discretion, grant any employees, officers and directors of the Company and/or its subsidiaries to take up share options to subscribe for shares. These share options are vested over a period of 3 years and can be exercised within 5 years from the date of grant. As of December 31, 2008, 28,500 options were outstanding under the 2003 Option Plan.

On November 5, 2004, the Company's board of directors adopted a 2005 Employee's Stock Option Plan ( 2005 Option Plan ). The 2005 Option Plan was approved by the shareholders of the Company in October 2005. The Company has reserved 3,000,000 ordinary shares for future issuances of options under the 2005 Option Plan. The terms of the 2005 Option Plan are substantially similar to the Company's 2003 Option Plan. As of December 31, 2008, 2,089,389 options were outstanding under the 2005 Option Plan.

On October 17, 2007, the Company adopted a 2007 Share Incentive Plan ( 2007 Incentive Plan ), which was approved by the shareholders of the Company on June 15, 2007. Under the 2007 Incentive Plan, the maximum aggregate number of shares, which may be issued pursuant to all share-based awards (including Incentive Share Options), is one million ordinary shares as of the first business day of 2007, plus an annual increase of one million shares to be added on the first business day of each calendar year beginning in 2008 to 2016. Under the 2007 Incentive Plan, the directors may, at their discretion, grant any employees, officers and directors of the Company and/or its subsidiaries such share-based awards. Shares options granted under 2007 Incentive Plan are vested over a period of 4 years and can be exercised within 5 years from the date of grant. As of December 31, 2008, 980,400 options were outstanding under the 2007 Incentive Plan.

*A summary of option activity under the share option plans*

The following table summarized the Company's share option activity under all the option plans (in US\$, except shares):

|                                  | <b>Number of<br/>Shares</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Life<br/>(Years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|----------------------------------|-----------------------------|--|--|--|
| Outstanding at January 1, 2006   | 2,402,164                   | 17.98  |  |  |
| Granted                          | 220,300                     | 41.03  |  |  |
| Exercised                        | (612,144)                   | 9.98   |  |  |
| Forfeited                        | (50,370)                    | 27.47  |  |  |
| Outstanding at December 31, 2006 | 1,959,950                   | 22.83  |  |  |
| Granted                          | 1,054,900                   | 60.30  |  |  |
| Exercised                        | (543,940)                   | 18.65  |  |  |
| Forfeited                        | (56,161)                    | 43.37  |  |  |
| Outstanding at December 31, 2007 | 2,414,749                   | 39.66  |  |  |
| Granted                          | 1,009,900                   | 106.13   |  |  |
| Exercised                        | (274,330)                   | 25.13  |  |  |
| Forfeited                        | (52,030)                    | 79.73  |  |  |
| Outstanding at December 31, 2008 | 3,098,289                   | 61.94  | 2.90   | 25,470,062                               |

|  |           |       |      |            |
|--|-----------|-------|------|------------|
| Vested and expect to vest at December 31, 2008 | 2,959,274 | 60.84 | 2.87 | 25,414,705 |
| Exercisable at December 31, 2008               | 1,360,608 | 32.19 | 1.94 | 24,778,103 |

The Company's current practice is to issue new shares to satisfy share option exercises.

The expected to vest options are the result of applying the pre-vesting forfeiture rate assumptions of 8% to total unvested options.

The aggregate intrinsic value in the table above represents the total intrinsic value (the aggregate difference between the closing stock price of the Company's closing stock price of US\$47.60 as of December 31, 2008 and the exercise price for in-the-money options) that would have been received by the option holders if all in-the-money options had been exercised on December 31, 2008.

The total intrinsic value of options exercised during the year ended December 31, 2006, 2007 and 2008 were US\$24 million, US\$33 million and US\$19 million, respectively.

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The following table summarized information related to outstanding and exercisable options as of December 31, 2008 (in US\$, except shares):

| Range of Exercise Prices | Outstanding |                  |              | Exercisable |                  |              |
|--------------------------|-------------|------------------|--------------|-------------|------------------|--------------|
|                          | Number of   | Weighted-average | Contractual  | Number of   | Weighted-average | Contractual  |
|                          | shares      | Exercise Price   | Life (Years) | shares      | Exercise Price   | Life (Years) |
| \$10.00-\$16.99          | 28,500      | 12.95            | 0.44         | 28,500      | 12.95            | 0.44         |
| \$17.00-\$22.99          | 456,039     | 19.67            | 1.12         | 448,706     | 19.67            | 1.12         |
| \$23.00-\$34.99          | 533,659     | 26.42            | 1.95         | 516,936     | 26.32            | 1.94         |
| \$35.00-\$44.99          | 118,154     | 43.85            | 2.61         | 69,487      | 43.85            | 2.61         |
| \$45.00-\$58.99          | 882,803     | 58.39            | 3.12         | 264,334     | 58.39            | 3.12         |
| \$59.00-\$77.99          | 98,734      | 77.02            | 3.62         | 32,645      | 77.02            | 3.62         |
| \$78.00-\$89.99          | 71,000      | 89.64            | 4.68         |             |                  |              |
| \$90.00-\$106.99         | 816,400     | 106.66           | 4.02         |             |                  |              |
| \$107.00-\$114.99        | 93,000      | 114.96           | 4.37         |             |                  |              |
|                          | 3,098,289   |                  |              | 1,360,608   |                  |              |

The weighted average fair value of options granted during the years ended December 31, 2006, 2007 and 2008 was US\$12.9369, US\$18.2969, and US\$40.2458 per share, respectively.

As of December 31, 2008, there was US\$36 million of total unrecognized compensation cost, net of estimated forfeitures, related to unvested share options which are expected to be recognized over a weighted average period of 2.4 year. Total unrecognized compensation cost may be adjusted for future changes in estimated forfeitures. For the year ended December 31, 2008, total cash received from the exercise of share options amounted to RMB40,178,626 (approximately US\$6 million).

The Company calculated the estimated fair value of share options on the date of grant using the Black-Scholes pricing model with the following assumptions for the year ended December 31, 2006, 2007 and 2008:

|   | 2006                        |       | 2007                        |       | 2008                        |       |
|---|-----------------------------|-------|-----------------------------|-------|-----------------------------|-------|
| Risk-free interest rate                       | 4.66%                       | 4.93% | 4.49%                       | 4.85% | 2.64%                       | 2.96% |
| Expected life (years)                         | 2.5                         |       | 2.5                         |       | 4                           |       |
| Expected dividend yield                       | 0.89%                       |       | 0.45%                       |       | 0%-0.42%                    |       |
| Volatility                                    | 45%                         | 54%   | 39%                         | 44%   | 44%                         | 46%   |
| Fair value of options at grant date per share | from US\$10.82 to US\$13.50 |       | from US\$17.92 to US\$21.62 |       | from US\$33.57 to US\$42.82 |       |

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received by the Group from the leasing company are charged to the statements of income on a straight-line basis over the lease periods.

