

eLong, Inc.
Form F-1/A
October 27, 2004
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As filed with the Securities and Exchange Commission on October 27, 2004.

Registration No. 333-119606

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 4 to

FORM F-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

eLong, Inc.

(Exact Name of Registrant as Specified in its Charter)

Cayman Islands	7389	Not Applicable
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(IRS Employer Identification Number)
	Block B, Xing Ke Plaza	
	10 Jiuxianqiao Zhonglu	
	Chaoyang District, Beijing 100016	
	People's Republic of China	
	Attn: Justin Tang, Chief Executive Officer	
	Tel: +86 (10) 5860-2288	

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(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. "

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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 27, 2004

eLong, Inc.

4,602,547 American Depositary Shares

Representing 9,205,094 Ordinary Shares

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

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

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

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

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

Deutsche Bank Securities

WR Hambrecht + Co

Allen & Company LLC

The date of this prospectus is _____, 2004.

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CONVENTIONS THAT APPLY TO THIS PROSPECTUS

Unless otherwise indicated, references in this prospectus to:

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

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

CAGR are to compound annual growth rate;

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

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

RMB are to Renminbi, the legal currency of China;

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

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

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

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

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

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

RMB8.2765 to US\$1.00.

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PROSPECTUS SUMMARY

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

Overview

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

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

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

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

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Recent Developments

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

Our Opportunity

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

Our Strengths

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

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

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

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

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

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

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streamlined operations and stronger customer relationships through enhanced customer service.

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

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

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

Our Strategy

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

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

entering into marketing agreements with top Internet portals in China including Yahoo!China, Sohu.com and Tom.com;

co-marketing programs with prominent consumer brands;

promoting the eLong membership card in leading Chinese business publications;

entering into arrangements with commercial banks in their offering of co-branded credit cards; and

entering into arrangements with major Chinese telecommunications companies under which travel booking enquiries are diverted to us from their service hotlines.

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

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

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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	<p>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.</p> <p>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.</p> <p>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.</p>
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	<p>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.</p>
Use of proceeds	<p>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.</p> <p>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.</p> <p>We will not receive any proceeds from the sale of the ADSs by the selling shareholders.</p>
Risk factors	<p>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.</p>

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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
Depository	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,		

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	<u>2002</u>	<u>2003</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>	<u>2004</u>	<u>2004</u>
	<u>RMB</u>	<u>RMB</u>	<u>US\$</u>	<u>RMB</u>	<u>US\$</u>	<u>RMB⁽⁵⁾</u>	<u>US\$</u>
	(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	Year ended December 31,		Six months ended June 30,			
	to December 31,						
	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;

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

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

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

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

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

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

Our business depends on the technology infrastructure of third parties.

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

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

Although private sector Internet service providers currently exist in China, almost all access to the Internet is maintained through a network owned by China Netcom under the regulatory supervision of China's Ministry of Information Industry. In addition, the national networks in China connect to the Internet through a government-controlled international gateway. This international gateway is the only channel through which a domestic Chinese user can connect to the international Internet network. We rely on

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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

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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:

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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;

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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.

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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

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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 terminology. A 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.

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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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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

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2002	8.2772
2003	8.2771
2004 (through October 22)	8.2766

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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 assumed exercise price of US\$6.21 per share 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)	1,192,734	144,109
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	1,154,585	139,500

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Total capitalization	<u>96,061</u>	<u>11,606</u>	<u>338,938</u>	<u>40,950</u>	<u>1,154,585</u>	<u>139,500</u>
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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.

Table of Contents**DILUTION**

Our pro forma, as adjusted net tangible book value as of June 30, 2004 was RMB10.14, or US\$1.23, per ordinary share, and US\$2.46 per ADS. See [Capitalization](#) for more information on our pro forma, as-adjusted assumptions. Net tangible book value per ordinary share represents the amount of total tangible assets, less the amount of total liabilities, divided by the total number of ordinary shares outstanding. After giving effect to the conversion of all outstanding preferred shares into 19,394,190 ordinary shares, dilution is determined by subtracting net tangible book value per ordinary share from the assumed initial public offering price per ordinary share.

Without taking into account any other changes in such net tangible book value after June 30, 2004, other than to give effect to the issuance of Series B preferred shares and the repurchase of Series A preferred shares and ordinary shares and our sale of the 4,602,547 ADSs offered in this offering at the assumed initial public offering price of US\$12.50 per ADS, the mid-point of the estimated public offering price range, the estimated net proceeds to us of US\$40 million after deduction of underwriting discounts and commissions and the estimated offering expenses, our adjusted net tangible book value at June 30, 2004 would have been US\$2.00 per outstanding ordinary share, including ordinary shares underlying our outstanding ADSs, and US\$4.00 per ADS. This represents an immediate increase in net tangible book value of US\$0.77 per ordinary share, or US\$1.54 per ADS, to existing shareholders and an immediate dilution in net tangible book value of US\$4.25 per ordinary share, or US\$8.50 per ADS, to new investors in this offering.

Giving effect, in addition to the foregoing, to IAC's exercise of its warrant, exercisable until 30 business days after the completion of this offering, to purchase approximately 17.4 million high-vote ordinary shares (assuming we do not issue any of our securities prior to the exercise of the warrant other than in connection with this offering) at a purchase price of US\$6.21 per share (assuming an initial public offering price of US\$12.50 per ADS, cash and cash equivalents of US\$35.7 million and no indebtedness, which results in an exercise price of US\$6.21 for IAC's warrant) and our corresponding repurchase from existing shareholders of approximately 8.7 million ordinary shares, also at a purchase price of US\$6.21 per share, our adjusted net tangible book value at June 30, 2004 would have been US\$2.76 per outstanding ordinary share, including ordinary shares underlying our outstanding ADSs, and US\$4.52 per ADS. This represents an immediate increase in net tangible book value of US\$1.53 per ordinary share, or US\$3.06 per ADS, to existing shareholders and an immediate dilution in net tangible book value of US\$3.49 per ordinary share, or US\$6.98 per ADS, to new investors in this offering.

To the extent that any of the other outstanding options and stock warrants are exercised, there will be further dilution to new investors in this offering. See [Principal and Selling Shareholders](#) for more information.

The following table illustrates the dilution on a per ordinary share basis assuming that the estimated initial public offering price per ordinary share is US\$6.25, (calculated by the mid-point of the estimated public offering price range for our ADSs), and that all ADSs are exchanged for ordinary shares.

Estimated initial public offering price per ordinary share	US\$ 6.25
Net tangible book value per ordinary share, as adjusted for this offering	US\$ 2.00
Amount of dilution in net tangible book value per ordinary share to investors in this offering	US\$ 4.25
Amount of dilution in net tangible book value per ADS to investors in this offering	US\$ 8.50

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The following table summarizes on a pro forma basis the differences as of June 30, 2004 between our shareholders at June 30, 2004 and the new investors with respect to the number of ordinary shares represented by the ADSs purchased from us in this offering, the total consideration paid and the average prices per ordinary share equivalent and per ADS paid.

	Ordinary		Total		Average	Average
	shares purchased		Consideration		price per ordinary share equivalent	price per ADS
	Number	%	Amount	%		
				US\$	US\$	
Shareholders as of June 30, 2004	32,319,786	81%	74,929,915	62%	2.32	4.64
New investors	7,407,685	19	46,298,030	38%	6.25	12.50
Total		100%		100%		

The following table illustrates the dilution on a per ordinary share basis assuming that the initial public offering price per ordinary share is US\$6.25, (calculated by the mid-point of the estimated public offering price range for our ADSs), that all ADSs are exchanged for ordinary shares, that IAC exercises its warrant to purchase approximately 17.4 million high-vote ordinary shares (assuming we do not issue any our securities prior to the exercise of the warrant other than in connection with this offering) at a purchase price of US\$6.21 per share (assuming an initial public offering price of US\$12.50 per ADS, cash and cash equivalents of US\$35.7 million, and no indebtedness which results in an exercise price of US\$6.21 for IAC's warrant), and that we repurchase from existing shareholders approximately 8.7 million ordinary shares, also at a purchase price of US\$6.21 per share.

Estimated initial public offering price per ordinary share	US\$ 6.25
Net tangible book value per ordinary share, as adjusted for this offering	US\$ 2.76
Amount of dilution in net tangible book value per ordinary share to investors in this offering	US\$ 3.49
Amount of dilution in net tangible book value per ADS to investors in this offering	US\$ 6.98

The following table summarizes on a pro forma basis the differences as of June 30, 2004 between our shareholders at June 30, 2004 and the new investors with respect to the number of ordinary shares represented by the ADSs purchased from us in this offering, the total consideration paid and the average prices per ordinary share equivalent and per ADS paid, assuming that IAC exercises its warrant to purchase approximately 17.4 million high-vote ordinary shares (assuming we do not issue any our securities prior to the exercise of the warrant other than in connection with this offering) at a purchase price of US\$6.21 per share (assuming an estimated initial public offering price of US\$12.50 per ADS, cash and cash equivalents of US\$35.7 million, and no indebtedness which results in an exercise price of US\$6.21 for IAC's warrant), and we repurchase from existing shareholders 8.7 million ordinary shares, also at a purchase price of US\$6.21 per share.

	Ordinary		Total		Average	Average
	shares purchased		Consideration		price per ordinary share equivalent	price per ADS
	Number	%	Amount	%		
				US\$	US\$	

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Shareholders as of June 30, 2004	32,319,786	67%	74,929,915	43%	2.32	4.64
New investors	16,101,576	33	100,634,851	57%	6.25	12.50
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total		100%		100%		
		<u> </u>		<u> </u>		

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The discussion and tables above are based on the number of ordinary shares outstanding as of June 30, 2004, excluding 7,814,846 underlying options and stock warrants outstanding as of June 30, 2004, assuming conversion of 19,394,190 preferred shares to 19,394,190 ordinary shares and, as indicated, the exercise of IAC's warrant to purchase additional high-vote ordinary shares.

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SELECTED CONSOLIDATED FINANCIAL DATA

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

The selected 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 selected 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. The selected consolidated balance sheet data as of December 31, 2001 are derived from our audited consolidated balance sheet and the related notes which are not included in this prospectus. These consolidated financial statements are prepared in accordance with U.S. GAAP. The selected consolidated statements of operations and cash flow data for the six months ended June 30, 2003 and 2004 and the selected consolidated balance sheet data as of June 30, 2004 are derived from our unaudited consolidated financial statements for these periods and as of these dates 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 presentation of the financial information set forth in those statements. Our historical results do not necessarily indicate results expected for any future periods.

On April 23, 2001, we purchased all of the shares of eLong Information Technology (Beijing) Co., Ltd, our predecessor. This acquisition was accounted for as a business combination using the purchase method of accounting. Accordingly, the following table also presents selected consolidated financial data of our predecessor as of and for each of the periods indicated. From April 4, 2001 to April 22, 2001, we had no business operations. The selected historical financial data of our predecessor as of December 31, 1999 and 2000 and for the period from August 17, 1999, the date of the inception of the predecessor, to December 31, 1999, for the year ended December 31, 2000 and for the period from January 1, 2001 to April 22, 2001 have been derived from unaudited financial statements, containing all normal and recurring adjustments, which, in the opinion of our management, are necessary to present fairly the financial position of the predecessor as of December 31, 1999 and 2000, and its results of operations for the period from August 17, 1999 to December 31, 1999, for the year ended December 31, 2000 and for the period from January 1, 2001 to April 22, 2001 in accordance with U.S. GAAP. As the business of our predecessors during 1999 and part of 2000 was different from ours, the historical results of our predecessor may not be comparable to our results.

