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

Registration No. 333-119606

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 3 to

FORM F-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

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eLong, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

Block B, Xing Ke Plaza

10 Jiuxianqiao Zhonglu

Chaoyang District, Beijing 100016

People s Republic of China

Attn: Justin Tang, Chief Executive Officer

Tel: +86 (10) 5860-2288

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

CT Corporation System,

111 Eighth Avenue,

New York, New York 10011

Tel: (212) 894-8440

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

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

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

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

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

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

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

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

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

Subject To Completion, Dated October 26, 2004

eLong, Inc.

4,602,547 American Depositary Shares

Representing 9,205,094 Ordinary Shares

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

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

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

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

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

Deutsche Bank Securities

WR Hambrecht + Co

Allen & Company LLC

The date of this prospectus is , 2004.

CONVENTIONS THAT APPLY TO THIS PROSPECTUS

Unless otherwise indicated, references in this prospectus to:

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

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

CAGR are to compound annual growth rate;

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

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

RMB are to Renminbi, the legal currency of China;

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

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

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

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

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

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

RMB8.2765 to US$1.00.

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PROSPECTUS SUMMARY

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

Overview

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

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

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

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

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Recent Developments

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

Our Opportunity

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

Our Strengths

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

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

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

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

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

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

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

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

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

Our Strategy

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

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

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

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

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

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

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

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

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

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

Risk of Investment

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

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

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

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

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

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

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

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

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

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

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

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

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Corporate Structure and Information

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

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

Block B, Xingke Plaza Building

10 Jiuxianqiao Zhonglu

Chaoyang District

Beijing 100016, People s Republic of China

Telephone: +86 (10) 5860-2288

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

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The Offering

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

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

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

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SUMMARY CONSOLIDATED FINANCIAL DATA

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

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

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

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

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

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

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

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

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

(3) Each ADS represents two ordinary shares.

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

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

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RISK FACTORS

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

Risks Related to Our Business

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

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

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

respond to competitive market conditions.

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

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

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

changes in general economic conditions in China;

unforeseen disruptive events in the travel and tourism industry;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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- requiring us and our affiliated Chinese entities to restructure our ownership structure or operations; and
- requiring that we discontinue any or all portions of our Internet content provision, air-ticketing, travel agency or advertising businesses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

limited use of credit card and other electronic commerce infrastructure;

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

- inadequate infrastructure such as the limited access to personal computers, local access points and server capacity to facilitate online commerce;
- concerns about security, reliability, cost, ease of deployment, administration and quality of service associated with conducting business over the Internet; and
- the degree to which the PRC government seeks to regulate the dissemination of information over the Internet.

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

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

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

Our business depends on the technology infrastructure of third parties.

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

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

Although private sector Internet service providers currently exist in China, almost all access to the Internet is maintained through a network owned by China Netcom under the regulatory supervision of China s Ministry of Information Industry. In addition, the national networks in China connect to the Internet through a government-controlled international gateway. This international gateway is the only channel through which a domestic Chinese user can connect to the international Internet network. We rely on this infrastructure and China Netcom to provide data communications capacity, primarily through local telecommunications lines. We cannot assure you that this infrastructure will be further developed. In addition, we will have no

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access to alternative networks and services, on a timely basis if at all, in the event of any infrastructure disruption or failure. The Internet infrastructure in China may not support the demands associated with continued growth in Internet usage.

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

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

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

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

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

Currently, a portion of our customer transactions are conducted through our websites. In such transactions, secured transmission of confidential information (such as customers itineraries, hotel and other reservation 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, whether through our actions or inaction, or through third party actions, 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.

We have limited business insurance coverage in China.

Insurance companies in China offer limited business insurance products. As a result, we carry limited business liability or disruption insurance coverage for our operations in China. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources.

We are controlled by a small group of our existing shareholders, whose interests may not be aligned with the interests of other shareholders.