**Taxation**

Deferred income taxes are provided using the balance sheet liability method. Under this method, deferred income taxes are recognized for the tax consequences of significant temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The effect on deferred taxes of a change in tax rates is recognized in income in the period enacted. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered unlikely that some

portion of, or all of, the deferred tax assets will not be realized.

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Company s financial statements in accordance with FASB Statement 109, Accounting for Income Taxes , and prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures.

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The Company did not have any adjustment to the opening balance of retained earnings as of January 1, 2007 as a result of the implementation of FIN 48. As of December 31, 2008, the Company did not record any liability for uncertain tax positions. The Company's policy is to recognize, if any, tax related interest as interest expenses and penalties as general and administrative expenses. For the year ended December 31, 2008, the Company did not have any interest and penalties associated with tax positions.

***Other income***

Other income primarily consists of financial subsidies and foreign exchange gains. Financial subsidies from local PRC government authority were recorded as other income in the consolidated statements of income. There are no defined rules and regulations to govern the criteria necessary for companies to enjoy such benefits and the amount of financial subsidy are determined at the discretion of the relevant government authority. Financial subsidies are recognized as other income when received. Components of other income for the year ended December 31, 2006, 2007 and 2008 were as follows:

|                        | <b>2006<br/>RMB</b> | <b>2007<br/>RMB</b> | <b>2008<br/>RMB</b> |
|------------------------|---------------------|---------------------|---------------------|
| Foreign exchange gains | 2,041,201           | 16,746,827          | 30,710,828          |
| Financial subsidies    | 10,700,687          | 21,174,612          | 24,185,723          |
| Others                 | (1,528,087)         | (2,624,216)         | 48,044              |
| <b>Total</b>           | <b>11,213,801</b>   | <b>35,297,223</b>   | <b>54,944,595</b>   |

***Statutory reserves***

The Company's PRC subsidiaries and the VIEs are required to allocate at least 10% of their after-tax profit to the general reserve in accordance with the PRC accounting standards and regulations. The allocation to the general reserve can be stopped if such reserve has reached 50% of the registered capital of each company. Appropriations to the enterprise expansion fund, staff welfare and bonus fund are at the discretion of the board of directors of Ctrip Computer Technology, Ctrip Travel Information, Ctrip Travel Network, Ctrip Information Technology and Starway Shanghai, the subsidiaries of the Company. Appropriations to discretionary surplus reserve are at the discretion of the board of directors of the VIEs. These reserves can only be used for specific purposes and are not transferable to the Company in form of loans, advances, or cash dividends. During the years ended December 31, 2006, 2007 and 2008, appropriations to statutory reserves have been made of RMB12,018,430, RMB7,081,934 and RMB15,078,453, respectively.

***Dividends***

Dividends are recognized when declared.

PRC regulations currently permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. The Company's PRC subsidiaries can only distribute dividends after they have met the PRC requirements for appropriation to statutory reserves. Additionally, as the Company does not have any direct ownership in the VIEs, the VIEs cannot directly distribute dividends to the Company. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. Because substantial part of our revenues are in RMB, any restrictions on currency exchange may limit our ability to use revenue generated in RMB to fund our business activities outside China or to make dividend payments in U.S. dollars.

As a result of the aforementioned PRC regulation and the Company's organizational structure, accumulated profits of the subsidiaries in PRC distributable in the form of dividends to the parent as of December 31, 2006, 2007 and 2008 were RMB552 million, RMB696 million and RMB 885 million, respectively. The Company's PRC subsidiaries and VIEs are able to enter into royalty and trademark license agreements or certain other contractual arrangements at the discretion of the Company without third party consent, for which the compensatory element of the arrangement is excluded from the accumulated profits.



On October 21, 2005, the Company announced that the shareholders have adopted a resolution to approve the Company's proposed distribution of 30% of its net income for 2005 (as determined in accordance with the US GAAP and reported in the audited consolidated financial statements for the year ended December 31, 2005) as dividends to shareholders of record as of June 30, 2006. The Board of Directors had also approved such proposed dividend distribution. The Company accrued RMB67,273,747 dividend payable for the year ended December 31, 2005. On July 14, 2006, the Company distributed the dividend to its shareholders of record as of June 30, 2006, at a dividend rate of RMB2.04 (US\$0.255) per ordinary share.

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On October 17, 2006, the Company announced that the shareholders have adopted a resolution to approve the Company's proposed distribution of 30% of its net income for 2006 (as determined in accordance with the US GAAP and reported in the audited consolidated financial statements of the Company for the year ended December 31, 2006) to the shareholders of the Company as dividends, subject to determination of the record date by the Company's Board of Directors. The Board of Directors had also approved such proposed dividend distribution. The Company accrued dividend payable of RMB72,169,155 for the year ended December 31, 2006. On July 6, 2007, the Company distributed the dividends to its shareholders of record as of June 29, 2007, at a dividend rate of RMB2.11 (US\$0.277), per ordinary share.

On June 15, 2007, the Company announced that the shareholders have adopted a resolution to approve the Company's proposed distribution of 30% of its net income for 2007 (as determined in accordance with the US GAAP and reported in the audited consolidated financial statements of the Company for the year ended December 31, 2007) to the shareholders of the Company as dividends, subject to determination of the record date by the Company's Board of Directors. The Board of Directors had also approved such proposed dividend distribution. The Company accrued dividend payable of RMB119,497,083 for the year ended December 31, 2007. On July 7, 2008, the Company distributed the dividends to its shareholders of record as of June 12, 2008, at a dividend rate of RMB3.38 (US\$0.488), per ordinary share. The translation gain arising between December 2007 and July 2008 (date of payment) amount to RMB7,230,249 is included in foreign exchange gain for the year ended December 31, 2008.

***Earnings per share***

In accordance with SFAS No. 128, *Computation of Earnings Per Share* (SFAS No. 128), basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated by dividing net income attributable to common shareholders as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the year. Dilutive ordinary equivalent shares consist of ordinary shares issuable upon the exercise of outstanding share options (using the treasury stock method).