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	Predecessor			eLong, Inc.						
	August 17, 1999 to December 31,	Year ended December 31,	January 1, 2001 to April 22, 2001	April 4, 2001 to December 31, 2001	Year ended December 31,			Six months ended June 30,		
	1999	2000	2001	2001	2002	2003	2003	2003	2004	2004
	RMB	RMB	RMB	RMB	RMB	RMB	US\$	RMB	RMB	US\$
	(in thousands, except for per share data)									
Selected Consolidated Statements of Operations Data										
Revenues										
Travel		5,595	3,390	18,734	48,401	66,230	8,002	21,495	52,544	6,348
Others		11,187	8,276	9,104	7,349	8,160	986	2,945	7,565	914
Total revenues		16,782	11,666	27,838	55,750	74,390	8,988	24,440	60,109	7,262
Cost of services		(21,132)	(5,391)	(9,528)	(10,079)	(9,370)	(1,132)	(4,376)	(7,068)	(854)
Gross profit		(4,350)	6,275	18,310	45,671	65,020	7,856	20,064	53,041	6,408
Operating expenses										
Service development	(62)	(2,085)	(716)	(1,174)	(1,528)	(2,022)	(245)	(765)	(4,250)	(514)
Sales and marketing	(1,327)	(44,660)	(10,430)	(21,130)	(35,142)	(44,903)	(5,425)	(16,980)	(39,188)	(4,735)
General and administrative	(1,070)	(11,898)	(2,859)	(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		(859)	(699)	(583)		(20)	(2)		(120)	(14)
Business tax and surcharges		(782)	(596)	(1,360)	(2,816)	(4,109)	(496)	(1,350)	(3,062)	(370)
Total operating expenses	(2,459)	(60,284)	(15,300)	(33,312)	(54,499)	(62,920)	(7,602)	(24,375)	(62,068)	(7,499)
Profit (loss) from operations	(2,459)	(64,634)	(9,025)	(15,002)	(8,828)	2,100	254	(4,311)	(9,027)	(1,091)
Other income (expenses), net	(9)	77	(28)	(42)	(690)	(21)	(3)	(46)	(22)	(3)
Income (loss) before income tax expense	(2,468)	(64,557)	(9,053)	(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)	(2,468)	(64,557)	(9,053)	(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)

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Pro forma 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)
Pro forma earnings (loss) per ADS ⁽³⁾							
Basic			0.02	0.00		(0.63)	(0.08)
Diluted ⁽²⁾			0.02	0.00		(0.63)	(0.08)

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	Predecessor		eLong, Inc.							
	As of December 31,		As of December 31,				As of June 30,		Condensed Pro forma June 30,	
	1999	2000	2001	2002	2003	2003	2004	2004	2004	2004
	RMB	RMB	RMB	RMB	RMB	US\$	RMB	US\$	RMB	US\$
	(in thousands)									
Consolidated Balance Sheet Data										
Cash and cash equivalents	1,300	8,393	5,434	5,344	73,132	8,836	52,448	6,337	258,893	31,280
Working capital ⁽⁴⁾	(1,026)	(406)	8,626	7,007	80,677	9,747	74,185	8,963	317,062	38,308
Equipment and software, net	1,878	11,815	9,597	6,288	8,108	980	10,174	1,229	10,174	1,229
Total assets	3,587	39,891	38,207	36,570	130,561	15,775	142,842	17,259	385,719	46,604
Long-term obligation		534	674							
Accumulated deficit	(2,468)	(67,025)	(15,115)	(25,213)	(24,223)	(2,927)	(33,556)	(4,054)	(33,556)	(4,054)
Shareholders equity	852	27,108	25,312	19,685	100,608	12,156	96,061	11,606	338,938	40,951

	eLong, Inc.						
	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\$ ⁽⁴⁾	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 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), subject in each case to certain anti-dilution adjustments, if applicable, 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

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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 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 options 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 current liabilities.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. We caution you that our business and financial performance are subject to substantial risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information provided under the caption "Risk Factors" beginning on page 14 in this prospectus.

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. According to the China Statistical Yearbook 2003, China's domestic tourism spending totaled approximately RMB388 billion in 2002, and we believe FITs to be a fast-growing, yet relatively underserved, segment of this market. FITs are defined as travelers who do not travel with tour groups and who require flexibility in the selection of accommodations and transportation. 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.

We have experienced significant growth since our inception in April 2001. For the six months ended June 30, 2004, we generated revenues of RMB60.1 million (US\$7.3 million), an increase of 146.3% over RMB24.4 million generated in the six months ended June 30, 2003. In 2003, we generated RMB74.4 million (US\$9.0 million) in revenues, compared to RMB55.8 million in 2002, representing an increase of 33.3%. Our increase in revenues during this period was due to an increase in the number of hotel room-nights booked and an increase in our average commission per hotel room-night booked. We recorded a net income of RMB1.6 million (US\$0.2 million) for the year ended December 31, 2003 and a net loss of RMB9.3 million (US\$1.1 million) for the six months ended June 30, 2004. Approximately 79.8% of our total revenues for the six months ended June 30, 2004 were derived from our hotel booking business.

Foreign ownership in the Internet content provision, advertising and air-ticketing businesses is subject to significant restrictions under current PRC law. As a result, we have a wholly owned subsidiary in China that conducts its operations in China through a series of contractual arrangements with our affiliated Chinese entities solely to facilitate our operations. 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."

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Major Factors Affecting the Travel Industry

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

The growth in the overall economy and demand for travel services in China. We expect that our financial results will continue to be affected by the overall growth of the economy and demand for travel services in China. According to the China Statistical Yearbooks 2001, 2002 and 2003, the gross domestic product, or GDP, of China grew from RMB8.9 trillion (US\$1.1 trillion) in 2000 to RMB10.5 trillion (US\$1.3 trillion) in 2002, representing a compound annual growth rate of 8.2%. GDP per capita in the same period rose from RMB7,086 (US\$856) to RMB8,184 (US\$989), representing a 7.5% compound annual growth rate. At the same time, according to the China Statistical Yearbook 2001, 2002 and 2003, domestic tourism spending grew from RMB317.6 billion (US\$38.4 billion) in 2000 to RMB387.8 billion (US\$46.9 billion) in 2002, representing a compound annual growth of 10.5%. We anticipate that demand for travel services in China will continue to increase substantially in the foreseeable future as the economy in China continues to grow.

Seasonality in the travel service industry. The travel service industry is characterized by seasonal fluctuations and accordingly our revenues may vary from quarter to quarter. We typically generate a larger portion of our revenues in the second half of the year. The first quarter of each year generally contributes the smallest portion of our annual revenues due to reduced business activity during the Chinese New Year holiday. These seasonality trends are difficult to discern in our historical results since our revenues have grown steadily since inception. However, our results in the future may be affected by seasonal fluctuations in the use of our services by our customers.

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

the outbreak of serious epidemics;

travel-related accidents;

bad weather;

natural disasters;

threats of war or incidents of terrorism;

general economic downturns; and

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

During the period from March 2003 through June 2003, the economies of several countries in Asia, including China, were severely affected by the outbreak of SARS. In addition, several reported cases of SARS have also emerged from China within recent months. Our business and our operating results were also adversely affected. Total room-nights booked through us decreased from approximately 59,000 and 58,000 in May and June 2002, respectively, to approximately 16,000 and 41,000 in May and June 2003, respectively.

Principal Factors Affecting Our Results of Operations

Revenues. Our revenues are generated predominantly through our hotel reservation and to a lesser extent, air-ticketing businesses. We act as agents for the travel services that we provide, and recognize the commissions that we earn. We have achieved significant growth

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since our inception, primarily due to steady increases in our hotel room booking and air-ticketing volumes. For the six months ended June 30, 2004, we generated revenues of RMB60.1 million (US\$7.3 million), an increase of 146.3% over RMB24.4 million generated in the six months ended June 30, 2003. The outbreak of SARS in early 2003 had a significant negative impact on our revenues during the six months ended June 30, 2003. As a result, our growth rate of approximately 146% in our revenues for the first six months of 2004 compared to the first six months of 2003 reflects to a significant extent the effect of SARS in the first six months of 2003. Our revenues grew from RMB55.8 million in 2002 to RMB74.4 million (US\$9.0 million) in 2003, representing an annual growth of 33.3%.

We believe that we have achieved significant revenue growth as a result of our improved marketing and broader advertising, accompanied by an increased sales force. Going forward, we intend to continue to focus on marketing by targeting frequent travelers at locations with high volumes of travelers such as airports and other transportation hubs and intend to increase our advertising efforts to include more advertising at these locations, as well as other mediums such as business and leisure travel oriented publications. In addition, we plan to leverage our extensive customer database into focused telemarketing efforts.

Because we currently do not pre-purchase the travel services that we book for our customers, we generally do not carry inventory risk. However, when and if we supplement our current agent business model with a merchant business model, we may suffer losses if we are unable to accurately predict the inventory we need. See Risk Factors Risks Related to Our Business 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.

Our other sources of revenues during the three-year period ended December 31, 2003 and for the six months ended June 30, 2004 included revenues derived from advertising on our websites, the sale of our VIP and co-branded membership cards and our short messaging services. The table below sets forth the revenues from our services, as well as the percentage of our total revenues for the periods indicated.

	April 4, 2001 to December 31, 2001		Year ended December 31,				Six months ended June 30,			
			2002		2003		2003		2004	
(in thousands of RMB, except percentage data)										
Revenues										
Hotel reservation	14,038	50.4%	40,004	71.8%	60,253	81.0%	19,406	79.4%	48,024	79.8%
Air ticketing	1,049	3.8	2,026	3.6	3,744	5.0	1,244	5.1	3,817	6.4
Other travel related services	3,647	13.1	6,371	11.4	2,234	3.0	846	3.5	703	1.2
Other services	9,104	32.7	7,349	13.2	8,159	11.0	2,944	12.0	7,565	12.6
	<u>27,838</u>	<u>100.0%</u>	<u>55,750</u>	<u>100.0%</u>	<u>74,390</u>	<u>100.0%</u>	<u>24,440</u>	<u>100.0%</u>	<u>60,109</u>	<u>100.0%</u>

Revenues from our hotel reservation service are determined by the number of room-nights we book and the commission we earn, ranging from 10% to 20% of the room price. Our customers pay the hotels directly, and we collect our commissions based on the number of room-nights our customers stayed. Under our agreements with many hotels that generate a substantial portion of our revenues, we receive an escalating commission rate that is subject to specific performance targets such as the number of room-nights booked during a defined period. Our commission from hotel reservation services is recognized after hotel customers have completed their stay at the hotel and upon confirmation by the hotel of the customer's stay. Because we act as an agent in transactions with no risk of losses due to obligations for

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cancelled visits, we recognize our revenues from hotel transactions on a net basis in our statements of operations.

We have a diversified base of customers. No individual customer accounted for more than 2% of our revenues in 2003 or during the six months ended June 30, 2004. In addition, no one hotel room-night supplier or hotel room-night supplier chain provides room-night inventory representing more than 3% of our revenue.

Revenues derived from our air-ticketing service currently represent the second largest component of our travel-related revenues. We conduct our air-ticketing business through contractual arrangements with Beijing eLong Airline Service Co., Ltd., one of our affiliated Chinese entities, and we use a network of local agents to issue and deliver air tickets and collect air-ticketing fares. Our customers pay the local agents directly for the air ticket and we settle our commission payments with these agents periodically. Our commission from our air-ticketing service, ranging from 3% to 10% of the net ticket price, is recognized after the air ticket is delivered to and paid for by the customer. We recognize our revenues from such transactions on a net basis in our statements of operations since we act as an agent in these transactions with no risk of losses due to obligations for cancelled service.

We also provide corporate travel services to our corporate customers. We prepay travel service suppliers for the cost of the hotel room-nights and air tickets already booked by our corporate customers. We subsequently bill our corporate customers for the cost plus a fixed commission. As we act as an agent in these transactions, revenues earned from reservations made for corporate customers are recorded on a net commission basis.

We also derive travel revenues from vacation package services and sales of our VIP and co-branded membership cards. Currently, revenues from these services represent a small portion of our total revenues. In 2003 and for the six months ended June 30, 2004, other travel revenues decreased, primarily due to a decline in the number of membership cards sold compared to 2002. We believe that our hotel reservation and air-ticketing businesses will remain our principal sources of revenues, and that our other travel related services will allow our customers to choose from more travel options.

Our sources of non-travel revenues include short messaging service revenues derived from Internet advertising, and to a lesser extent, Internet services to hotels to integrate them into our network, and revenues from small merchants who use our services to promote their establishments through advertising on our websites. Revenues generated from Internet advertising decreased in 2003 compared to 2002 primarily due to our increased focus on our core travel services. We believe that going forward, we will continue to focus growth on our travel revenues.

As our revenues have grown, our accounts receivable have also increased correspondingly. Our accounts receivable balance mainly represents unsettled amounts with our corporate travel service customers and our earned commissions outstanding from travel suppliers. For our corporate travel service customers, our accounts receivable include both our commission and the gross value of the hotel and airline services provided. We bill our corporate customers for the gross value of travel services provided and then settle with the suppliers on behalf of the corporate customers. These accounts receivable are typically unsecured. We perform periodic credit evaluations of the financial condition of our suppliers and corporate customers. We make provisions for doubtful accounts, individually and collectively, based on an assessment of the recoverability of individual accounts by considering the age of the receivable, our historical

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write-off experience with the account and the general credit history of the supplier or corporate customer. Our accounts receivable increased significantly from RMB12.0 million as of December 31, 2002 to RMB28.5 million (US\$3.4 million) as of December 31, 2003 and to RMB41.5 million (US\$5.0 million) as of June 30, 2004, principally as a result of the increased volume of our corporate travel service provided in 2003 and during the six months ended June 30, 2004.

In our corporate travel service business, we make a hotel room reservation after receiving an order from a corporate customer. On our corporate customer's behalf, we make a prepaid deposit to the hotel for the room nights requested by the corporate customer. After our corporate customers complete his or her stay at the hotel, we bill our customer for the cost of the room nights and the commission earned on the transaction. We also bill our corporate customers for the full value of air tickets and then settle with each air ticket supplier. As a result we expect the growth of this business to lead to significant increases in accounts receivable relative to its revenue contribution.

We receive our commissions from our suppliers based on the number of hotel room-nights that we book. As we increase our revenues and the number of hotel room-night suppliers with whom we have relationships, we expect our accounts receivable from our suppliers to increase.

We have taken steps to enforce an accounts receivable collection policy and typically require our hotel room-night suppliers and corporate customers to pay the commissions due to us within 45 days. We seek to minimize the working capital requirement and our accounts receivable risk by substituting partial deposits with periodic settlement for full prepayment and by focusing on large creditworthy corporate clients. In addition, our deposits for rooms can be utilized by our corporate customers booking hotel rooms, minimizing our risk.