Upon the completion of this offering, our four largest shareholders will beneficially own approximately 59.9% of our outstanding shares, or 59.8% if the underwriters exercise their over-allotment option in full. Accordingly, these shareholders will have a significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. Our significant shareholders may also have the power to prevent or cause a change of control of us. In addition, without the consent of these shareholders, we could be prevented from entering into transactions that could be beneficial to us. The interests of these shareholders may differ from the interests of our other shareholders. Until the earlier of 30 business days after the completion of this offering and IAC s possible exercise of its warrant, our ability to enter into various transactions, including acquisitions, the issuance of securities, and the incurrence of debt, will in most cases require IAC s consent. See Investment by IAC/InterActiveCorp Governance and Other Rights of IAC Current Rights Attributable to the Warrant and Series B Preferred Shares, Description of Share Capital Series B Preferred Shares and Description of Share Capital Rights of Series B Preferred Shares for more details of our ability to enter into various transactions.

In addition, our existing shareholders are parties to an investors agreement under which they have agreed to vote their ordinary shares in the election of directors and other matters in the manner provided in the investors agreement, including for the election of directors designated by IAC, by certain former holders of our Series A preferred shares and by other holders of our ordinary shares. See Management Board Practices for a more detailed description of our election of directors under the investors agreement.

We may potentially be controlled by IAC or its affiliates, who may have strategic interests that differ from those of our other shareholders.

Our corporate governance documents and our investors agreement with IAC and our other shareholders provide IAC with a greater degree of control and influence on the operation of our business and the management of our affairs than is typically available to non-majority shareholders of a publicly-traded company. In addition, if IAC exercises its warrant, it or its affiliates will hold a majority of our voting power and its designees will comprise a majority of our board. Upon completion of this offering, IAC or its affiliates will beneficially own, in the aggregate, approximately 28% of our outstanding shares, as IAC s Series B preferred shares will be automatically converted 31 business days after the completion of this offering into 11,188,570 ordinary shares (subject to certain anti-dilution adjustments, if applicable) if IAC does not exercise its warrant. In the event that IAC exercises its warrant and assuming we do not issue any of our securities prior to the exercise other than in connection with offering, IAC will own approximately 52% of our outstanding ordinary shares on a fully diluted basis, as IAC s Series B preferred shares will be automatically converted 31 business days after the completion of this offering into 11,188,570 high-vote ordinary shares (subject to certain anti-dilution adjustments, if applicable), with each share being entitled to 15 votes, if IAC exercises its warrant. As a result, IAC would control approximately 96% of the voting power of all shares of voting stock.

Consequently, IAC will be able to exercise control over all matters requiring approval by the board of directors or our shareholders, and this power may be expected to continue even if IAC or its affiliates own a minority economic interest in us. In addition, our existing shareholders are parties to an investors agreement under which they have agreed to vote their ordinary shares in the election of directors and other matters in the manner provided in the investors agreement, including for the election of directors designated by IAC. As a result, if IAC exercises its warrant, IAC or its affiliates will be able to:

- control the composition of our board of directors, including the right to select six of the eleven members of our board and the ability to nominate the remaining directors and vote their shares to elect them;

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control our management and policies; and

determine the outcome of significant corporate transactions, including changes in control that may be beneficial to our other shareholders.

Furthermore, IAC may have strategic interests that are different from ours. IAC s control could keep us from pursuing relationships with other strategic partners and from raising additional capital, which could impede our ability to expand our business and strengthen our competitive position. IAC s control also gives it a significant ability to influence the business strategy and direction of our company. IAC may choose to cause our company to pursue business opportunities that are different from our current core travel business. In addition, IAC s control could prevent a sale of our company, which could have been beneficial to our other shareholders. See Management Board Practices for a more detailed description of our board of directors and Investment by IAC/InterActiveCorp Governance and Other Rights of IAC, Description of Share Capital Series B Preferred Shares and Description of Share Capital Rights of Ordinary Shares and Series B Preferred Shares for more detailed descriptions of the rights of IAC.

IAC may exert significant control over our operations and management even if it does not exercise its warrant.