***Segment reporting***

The Company operates and manages its business as a single segment. In accordance with SFAS No. 131,

*Disclosures about Segment of an Enterprise and Related Information* (SFAS No. 131), the Company's chief operating decision-maker has been identified as the CEO, who reviews operating results to make decisions about allocating resources and assessing performance for the entire company. Since the Company operates in one reportable segment, all financial segment and product information required by SFAS No. 131 can be found in the Consolidated Statements.

The Company primarily generates its revenues from customers in China. Accordingly, no geographical segments are presented.

***Recent accounting pronouncements***

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No.157). This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The statement was effective in the fiscal first quarter of 2008 except for non-financial assets and liabilities recognized or disclosed at fair value on a recurring basis, for which the effective date is for fiscal years beginning after November 15, 2008. The Company adopted SFAS No. 157 in the fiscal first quarter of 2008, the impact of which is discussed in Note 2.

In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No.159), which permits an entity to measure certain financial assets and financial liabilities at fair value. SFAS No. 159 was effective for fiscal year 2008 and the Company adopted it in the fiscal first quarter of 2008. The adoption of SFAS No. 159 did not impact the Company's results of operations, cash flows or financial position.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51* (SFAS No. 160), which clarifies the presentation of a noncontrolling interest in consolidated financial statements, establishes a single method of accounting for changes in a parent's ownership

interest and expands disclosure requirements. SFAS No. 160 will be effective for the Company on January 1, 2009. The Company is currently evaluating the impact of adopting SFAS No. 160 on its financial position, cash flows, and results of operations.

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In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business combinations* ( SFAS No. 141R ), which replaces SFAS 141. SFAS No. 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R will be effective for the Company on January 1, 2009. The Company is currently evaluating the impact of adopting SFAS No. 141R on its financial position, cash flows, and results of operations.

In February 2008, the FASB issued FSP 157-2, which delayed the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of fiscal year 2009. The Company is currently evaluating the impact that FSP 157-2 will have on our financial statements.

In April 2008, the FASB issued FASB Staff Positions ( FSP ) SFAS No. 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP FAS 142-3 ), which amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142,

*Goodwill and Other Intangible Assets*. This guidance for determining the useful life of a recognized intangible asset applies prospectively to intangible assets acquired individually or with a group of other assets in either an asset acquisition or business combination. FSP FAS 142-3 is effective for the Company's financial statements for the year beginning on January 1, 2009. The Company is currently evaluating the impact that FSP FAS 142-3 will have on our financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ( SFAS No. 162 ), which defines the order in which accounting principles that are generally accepted should be followed. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Company is currently evaluating the impact of adopting SFAS No. 162 on its financial position, cash flows, and results of operations.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ( FSP 03-6-1 ), which defines unvested share-based payment awards that contain nonforfeitable rights to dividends as participating securities that should be included in computing earnings per share (EPS) using the two-class method under SFAS No. 128, *Earnings per Share*. FSP 03-6-1 is effective for the Company's financial statements for the year beginning on January 1, 2009. Additionally, all prior-period EPS data shall be adjusted retrospectively. The Company is currently evaluating the impact that FSP 03-6-1 will have on our financial statements.

In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3). FSP 157-3 clarifies how SFAS No. 157 *Fair Value Measurements* (SFAS 157) should be applied when valuing securities in markets that are not active. FSP 157-3 was effective for fiscal year 2008 and the Company adopted it in the fiscal third quarter of 2008. The adoption of FSP 157-3 did not impact the Company's results of operations, cash flows or financial position.

In December 2008, the FASB issued FSP No. FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities* ( FSP FAS 140-4 and FIN 46(R)-8 ), which amends Statement of Financial Accounting Standards (SFAS) No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* a replacement of FASB Statement No. 125 (SFAS 140) to require public entities to provide additional disclosures about transferors' continuing involvements with transferred financial assets and amends FASB Interpretation (FIN) No. 46 (revised December 2003) *Consolidation of Variable Interest Entities* an interpretation of ARB No. 51 (FIN 46R) to require public enterprises, including sponsors that have a variable interest in a VIE, to provide additional disclosures about their involvement with VIEs. FSP FAS 140-4 and FIN 46(R)-8 is effective for the Company's financial statements for the year ended December 31, 2008. The adoption of FSP FAS 140-4 and FIN 46(R)-8 did not impact the Company's results of operations, cash flows or financial position.

On January 12, 2009, the FASB issued FASB Staff Position (FSP) No. Emerging Issues Task Force (EITF) 99-20-1, Amendments to the Impairment and Interest Income Measurement Guidance of EITF Issue No. 99-20 (FSP EITF 99-20-1). FSP EITF 99-20-1 changed the guidance for the determination of whether an impairment of certain non-investment grade, beneficial interests in securitized financial assets is considered other-than-temporary. FSP EITF 99-20-1 is effective for the Company's financial statements for the year ended December 31, 2008. The adoption of FSP EITF 99-20-1 did not impact the Company's results of operations, cash flows or financial position.

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On April 9, 2009, the FASB issued FSP No. 115-2 and FSP 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, which amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The Company is currently evaluating the impact of adopting FSP No. 115-2 and FSP No. 124-2 on its financial position, cash flows, and results of operations.

On April 13, 2009, the SEC issued Staff Accounting Bulletin No. 111 on Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities (SAB 111), which maintains the staff's previous views related to equity securities. It also amends Topic 5.M. to exclude debt securities from its scope. The Company is currently evaluating the impact of adopting SAB No. 111 on its financial position, cash flows, and results of operations.

***Certain risks and concentration***

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, short-term investment, accounts receivable, amounts due from related parties, prepayments and other current assets. As of December 31, 2006, 2007 and 2008, substantially all of the Company's cash and cash equivalents, restricted cash and short-term investment were held in major financial institutions located in the PRC and in Hong Kong, which management considers to be of high credit quality. Accounts receivable are generally unsecured and denominated in RMB, and are derived from revenues earned from operations arising primarily in the PRC.

No individual customer accounted for more than 10% of net revenues for the years ended December 31, 2006, 2007 and 2008. No individual customer accounted for more than 10% of accounts receivable as of December 31, 2007 and 2008.

**3. PREPAYMENTS AND OTHER CURRENT ASSETS**

Components of prepayments and other current assets as of December 31, 2007 and 2008 were as follows:

|  | <b>2007<br/>RMB</b> | <b>2008<br/>RMB</b> |
|--|---------------------|---------------------|
| Prepayments and deposits to vendors    | 46,016,315          | 61,562,698          |
| Loans to minor shareholders            |                     | 9,448,965           |
| Receivables from financial institution | 9,368,713           | 8,628,947           |
| Interest receivable                    | 2,722,534           | 6,831,181           |
| Employee advances                      | 1,306,161           | 1,104,596           |
| Others                                 | 1,936,929           | 4,562,096           |
| Total                                  | 61,350,652          | 92,138,483          |

**4. LONG-TERM DEPOSITS**

The Group's subsidiaries and VIEs are required to pay certain amounts of deposit to airline companies to obtain blank air tickets for sales to customers. The subsidiaries and VIEs are also required to pay deposit to local travel bureau as pledge for insurance of traveler's safety.