Cost of services. Our cost of services consists primarily of payroll compensation, telecommunications expenses, rentals and related expenses incurred by our transaction and service platform which are directly attributable to the provision of our travel services and other related services. From our inception in April 2001 to December 31, 2001 and for the years ended December 31, 2002 and 2003 and for the six months ended June 30, 2004, our cost of services accounted for 34.2%, 18.1%, 12.6% and 11.8% of our total revenues, respectively, with our call center accounting for 41.2%, 56.3%, 61.7% and 78.3% of our cost of services in the same periods, respectively. Because we provide the bulk of our services directly to customers from our call center, the principal components of our cost of services are our payroll compensation for our call center employees and our telecommunications expenses relating to customer transactions. Because these costs are largely variable in nature, we expect that our cost of services in future periods will generally increase in line with our expanding business operations.

We participate in various government-mandated multi-employer defined contribution plans. Our government mandated contributions include unemployment insurance, medical insurance, pension benefits and housing assistance. All of our full-time employees are eligible for full benefits after a three month probationary period of employment. We are required to make monthly contributions to these plans at rates ranging from 33.0% to 44.5% of the base salaries, bonuses and certain allowances of our employees. Under these plans, we have no obligation to provide retirement benefits beyond the contributions we have made. Contributions to these plans are expensed as incurred. During the period from April 4, 2001 to December 31, 2001, we contributed RMB2,453,151. In 2002 and 2003 and for the six months ended June 30, 2004, we contributed RMB2,105,224, RMB3,126,707 (US\$377,777) and RMB5,348,034 (US\$646,163), respectively.

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Operating expenses. Our operating expenses primarily consist of service development, sales and marketing, general and administrative, which includes stock-based compensation, and business tax expenses.

Our service development expenses primarily consist of expenses we incur to develop our transaction and service platform, as well as to maintain, monitor and manage our websites. We expect our service development expenses to increase as we continue to upgrade our transactions platform and obtain additional necessary software licenses for our information technology system.

Our sales and marketing expenses include advertising expenses, commissions payable to our co-marketers and resellers, expenses associated with the production of marketing materials and our loyalty program, and the payroll and other expenses for our marketing personnel. Our sales and marketing expenses as a percentage of our revenues declined from 75.9% for the period from our inception in April 2001 to December 31, 2001 to 63.0% and 60.4%, respectively, for the years ended December 31, 2002 and 2003, as we achieved greater efficiency in our marketing expenditures. For the six month ended June 30, 2004, our sales and marketing expenses increased to 65.2% as a percentage of our revenues as we significantly increased our marketing and promotional efforts with a view to strengthening our brand and generating further growth in our sales. We expect our total sales and marketing expenses to increase in 2004 as compared to 2003.

Our general and administrative expenses include our payroll, benefits and travel expenses for our Chief Executive Officer, other senior management, and our administrative staff. Our general and administrative expenses as a percentage of revenues declined from 21.1% for the period from our inception in April 2001 to December 31, 2001 to 14.1% for the year ended December 31, 2003, as we benefited from the economies of scale in our growing business. For the six months ended June 30, 2004, our general and administrative expenses as a percentage of revenues increased to 18.0% primarily because our board of directors approved for us to pay the individual income tax obligations of our chief executive officer and three other senior managers totalling RMB3.3 million. We expect in the future that as we continue to grow our business, our general and administrative costs will increase in absolute terms. In addition, we expect our general and administrative costs to increase in absolute terms as we increased the compensation of our Chief Executive Officer and other members of senior management in accordance with our new employment contracts with these employees. See *Management Employment Agreements with Executive Officers Compensation and Benefits* for more details regarding our compensation arrangement with each of the senior members of our management team.

Our stock-based compensation expenses are related to stock options granted to employees. We have adopted the fair value recognition provision of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, or SFAS No. 123. See *Critical Accounting Policies Stock-based Compensation* for more details of our fair value recognition method. We expect in the future as we grant additional stock options to our employees these expenses will increase in absolute terms.

Under PRC law, our services related revenues are subject to a 5% business tax. In addition, our advertising service revenue is subject to a cultural development surcharge of 3% of the advertising service revenue.

Income tax. Because we, our wholly owned foreign subsidiary and our affiliated Chinese entities are incorporated in different jurisdictions, we file separate income tax returns. We were

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previously incorporated in the British Virgin Islands and hence our financial statements in 2001, 2002 and 2003 reflect the taxation in the British Virgin Islands, and in the PRC. In May 2004, we reincorporated our corporate domicile in the Cayman Islands.

Under the laws of the British Virgin Islands and Cayman Islands, we are exempt from income tax. In addition, there are no withholding taxes in the British Virgin Islands or Cayman Islands.

In accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises, our wholly owned subsidiary, eLongNet Information Technology (Beijing) Co., Ltd., as a foreign invested enterprise, is subject to enterprise income tax, or EIT, at a rate of 33%.

As domestic companies in China, three of our affiliated Chinese entities, namely Beijing Asia Media Interactive Advertising Co., Ltd., Beijing eLong Airline Service Co., Ltd. and Jiangsu General Chinese Hotel Reservation Network, Ltd., or GCH, are subject to EIT at the rate of 33%.

Beijing eLong Information Technology Co., Ltd., or Beijing Information, has obtained the status of a New High Technology Development Enterprise which entitles it to an EIT rate of 15%. In addition, it enjoyed an exemption of EIT for three years from 2001 to the end of 2003. Beijing Information is also expected to be granted a preferential tax treatment at a reduced EIT rate of 7.5% for 2004 and 2005.

As of December 31, 2003, we had operating loss carryforwards against which we have provided a full valuation allowance. The valuation allowance provided was based upon our assessment of the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible or can be utilized. The gross amount of operating loss carryforwards, pre-acquisition and post-acquisition, pertain to eLongNet Information Technology (Beijing) Co., Ltd., and will expire from 2005 to 2008 as follows:

	Pre-acquisition	Post-acquisition
	(in thousands of RMB)	(in thousands of RMB)
2005	54,297	
2006		5,284
2007		1,464
2008		1,212
Total	54,297	7,960

The ultimate utilization of operating loss carryforwards will depend upon our ability to generate sufficient future taxable income prior to their expiration. Under PRC tax rules and regulations, our post-acquisition operating loss carry forwards may be utilized only after we have fully utilized our pre-acquisition operating loss carry forwards.

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The utilization of net operating loss carryforwards will reduce our income tax payment. However, if we utilize our pre-acquisition loss carryforwards to offset against our future taxable income, we will incur an accounting tax expense in our consolidated statement of operations until such time as the goodwill and other non-current intangible assets related to the acquisition have been reduced to zero. The amount of income tax expense incurred will be equivalent to the amount of the savings of income tax payment resulting from the utilization of such pre-acquisition operating loss carry forwards.

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Recent Acquisition

In December 2003, two of our affiliated Chinese entities acquired a 100% interest in GCH. The total consideration for the acquisition was RMB6.0 million (US\$0.7 million) in cash, payable over a two-year payment term. We have paid RMB2.5 million (US\$0.3 million) and are obligated to pay RMB2.5 million (US\$0.4 million), RMB0.5 million (US\$0.1 million) and RMB0.5 million (US\$0.1 million) in 2004, 2005, and 2006, respectively.

GCH is a regional hotel reservation company with its main presence in Shanghai and surrounding areas. We are the sole beneficiary and have effective control over GCH through contractual agreements between us and our affiliated Chinese entities. Accordingly, the results of operations of GCH are consolidated with our financial statements from December 2003 onward.

Potential Acquisition

On December 23, 2003, we signed a non-binding letter of intent to purchase 80% of the outstanding equity interest of Ray Time. Ray Time operates one of the leading hotel VIP card businesses that distribute membership cards with entitlements to free room-nights and other benefits at participating hotels in China. Ray Time currently operates 15 individual VIP card programs in 14 major cities in China. The proposed consideration for the acquisition based on current negotiations consists of a cash consideration of up to RMB27.8 million (US\$3.4 million). The proposed payment schedule includes:

RMB12.5 million (US\$1.3 million) in cash, due upon closing of the acquisition;

Two cash payments of RMB2.0 million each, with one cash payment due 18 months after the closing and one cash payment due 24 months after the closing;

Earnout payment of RMB5.7 million (US\$0.7 million) payable one year after the closing of the transaction based on Ray Time's revenue and net income for such year; and

Earnout payments of up to RMB5.6 million (US\$0.7 million) based on Ray Time's revenue and net income for two years following the closing of the transaction.

In addition, both we and the existing shareholders of Ray Time are expected to invest an additional RMB2.5 million each directly into Ray Time at closing for working capital purposes.

We believe we have sufficient funding to meet our payment obligations if the proposed acquisition is consummated.

Our original letter of intent specified that the acquisition would be completed by February 23, 2004. Prior to the expiration of our original letter of intent dated December 23, 2003, we entered into a subsequent non-binding letter of intent dated February 21,

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2004 to extend the effective period in which we may acquire Ray Time. Under the terms of our subsequent non-binding letters of intent, the deadline to acquire Ray Time was extended to and expired on June 23, 2004. We have a non-binding, oral understanding with Ray Time that we will continue our negotiations with them. As of the end of the third quarter of 2004, we have made two refundable deposit totalling RMB3.0 million (US\$0.4 million) to Ray Time under our oral understanding to continue negotiations with respect to our acquisition of Ray Time. Our oral understanding with Ray Time is that our deposit will be returned upon demand. Neither the letters of intent entered into between us and Ray Time nor our oral understanding with Ray Time obligates either party to continue with negotiations, enter into any definitive agreements or complete a transaction. We will incur no penalty if we choose not to continue with our

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acquisition, but we cannot provide any assurance that Ray Time will immediately return our deposit. In addition, we cannot provide any assurance as to whether, or when, we will reach an agreement with respect to, or complete, the acquisition of Ray Time. Furthermore, even if we decided we wanted to acquire Ray Time and had agreed to terms with respect to an acquisition of Ray Time, under the terms of our agreement with IAC, we would not be permitted to complete the acquisition without the prior written consent of IAC. For more information about IAC's investment in our company, see "Investment by IAC/InterActiveCorp." To date, IAC has not given us its consent to the potential Ray Time acquisition and we cannot provide any assurance that IAC will do so in the future.

Critical Accounting Policies

The discussion and analysis of our operating results and financial condition are based on our audited financial statements, which have been prepared in accordance with U.S. GAAP. Our operating results and financial condition are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our financial statements. We base our assumptions and estimates on historical experience and on various other assumptions that we believe to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. Our management evaluates these estimates on an ongoing basis. Actual results may differ from these estimates as facts, circumstances and conditions change or as a result of different assumptions.

Our management considers the following factors in reviewing our financial statements:

the selection of critical accounting policies; and

the judgments and other uncertainties affecting the application of those critical accounting policies.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. Our principal accounting policies are set forth in detail in Note 2 to our audited financial statements included elsewhere in this prospectus. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Depreciation. Our equipment and software are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value. We review periodically our policies with regard to the estimated useful lives of the assets. The useful lives are based on our historical experience with similar assets and taking into account anticipated technological changes.

Impairment. We review periodically the carrying amounts of long-lived assets, including equipment and intangible assets, to assess whether they are impaired. We test these assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. When such a decline has occurred, we adjust the carrying amount to the recoverable amount. We measure the recoverability of assets by comparing the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. In determining estimates of future cash flows, significant judgment in terms of projection of future cash flows and assumptions is required. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds

the fair value of the asset.

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Goodwill and certain intangible assets. We test annually whether goodwill and intangible assets, which are not subject to amortization, have been impaired. Such tests are performed more frequently if events and circumstances indicated that the assets might be impaired. An impairment loss is recognized to the extent that the reporting unit's carrying amount, including the amount of the goodwill, exceeds the reporting unit's fair value. Where quoted market prices are not available, fair value is determined using valuation techniques such as discounted cash flows and earnings and revenue multiples.

Provision for doubtful accounts. We maintain an allowance for doubtful accounts for estimated probable losses resulting from the inability of our customers to make required payments. We base our estimates on the aging of our accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of our customers were to deteriorate, actual write-offs might be higher than expected, which could adversely affect our operating results and financial condition through the recording of a higher level of provisions.

Deferred tax assets. We recognize deferred tax assets for all deductible temporary differences and operating loss carryforwards for regular tax purposes. At each reporting date, we assess whether a valuation allowance is required to reduce the amount of the deferred tax amount to a remaining amount that is more likely than not to be realized. In assessing the need for a valuation allowance, we consider all available evidence, including projected future taxable income, tax planning strategies, historical taxable income, and the expiration period of the operating loss carryforwards. Differences in actual results from projections used in determining the valuation allowances could result in future adjustments to the allowances which could adversely affect our operating results and financial condition.

Provision for loyalty points. Cardholders of our eLong membership program can earn loyalty points based on their usage of the cards. We award travel services and other non-cash gifts to the cardholders upon the redemption of loyalty points that are accumulated based on the cardholders' transactions. We estimate the costs to provide free travel and other non-cash gifts based on historical redemption data and recognize such costs as sales and marketing expenses in the statements of operations. If actual redemption differs significantly from our estimates, it will result in an adjustment to our liabilities and the corresponding expenses.

Stock-based compensation. We have adopted the preferred fair value recognition provision of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, or SFAS No. 123. Under the fair value based method, compensation cost related to employee stock options or similar equity instruments is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. We determine fair value using the Black-Scholes model. Under this model, certain assumptions, including the risk-free interest rate, the expected life of the options and the estimated fair value of our ordinary shares, are required to determine the fair value of the options. If different assumptions had been used, the fair value of the options would have been different from the amount we computed and recorded, which would have resulted in either an increase or decrease in the compensation expense.