Even if IAC does not exercise its warrant, it will continue to have a number of control rights over the operations and management of our business as a result of the size of its equity interest in us and its rights under various agreements we have entered into with it. If IAC does not exercise its warrant, it will hold approximately 28% of our outstanding shares and approximately 28% of the voting power of our shares (due to the automatic conversion of its Series B preferred shares into 11,188,570 ordinary shares (subject to certain anti-dilution adjustments, if applicable) and assuming the underwriters exercise their over-allotment option in full). Although IAC will not have the power on its own to control the operations and management of our company or prevent us from taking most actions, it will be considerably more difficult for our other shareholders to approve matters submitted to them without the support of IAC, including some matters which the majority of our non-IAC shareholders support. Similarly, under an investors agreement that we and our existing shareholders entered into in connection with the IAC investment, we, IAC and our existing shareholders who are parties to that agreement are required to do all things necessary to cause two of IAC s board nominees to be elected to our board and to cause the size of our board to remain at seven members. Although the IAC directors will not have the power on their own to control our board or prevent our board from taking most actions, it will be considerably more difficult for our board to approve actions without the support of the IAC directors, including some actions which the majority of our non- IAC directors support. After the completion of this offering, shareholders who are parties to the investors agreement will hold approximately 74% of the voting power of our ordinary shares. Therefore, for so long as shareholders holding a majority of our voting power are parties to the investors agreement, IAC will have the power to designate two of our seven directors. In addition, under the transaction agreement that we entered into with IAC in connection with its investment in us, IAC continues to have certain rights with respect to the operational and ownership structure of us and our affiliated Chinese entities. See Investment by IAC/InterActiveCorp Governance and Other Rights of IAC IAC s Rights If It Does Not Exercise Its Warrant.

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Conflicts of interest may arise between IAC and us, which may not be resolved in a manner favorable to us.

Conflicts of interest may arise between IAC and us relating to past, ongoing and future relationships, including corporate opportunities, and potential acquisitions and financing transactions. IAC is engaged in a diverse range of media, electronic and online commerce businesses, including Expedia and Hotels.com, that may compete with us. In addition, IAC or its affiliates may acquire additional businesses in the future that may conflict or compete with us. Under our agreements with IAC, it is prohibited from competing with us in China only so long as it holds directly or indirectly at least 15% of the economic interest in our outstanding shares. In addition, if IAC does not exercise its warrant, it will be permitted to compete with us in China if it transfers to us or our designee(s) all voting rights with respect to the shares it holds. We cannot assure you that such conflicts will not adversely affect our business, financial condition or results of operations.

Potential conflicts of interest may exist because our directors and officers may have interests in IAC or its subsidiaries.

Under the terms of the investors agreement governing IAC s investment in our company, if it exercises its warrant, IAC has the right to appoint up to six directors to our board of directors and the ability to nominate the remaining directors and vote their shares to elect them. In addition, even if IAC does not exercise its warrant, IAC has the right under the investors agreement to appoint two of our seven board members. As a result some of our directors and officers may have interests in both our company and in IAC. We cannot assure you that these directors will take actions that will benefit us should potential conflicts of interests arise.

We may not be able to execute successfully future acquisitions or manage efficiently any acquired business.

A component of our business strategy is to acquire complementary businesses in areas that provide incremental revenue and earnings growth including air-ticketing agencies, hotel-room consolidators, tour package agencies and corporate travel management companies. This may require a significant commitment of management time, capital investment and other management resources. We cannot assure you that we will be successful in identifying and negotiating acquisitions on terms favorable to us. In addition, we cannot assure you that our proposed acquisition of Beijing Ray Time Business and Tourism Consulting Co., Ltd., or Ray Time, or any other acquisition, if completed, will be successfully integrated into our existing operations. If we are unable to execute our acquisition strategy effectively, our growth, our operating results and financial conditions may be materially and adversely affected.

We may need additional capital which we may not be able to obtain and if we do obtain additional financing, it could result in a dilution of your current investment or otherwise adversely affect the value of your investment.

We cannot assure you that we will obtain any needed financing in the amount or on terms acceptable to us. While we believe that our current cash and cash equivalents, cash flow from operations and the proceeds we will receive from this offering will be sufficient to meet our anticipated cash needs for the foreseeable future, we cannot assure you that we will not require additional capital due to changes in business conditions, our competitive strategy or other developments including any investments or acquisitions we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. External financing is subject to various factors, including market conditions for a particular financing method, many of which are beyond our

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control. We cannot assure you that we will be able to obtain sufficient external financing to meet our requirements in amounts or on terms satisfactory to us or at all. In addition, the sale of additional equity securities would result in dilution to your investment in our company. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financial covenants which could restrict our operations.