Components of long-term deposit as of December 31, 2007 and 2008 were as follows:

|                                    | <b>2007<br/>RMB</b> | <b>2008<br/>RMB</b> |
|------------------------------------|---------------------|---------------------|
| Deposits paid to airline suppliers | 136,681,643         | 130,948,830         |
| Deposit paid to travel bureau      | 4,800,000           | 7,430,000           |
| Others                             | 5,611,347           | 7,121,172           |
| Total                              | 147,092,990         | 145,500,002         |

## **5. LAND USE RIGHTS**

Land use rights are related to the payment to acquire two land use rights, one of total cost RMB68,269,734 for approximately 17,000 square meters of land in Shanghai, on which the Group has built an information and technology center, the other of total cost RMB48,912,729 for approximately 19,500 square meters of land in Nantong, on which the Group is current building its Nantong customer service center. According to land use right policy in the PRC, the Company has a 50-year use right over the land in Shanghai and 40-year use right over the land in Nantong, which is used as the basis for amortization. Amortization expense for the years ended December 31, 2006, 2007 and 2008 was RMB1,820,526, RMB1,365,394 and RMB2,486,312, respectively. As of December 31, 2007 and 2008, the net book value was RMB65,083,814 and RMB111,510,231, respectively.

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**Table of Contents****6. PROPERTY, EQUIPMENT AND SOFTWARE**

Property, equipment and software and its related accumulated depreciation and amortization as of December 31, 2007 and 2008 were as follows:

|   | <b>2007</b>  | <b>2008</b>  |
|---|--------------|--------------|
|   | <b>RMB</b>   | <b>RMB</b>   |
| Building  | 147,832,241  | 147,248,314  |
| Computer equipment                              | 102,528,527  | 121,413,515  |
| Website-related equipment                       | 23,649,926   | 46,018,225   |
| Furniture and fixtures                          | 26,934,863   | 29,886,368   |
| Software  | 10,739,845   | 15,511,066   |
| Leasehold improvements                          | 6,971,075    | 7,733,543    |
| Construction in progress                        | 471,000      | 66,605,760   |
| Less: accumulated depreciation and amortization | (51,932,689) | (88,299,708) |
| Total net book value                            | 267,194,788  | 346,117,083  |

In 2007, the Company completed the construction of an information and technology center in Shanghai. This new building now serves as our headquarters, 24-hour customer service and call center, production development center and administrative and support facilities. All direct costs of the new information and technology center in Shanghai were originally capitalized as construction in progress, and were reclassified to property and equipment, when the building was completed and available for use.

In 2008, the Company started to build its second customer service center in Nantong, all direct cost related to the customer service center has been recorded in construction in progress.

Depreciation expense for the years ended December 31, 2006, 2007 and 2008 was approximately RMB12,254,080, RMB24,773,735 and RMB35,574,685, respectively.

**7. INVESTMENTS**

ezTravel Co., Ltd. ( ezTravel )

On March 12, 2006, our wholly-owned subsidiary C-Travel, a Cayman Island company, made a minority investment in ezTravel, an online travel service provider in Taiwan that offers packaged-tours as well as hotel and airline tickets reservation services. The Company accounted for the investment in ezTravel using the cost method of accounting as the Company could not exercise significant influence over ezTravel. Total amount paid for this acquisition was approximately US\$10 million, equivalent to approximately RMB80 million.

In 2007, shares of ezTravel were made available to public on Xyn Gui, the Taiwanese national stock exchange for pre-IPO companies. The Company applied SFAS 115 and the investment in ezTravel was classified as available for sale and stated at fair value. In the middle of August 2008, ezTravel was delisted from Xyn Gui and became a private company.

The Company used the closing price of ezTravel as of delisted date to determine the fair value of ezTravel, at which time the company reverted to cost method of accounting for ezTravel in accordance with APB No.18. The gross carrying value of our cost method investment in ezTravel is RMB80,416,250 as of December 31, 2008 and 2007. The foreign currency translation adjustment for ezTravel is RMB(11,519,877) as of December 31, 2008. There is a RMB17,243,654 unrealised securities holding loss recorded within other comprehensive income during the time this investment was accounted for under FAS 115, resulting in a net investment balance of RMB51,652,719 recorded under the cost method at December 31, 2008.

Home Inns & Hotels Management Inc. ( Home Inns )

During the year ended December 31, 2008, the Group made a minority investment in Home Inns, a company listed in Nasdaq, at average unit cost of approximately US\$12. The total cost of this investment was approximately US\$39 million, equivalent to approximately RMB266 million, which accounted for approximately 9% of its total outstanding shares.



The Company applies SFAS 115 to account for the investment in Home Inns as available for sale securities and used closing price of Home Inns as of December 31, 2008 to determine the fair value of investment.

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The carrying amount and unrealized securities holding loss for investment as of December 31, 2007 and 2008 were as follows:

|                                       | <b>2007<br/>RMB</b> | <b>2008<br/>RMB</b> |
|---------------------------------------|---------------------|---------------------|
| Cost:                                 |                     |                     |
| Home Inns                             |                     | 265,655,797         |
| ezTravel                              | 80,416,250          | 80,416,250          |
| Treasury bonds                        |                     | 1,000,000           |
| Total                                 | 80,416,250          | 347,072,047         |
| Foreign currency translation:         |                     |                     |
| Home Inns                             |                     | 517,943             |
| ezTravel                              |                     | (11,519,877)        |
| Treasury bonds                        |                     |                     |
| Total                                 |                     | (11,001,934)        |
| Unrealized securities holding losses: |                     |                     |
| Home Inns                             |                     | (80,882,962)        |
| ezTravel                              |                     | (17,243,654)        |
| Treasury bonds                        |                     |                     |
| Total                                 |                     | (98,126,616)        |
| Total net book value                  | 80,416,250          | 237,943,497         |

The Company has assessed the decline in fair value of both investments and determined such decline to be temporary, as a result, no impairments have been recorded for these investments.