We account for equity instruments issued to non-employee vendors in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force, or EITF, Issue No. 96-18, Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued,

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whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the date on which the counterparty's performance is complete. We believe that our assumptions, including the risk-free interest rate and expected life used to determine fair value, are appropriate. However, if different assumptions had been used, the fair value of the equity instruments issued to non-employee vendors would have been different from the amount we computed and recorded, which would have resulted in either an increase or decrease in the compensation expense.

Revenue recognition. Our revenues are principally derived from the provision of travel services, including hotel reservation, air ticketing and other related travel services. In general, we recognize revenues when all of the following have occurred:

persuasive evidence of an agreement with the customer exists;

the fees for services performed are fixed or determinable;

the services that the customer booked have been performed; and

there is reasonable assurance that the fees will be collected.

We believe our revenue recognition policies are consistent with Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements and EITF 99-19 Reporting Revenue Gross as a Principal Versus Net as an Agent. As we operate as an agent of our travel suppliers, we have no risk of loss due to obligations for cancelled services. We therefore recognize commissions on a net basis.

Table of Contents**Quarterly Financial and Operating Data**

The following table presents certain unaudited financial and operating data for the nine quarters ended June 30, 2004. You should read the following table in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus. We have prepared the unaudited quarterly financial information on the same basis as our audited consolidated financial statements. This information includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for fair presentation of our financial position and operating results for the quarters presented. Because the travel service industry in China is evolving, and our business is relatively new, our operating results for any quarter are not necessarily indicative of results for any future quarter.

	Three months ended									
	June 30, 2002	September 30, 2002	December 31, 2002	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003	March 31, 2004	June 30, 2004	June 30, 2004
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands, except for percentage data and operating data)									
Financial data										
Revenues										
Travel	11,367	12,790	15,858	12,032	9,463	21,059	23,676	22,807	29,737	3,593
Others	1,819	1,028	2,634	1,813	1,132	1,732	3,483	3,905	3,660	442
Total revenues	13,186	13,818	18,492	13,845	10,595	22,791	27,159	26,712	33,397	4,035
Cost of services	(2,567)	(2,667)	(2,601)	(2,293)	(2,083)	(2,162)	(2,832)	(3,019)	(4,049)	(489)
Gross profit	10,619	11,151	15,891	11,552	8,512	20,629	24,327	23,693	29,348	3,546
Operating expenses	(13,655)	(12,602)	(16,780)	(13,310)	(11,064)	(15,986)	(22,560)	(21,773)	(40,295)	(4,869)
Profit (loss) from operations	(3,036)	(1,451)	(889)	(1,758)	(2,552)	4,643	1,767	1,920	(10,947)	(1,323)
Other income (expenses), net	(24)	(23)	(619)	(22)	(24)	43	(18)	(27)	5	1
Income (loss) before income tax expense	(3,060)	(1,474)	(1,508)	(1,780)	(2,576)	4,686	1,749	1,893	(10,942)	(1,322)
Income tax benefit (expense)	(186)	(90)	(92)	396	574	(1,044)	(390)	(284)		
Net income (loss)	(3,246)	(1,564)	(1,600)	(1,384)	(2,002)	3,642	1,359	1,609	(10,942)	(1,322)
Gross margin	80.5%	80.7%	85.9%	83.4%	80.3%	90.5%	89.6%	88.7%	87.9%	87.9%
Operating margin	(23.0)%	(10.5)%	(4.8)%	(12.7)%	(24.1)%	20.4%	6.5%	7.2%	(32.8)%	(32.8)%
	1,530	1,384	1,495	1,455	696	415	440	636	612	74

Depreciation
and
amortization

**Operating
Data**

Number of room-nights	171,161	212,487	227,681	226,772	116,839	315,353	373,105	374,975	472,349	N/A
Number of air tickets	5,199	15,124	12,965	13,834	6,876	23,478	28,959	38,105	55,484	N/A

Our quarterly revenues have experienced continued sequential growth since the first quarter of 2002, with the exception of the first and second quarters of 2003, during which our revenues were materially adversely affected by SARS, and the first quarter of 2004, during which our revenues were affected by seasonality. The growth of our revenues was consistent with the increase in the number of room-nights booked during the quarterly periods presented. Our gross margins have remained at or above 80% in the past nine quarters, primarily due to the low cost of labor in China and the relatively high efficiency of our transaction platform.

Our gross profit and income from operations for the quarter ended September 30, 2003 increased substantially compared to the preceding quarters. The increase is attributable to the rebound of the travel industry in China following a downturn during the SARS period.

During the second quarter of 2004, we experienced a net loss of RMB11 million (US\$1.3 million) after recording a net income of RMB1.6 million (US\$0.2 million) during the first quarter

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of 2004. Our net loss for the second quarter of 2004 was attributable to the following expenses incurred in the second quarter of 2004 with no comparable expenses in the first quarter of 2004:

a one-time payment approved by the board of directors for our company to pay the individual income tax obligations of our chief executive officer and four other senior members of our management team, totaling RMB4.5 million (US\$0.5 million), of which RMB3.3 million (US\$0.4 million) is included in our general and administrative expenses and RMB1.2 million (US\$0.1 million) is included in our service development expenses;

stock-based compensation of RMB3.9 million (US\$0.5 million) recorded on the 150,000 Series A preferred shares which our chief financial officer purchased from Series A preferred shareholders (a principal shareholders group) at a below-fair-market-value price of US\$1.53 per share during the second quarter of 2004;

additional expenses of RMB2.9 million (US\$0.4 million) for our increased contribution to government-mandated multi-employer defined contribution plans;

provisions for doubtful accounts and supplier deposits of RMB1.7 million (US\$0.2 million); and

a performance bonus to non-senior management of RMB0.6 million (US\$0.1 million).

Table of Contents**Results of Operations**

The following table sets forth certain information relating to our results of operations as of the dates and for the periods indicated:

	April 4, 2001		Year ended December 31,					Six months ended June 30,				
	through											
	December 31,											
	2001		2002		2003		2003		2004			
RMB	% of revenues	RMB	% of revenues	RMB	US\$	% of revenues	RMB	% of revenues	RMB	US\$	% of revenues	
(in thousands, except percentage data)												
Revenues												
Travel	18,734	67.3%	48,401	86.8%	66,230	8,002	89.0%	21,495	88.0%	52,544	6,348	87.4%
Others	9,104	32.7	7,349	13.2	8,160	986	11.0	2,945	12.1	7,565	914	12.6
Total revenues	27,838	100.0%	55,750	100.0%	74,390	8,988	100.0%	24,440	100.0%	60,109	7,262	100.0%
Cost of services	(9,528)	(34.2)	(10,079)	(18.1)	(9,370)	(1,132)	(12.6)	(4,376)	(17.9)	(7,068)	(854)	(11.8)
Gross profit	18,310	65.8%	45,671	81.9%	65,020	7,856	87.4%	20,064	82.1%	53,041	6,408	88.2%
Operating expenses												
Service development	(1,174)	(4.2)%	(1,528)	(2.7)%	(2,022)	(245)	(2.7)%	(765)	(3.1)%	(4,250)	(514)	(7.1)%
Sales and marketing	(21,130)	(75.9)	(35,142)	(63.0)	(44,903)	(5,425)	(60.4)	(16,980)	(69.5)	(39,188)	(4,735)	(65.2)
General and administrative	(5,898)	(21.2)	(10,542)	(18.9)	(10,513)	(1,270)	(14.1)	(3,976)	(16.3)	(10,795)	(1,304)	(18.0)
Stock-based compensation	(3,167)	(11.4)	(4,471)	(8.0)	(1,353)	(164)	(1.8)	(1,304)	(5.3)	(4,653)	(562)	(7.7)
Amortization of goodwill and intangibles	(583)	(2.1)			(20)	(2)				(120)	(14)	(0.2)
Business tax and surcharges	(1,360)	(4.9)	(2,816)	(5.1)	(4,109)	(496)	(5.5)	(1,350)	(5.5)	(3,062)	(370)	(5.1)
Total operating expenses	(33,312)	(119.7)%	(54,499)	(97.8)%	(62,920)	(7,602)	(84.6)%	(24,375)	(99.7)%	(62,068)	(7,499)	(103.3)%
Profit (loss) from operations	(15,002)	(53.9)%	(8,828)	(15.8)%	2,100	254	2.8%	(4,311)	(17.6)%	(9,027)	(1,091)	(15.0)%
Other expenses, net	(42)	(0.2)	(690)	(1.2)	(21)	(3)		(46)	(0.2)	(22)	(3)	(0.0)
Income (loss) before income	(15,044)	(54.0)%	(9,518)	(17.1)%	2,079	251	2.8%	(4,357)	(17.8)	(9,049)	(1,094)	(15.1)%

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tax expense												
Income tax												
benefit												
(expense)	(71)	(0.3)	(580)	(1.0)	(463)	(56)	(0.6)	971	4.0%	(284)	(34)	(0.5)%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income												
(loss)	(15,115)	(54.3)%	(10,098)	(18.1)%	1,616	195	2.2%	(3,386)	(13.8)%	(9,333)	(1,128)	(15.5)%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Table of Contents**Six months Ended June 30, 2004 Compared to Six months Ended June 30, 2003**

Revenues. The following table sets forth certain information relating to our revenues for the six months ended June 30, 2003 and 2004.

	Six-months ended June 30,					
	2003		2004			% growth
	RMB	% of revenues	RMB	US\$	% of revenues	
(in thousands, except percentage data)						
Travel						
Hotel reservations	19,406	79.4%	48,024	5,802	79.8%	147.5%
Air ticketing	1,244	5.1	3,817	461	6.4	206.8
Other travel related services	846	3.5	703	85	1.2	(16.9)
Other revenues	2,944	12.0	7,565	914	12.6	157.0
Total revenues	24,440	100.0%	60,109	7,262	100.0%	145.9%

The following table sets forth the number of room-nights booked and the average commission per room-night, as well as the number of air tickets sold, for the six month periods ended June 30, 2003 and 2004.

	Six-months ended		
	June 30,		
	2003	2004	% growth
Number of room-nights booked	343,611	847,324	146.6%
Average commission per room-night (RMB)	57	57	0.4
Number of air tickets sold	20,710	93,589	351.9%

We had revenues of RMB60.1 million (US\$7.3 million) for the six months ended June 30, 2004, an increase of 145.9% over RMB24.4 million for the six months ended June 30, 2003. The outbreak of SARS in early 2003 had a significant negative impact on our revenues during the six months ended June 30, 2003. As a result, our growth rate of approximately 146% in our revenues for the first six months of 2004 compared to the first six months of 2003 reflects to a significant extent the effect of SARS during the first six months of 2003. Our total revenues increased primarily as a result of increases in our hotel booking and air-ticketing businesses, partially offset by a decrease in our other travel related services. During the same period, revenues from our hotel reservations increased from RMB19.4 million for the six months ended June 30, 2003 to RMB48.0 million (US\$5.8 million) for the six months ended June 30, 2004, representing a 147.5% increase, and revenues from air ticketing increased from RMB1.2 million for the six months ended June 30, 2003 to RMB3.8 million (US\$0.5 million) for the six months ended June 30, 2004, representing a 206.8% increase.

The increases in our hotel reservation revenues reflect an increase in the number of hotel room-nights we booked due to growth in the industry and the absence of the negative impact of SARS in the six months ended June 30, 2003, as well as a slight increase in our average commission per hotel room-night. We generated a higher average commission by triggering escalating commissions for booking greater room-night volumes and through experiencing a general rise in room rates. The increase in air-ticketing revenues was due to an increase in the number of air tickets we sold in the six months ended June 30, 2004, as well as growth in the travel industry in China in general and the absence of the negative impact of SARS in the six months ended June 30, 2004. In addition, our other revenues increased in the six months ended June 30, 2004 due primarily to an increase in revenues from our short messaging service.

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Cost of services. Our cost of services which mainly includes the cost of the call center. Our cost of services increased 61.4% from RMB4.4 million for the six months ended June 30, 2003, to RMB7.1 million (US\$0.9 million) for the six months ended June 30, 2004 as we expanded our operations by hiring more staff and expanding our call center in order to meet the greater demand for call center operations associated with our increased hotel reservation and air-ticketing businesses.

Gross profit. As a result of the above factors, we had a gross profit of RMB53.0 million (US\$6.4 million) for the six months ended June 30, 2004, an increase of 163.7% over RMB20.1 million for the six months ended June 30, 2003.

Operating expenses. The following table sets forth breakdown of our operating expenses for the six months ended June 30, 2003 and 2004.

	Six months ended June					
	2003			2004		
	RMB	% of revenues	RMB	US\$	% of revenues	% growth
	(in thousands, except percentage data)					
Operating expenses						
Service development	765	3.1%	4,250	514	7.1%	455.6%
Sales and marketing	16,980	69.5	39,188	4,735	65.2	130.8
General and administrative	3,976	16.3	10,795	1,304	18.0	171.5
Stock-based compensation	1,304	5.3	4,653	562	7.7	256.8
Amortization of goodwill and intangibles			120	14	0.2	
Business tax and surcharges	1,350	5.5	3,062	370	5.1	126.8
Total operating expenses	24,375	99.7%	62,068	7,499	103.3%	154.6%

Our operating expenses were RMB62.1 million (US\$7.5 million) for the six months ended June 30, 2004, representing an increase of 154.6% over RMB24.4 million for the six months ended June 30, 2003. Due to the negative impact of SARS during the first six months ended June 30, 2003, we had significantly reduced our spending in 2003 by reducing staff and promotional expenditures. As a result, our 154.6% increase in operating expenses for the first six months of 2004 reflects the lower operating costs that we incurred as a result of the negative impact of SARS during the first six months of 2003. Our total operating expenses as a percentage of our total revenues also increased from 99.7% to 103.3% for the six months ended June 30, 2004 compared to the six months ended June 30, 2003.