Anti-takeover provisions in our articles of association could make an acquisition of our company, which may be beneficial to our shareholders, more difficult and may prevent attempts by our shareholders to replace or remove our current board of directors.

As a Cayman Islands company, our articles of association include provisions which could make an acquisition of our company more difficult and may prevent attempts by our shareholders to replace or remove our current board of directors. In addition, our memorandum and articles of association provide for high-vote ordinary shares that are entitled to 15 votes for each share on all matters upon which ordinary shares are entitled to vote, compared to ordinary shares that are entitled to one vote for each share. As a result, holders of our high-vote ordinary shares will have the ability to control our company and prevent an acquisition of our company that may be beneficial to other shareholders. See Description of Share Capital Anti-takeover provisions for details regarding the anti-takeover provisions in our articles of association and We may potentially be controlled by IAC or its affiliates, who may have strategic interests that differ from those of our other shareholders for a more detailed description of IAC s ability to control our company through high-vote ordinary shares.

The discontinuation of any of the preferential tax treatments currently available to us in the PRC could materially and adversely affect our business, financial condition and results of operations.

One of our affiliated Chinese entities, Beijing eLong Information Technology Co. Ltd., currently benefits from a 15% preferential income tax rate and it is expected to be granted a further reduced income tax rate of 7.5% in 2004 and 2005. This affiliated Chinese entity must continue to meet a number of financial and non-financial criteria to qualify for its current and future tax treatment. We cannot assure you that we will continue to enjoy these or other preferential tax treatments. The discontinuation of these preferential tax treatments could materially and adversely affect our business, operating results and financial condition.

Risks Related to the Travel Industry

Declines or disruptions in the travel industry generally could reduce our revenues.

Our business is affected by the health of the travel industry in China. Because travel expenditures are highly sensitive to the general business climate and personal discretionary spending levels, economic downturns and catastrophic events tend to have an adverse impact on the travel industry. Adverse trends or events that tend to reduce travel and are likely to reduce our revenues include:

increases in prices in the hotel, airline or other travel-related sectors;

increases in the occurrence of travel-related accidents;

outbreak of war or conflict across the Taiwan Strait or elsewhere in the Asia-Pacific region;

increases in terrorism or the occurrence of a terrorist attack in the Asia-Pacific region or elsewhere;

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- poor weather conditions or changes in climate throughout a particular region; and

- man-made or natural disasters that occur in any particular region.

As a result of any of these events, over which we have no control, our operating results and financial conditions could be materially and adversely affected.

The recurrence of a severe acute respiratory syndrome outbreak could materially and adversely affect our operating results and financial conditions

From March to July 2003, China and certain other areas in Asia experienced an outbreak of a new and contagious form of atypical pneumonia now known as severe acute respiratory syndrome, or SARS. According to the World Health Organization, over 8,400 cases of SARS and over 900 deaths were reported in 29 countries from November 2002 to August 2003. In addition, in the spring of 2004, China had several reported cases of deaths caused by SARS. Possible risks associated with SARS include a reduction in travel services used because consumers may elect to reduce their travel and avoid public places such as airports and hotels. Any adverse changes to the travel industry resulting from a recurrence of SARS or similar contagious diseases could severely disrupt our business.

In addition, because our call center contains a large number of employees in a closed environment, we may experience severe disruptions in our business operations if we are required to temporarily close our call center pursuant to health or other government directives due to SARS or other epidemics. We cannot provide you any assurance that there will not be a reoccurrence of SARS or any other epidemics, which may materially and adversely affect our operating results and financial condition.

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

Our business experiences seasonal fluctuations, reflecting seasonal variations in demand for travel services. During the first quarter, demand for travel services generally declines and the number of bookings flattens or decreases, in part due to a slowdown in business activity during the Chinese New Year holiday. Demand for travel services generally peaks during the second half of the year and there may be seasonal fluctuations in allocations of travel services made available to us by travel suppliers. Consequently, our revenues may fluctuate from quarter to quarter.

Risks Related to Doing Business in the People s Republic of China

A slow-down of economic growth in China may adversely affect our growth and profitability.