**8. GOODWILL**

The changes in the carrying amount of goodwill for the years ended December 31, 2007 and 2008 were as follows:

|  | <b>2007<br/>RMB</b> | <b>2008<br/>RMB</b> |
|--|---------------------|---------------------|
| Balance at beginning of year                       | 14,595,849          | 14,595,849          |
| Acquisition of Software Hotel Information          |                     | 48,129,078          |
| Acquisition of Sanya Ctrip Travel Agency Co., Ltd. |                     | 964,809             |
| Balance at ending of year                          | 14,595,849          | 63,689,736          |

In July 2008, the Company purchased 100% equity of Sanya Ctrip Travel Agency Co., Ltd., a travel agent established in Sanya. Total purchase price for this acquisition amounted to RMB1.5 million, of which RMB900,000 was paid in September 2008, RMB600,000 were recorded as liabilities and will be paid by the end of year 2009. Goodwill of RMB964,809 was recognized from this acquisition.

In December 2008, the Company purchased 90% equity of Software Hotel Information at preliminary purchase price of RMB80 million. Goodwill of RMB48 million was recognized from this acquisition.

Both goodwill arose from the business combination completed in year 2008 has been allocated to the single reporting unit of the Group. Goodwill represents the synergy effects of the business combination.

Goodwill is not amortized but is reviewed annually for impairment according to SFAS No. 142. The Company performed goodwill impairment tests in year 2007 and 2008, and the results of these tests indicated that the Company's goodwill assets were not impaired.

**Table of Contents****9. INTANGIBLE ASSETS**

Intangible assets as of December 31, 2007 and 2008 were as follows:

|                                    | <b>2007<br/>RMB</b> | <b>2008<br/>RMB</b> |
|------------------------------------|---------------------|---------------------|
| Intangible assets                  |                     |                     |
| Non-compete agreements             |                     | 11,479,610          |
| Technology patent                  |                     | 9,240,000           |
| Golf membership certificate        | 2,000,000           | 2,000,000           |
| Cross-border travel agency license | 1,117,277           | 1,117,277           |
| Others                             | 395,071             | 1,395,071           |
|                                    | 3,512,348           | 25,231,958          |
| Less: accumulated amortization     |                     |                     |
| Technology patent                  |                     |                     |
| Non-compete agreements             |                     |                     |
| Cross-border travel agency license | (593,539)           | (733,195)           |
| Golf membership certificate        |                     |                     |
| Others                             |                     |                     |
|                                    | (593,539)           | (733,195)           |
| Net book value                     | 2,918,809           | 24,498,763          |

Amortization expense for the years ended December 31, 2006, 2007 and 2008 was approximately RMB139,656, RMB139,656, and RMB139,656, respectively.

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

|      | <b>Amortization<br/>RMB</b> |
|------|-----------------------------|
| 2009 | 4,283,578                   |
| 2010 | 4,283,578                   |
| 2011 | 4,248,692                   |
| 2012 | 4,143,922                   |
| 2013 | 4,143,922                   |
|      | 21,103,692                  |

**10. TAXATION***Cayman Islands*

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

*Hong Kong*

The Company's subsidiaries did not have assessable profits that were earned in or derived from Hong Kong during the years ended December 31, 2006, 2007 and 2008. Accordingly, no Hong Kong profit tax has been provided for.

*China*

The Company's subsidiaries and VIEs registered in the PRC are subject to PRC Enterprise Income Tax ( EIT ) on the taxable income as reported in their respective statutory financial statements adjusted in accordance with relevant PRC income tax laws.

In 2007, the National People's Congress passed new PRC EIT Law and Detailed Implementation Rules of China EIT Law. The EIT laws take effect on January 1, 2008. The EIT laws apply a general enterprise income tax rate of 25% to both foreign-invested enterprises and domestic enterprises. Preferential tax treatments will continue to be granted to enterprises, which conduct business in certain encouraged sectors and to enterprises otherwise classified as a high and new technology enterprise. In December 2008, the Company's subsidiaries, Ctrip Computer Technology, Ctrip Travel Information and Ctrip Travel Network obtained approval for the High New Tech Enterprises status. The application tax rate for High New Tech Enterprise is 15%, which effective retroactively as of January 1, 2008.

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Shenzhen Ctrip was entitled to a transitional preferential tax rate of 18% as it is registered in the city of Shenzhen in China in 2008. The transitional preferential income tax rate for next four years is 20%, 22%, 24% and 25%, respectively.

In 2008, in accordance with EIT Law, the applicable EIT rates are 25%, except for aforementioned three subsidiaries qualified for High New Tech Enterprises and Shenzhen Ctrip.

Pursuant to the EIT Law and Circular Caishui [2008]No.1 issued by Ministry of Finance of China on February 22, 2008, the dividends declared out of the profits earned after January 1, 2008 by a foreign invested enterprise( FIE ) to its immediate holding company outside China would be subject to withholding taxes. A favorable withholding tax rate will be applied if there is a tax treaty arrangement between Mainland China and the jurisdiction of the foreign holding company. The Company's subsidiaries, Ctrip Computer Technology, Ctrip Travel Information, Ctrip Travel Network and Ctrip Information Technology are considered FIEs and are directly held by our subsidiary in Hong Kong.

According to tax treaty between Mainland and Hong Kong Special Administrative Region, dividends payable by an FIE in China to the company in Hong Kong will be subject to 5% withholding tax. All of these foreign invested enterprises will be subject to the withholding tax for their earnings generated after January 1, 2008. The Company expects to reinvest undistributed earnings generated after January 1, 2008 in the onshore PRC entities. As a result, no deferred tax liability was provided on the outside basis difference from undistributed earnings after January 1, 2008.

**Composition of income tax expense**

The current and deferred portion of income tax expense included in the consolidated statements of income for the years ended December 31, 2006, 2007 and 2008 were as follows:

|   | <b>2006<br/>RMB</b> | <b>2007<br/>RMB</b> | <b>2008<br/>RMB</b> |
|---|---------------------|---------------------|---------------------|
| Current income tax expense                                | (42,058,000)        | (66,365,599)        | (100,478,409)       |
| Adjustments to deferred asset for enacted EIT rate change |                     | 6,312,229           | (4,510,307)         |
| Deferred tax benefit (expense)                            | 780,980             | 2,047,387           | 2,075,312           |
| Income tax expense  | (41,277,020)        | (58,005,983)        | (102,913,404)       |