Our service development expenses grew higher for the first six months of 2004 due to the fact that our service development expenses for the six months ended June 30, 2003 were lower as a result of our cost-cutting measures implemented during the SARS outbreak in 2003. After the SARS outbreak in 2003, we increased our service development expenses to accommodate the growth of our business. In addition, during the second quarter of 2004, our board of directors approved for us to pay the individual income tax obligation of one senior member of our management team, totalling RMB1.2 million (US\$0.1 million). Such expense is included in our service development expenses.

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Our sales and marketing expenses for the six months ended June 30, 2003 were significantly reduced as a result of the SARS outbreak and therefore are not comparable to our sales and marketing expenses for the six months ended June 30, 2004. During the SARS outbreak in 2003 we stopped our major sales and marketing efforts and significantly reduced

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staff in our sales and marketing department. For the six months ended June 30, 2004, we returned our sales and marketing expenses to higher levels to provide for the growth of our business. As a result of higher sales during the six months ended June 30, 2004, we paid more commissions to our resellers as they generated higher booking volumes during the six-months ended June 30, 2004 compared to the six months ended June 30, 2003. We also incurred additional expenses of approximately RMB2.9 million (US\$0.4 million) for our increased contribution to our government-mandated multi-employer defined contribution plans, of which RMB1.7 million (US\$0.2 million) was attributable as sale and marketing expenses, during the six months ended June 30, 2004 as compared to expenses of RMB1.5 million for the six months ended June 30, 2003.

Our general and administrative expenses increased in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. During the second quarter of 2004, our board of directors approved for us to pay the individual income tax obligations of our Chief Executive Officer and three other senior members of our management team, which totaled RMB 3.3 million (US\$0.4 million). Our remaining increase in general and administrative expenses was due to our additional provisions for doubtful accounts and supplier deposits of RMB1.7 million (US\$0.2 million) during the six months ended June 30, 2004.

Our stock-based compensation expense results from amortization of vesting ordinary shares and stock options granted to directors and executive officers. The increase in our stock-based compensation expense in the six months ended June 30, 2004 compared to the six months ended June 30, 2003 was due to stock-based compensation expense of RMB3.9 million (US\$0.5 million) recorded on the 150,000 Series A preferred shares which our chief financial officer purchased during the second quarter of 2004 from Series A preferred share holders, partially offset by the full vesting in 2003 of most of the stock previously granted. Because the Series A shares were purchased by our chief financial officer from a principal shareholders group at a price below fair market value, non-cash stock based compensation expense was recorded, which represented the difference between the purchase price of US\$1.53 and US\$4.69, which is our best estimate of the fair market value of the Series A preferred shares at the time of sale based on the recent selling price of our shares.

We incurred an amortization of intangibles in the amount of RMB120,000 (US\$14,499) due to our acquisition of GCH.

We paid more business taxes and surcharges in for the six months ended June 30, 2004 compared to the six months ended June 30, 2003 in line with increases in our revenues.

Other expenses, net. We recorded other expenses of RMB22,602 (US\$2,731) for the six months ended June 30, 2004, compared to RMB46,168 (US\$5,578) for the six months ended June 30, 2003.

Income tax expense. We incurred a tax expense of RMB0.3 million (US\$0.1 million) for the six months ended June 30, 2004, compared to RMB1.0 million for the six months ended June 30, 2003. Our effective tax rate differs from the statutory tax rate of 33% primarily due to the preferential tax status of one of our affiliated Chinese entities, foreign tax differentials and certain non-deductible expenses.

Net loss. We had net loss of RMB9.3 million (US\$1.1 million) for the six months ended June 30, 2004, compared to a net loss of RMB3.4 million for the six months ended June 30, 2003. The increase in net loss was due to a significant increase in our operating expenses in the first six months of 2004.

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Revenues. The following table sets forth certain information relating to our revenues for the two years ended December 31, 2002 and 2003.

	Year ended December 31,					
	2002		2003			% growth
	RMB	% of revenues	RMB	US\$	% of revenues	
(in thousands, except percentage data)						
Travel Revenues						
Hotel reservations	40,004	71.8%	60,253	7,280	81.0%	50.6%
Air ticketing	2,026	3.6	3,744	452	5.0	84.8
Other travel related revenues	6,371	11.4	2,233	270	3.0	(64.9)
Other revenues	7,349	13.2	8,160	986	11.0	11.0
Total revenues	55,750	100%	74,390	8,988	100%	33.3%

The following table sets forth the number of room-nights booked and the average commission per room-night and the number of air tickets sold for the two years ended December 31, 2002 and 2003.

	2002	2003	% growth
Number of room-nights booked	742,175	1,032,069	39.1%
Average commission per room-night (RMB)	54	58	7.4
Number of air tickets sold	37,972	73,147	92.6%

We had revenues of RMB74.4 million (US\$9.0 million) in 2003, an increase of 33.3% over RMB55.8 million in 2002. Our total revenues increased primarily as a result of increases in our hotel booking and air-ticketing businesses, partially offset by decreases in our other travel related services. During the same period, revenues from our hotel reservations increased from RMB40.0 million in 2002 to RMB60.3 million (US\$7.3 million) in 2003, representing a 50.6% growth, and revenues from air ticketing increased from RMB2.0 million in 2002 to RMB3.7 million (US\$0.4 million) in 2003, representing an 84.8% growth. Our revenue growth was adversely affected by the outbreak of SARS, primarily during the second quarter of 2003. However, our hotel reservation and air-ticketing businesses experienced a strong rebound during the second half of the year.

The increases in our hotel reservation revenues reflect an increase in the number of hotel room-nights we booked, together with an increase in our average commission per hotel room-night. We generated a higher average commission by triggering escalating commissions for booking greater room-night volumes and experiencing a general rise in room rates. We generated higher air-ticketing revenues by booking more air tickets. With the exception of our short messaging service, our revenues from our

non-travel related services have shown decreases as we continue to focus on our core travel business.

Cost of services. Our cost of services declined 7.0% from RMB10.1 million in 2002, to RMB9.4 million (US\$1.1 million) in 2003. Our cost of services decreased as a result of decreases in our payroll compensation during SARS when we implemented a policy of unpaid vacations, which was partially offset by higher telecommunication expenses resulting from an increase in toll-free phone calls.

Gross profit. As a result of the above factors, we had a gross profit of RMB65.0 million (US\$7.9 million) in 2003, an increase of 42.2% over RMB45.7 million in 2002.

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Operating expenses. The following table sets forth breakdown of our operating expenses for the two years ended December 31, 2002 and 2003.

	Year ended December 31,					
	2002		2003		% of revenues	% growth
	RMB	% of revenues	RMB	US\$		
(in thousands, except for percentage data)						
Operating expenses						
Service development	1,528	2.7%	2,022	245	2.7%	32.3%
Sales and marketing	35,142	63.0	44,903	5,425	60.4	27.8
General and administrative	10,542	18.9	10,513	1,270	14.1	(0.3)
Stock-based compensation	4,471	8.0	1,353	164	1.8	(69.7)
Amortization of goodwill and intangibles			20	2		N/A
Business tax and surcharges	2,816	5.1	4,109	496	5.5	45.9
Total operating expenses	54,499	97.8%	62,920	7,602	84.6%	15.5%

Our operating expenses were RMB62.9 million (US\$7.6 million) in 2003, an increase of 15.5% over RMB54.5 million in 2002. As we achieve greater economies of scale, we expect that our operating expenses will continue to decrease as a percentage of our total revenues.

Our service development expenses grew in line with our revenues and reflect the expanding number of hotel supplier and air-ticketing supplier relationships, as well as higher maintenance costs on our expanded websites in 2003. We also incurred service development expenses as we upgraded the software used for our service platform in 2003.

Our sales and marketing expenses increased in 2003 because we significantly increased our promotion and marketing efforts in 2003. These efforts included the distribution of more eLong membership cards, additional online marketing programs, and other service promotional activities. We also paid more commissions to our resellers as they generated higher booking volumes. The increase in sales and marketing expenses was partially offset by reduced depreciation charges as a portion of our fixed assets became fully depreciated.

Our general and administrative expenses remained stable as a result of the increased expenses related to the hiring of additional administrative staff in the fourth quarter of 2003 and higher rental expenses resulting from the expansion of our business in 2003, offset by reduced depreciation charges as a portion of our fixed assets become fully depreciated.

Our stock-based compensation expense results from amortization of vesting ordinary shares and stock options granted to directors and executive officers. The decrease in our stock-based compensation expense in 2003 was due to the full vesting of the ordinary shares in May 2003.

We paid more business taxes and surcharges in 2003 compared to 2002 due to increases in our revenues.

Other expenses, net. We recorded other expenses of RMB21,043 (US\$2,543) in 2003, compared to RMB690,232 in 2002. Other expenses decreased in 2003 primarily as a result of an impairment charge of RMB591,000 we recognized in 2002 due to the other-than-temporary decline in the market value of an investment security that we held, which was partially offset by

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an increase in the interest income we earned in 2003. Our interest income earned on cash deposits increased from RMB30,173 in 2002 to RMB118,663 (US\$14,337) in 2003, reflecting the interest earned on the proceeds from our Series A preferred share private placement.

Income tax expense. We incurred a tax expense of RMB0.5 million (US\$0.06 million) in 2003, compared to RMB0.6 million in 2002. Our effective tax rate differs from the statutory tax rate of 33% primarily due to the tax holiday and the preferential tax status of one of our affiliated Chinese entities, foreign tax differentials and certain non-deductible expenses.

Net income (loss). We had net income of RMB1.6 million (US\$0.2 million) in 2003, compared to a net loss of RMB10.1 million in 2002. Our net income was achieved as a result of a significant increase in revenues, decreases in stock-based compensation expense and in cost of services, offset by proportionately smaller increases in service development expenses, sales and marketing expenses and business taxes and surcharges. Our general and administrative expenses remained steady from 2002 to 2003.

Year Ended December 31, 2002 Compared to the Period from April 4, 2001 to December 31, 2001

We were incorporated in April 2001. Consequently, our results for the period from April 4, 2001 to December 31, 2001 are not comparable to our full year results when compared to the year ended December 31, 2002.

Revenues. The following table sets forth certain information relating to our revenues for the period from April 4, 2001 to December 31, 2001 and the year ended December 31, 2002.

	Period from April 4, 2001 to December 31, 2001		Year ended December 31, 2002	
	RMB	% of revenues	RMB	% of revenues
(in thousands, except percentage data)				
Travel Revenues				
Hotel reservations	14,038	50.4%	40,004	71.8%
Air ticketing	1,049	3.8	2,026	3.6
Other travel related revenues	3,647	13.1	6,371	11.4
Other revenues	9,104	32.7	7,349	13.2
Total revenues	27,838	100%	55,750	100%

The following table sets forth the number of room-nights booked and the average commission per room-night for the period from April 4, 2001 to December 31, 2001 and the year ended December 31, 2002.

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	<u>2001</u>	<u>2002</u>	<u>% growth</u>
Number of room-nights	388,677	742,175	90.9%
Average commission per room-night (RMB)	47	54	14.9%

We had revenues of RMB55.8 million in 2002 and RMB27.8 million in 2001. Our total revenues increased primarily as a result of a full year operating period in 2002 compared to an abbreviated operating period in 2001, as well as increases in revenues from our travel related services. The increases in our hotel reservation revenues reflect an increase in the number of

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hotel room-nights we booked, together with an increase in our average commission per hotel room-night. We generated a higher average commission by triggering escalating commissions for booking greater room-night volumes and experiencing a general rise in room rates. We generated higher air-ticketing revenues in 2002 by booking more air tickets. With the exception of advertising revenues, our revenues from our non-travel related services have shown increases primarily as a result of the longer period of operations in 2002.

Cost of services. Our cost of services were RMB10.1 million in 2002 and RMB9.5 million in 2001. Our cost of services included our call center costs, which consist predominantly of cost of labor and telecommunications expenses. Our cost of services increased as a result of a longer operating period in 2002, the hiring of more staff in 2002 as we expanded our operations and the increased number of toll-free calls we received in 2002. Due to economies of scale, our call center costs showed a proportionally smaller increase despite a larger increase in our revenues over the same period.

Gross profit. As a result of the above factors we had a gross profit of RMB45.7 million in 2002, compared to RMB18.3 million in 2001.

Operating expenses. The following table sets forth the breakdown of our operating expenses for the period from April 4, 2001 to December 31, 2001 and the year ended December 31, 2002.