Our financial results have been, and are expected to continue to be, affected by the growth in the economy and travel industry in China. Although the economy in China has grown significantly in the past decade, we cannot assure you that growth will continue or that any slow-down will not have a negative effect on our business. Recently, the PRC government has indicated that it intends to introduce measures to control or slow-down the growth of the economy in China. Any slow-down of economic growth in China would reduce expenditures for travel, which in turn will adversely affect our operating results and financial condition.

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Any changes in Chinese laws and regulations may have a material and adverse impact on our business.

Although we believe that our current operations are compliant with applicable PRC laws and regulations, there may be substantial uncertainties regarding the interpretation of existing and new PRC laws and regulations will apply to electronic commerce developed in the future. It is possible that new laws and regulations will affect our existing and future business and that the new laws and regulations may be applied retroactively. The PRC authorities retain broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business licenses and requiring actions necessary for compliance. Any such action could have a material adverse effect on our business, results of operations and financial condition.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us, our management, the underwriters or the experts named in the prospectus.

We conduct our operations in China and substantially all of our assets are located in China. In addition, our directors, executive officers and experts named in the prospectus reside within China, and some of the assets of these persons are located within China. You should note that it is difficult to effect service of process within the United States or elsewhere outside China upon our directors or executive officers or some of the experts named in the prospectus, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our PRC legal counsel has advised us that China does not have treaties with the United States or most other western countries providing for the reciprocal recognition and enforcement of judgment of courts. As a result, court judgments obtained in jurisdictions with which the PRC does not have treaties on reciprocal recognition of judgment and in relation to any matter not subject to a binding arbitration provision may be difficult or impossible to be enforced in the PRC. Furthermore, an original action may be brought in the PRC against our directors, executive officers or the underwriters and experts named in this prospectus only if the actions are not required to be arbitrated by PRC law, and only if the facts alleged in the complaint give rise to a cause of action under PRC law. In connection with any such original action, a PRC court may find us liable, and may award monetary damages.

Governmental control of currency conversion may affect the value of your investment.

We receive substantially all of our revenues in Renminbi, which is currently not a fully convertible currency. Under the current plan, our income will primarily be derived from dividend payments and any other distributions by our wholly owned subsidiary in China. Under China s existing foreign exchange regulations, payments of current account items, including profit distributions and interest payments, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange by complying with certain procedural requirements. The Chinese government, however, may, at its discretion, restrict access in the future to foreign currencies for current account transactions. If this were to occur, we might not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs, which could adversely affect the value of your investment in our ADSs.

Fluctuation of the Renminbi may materially and adversely affect the value of your investment.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the China s political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including U.S. dollars, has been

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based on rates set by the People s Bank of China, which are set daily based on the previous day s interbank foreign exchange market rates and current exchange rates on the world financial markets. Since 1994, the official exchange rate generally has been stable. However, the government may in the future relinquish the dollar peg, or the government may increase the current trading range of the Renminbi to the U.S. dollar. Any changes in the value of the Renminbi, materially and adversely affect the value in foreign currency terms of our ADSs and any dividends payable by us.

Risks Related to Ownership of Our ADSs or Ordinary Shares and Our Trading Market

There has been no public market for our shares or ADSs prior to this offering.

Prior to this offering, there has been no public market for our ordinary shares or ADSs. We cannot predict the extent to which a trading market for our ADSs will develop or how liquid that market may become. The initial public offering price for our ADSs will be determined by negotiations between us and the underwriters and may bear no relationship to the market price for our ADSs after the initial public offering. We cannot assure you that an active trading market will develop.

The market price for our ADSs may be volatile.

The market prices of the securities of Internet-related companies have been extremely volatile and may be subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- announcements of new services by us or our competitors;
- changes in financial estimates by securities analysts;
- conditions in the travel, Internet and online commerce industries;
- changes in the economic performance or market valuations of other travel, Internet or online commerce;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- additions or departures of key personnel;

- release of lock-up or other transfer restrictions on our outstanding ADSs or sales of additional ordinary shares or ADSs; and

- potential or actual litigation or regulatory investigations.

The securities of a number of PRC companies and companies with substantial operations in the PRC have also experienced volatility in their prices after their initial public offering.