***Reconciliation of the differences between statutory tax rate and the effective tax rate***

A reconciliation between the statutory EIT rate and the Group's effective tax rate for the years ended December 31, 2006, 2007 and 2008 was as follows:

|  | <b>2006</b> | <b>2007</b> | <b>2008</b> |
|--|-------------|-------------|-------------|
| Statutory EIT rate   | 33%         | 33%         | 25%         |
| Tax differential from statutory rate applicable to Subsidiaries in the PRC | (25)%       | (25)%       | (11)%       |
| Enacted EIT rate change  |             | (1)%        | 1%          |
| Non-deductible expenses incurred   | 7%          | 6%          | 4%          |
| Effective EIT rate   | 15%         | 13%         | 19%         |

***Significant components of deferred tax assets***

|   | <b>2007<br/>RMB</b> | <b>2008<br/>RMB</b> |
|---|---------------------|---------------------|
| Accrued liability for customer reward program and e-coupons | 11,925,767          | 9,230,772           |
| Deferred tax liabilities                                    | (650,000)           | (390,000)           |

|                           |            |           |
|---------------------------|------------|-----------|
| Total deferred tax assets | 11,275,767 | 8,840,772 |
|---------------------------|------------|-----------|

We did not record any valuation allowances to reduce our deferred tax assets, as we believed that our deferred tax asset amounts were more likely than not to be realized based on our estimate of future taxable income.

#### **11. EMPLOYEE BENEFITS**

The full-time employees of Ctrip Computer Technology, Ctrip Travel Information, Ctrip Travel Network, Ctrip Information Technology and the VIEs, which were established in the PRC, are entitled to staff welfare benefits including medical care, welfare subsidies, unemployment insurance and pension benefits. Ctrip Computer Technology, Ctrip Travel Information, Ctrip Travel Network, Ctrip Information Technology and the VIEs are required to accrue for these benefits based on certain percentages of the employees' salaries in accordance with the relevant PRC regulations and make contributions to the state-sponsored pension and medical plans out of the amounts accrued for medical and pension benefits. The total expenses recorded for such employee benefits amounted to RMB41,332,075, RMB67,048,322 and RMB90,029,054 for the year ended December 31, 2006, 2007 and 2008 respectively. The PRC government is responsible for the medical benefits and ultimate pension liability to these employees.

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**Table of Contents****12. RELATED PARTY TRANSACTIONS**

During the years ended December 31, 2006, 2007 and 2008 significant related party transactions were as follows:

|   | <b>2006<br/>RMB</b> | <b>2007<br/>RMB</b> | <b>2008<br/>RMB</b> |
|---|---------------------|---------------------|---------------------|
| Commissions from Home Inns  | 6,272,966           | 8,936,554           | 14,766,676          |
| Commissions from Hanting Hotels Inc. and its affiliates<br>(collectively, Hanting ) | 1,427,512           | 5,569,353           | 7,515,618           |
| Advertising expenses to Focus Media Holding Ltd.                                    | 1,543,900           |                     |                     |
| Marketing expenses to Alibaba-Yahoo! China  | 800,000             |                     |                     |
| Rental expense to a family member of a director                                     | 550,000             | 281,650             |                     |
| Purchase of Shares of Home Inns   |                     |                     | 265,655,797         |
| Printing expenses to Joyu Tourism Operating Group                                   |                     |                     | 2,160,000           |

Our hotel supplier, Home Inns has two directors in common with our company. Another hotel supplier, Hanting, has a director in common with our company and a director who is a family member of one of our officers. Home Inns and Hanting have entered into agreements with us, respectively, to provide hotel rooms for our customers. Commissions from Home Inns and Hanting for the years ended December 31, 2006, 2007 and 2008 are presented as above.

Two of our advertising suppliers, Focus Media Holding Ltd. and Alibaba -Yahoo! China had entered into agreements with us to provide certain advertising services for us. Focus Media Holding Ltd. has a director in common with our company. Alibaba -Yahoo! China is affiliated with a family member of one of our officers as of December 31, 2006 and 2007. Total advertising expenses to Focus Media Holding Ltd. and Alibaba -Yahoo! China for the years ended December 31, 2006, 2007 and 2008 are presented as above.

We lease approximately 1,223 square meters of our office premises in Shanghai from a company controlled by a family member of one of our directors. Rental expenses for the years ended December 31, 2006 and 2007 are presented as above.

Up to December 2008, the Company purchased 3,162,490 ADS of Home Inns at average unit cost of approximately US\$12. The acquisition is approximately 9% of Home Inns total share in aggregate. Total cost is RMB266 million (US\$39 million), while unrealized holding loss was RMB81 million (US\$12 million) which has been recorded in other comprehensive income.

We entered into printing agreements with TripTX Travel Media Group, one of the subsidiaries of Joyu Tourism Operating Group. Joyu Tourism Operating Group has a director in common with our company. Total printing expense to Joyu Tourism Operating Group for the year ended December 31, 2006, 2007 and 2008 are presented as above.

As of December 31, 2007 and 2008, significant balances with related parties were as follows:

|                           | <b>2007<br/>RMB</b> | <b>2008<br/>RMB</b> |
|---------------------------|---------------------|---------------------|
| Due from related parties: |                     |                     |
| Due from Home Inns        | 1,298,362           | 1,503,163           |
| Due from Hanting          | 840,585             | 1,508,860           |
|                           | 2,138,947           | 3,012,023           |

Due to related parties:

|                                 |         |         |
|---------------------------------|---------|---------|
| Due to related parties of a VIE | 249,910 | 249,910 |
|---------------------------------|---------|---------|

The amounts due from and due to related parties as of December 31, 2007 and 2008 primarily resulted from the transactions disclosed above and revenue received and expenses paid on behalf of each other. They are not collateralized, interest-free and have no fixed repayment terms.





**Table of Contents****13. OTHER PAYABLES AND ACCRUALS**

Components of other payables and accruals as of December 31, 2007 and 2008 were as follows:

|   | <b>2007<br/>RMB</b> | <b>2008<br/>RMB</b> |
|---|---------------------|---------------------|
| Payable for acquisition of Information Software Hotel               |                     | 42,000,000          |
| Accrued operating expenses  | 22,423,539          | 37,870,029          |
| Accruals for property and equipment                                 | 26,301,297          | 23,785,033          |
| Deposits received from suppliers and packaged-tour customers        | 4,883,206           | 5,293,102           |
| Due to employees for stock option proceeds received on their behalf | 5,506,208           | 2,261,876           |
| Liability incurred for minority interest in a VIE                   | 1,562,500           | 2,162,500           |
| Others  | 4,804,550           | 7,799,167           |
| <b>Total</b>  | <b>65,481,300</b>   | <b>121,171,707</b>  |