	Period from April 4, 2001 to December 31, 2001		Year ended December 31, 2002	
	RMB	% of revenues	RMB	% of revenues
(in thousands, except percentage data)				
Operating expenses				
Service development	1,174	4.2%	1,528	2.7%
Sales and marketing	21,130	75.9	35,142	63.0
General and administrative	5,898	21.2	10,542	18.9
Stock-based compensation	3,167	11.4	4,471	8.0
Amortization of goodwill and intangibles	583	2.1		
Business tax and surcharges	1,360	4.9	2,816	5.1
Total operating expenses	33,312	119.7%	54,499	97.7%

Our operating expenses were RMB54.5 million in 2002, compared to RMB33.3 million in 2001.

Our service development expenses grew in 2002 due to the expanding number of travel supplier relationships, as well as higher maintenance costs due to our expanded websites. We also incurred service development expenses as we upgraded the software used for our service platform in 2002.

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Our sales and marketing expenses increased in 2002 compared to 2001 due to the longer operating period in 2002. In this longer operating period we incurred higher salary and bonus expenses, distributed more eLong membership cards, and paid more commissions to our resellers as they generated more booking volumes in 2002.

Our general and administrative expenses increased in 2002 as a result of the longer operating period and additional payroll expenses associated with hiring more staff.

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Our stock-based compensation resulted from amortization of vesting ordinary shares granted to directors and executive officers in April 2001.

We incurred no amortization of goodwill in 2002 due to the adoption of Statement of Financial Accounting Standards No. 142, which requires that goodwill not to be amortized.

We paid more business taxes and surcharge expenses in 2002 compared to 2001 due to increases in our revenues.

Other expenses, net. We recorded other expenses of RMB690,232 in 2002, as compared to RMB42,319 in 2001. The significantly higher other expenses we recorded in 2002 were due to an impairment charge of RMB591,000 relating to an investment security we held and higher interest expenses, as well as a lower interest income earned on lower average cash balances in 2002.

Income tax expense. We incurred an income tax expense of RMB580,109 in 2002, compared to RMB70,910 in 2001. Our effective tax rate differs from the statutory tax rate of 33% primarily due to foreign tax differentials and non-deductible expenses.

Net loss. We had a net loss of RMB10.1 million in 2002, compared to a net loss of RMB15.1 million in 2001. Our net loss decreased significantly as a result of a significant increase in revenues and a decrease in amortization, offset by proportionately smaller increases in cost of services, service development expenses, general and administrative expenses, sales and marketing expenses and business taxes and surcharges.

Liquidity and Capital Resources

The following table sets forth a summary of our cash flows for the periods indicated.

	April 4, 2001 to December 31, 2001	Year ended December 31,			Six months ended June 30,		
		2002	2003		2003	2004	
	RMB	RMB	RMB	US\$	RMB	RMB	US\$
		(in thousands, except for percentage 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)
Effect of foreign exchange rate changes on cash			(11)	(1)		(22)	(3)
Net increase (decrease) in cash and cash equivalents	5,434	(91)	67,788	8,190	1,049	(20,684)	(2,499)
Cash and cash equivalents at beginning of period/year		5,434	5,344	646	5,344	73,132	8,836

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Cash and cash equivalents at end of period/year	5,434	5,344	73,132	8,836	6,393	52,448	6,337
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Operating activities. Our net cash used in operating activities was RMB12.3 million (US\$1.5 million) for the six months ended June 30, 2004, compared to net cash provided by operating activities of RMB1.8 million for the six months ended June 30, 2003. Net cash used in

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operating activities increased primarily as a result of a RMB15.1 million increase in accounts receivable associated with our corporate travel business, partially offset by a net increase in accrued expenses and other payables mainly associated with payroll and commissions.

Net cash used in operating activities was RMB7.4 million (US\$0.9 million) in 2003, compared to net cash provided by operating activities of RMB1.6 million in 2002 and net cash used in operating activities of RMB7.9 million in 2001. The level of cash used in operating activities was higher in 2003 as a result of increases in our accounts receivable and prepaid expenses and other current assets, partially offset by increases in our accounts payable. Our accounts receivable increased primarily as a result of an expansion of our corporate travel service in which hotel rooms and air tickets are prepaid by us. As we continue to expand our corporate travel service business, we expect that our accounts receivable will increase substantially. We intend to finance the additional working capital needs resulting from the growth in our corporate travel services with our cash balances and a portion of the net proceeds we will receive from this offering. Our prepaid expenses and other current assets increased primarily as a result of the rental deposits for new office space and other prepaid marketing expenses. We used additional net cash in 2001 due to the start up and commencement of operations of our business.

Our operations are dependent on the cash flow we receive from our affiliated Chinese entities through our contractual arrangements with each affiliated Chinese entity. Our affiliated Chinese entities pay pre-agreed fees to us for the technical or other services that we provide to them. Our affiliated Chinese entities pay pre-agreed fees based on prevailing market rates. The term market rates in our agreements with our affiliated Chinese entities is not clearly defined and we determine market rates based on input from ourselves and our affiliated Chinese entities, taking into account any external market rate that may have developed for the services that we provide. Because the same individuals control both our company and our affiliated Chinese entities, we are able to adjust market rates and any payment schedule from the affiliated Chinese entity to us. While we are not aware of any restrictions that prevent the transfer of funds from our affiliated Chinese entities to us, any such restriction would limit our cash flow and have an adverse effect on our financial condition. See Risk Factors Risks Related to Our Business Our affiliated Chinese entities are controlled by Justin Tang, which may pose potential conflicts of interests, and if they 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.

Investing activities. Our net cash used in investing activities was RMB7.3 million (US\$0.9 million) for the six months ended June 30, 2004, compared to net cash used in investing activities of RMB0.6 million for the six months ended June 30, 2003. Net cash used in investing activities increased as a result of our GCH acquisition and our capital expenditures spent during the first quarter of 2004. In addition, for the six months ended June 30, 2003, we did not invest significantly in any activities as a result of the negative impact of the SARS outbreak in 2003.

Net cash used in investing activities was RMB1.6 million (US\$0.2 million) in 2003, compared to net cash used in investing activities of RMB0.5 million in 2002 and RMB23.3 million in 2001. In 2001 we acquired eLong Beijing for US\$1.5 million (RMB equivalent 12.4 million) in order to commence operations. In addition, from 2001 to 2002, we also placed a total of RMB12.0 million with Shenzhen Youyuan Investment Company, an affiliate of Billable Development, which is a significant shareholder of our company. Shenzhen Youyuan Investment Company managed the money for us and we received a guaranteed annual interest of 2.25% on the placement. As of December 31, 2003, all the principal and interest were repaid in full. In 2003, we used RMB5.2

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million (US\$0.6 million) to purchase certain fixed assets including server equipment and computers as part of our relocation to our new headquarters.

Financing activities. Our net cash used in financing activities was RMB1.1 million (US\$0.1 million) for the six months ended June 30, 2004, compared to net cash used in financing activities of RMB0.1 million for the six months ended June 30, 2003. Our net cash provided by financing activities was due to a repayment of receivables from certain shareholders in connection with the issuance of our ordinary shares.

Our net cash provided by financing activities was RMB76.9 million (US\$9.3 million) in 2003, compared to net cash used in financing activities of RMB1.2 million in 2002 and net cash provided by financing activities of RMB36.6 million in 2001.

In April 2001, we issued 16.0 million of our ordinary shares to our initial shareholders for RMB37.3 million. In August 2003, we repurchased and cancelled approximately 3.3 million shares from our shareholders for RMB41.4 million and we received US\$15.0 million from four investors, in exchange for 9,787,494 Series A preferred shares. The Series A preferred shares will be automatically converted into ordinary shares upon consummation of this offering. We do not currently have any borrowing facility in place and have no current plans to establish one.

Our capital expenditures totalled RMB0.8 million, RMB3.0 million and RMB5.2 million (US\$0.6 million) in 2001, 2002 and 2003, respectively. We expect our capital expenditures in 2004 to amount to approximately RMB12.0 million (US\$1.5 million) of which RMB3.2 million (US\$0.4 million) was spent in the first six months of 2004. Our capital expenditures relate primarily to purchases of computer equipment, servers and computer software to support the expansion of our business. We anticipate that our capital expenditures in the remainder of 2004 will also consist of similar equipment and software purchases.

During the near term, we intend to continue to focus our marketing campaign on retaining existing customers and acquiring new customers. In addition, we plan to continue to invest in expanding our service offerings, improving our websites and improving the infrastructure supporting customer service and customer care. We believe that the proceeds to us from this offering, our available cash and anticipated future operating cash flows will be sufficient to fund currently anticipated liquidity needs in the near term. However, any projections of future cash inflows and outflows and any projections of the future state of the economy and travel industry conditions, which may have direct effect on our cash inflows, are subject to substantial uncertainty.

If we determine that we need to raise additional capital in the future, we may seek to sell additional equity or borrow funds. The sale of additional equity would result in dilution to our existing equity holders. We cannot assure you that any of these financing alternatives will be available in amounts or on terms acceptable to us, if at all. If we are unable to raise or borrow any needed additional capital, we could be required to significantly alter our operating plan, which could have a material adverse effect on our business, operating results or financial condition.

Subsequent Event

In August 2004, we received US\$58.7 million from IAC in exchange for the issuance of 11,188,570 Series B preferred shares, and we repurchased and cancelled 1,581,874 Series A preferred shares and 4,012,411 ordinary shares from existing shareholders for

an aggregate

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purchase price of US\$29.3 million. We retained the remainder, or approximately US\$29.4 million, of the amount received from IAC. Of the retained amount, approximately US\$4.4 million is currently being held in escrow, of which, subject to: (1) possible claims by IAC for indemnification under our agreement with IAC for representations, warranties, and covenants provided by us, and (2) payment by us for certain post-closing matters, approximately US\$1.1 million will be released to us on August 4, 2005 and the balance will be released to us on March 31, 2006. The Series B preferred shares will be automatically converted into either ordinary shares or high-vote ordinary shares on the 31st business day after the completion of this offering. We believe that no material contingencies exist in respect of IAC's indemnification rights and that the payments to IAC will not have a material effect on our financial condition.

Contractual Cash Obligations

In November 2003, we entered into a three-year leasing agreement for 3,744 square meters of office space in Beijing for our headquarters, with an option to renew for an additional two-year term. The annual payment under the lease is RMB2.6 million (US\$0.3 million).

Future minimum lease payments under non-cancelable operating leases with initial or remaining lease terms in excess of one year as of December 31, 2003 are:

	Minimum lease amount	
	(RMB)	US\$
2004 ⁽¹⁾	4,021,355	485,847
2005	2,619,240	316,448
2006	2,619,240	316,448
Total	9,259,835	1,118,743

(1) Also includes approximately RMB1.4 million (US\$0.2 million) for lease payments on our other branch offices.

We are also contractually obligated to pay RMB3.0 million (US\$0.4 million) and RMB0.5 million (US\$0.1 million) in 2004 and 2005, respectively, related to the acquisition of GCH. See Recent Acquisition.

Off-balance Sheet Arrangements

We do not have any outstanding derivative financial instruments, off-balance sheet guarantees or arrangements, interest rate swap transactions or foreign currency forward contracts. We do not engage in trading activities involving non-exchange traded contracts.

Inflation and Monetary Risk

Inflation in China has not had a material impact on our results of operations in recent years. According to the National Bureau of Statistics of China, the change in Consumer Price Index in China was 0.7%, -0.8% and 1.2% in 2001, 2002 and 2003, respectively.

Quantitative and Qualitative Disclosures about Market Risk

Interest rate risk. Our exposure to interest rate risk for changes in interest rates relates primarily to the interest income generated by excess cash and cash equivalents deposited in banks. Cash and cash equivalents consist of cash on hand and in bank and certificates of deposit with an initial term of less than three months.

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The carrying amounts of cash and cash equivalents, accounts receivable and other receivables represent our principal exposure to credit risk in relation to our financial assets. As of December 31, 2003, substantially all of our cash and cash equivalents were held with major international banks which we believe are of acceptable credit quality. We have not used any derivative financial instruments to hedge interest rate risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates, although our future interest income may fluctuate in line with changes in interest rates. The risk associated with fluctuating interest rates is principally confined to our cash deposits in banks, and, therefore, our exposure to interest rate risk is minimal.

Foreign exchange risk. Substantially all of our revenue-generating operations are transacted in Renminbi, which is not fully convertible into foreign currencies. Excluding amounts held in escrow, we currently have approximately US\$30 million held in United States dollar denominated deposits. We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency risk, but we believe that our current exposure to foreign exchange risks is manageable. See 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.

Recent Accounting Pronouncements

In November 2002, the EITF reached a consensus on Issue No.00-21, Revenue Arrangements with Multiple Deliverables, or EITF No.00-21. EITF No. 00-21 addresses how revenue arrangements with multiple deliverables should be divided into separate units of accounting and how the arrangement consideration should be allocated to the identified separate accounting units. For our purposes, EITF No.00-21 is effective for fiscal periods beginning after June 15, 2003. The adoption of this consensus did not have a significant impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No.150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It also includes required disclosures for financial instruments within its scope. For our purposes, SFAS No.150 was effective for instruments entered into or modified after May 31, 2003 and otherwise will be effective at the beginning of the first financial year beginning after June 15, 2003. FASB Staff Provision No. FAS150-3 deferred certain provisions of SFAS No.150 for certain mandatorily redeemable non-controlling interests. We currently do not have any financial instruments that are within the scope of SFAS No.150.