Any of these factors may materially and adversely affect the market price of our ADSs. We cannot assure you that the market price of our ADSs will not decline below the initial public offering price. You may not be able to resell your ADSs above the initial public offering price and you may suffer a loss on your investment.

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The future sales, or perceived sales, by our existing shareholders of a substantial number of our ordinary shares or ADSs in the public market could adversely affect the price of our ADSs.

If our shareholders sell, or are perceived to sell, substantial amounts of our ordinary shares or ADSs, including those issued upon the exercise of outstanding options, in the public market following this offering, 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. The 9,205,094 ordinary shares represented by the 4,602,547 ADSs offered in this offering will be eligible for immediate resale in the public market without restrictions, and those held by our existing shareholders may also be sold in the public market in the future, subject to the restrictions contained in Rule 144 under the Securities Act and applicable lock-up agreements. If any existing shareholder or shareholders sell, or are perceived to sell, a substantial amount of ordinary shares after the expiration of the lock-up period, the prevailing market price for our ADSs could be adversely affected. See Shares Eligible for Future Sale and Underwriting for additional information regarding resale restrictions.

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. Under the deposit agreement, the depositary of our ADSs will not offer you those rights unless the distribution to ADS holders of both the rights and any related securities are either registered under the U.S. Securities Act of 1933, as amended, or 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.

You will experience immediate and substantial dilution in the book value of ADSs purchased.

The public offering price per ADS will be substantially higher than the net tangible book value per ordinary share issued prior to this offering. Purchasers of our ADSs offered in this offering will therefore incur an immediate and substantial dilution in the net tangible book value per ADSs from the initial public offering price. See Dilution.

You may not be able to exercise your right to vote your ordinary shares.

As a holder of ADSs, you may instruct the depositary of our ADSs to vote the ordinary shares underlying your ADSs but only if we ask the depositary to ask for your instructions. Otherwise, you will not be able to exercise your right to vote unless you withdraw the ordinary shares deposited with the depositary. However, you may not know about an upcoming shareholders meeting sufficiently in advance to withdraw the ordinary shares. If we ask for your instructions, the depositary will notify you of the upcoming vote and will 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 ordinary 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 ordinary shares underlying your ADSs are not voted as you requested.

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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 under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. 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.

If our subsidiaries were restricted from paying dividends and other distributions to us, our primary internal source of funds would decrease.

We are a holding company and do not have any assets or conduct any business operations other than our holding of the equity interests in China. As a result, we rely on dividends, consulting and other fees paid to us by our subsidiaries and affiliated entities in China. If our subsidiaries incur debts on their own behalf in the future, the instruments governing the debts may restrict their ability to pay dividends or make other distributions to us, which in turn would limit our ability to pay dividends on our ordinary shares. Chinese regulations permit payment of dividends only out of accumulated profits as determined in accordance with Chinese accounting standards and regulations. Our subsidiaries in China are also required to set aside at least 10% of their after-tax profits according to Chinese accounting standards and regulations to fund certain reserve funds that are not distributable as cash dividends.

You may have fewer rights, and may not, as a result, have the same level of protection for your interests as a shareholder as you would if you were a shareholder of a U.S. company.

We are a Cayman Islands company and substantially all of our assets are located outside the United States. In addition, a majority of our directors and officers are nationals or residents of jurisdictions other than the United States and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon our directors or officers, or enforce judgments obtained in the United States courts against our directors or officers.

Our corporate affairs are governed by our memorandum and articles of association, the Cayman Islands Companies Law and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in 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 precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, and some states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law.

The Cayman Islands courts are also unlikely:

- to recognize or enforce against us judgments of courts of the United States based on certain civil liability provisions of U.S. securities laws; and
- to impose liabilities against us, in original actions brought in the Cayman Islands, based on certain civil liability provisions of U.S. securities laws that are penal in nature.

There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will generally recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a U.S. company.

Protection of rights through a U.S. court may be limited because we are a Cayman Islands company.

We are a Cayman Islands corporation. Shareholder rights under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States because the Cayman Islands has a less developed body of securities laws as compared to the United States. Shareholders in Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States. As a result, the ability of shareholders to protect their interests if they are harmed in a manner that would enable them to sue in a United States federal court may be limited.