**14. EARNINGS PER SHARE**

Basic earnings per share and diluted earnings per share were calculated in accordance with SFAS No. 128 as follows:

|  | <b>2006<br/>RMB</b> | <b>2007<br/>RMB</b> | <b>2008<br/>RMB</b> |
|--|---------------------|---------------------|---------------------|
| <b>Numerator:</b>  |                     |                     |                     |
| Net income   | 240,563,847         | 398,323,610         | 444,107,873         |
| <b>Denominator:</b>  |                     |                     |                     |
| Denominator for basic earnings per ordinary share weighted average ordinary shares outstanding | 32,342,998          | 32,927,454          | 33,352,845          |
| Dilutive effect of share options   | 925,222             | 1,193,936           | 1,071,704           |
| <br>Denominator for diluted earnings per ordinary share  | <br>33,268,220      | <br>34,121,390      | <br>34,424,549      |
| <br>Basic earnings per ordinary share  | <br>7.44            | <br>12.10           | <br>13.32           |
| <br>Diluted earnings per ordinary share  | <br>7.23            | <br>11.67           | <br>12.90           |
| <br>Basic earnings per ADS   | <br>3.72            | <br>6.05            | <br>6.66            |
| <br>Diluted earnings per ADS   | <br>3.62            | <br>5.84            | <br>6.45            |

**15. COMMITMENTS AND CONTINGENCIES***Operating lease commitments*

The Company has entered into leasing arrangements relating to office premises that are classified as operating leases for the periods from 2009 to 2011. Future minimum lease payments for non-cancelable operating leases are as follows:

|      | <b>Office Premises</b> |
|------|------------------------|
|      | <b>RMB</b>             |
| 2009 | 23,298,273             |
| 2010 | 6,152,779              |
| 2011 | 1,762,016              |
|      | 31,213,068             |

Rental expense amounted to RMB16,813,230, RMB24,771,180 and RMB16,932,038 for the years ended December 31, 2006, 2007 and 2008, respectively. Rental expense is charged to the statements of income when incurred.

*Purchase commitments*

As of December 31, 2008, the Company had outstanding purchase commitments totaling RMB271,861,167, which mainly relates to the construction of Nantong customer service center.

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### *Guarantee*

In connection with our air-ticketing business, the Company, on behalf of its VIEs, is required by the Civil Aviation Administration of China to provide guarantees for tickets obtained from various airlines. As of December 31, 2008, the amount under these guarantee arrangements was approximately RMB617 million. Based on historical experience and information currently available, we do not believe that it is probable that we will be required to pay any amount under these guarantee arrangements. Therefore, we have not recorded any liability beyond what is required in connection with these guarantee arrangements.

### *Contingencies*

The Company is incorporated in Cayman Islands and is considered as a foreign entity under PRC laws. Due to the restrictions on foreign ownership of the air-ticketing, travel agency, advertising and internet content provision businesses, the Company conducts these businesses partly through various VIEs. These VIEs hold the licenses and approvals that are essential for the Company's business operations. In the opinion of the Company's PRC legal counsel, the current ownership structures and the contractual arrangements with these VIEs and their shareholders as well as the operations of these VIEs are in compliance with all existing PRC laws, rules and regulations. However, there may be changes and other developments in PRC laws and regulations. Accordingly, the Company cannot be assured that PRC government authorities will not take a view in the future contrary to the opinion of the Company's PRC legal counsel. If the current ownership structures of the Company and its contractual arrangements with VIEs were found to be in violation of any existing or future PRC laws or regulations, the Company may be required to restructure its ownership structure and operations in China to comply with changing and new Chinese laws and regulations.

## **16. SUBSEQUENT EVENTS**

### *Option modifications*

Our Board of Directors has approved an option modification plan to revise the price of all outstanding unvested options granted by the Company in 2007 and 2008 based on the closing price of the ADR on Nasdaq as of February 10, 2009. Under the modification plan, all affected options would be subject to a new vesting schedule which starts on February 10, 2009, with other terms substantially unchanged.

We expect all eligible option grantees would participate in the modification plan.

We expect to take a modification charge estimated to be approximately US\$15 million over the vesting periods of the modified options. These vesting periods range from three years to four years.

### *Bank credit limit*

In March 2009, the Company has obtained credit limit from one domestic bank with total amount of RMB200 million. The purpose of the credit limit is mainly to supply daily operating cash needs.

### *Signing of definitive agreement for purchase of Home Inns' shares*

On May 7, 2009, the Company entered into a definitive purchase agreement to acquire an additional 7,514,503 shares of Home Inns through a private placement, increasing our ownership to approximately 18.25%.

The transaction has been closed on May 21, 2009. The Company has paid US\$20 million at closing and the remaining US\$30 million is expected to be paid within 30 days of closing.

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**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Document</b>   |
|---------------------------|---|
| 1.1                       | Amended and Restated Memorandum and Articles of Association of Ctrip.com International, Ltd. (incorporated by reference to Exhibit 3.2 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 25, 2003), as amended (amendment incorporated by reference to Exhibit 99.2 to our Report of Foreign Private Issuer on Form 6-K filed with the Commission on October 17, 2006)  |
| 2.1                       | Specimen American Depositary Receipt of Ctrip.com International, Ltd. (incorporated by reference to Exhibit 4.1 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 25, 2003)   |
| 2.2                       | Specimen Stock Certificate of Ctrip.com International, Ltd. (incorporated by reference to Exhibit 4.2 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 25, 2003)   |
| 2.3                       | Rights Agreement dated as of November 23, 2007 between Ctrip.com International, Ltd. and The Bank of New York, as Rights Agent (incorporated by reference to Exhibit 4.1 from our Report of Foreign Private Issuer on Form 6-K filed with the Securities and Exchange Commission on November 23, 2007)  |
| 2.4                       | Deposit Agreement dated as of December 8, 2003, as amended and restated as of August 11, 2006, and as further amended and restated as of December 3, 2007, among Ctrip.com International, Ltd., The Bank of New York as Depositary, and all Owners and Beneficial from time to time of American Depositary Receipts issued thereunder (incorporated by reference to Exhibit 2.4 from our Annual Report on Form 20-F (file no. 001-33853) filed with the Securities and Exchange Commission on April 29, 2008) |
| 4.1                       | Form of Ctrip.com International, Ltd. Stock Option Plans (incorporated by reference to Exhibit 10.1 from our Registration Statement on Form F-1 (file no. 333-110455) and Exhibit 10.23 from our Registration Statement on Form F-2 (file no. 333-121080) filed with the Securities and Exchange Commission on November 13, 2003 and December 8, 2004, respectively)  |
| 4.2                       | Form of Indemnification Agreement with the Registrant's directors and executive officers.(incorporated by reference to Exhibit 10.2 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)   |
| 4.3                       | Translation of Form of Labor Contract for Employees of the Registrant's subsidiaries in China (incorporated by reference to Exhibit 10.3 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)  |
| 4.4                       | Employment Agreement between the Registrant and James Jianzhang Liang (incorporated by reference to Exhibit 10.4 from our Registration Statement on Form F-1 (file no.  |