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THE TRAVEL AND TOURISM INDUSTRY IN CHINA

The facts and statistics used in this prospectus relating to the travel industry and economy in China are derived from various government and institute research publications. While we have taken reasonable care to ensure that these facts and statistics presented are accurately reproduced from such sources, we have not independently verified them. These facts and statistics may not be comparable to similar facts and statistics collected for the industry or economy in the United States and other countries.

In terms of domestic tourism spending in 2002, the approximately RMB388 billion (US\$46.9 billion) travel industry in China is large and growing rapidly. We expect the industry to continue to experience rapid growth as China's economy continues to develop. Travel and tourism in China is characterized by a highly fragmented and inefficient travel service sector due to many factors, including the lack of consolidated hotel ownership, the lack of a centralized hotel reservation system, the localized nature of travel agencies and a dual regulatory regime. We believe that the fragmented nature of the travel market in China will create increasing demand for central reservation platforms such as our own capable of consolidating a wide range of travel information and negotiating favorable terms with travel suppliers on the basis of scale from our aggregated demand.

According to the China National Tourism Administration, as of the end of 2002, China had more than 11,500 travel agencies, with the top 100 domestic travel agencies having an aggregate market share of less than 2%. As the requirements of travelers become more complex, we believe that these local agencies, which had been accustomed to providing services using state-owned travel suppliers, have been increasingly unable to respond to the changing needs of business and leisure travelers in China. In addition, the development of China's tourism infrastructure has resulted in an increasing number of travelers who choose to engage in leisure travel without the constraints inherent in packaged group tours. These frequent independent travelers, or FITs, represent a key segment of the growing travel industry in China that we seek to serve.

The increasing accessibility of the Internet in China creates a foundation for new markets and opportunities, providing the ability to bring together a large number of segmented suppliers and customers in a highly fragmented travel industry. We believe that we are well positioned to benefit from these trends in China's travel industry.

Historical Background

Following the founding of the People's Republic of China, government agencies and state-owned enterprises dominated commercial activity in China up until the late 1970s when the Chinese government began to introduce market-based economic reforms. In the past, large state-owned travel agencies provided travel services to the consumers. The three largest travel agencies, the China Travel Service, or CTS, the China International Travel Service, or CITS, and the China Youth Travel Service, or CYTS, operated as loosely organized groups of individual local agencies that often had strong ties to local governments. The local offices of these organizations functioned individually with their own networks of customers and service suppliers. The choices available to travelers through these organizations were limited and the quality of services was inconsistent. For example, accommodation and transportation arrangements would be limited to hotels and airlines with which the local branch of the travel agencies had established relationships. While these state-owned agencies have made some

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efforts to integrate their widespread operations across the country, high levels of decentralization have persisted in the travel industry in China.

The Growth of the Economy and Tourism Industry in China

China's economy has grown rapidly in recent years with compound annual GDP growth of 8.2% in the period from 2000 through 2002. As China's economy has developed, the per capita annual incomes of urban and rural households have also increased. The following table sets forth certain statistical information regarding China's recent economic performance and per-capita annual income for the periods indicated.

	Year			CAGR
	2000	2001	2002	
GDP (RMB in billions)	8,947	9,731	10,479	8.2%
Real GDP growth rate (%)	9.0	8.8	7.7	N/A
Per capita GDP (RMB)	7,086	7,651	8,184	7.5
Per capita annual income of rural households (RMB)	3,146	3,307	3,449	4.7
Per capita annual income of urban households (RMB)	6,296	6,869	8,177	14.0

Sources: China Statistical Yearbooks 2001, 2002 and 2003.

Expenditures on tourism have grown at an even faster pace than GDP. In conjunction with rising per capita income in China, government policies have also fostered the development of the leisure travel and market. In the past decade, the central government and various levels of local governments in China have actively sought to promote investment in tourism infrastructure in order to further develop tourism. According to the China Statistical Yearbook, investment in capital construction for the tourism sector rose from RMB2.5 billion in 1998 to RMB5.1 billion in 2002. Since 1998, a total of RMB16.4 billion has been invested in capital construction for travel and tourism. Various levels of government have also introduced a number of policy initiatives to encourage tourism, including the introduction in 1999 of weeklong holidays for Labor Day in May and National Day in October, paid vacation days and the relaxation of many outbound travel restrictions. By 2003, the number of official off-days, including weekends and holidays, had reached 114 days per year, helping to stimulate travel demand.

Domestic travel volume has risen from approximately 280 million trips in 1990 to approximately 878 million trips in 2002, most of which was leisure oriented. In 2002 China posted 12.0% and 10.1% increases from 2001 in the number of domestic trips and in domestic tourism spending, respectively. International tourism grew as well, rising 11.0% in terms of international tourist arrivals and 14.6% in terms of international tourism revenues in 2002. China's growth in tourism was adversely affected in the first half of 2003 due to the effects of SARS, but growth in tourism has since recovered and is expected to be robust in 2004. The following table shows a summary of certain tourism statistics in China for the periods indicated.

	Year			CAGR
	2000	2001	2002	

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Domestic tourism spending (RMB in billions)	317.6	352.2	387.8	10.5%
Tourists (Overnight Visitors) (in millions)	31.2	33.2	36.8	8.6
International tourism receipts (US\$ in billions)	16	17.8	20.4	12.1

Sources: The Yearbooks of China Tourism Statistics 2001, 2002 and 2003

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The expansion in economic activity and tourism in China has led to a rapid expansion in the hotel sector. According to the Yearbook of China Tourism Statistics, the number of star-rated hotels, as rated by China National Tourism Bureau, grew from 853 in 1992 to 8,880 in 2002, with the number of rooms growing from 167,195 in 1992 to 897,206 in 2002. The following table shows the growth in the number of hotels in China with star rating and associated occupancy rates as of the dates and for the periods indicated.

	As of December 31,			
	2000	2001	2002	CAGR
Number of hotels with star rating	6,029	7,358	8,880	21.4%
Three- to five-star hotels	2,368	2,857	3,656	24.3
One- and two-star hotels	3,661	4,501	5,224	19.5
Total number of rooms	594,678	816,260	897,206	22.8
Total number of occupied room-nights (in millions)	125.0	174.2	197.1	25.6
Average occupancy rate (%)	57.6	58.5	60.2	N/A

Sources: The Yearbooks of China Tourism Statistics 2001, 2002 and 2003

Domestic air traffic in China has also been increasing rapidly. According to the China Statistical Yearbook, the number of civil flight routes connecting parts of China increased from 385 routes in 2000 to 1,015 routes in 2002. The following table shows recent traffic volume for China's airline industry and at selected airports in China as well as some statistics for selected airports in the United States for the periods indicated for comparison purposes.

	Year			
	2000	2001	2002	CAGR
	(in millions of passengers, except for flight routes)			
Total annual number of domestic air passengers	60.3	68.3	77.6	13.4%
Total number of domestic civil aviation flight routes	385	563	1,015	62.4
Annual airport traffic in Beijing (PEK)	21.7	24.2	27.2	13.8
Annual airport traffic in Shanghai				
Shanghai Pudong (PVG) ⁽¹⁾	5.5	6.9	11.0	41.2
Shanghai Hongqiao (SHA)	12.1	13.8	13.7	6.1
Annual airport traffic in New York (JFK)	32.8	29.4	29.9	-4.5
Annual airport traffic in Chicago (ORD) ⁽²⁾	72.1	67.4	66.6	-3.9

⁽¹⁾ The Shanghai Pudong International Airport opened on October 1, 1999. As a result, growth rates for passenger traffic at this airport may not represent an accurate basis of comparison.

⁽²⁾ The decline in airport traffic in the United States in 2001 and 2002 may reflect to a significant extent the effects of the terrorist attacks on September 11, 2001.

Sources: National Bureau of Statistics of China website (www.stats.gov.cn/english/); China Statistical Yearbooks 2000-2003; the John F. Kennedy International Airport website (www.panynj.gov/aviation/jfkframe.htm); the Chicago O'Hare International Airport website (www.ohare.com/ohare/home.asp).

Changing Travel Patterns in China

Leisure travel in China has in the past consisted principally of packaged group tours. Traditional travel agencies in China focus on packaged group tours. According to CYTS, one of the largest traditional travel agencies, approximately 90% of their customers traveled in tour

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groups in 2002. The typical tour group follows a set itinerary and is organized by a travel agency. The agency receives a fixed fee and negotiates discounted prices for hotel rooms and other travel related services either directly or through other intermediaries. Guided tour groups are generally useful to travelers who travel infrequently and who are unfamiliar with their destinations and who are looking for an economical way of travel. However, tour groups offer minimal flexibility in the choice of destinations, length of stay and timing of one's travel.

According to market data from CEIC Data Company Ltd., the frequent independent traveler, or FIT, segment of travelers grew at an approximately 18% compound annual growth rate from 1999 to 2002 and is the largest growing group of travelers in China. FITs are defined as travelers who do not travel with tour groups and who require flexibility in the selection of accommodations and transportation. FITs are typically more sophisticated urban dwellers who value customized experiences. We expect that as Chinese travelers become wealthier and more experienced with leisure travel, the appeal of traditional tours will become less important than the ability to arrange one's own schedule.

In the past, business travelers, who usually traveled on government business, had little choice but to accept the arrangements made by their organizations or by local travel agencies hired by their organizations. Accommodation and transportation arrangements were generally in the form of state-owned guesthouses or airlines that were part of the travel agent's network. We believe that the increase in commercial activity has contributed to a growing number of people in China conducting business travel outside of government related business travel.

Traditionally, most companies in China have relied on either local travel agencies or their internal resources for business travel planning. Companies in China have begun to recognize the importance of focusing on their core competency by outsourcing non-critical functions. A growing number of medium and large-sized companies are beginning to centralize their corporate travel management by outsourcing to professional travel service providers.

Inefficiencies and Fragmentations in the Travel Market in China

The travel market in China is highly fragmented with an underdeveloped booking, reservation and fulfillment infrastructure, and with no dominant nationwide travel agencies. As a result of market reforms, a gradual shift from state-owned to privately-owned travel agencies and changing travel patterns, the travel market in China is undergoing a period of change. While competition among the older state-owned travel agencies and the privately owned travel agencies has significantly promoted the development of China's travel service, the industry remains inefficient and is likely to remain so in the foreseeable future.

Inefficiencies in the hotel reservation system. According to the Year Book of China Tourism Statistics 2003, as of December 31, 2002, China had 3,656 three-, four- or five-star hotels. Hotels in China are generally run independently and are not part of large chains. The largest hotel chains in China are small relative to the larger hotel chains in the United States. There is no industry wide electronic reservation infrastructure similar to that available in the United States and parts of Europe.

There is no national distribution system for hotel rooms in China. Travel agents generally have to negotiate room availability and rates with the hotel each time they make a booking. Hotel suppliers in China are not able to benefit from an efficient distribution system that is managed by a centralized process. Until recently, travelers in China did not have access to comprehensive hotel information or a central location for bookings. Instead, consumers in

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China and hotels interact through walk-in room reservations, direct call-in reservations, business conventions and traditional travel agency bookings.

Inefficiencies in the air-ticketing system. Currently, TravelSky Technology Limited, or TravelSky, operates the only nationwide system for air-ticket reservations in China. Consumers in China do not have access to direct bookings on TravelSky unless it is done through individual travel agencies. Moreover, the delivery of air tickets remains inefficient. The majority of consumers in China receive their air tickets through physical delivery and payment to the travel agency is made upon delivery. The process of physical delivery means that consumers in China do not have a reliable or timely delivery process that can respond to last minute travel needs. For example, business travelers who change their flight destinations at the last minute often have to wait for the delivery of a physical ticket before they can initiate their travel. While some airlines in China have recently begun to offer electronic ticketing, there is currently no universal electronic ticketing system available.

Inefficiencies in traditional travel agencies. Travel agencies in China tend to be unaffiliated, small office operations. Even the four travel agencies that operate on a nationwide basis are mostly structured such that each office operates independently from the others. Consumers in China have generally not been able to enjoy the benefits that can be offered by a nationwide, integrated travel agency.

Inefficiencies created by separate regulatory regimes. Under current regulations, two distinct regulatory bodies regulate the travel industry in China. In order to sell air tickets, travel agencies must obtain a permit from the Civil Aviation Administration of China. If a travel agency intends to conduct the air-ticketing business in more than one city, an air-ticketing permit is required for every city, as there is currently no national air ticketing license. In addition, in order to conduct other travel-related business such as hotel reservations, the travel agency must obtain a separate license from the China National Tourism Administration. Consumers who wish to purchase both air tickets and make hotel reservations through a single agency must use a travel agency that performs both functions. Many traditional travel agencies are unable to perform both functions given the limited number of licenses that can be issued and the costs associated with obtaining each license. As a result, consumers are often forced to arrange travel plans with multiple travel agencies.

Internet Growth in China

According to the China Statistical Yearbook 2003, China had a total population of 1.3 billion, with approximately 470 million people concentrated in urban areas such as Beijing, Shanghai, Guangzhou and Wuhan. According to China Internet Network Information Center, China had approximately 87 million Internet users as of June 30, 2004, 28% higher than as of June 30, 2003. The majority of these Internet users are from urban centers. The increasing accessibility of the Internet in China creates a foundation for new markets and opportunities, providing the ability to bring together a large number of segmented suppliers and customers in a fragmented travel industry. In an online environment, consumers have access to a broad array of information that enables them to conveniently and efficiently evaluate and compare travel options, while suppliers can extend their marketing reach to a large base of widely dispersed potential customers. As Internet usage grows, consumer adoption of e-commerce and online travel booking is expected to increase accordingly.