We will have broad discretion over the use of the proceeds to us from this offering.

We will have broad discretion to use the net proceeds to us from this offering. Although we expect to use the net proceeds we will receive for general corporate purposes, including working capital and capital expenditures, we have not identified any specific uses. We may also use a portion of the net proceeds we will receive to fund possible investments in, or acquisitions of, complementary businesses, products or technologies or establishing joint ventures, including our proposed acquisition of Beijing Ray Time Business and Tourism Consulting Co., Ltd., or Ray Time. Accordingly, you will be relying on the judgment of our board of directors and management regarding the application of these proceeds.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including in particular the sections entitled Prospectus Summary, Risk Factors, Use of Proceeds, Management s Discussion and Analysis of Financial Condition and Results of Operations and Our Business, contains forward-looking statements. These statements relate to future events or our future financial performance, our ability to continue to control our costs and maintain the quality of our services, the expected growth of and change in the travel and online commerce industries in China, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include those listed under Risk Factors and elsewhere in this prospectus. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, intend, plan, anticipate, believe, estimate, predict, potential, continue or the negative of these terms or other comparable terminol variety of factors, some of which are outside of our control, may cause our operating results to fluctuate significantly. They include:

- our ability to successfully grow our air ticketing services and other travel related services, such as vacation packages or corporate travel services;
- market acceptance of our services;
- changes in the level of the commissions we receive from travel suppliers;
- our operating costs and capital expenditures;
- our potential need for additional capital and the availability of such capital;
- introduction by our competitors of new or enhanced products or services;
- price competition in the travel and tourism market in China;
- anticipated benefits we may derive from the IAC investment;
- changes in our regulatory environment;
- outbreaks of SARS or other contagious diseases that may adversely impact the travel industry;
- changes in our management team and other key personnel; and
- fluctuations in general economic conditions.

One or more of these factors could materially and adversely affect our operating results and financial condition in future periods. Given our early stage of development, we cannot assure you that we will attain any estimates or maintain profitability or that the assumptions on which they are based are reliable.

Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this prospectus. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

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USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately US$40.1 million, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, and assuming an initial public offering price of US$12.50 per ADS, the midpoint of the estimated range of the initial public offering price.

We anticipate that we will use approximately US$15 million to US$20 million to fund future investments in, or acquisitions of, complimentary businesses or to establish joint ventures, including potentially up to US$3.4 million for our potential acquisition of Ray Time. See Management s Discussion and Analysis of Financial Conditions and Results of Operations Potential Acquisition for a description of the Ray Time acquisition. We anticipate that we will use the balance of the net proceeds we will receive from this offering for general corporate purposes, including working capital and capital expenditures.

Pending these uses, we intend to invest the net proceeds to us in certificates of deposit, direct or guaranteed obligations of the U.S. government or other short-term money market instruments.

We will not receive any proceeds from the sale of the ADSs by the selling shareholders.

DIVIDEND POLICY

Since our establishment, we have not declared or paid any dividends on our ordinary shares. We do not intend to pay any dividends in 2004. The timing, amount and form of future dividends, if any, will also depend, among other things, on our future results of operations and cash flow, our growth prospects, our capital requirements, the amount of distributions, if any, received by us from our subsidiaries in China and other factors deemed relevant by our board of directors. Any future cash dividends on the outstanding shares would be declared by and subject to the discretion of our board of directors and must be approved at our annual general meeting of shareholders.

Holders of ADSs would be entitled to receive dividends, if any, subject to the terms of the deposit agreement, to the same extent as holders of ordinary shares, less the fees and expenses payable under the deposit agreement, and after deduction of any applicable taxes.

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EXCHANGE RATE INFORMATION

We conduct our business primarily in China and our revenues and expenses are primarily denominated in Renminbi. This prospectus contains translations of Renminbi amounts into U.S. dollar amounts at specific rates solely for the convenience of the reader. The translations of Renminbi amounts into U.S. dollar amounts in this prospectus are based on the noon buying rate in the City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi amounts to U.S. dollar amounts and from U.S. dollar amounts to Renminbi amounts in this prospectus were made at a rate of RMB8.2766 to US$1.00, the noon buying rate in effect as of June 30, 2004. The noon buying rate as of October 22, 2004 was RMB8.2765 to US$1.00. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollar or Renminbi amounts, as the case may be, at any particular rate, the rates stated below, or at all. The Chinese government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign currencies.