333-110455) filed with the Securities and Exchange Commission on November 13, 2003)

- 4.5 Employment and Confidentiality Agreement between the Registrant and Jane Jie Sun (incorporated by reference to Exhibit 4.5 from our Annual Report on Form 20-F (file no. 000-50483) filed with the Securities and Exchange Commission on June 26, 2006)
  - 4.6 Employment Agreement, between the Registrant and Min Fan (incorporated by reference to Exhibit 10.6 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)
  - 4.7 Translation of Form of Consulting and Services Agreement between Ctrip Computer Technology (Shanghai) Co., Ltd. and an Affiliated Chinese Entity of the Registrant, as currently in effect (incorporated by reference to Exhibit 10.7 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)
  - 4.8 Translation of Form of Business Loan Agreement between Ctrip.com (Hong Kong) Limited and a Shareholder of an Affiliated Chinese Entity of the Registrant, as currently in effect (incorporated by reference to Exhibit 10.8 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)
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| <b>Exhibit<br/>Number</b> | <b>Document</b>  |
|---------------------------|--|
| 4.9                       | Translation of Form of Exclusive Option Agreement among Ctrip.com (Hong Kong) Limited, an Affiliated Chinese Entity of the Registrant and the Shareholder of the Entity, as currently in effect (incorporated by reference to Exhibit 10.9 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003) |
| 4.10                      | Translation of Form of Share Pledge Agreement among Ctrip Computer Technology (Shanghai) Co., Ltd. and a Shareholder of an Affiliated Chinese Entity of the Registrant, as currently in effect (incorporated by reference to Exhibit 10.10 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003) |
| 4.11                      | Translation of Form of Trademark License Agreement between Ctrip Computer Technology (Shanghai) Co., Ltd. and an Affiliated Chinese Entity of the Registrant, as currently in effect (incorporated by reference to Exhibit 10.11 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)           |
| 4.12                      | Translation of Form of Software License Agreement between Ctrip Computer Technology (Shanghai) Co., Ltd. and an Affiliated Chinese Entity of the Registrant, as currently in effect (incorporated by reference to Exhibit 10.12 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)            |
| 4.13                      | Translation of Form of Operating Agreement between Ctrip Computer Technology (Shanghai) Co., Ltd. and an Affiliated Chinese Entity of the Registrant, as currently in effect (incorporated by reference to Exhibit 10.13 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)                   |
| 4.14                      | Translation of Lease Agreement dated May 1, 2003 between Ctrip Travel Information Technology (Shanghai) Co., Ltd. and Yu Zhong (Shanghai) Consulting Co., Ltd. (incorporated by reference to Exhibit 10.14 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)                                 |
| 4.15                      | Translation of Form of Power of Attorney by a shareholder of an Affiliated Chinese Entity of the Registrant, as currently in effect (incorporated by reference to Exhibit 10.15 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)  |
| 4.16                      | Confidentiality and Non-Competition Agreement, effective as of September 10, 2003, between the Registrant and Qi Ji (incorporated by reference to Exhibit 10.16 from our Registration Statement on Form F-1 (file no. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)  |

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- 4.17 Form of Director Agreement between the Registrant and its director (incorporated by reference to Exhibit 4.20 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on May 11, 2004)
- 4.18 Land Early Development Cost Compensation Agreement dated February 3, 2005 between Shanghai Hong Qiao Lin Kong Economic Development Park Co., Ltd. and Ctrip Travel Information Technology (Shanghai) Co., Ltd. (incorporated by reference to Exhibit 4.18 from our Annual Report on Form 20-F (file no. 000-50483) filed with the Securities and Exchange Commission on June 22, 2005)
- 4.19 Translation of Construction Agreement dated February 13, 2006 between Shanghai No. 1 Construction Co., Ltd. and Ctrip Travel Network Technology (Shanghai) Co., Ltd. (incorporated by reference to Exhibit 4.5 from our Annual Report on Form 20-F (file no. 000-50483) filed with the Securities and Exchange Commission on June 26, 2006)
- 4.20 Translation of State Land Use Right Assignment Contract dated February 25, 2008 between Nantong Land Resource Bureau and Ctrip Information Technology (Nantong) Co., Ltd. (incorporated by reference to Exhibit 4.21 from our Annual Report on Form 20-F (file no. 001-33853) filed with the Securities and Exchange Commission on April 29, 2008)
- 4.21\* Ctrip.com International, Ltd. 2007 Share Incentive Plan, as amended and restated as of November 17, 2008
- 4.22\* Summary of key terms of the form revolving credit facility agreement between each of Ctrip Computer Technology (Shanghai) Co., Ltd., Ctrip Travel Information Technology (Shanghai) Co., Ltd. and Ctrip Travel Network Technology (Shanghai) Co., Ltd. and our consolidated affiliated Chinese entity, Shanghai Huacheng Southwest Travel Agency Co., Ltd., and China Merchants Bank, Shanghai Branch
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**Exhibit  
Number**

**Document**

|       |   |
|-------|---|
| 4.23  | Purchase Agreement dated May 7, 2009 between Ctrip.com International, Ltd. and Home Inns & Hotels Management Inc. (incorporated by reference to Exhibit 99.(B) from our General Statement of Acquisition of Beneficial Ownership on Schedule 13D (file no. 005-82520) filed with the Securities Exchange Commission on May 21, 2009)            |
| 4.24  | Registration Rights Agreement dated May 7, 2009 between Ctrip.com International, Ltd. and Home Inns & Hotels Management Inc. (incorporated by reference to Exhibit 99.(C) from our General Statement of Acquisition of Beneficial Ownership on Schedule 13D (file no. 005-82520) filed with the Securities Exchange Commission on May 21, 2009) |
| 8.1*  | Subsidiaries and Variable Interest Entities of the Registrant   |
| 11.1* | Code of Business Conduct and Ethics of the Registrant, as amended and restated as of March 3, 2009  |
| 12.1* | Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 12.2* | Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 13.1* | Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 13.2* | Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 15.1* | Consent of Maples and Calder  |
| 15.2* | Consent of Commerce & Finance Law Offices   |
| 15.3* | Consent of PricewaterhouseCoopers Zhong Tian CPAs Limited Company   |

\* Filed with this annual report on Form 20-F.