The following table sets forth information concerning exchange rates between Renminbi and U.S. dollars for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this prospectus 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.

	Noon buying rate RMB per US$	
	High	Low
April 2004	8.2772	8.2768
May 2004	8.2773	8.2768
June 2004	8.2768	8.2766
July 2004	8.2769	8.2766
August 2004	8.2770	8.2766
September 2004	8.2768	8.2766
October 2004 (through October 22)	8.2768	8.2765

The following table sets forth the average noon buying rates between Renminbi and U.S. dollars for each of the periods indicated, calculated by averaging the noon buying rates on the last day of each month of the periods shown.

	Average noon buying rate RMB per US$
1999	8.2785
2000	8.2784
2001	8.2772

2002	8.2772
2003	8.2771
2004 (through October 22)	8.2766

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CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2004 presented on:

an actual basis;

a pro forma basis, to give effect to the issuance of our Series B preferred shares and the repurchase of ordinary shares and Series A preferred shares from some of our existing shareholders; and

a pro forma basis, as adjusted, to give effect to (a) the sale of ADSs in this offering at an assumed public offering price of US$12.50 per ADS, the midpoint of the estimated range of the initial public offering price, (b) the conversion of our Series A preferred shares to ordinary shares, (c) the conversion of our Series B preferred shares into high-vote ordinary shares 31 business days after the completion of this offering, (d) the exercise of IAC s warrant at an exercise price of US$6.25 per share (assuming an initial public offering price of US$12.50 per ADS and assuming the purchase price of the warrant will not be capped at a lower price under the terms of the warrant) and the application of the estimated net proceeds we will receive from such exercise and (e) our repurchase from existing shareholders in connection with the warrant exercise of that number of ordinary shares as is equal to one-half of the high-vote ordinary shares issued to IAC upon the exercise of its warrant.

	As of June 30, 2004					
	Actual		Pro forma		Pro forma as adjusted	
	RMB	US$	RMB	US$	RMB	US$
	(in thousands)					
Shareholders equity						
Series A preferred shares: US$0.01 par value; 9,787,494 shares authorized and 9,787,494 shares issued and outstanding as of June 30, 2004(1)	113,957	13,768	45,280	5,471		
Series B preferred shares: US$0.01 par value; nil shares authorized and nil shares issued and outstanding as of June 30, 2004;			485,754	58,688		
Ordinary shares: US$0.01 par value; 47,000,000 shares authorized 16,787,506 issued and outstanding as of June 30, 2004	1,390	168	1,058	128	1,317(2)	159(2)
High-vote ordinary shares: US$0.01 par value; nil shares authorized and nil shares issued and outstanding as of June 30, 2004					2,360(2)	285(2)
Additional paid-in capital	22,537	2,723	(151,331)	(18,284)	1,198,471	144,801
Statutory reserves	625	75	625	75	625	75
Deferred compensation	(8,949)	(1,081)	(8,949)	(1,081)	(8,949)	(1,081)
Receivable from shareholders	(240)	(29)	(240)	(29)	(240)	(29)
Accumulated other comprehensive income	297	36	297	36	297	36
Accumulated deficit	(33,556)	(4,054)	(33,556)	(4,054)	(33,556)	(4,054)

Total shareholders equity	96,061	11,606	338,938	40,950	1,160,325	140,192
Total capitalization	96,061	11,606	338,938	40,950	1,160,325	140,192

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(1) The Series A preferred shares will be automatically converted into ordinary shares upon the completion of this offering.

(2) The Series B preferred shares will be automatically converted into either ordinary shares (if IAC does not exercise its warrant) or high-vote ordinary shares (if IAC exercises its warrant) upon the 31st business day after the completion of this offering. The as adjusted figures assume that IAC will exercise its warrant, and hence that the Series B preferred shares will be converted into high-vote ordinary shares. Should IAC choose not to exercise its warrant, the Series B preferred shares would be instead converted into ordinary shares.

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