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OUR BUSINESS

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 FITs, who engage in business and leisure travel. According to the China Statistical Yearbook 2003, China's domestic tourism spending totaled approximately RMB388 billion in 2002, and we believe FITs to be a fast-growing, yet relatively underserved segment of this market. 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 book 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, 2004, we generated revenues of RMB60.1 million (US\$7.3 million), an increase of 146.0% over RMB24.4 million generated in the six months ended June 30 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 a net income of RMB1.6 million (US\$0.2 million) for the year ended December 31, 2003 and a net loss of RMB9.3 million (US\$1.1 million) for the six months ended June 30, 2004. We recorded a net loss for the first six months ended June 30, 2004 as a result of our one-time payment of individual income tax obligations on behalf of five senior members of our management team, our payments into government-mandated multi-employer defined contribution plans, our compensation charge in relation to the employment of our chief financial officer, our provisions for doubtful accounts and our performance bonus paid to non-senior members of management. 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 service to hotels.

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Recent Developments

On August 4, 2004 we issued and sold 11,188,570 Series B preferred shares to IAC, which, among other things, owns and operates, through its IAC Travel division, various online travel businesses, including Expedia, Hotels.com, Hotwire and the WWTE private label business. We used approximately one-half of the proceeds of the sale to repurchase securities from our existing shareholders. After the share repurchase we retained US\$29,345,033 of the aggregate purchase price. Of that amount, US\$4,401,754 is being held in escrow, of which, subject to: (1) possible claims by IAC for indemnification under our agreement with IAC for breaches of representations, warranties, and covenants provided by us, and (2) payment by us for certain post-closing matters, US\$1,100,438 will be released to us on August 4, 2005 and the balance will be released on March 31, 2006. 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 will, if exercised, 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.

We are organized under the law of the Cayman Islands and have a wholly owned subsidiary in China that conducts operations in China under a series of contractual arrangements with our affiliated Chinese entities. See [Corporate Structure and Related Party Transactions](#) for information on our operating structure.

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 on the basis of scale from our aggregated demand. 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 our following competitive strengths:

Brand leadership. As one of the early movers in the industry to adopt modern communications and Internet technologies, we believe that we have established one of the best-known brands for travel services in China. We believe our customers associate the eLong brand with value, convenience and innovation. According to a survey conducted in January 2004 by iResearch, an online market research company in China, our Chinese-language website ranked number one in terms of consumer awareness for online travel services in China.

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 centralized 24-hour call center from anywhere in China or by logging onto our websites. Our customers may also access our services through our extensive nationwide reseller network consisting of more than 4,000 travel service providers. We issue and deliver air tickets using a network of local agents in major cities in China.

Total customer focus. We provide our customers with comprehensive travel information, allowing them to conveniently compare prices, browse availability and amenity options, and

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select the price and supplier that best meet their individual travel needs. We enhance customer experience through services such as personalized phone greetings, mobile text messaging that provides destination information, and a loyalty program that rewards repeat customers. Our user friendly websites, well trained call center representatives and continuous service development efforts reflect our focus on providing superior customer service.

Strong supplier value. We offer our travel suppliers access to aggregated consumer demand and the ability to promote their services to a large and growing base of frequent independent travelers seeking higher-end travel services. In addition, our call center and web-based transaction and service platform, with its easy-to-use supplier interface, allows our suppliers to promote their services at low incremental cost and with minimal changes to their existing systems.

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 for use in our business. These processes and systems incorporate business intelligence, customer relationship management, order processing, financial reporting and performance management and enable us to coordinate effectively the activities of our staff, agents, suppliers and resellers. This results in streamlined operations, a higher degree of operating flexibility and stronger customer relationships through enhanced customer service.

Scalable and cost-efficient platform. Our transaction and service platform, enabled by our centralized call-center and web-based distribution technologies, provides superior scalability and significant cost advantages over traditional methods of travel service distribution. Our platform allows 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 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 based on online and traditional media advertising, affiliations with top Internet portals in China

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including Yahoo!China, Sohu.com and Tom.com, and co-marketing programs with prominent consumer brands such as Motorola in China.

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We seek to encourage consumer conversion and the use of our services through segment-based marketing, targeted promotions and focused telemarketing efforts.

We also seek to promote the awareness of our brand and increase our penetration among our target customers by leveraging the customer bases of other leading businesses and customer service companies. Our initiatives in this area include:

increasing advertising and eLong card distribution using publications such as BusinessWeek, China Entrepreneur and bizTravel magazine;

cooperating with commercial banks for them to offer co-branded credit cards; and

entering into arrangements with major telecommunication companies in China, such as China Mobile, China Unicom and China Telecom, and with major airlines in China, such as China Southern Airlines, under which travel booking inquiries are directed from their service hotlines to us.

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 service, such as vacation packages, car rentals and corporate travel services. We seek to expand the selection of our destination services, such as restaurant and entertainment bookings, and offer our customers greater flexibility in choosing the desired combination of travel services.

Enhance customer experience. We seek to enhance our customer's experience by providing more personalized care, and by strengthening and expanding travel supplier relationships to offer our customers a wider range of travel services. We seek to deliver consistently high-quality customer service through continuous improvements in the information technology systems utilized in our call center, and in the content, features and functions of our websites.

We seek to retain our most loyal customers and generate repeat bookings by offering loyalty point rewards and additional specialized services, including dedicated VIP lounges at airports and a VIP call service with reduced waiting time. Our VIP call service, staffed by a dedicated team of specially trained representatives, provides VIP customers personalized travel advice and services.

Enhance efficiency and profitability. We have built our operating infrastructure to take advantage of the inherent cost advantages of our centralized call center and web-based distribution technologies. We also seek to increase the efficiency of our marketing programs by tracking the effectiveness of our expenditures on various marketing activities.

We continue to enhance our online distribution platform by making our websites more intuitive and easier to use and by capitalizing on improvements in electronic commerce infrastructure, such as the introduction of electronic ticketing. By using exclusive online promotional offers, we believe we will be able to benefit from the increasing adoption of online commerce among consumers by attracting additional customers and migrating existing customers to our websites, thereby lowering our operating costs.

Develop a complementary merchant business. We also seek to further enhance our profitability by developing a complementary merchant business. As we have achieved increasing scale in our hotel reservation business, we are building increasing volumes of repeat

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business with our key hotel suppliers, gaining better understanding of aggregated consumer booking patterns and the ability to better predict room demand. 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. We are promoting a proprietary electronic booking system to encourage more hotels to directly update their inventory information in our system. At the same time we are introducing our Enterprise Travel Automation System, or ETA, to our corporate customers. The ETA system is an advanced booking engine with additional functionalities tailored to our corporate customers, such as the ability to track employee travel applications and approvals, provide travel advice, and generate custom reports for planning and cost control purposes.

Selectively pursue complementary acquisitions. We seek to supplement the organic growth of our business by pursuing acquisitions which would enable us to expand our service offerings, our customer base and our distribution network. 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, work closely with IAC management and personnel and pursue additional travel opportunities.

Our Services

We offer our customers a wide selection of travel services. The following table sets forth the percentage of our total revenues represented by our services for the periods indicated.

	Year ended December 31,			Six-months ended
	2001	2002	2003	June 30,
				2004
Travel services				
Hotel reservations	50.4%	71.8%	81.0%	79.9%
Air ticketing	3.8	3.6	5.0	6.3
Other travel related services ⁽¹⁾	13.1	11.4	3.0	1.2
Other services ⁽²⁾	32.7	13.2	11.0	12.6
Total	100.0%	100.0%	100.0%	100%

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- (1) Other travel related services include primarily sales of co-branded and VIP membership cards.
- (2) Other services include Internet advertising, Internet services and short messaging services.

Hotel reservations. We currently have room supplier relationships with more than 2,600 hotels in over 220 cities throughout China. We seek to offer a range of hotel options at a variety

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of prices, with the majority of our hotel suppliers being three-, four- or five-star hotels, catering to higher-end customers. For the year ended December 31, 2003, we derived 81.0% of our total revenues from our hotel bookings. For the six months ended June 30, 2004, we derived 79.9% of our total revenues from our hotel bookings.

We act primarily as an agent in our hotel-related transactions. When a customer makes an initial inquiry through either our call center or our websites, we match the customer's request with our allotment of rooms and make a reservation for the customer with the appropriate hotel supplier. The hotel supplier returns a confirmation that is passed along to the customer by phone, fax or email. When the customer checks into the hotel on the designated date, the hotel informs us of the customer's check in. The customer settles his hotel bill directly with the hotel, and we are entitled to a fraction of the room rate as a commission. Upon the completion of a customer's stay, we verify with the hotel the length of the stay and calculate our commissions, ranging from 10% to 20% of the hotel room rate, which the hotels pay us on a monthly basis. We pay no penalty to the hotel for no shows on confirmed bookings, although we are not paid any commission in respect of no show bookings. We do not currently pre-purchase hotel rooms until the customer has paid us, and consequently do not carry significant inventory risk. However, as we supplement our current agent business model with a merchant business model, we may suffer losses if we are unable to accurately predict the inventory we need.

Our hotel booking volume has increased from approximately 389,000 room-nights in 2001 to approximately 1,032,000 room-nights in 2003. For the six months ended June 30, 2004, we booked approximately 847,300 room-nights. In July 2004, we booked approximately 177,300 room-nights and in August 2004 we booked approximately 191,200 room-nights. We have negotiated escalating commission rates with hotels with which we have higher booking volumes. As our reservation volume increases, we are often able to pass along higher hotel discount rates to our customers, while at the same time securing more guaranteed room inventory.

We use a proprietary Travel Information Automation system, or TIA, to manage our hotel supplier relationships. The TIA system provides end-to-end technology support for our hotel suppliers, allowing hotel personnel to enter and update hotel information including room availability, pricing and description on a real-time basis. Hotels without access to the Internet may call us to set up or update their information.

We also employ a proprietary hotel rating system that rates individual hotels using specific criteria related to pricing, room availability, amenities and customer satisfaction. We recommend highly rated hotels to our customers to generate more booking volume at these hotels. We believe that our hotel rating system allows us to improve customer satisfaction and strengthen our valued hotel supplier relationships.

Depending on our agreement with the individual hotel supplier, we either receive a guaranteed allotment of hotel room-nights per month or operate on an as-requested basis. Our agreements with hotels typically contain some or all of the following provisions:

Room pricing. The hotel guarantees negotiated room rates that are lower than published rates. In addition, the customer is also able to enjoy promotional rates if such rates are in effect.

Room supply. The hotel must notify us of any shortages of hotel rooms so that we can make alternative accommodations for our customers.

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Customer accommodation. The hotel must upgrade the customer to a higher level of accommodation if, due to the fault of the hotel, a customer's reserved room is not available upon check in.

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Confirmation of the customer's stay. The hotel must inform us of the length of the customer's stay. We confirm a customer's length of stay by contacting the hotel to verify the customer's check-in and check-out dates and contact customers to crosscheck the information reported by the hotel. We continuously rate our hotel on the basis of the accuracy and timeliness of the reported information.

Extended stay. The hotel must immediately inform us if the customer extends their stay beyond the original booking. We then book the extended stay and calculate the additional commission.

Commission payments. The hotel pays us either a flat, pre-negotiated or an escalating commission based on the number of hotel room-nights we book.

Our agreements with our hotel room suppliers are all in writing. We enter into agreements with companies that own hotels. Due to the fragmented nature of the hotel industry in China where hotels are generally owned separately, we generally enter into agreements with hotel companies on an individual hotel basis.

For hotels with which we have guaranteed room allotments, the hotel supplier gives us a specified minimum number of guaranteed available rooms each day. The hotel must notify us in advance if it is unable to make the guaranteed rooms available to our customers. Our guaranteed allotment allows us to provide more efficient customer service through instant confirmations, and we incur no obligation if the guaranteed allocation is not used. We intend to increase our guaranteed room allotments at frequently visited hotels so that we can best meet our customers' needs.

On an as-requested basis, we first confirm with the hotel the availability of rooms before we book a room and return the confirmation to the customer. Under this basis, our operational efficiency is generally reduced since we cannot deliver an instant confirmation to the customer.

Some of our hotel suppliers require that a customer use a credit card to guarantee a confirmed booking. In China, it is currently uncommon for businesses to be allowed to charge a customer's credit card without an accompanying purchase transaction. However, major financial institutions have allowed us to use credit card information without an actual purchase being made. As a result, currently we are one of the few reservation agents that are able to offer room reservations at hotels that require a guaranteed booking by credit card.

Air ticketing. We provide a 24-hour air-ticketing service through our toll-free call center and websites. We act as agents for all major airlines in China and international airlines that operate flights that originate from selected cities in China. We make flight reservations through TravelSky, which is the operator of the only nationwide system for air-ticket reservations in China, and currently issue and deliver air tickets using a network of local agents throughout major cities in China. Under current regulations, travel agents, including us, have no discretion to offer discounts on airline tickets. However, we have successfully negotiated escalating commissions with many airlines based on the number of air tickets we sell.

Our air-ticketing process begins when a customer initiates an inquiry through our toll-free call center or our websites. The customer is informed of the available flights based on their schedule and desired air carrier and we then confirm a booking for a seat on the selected flight through our call center. Booking information is sent to one of our local agents in the city where the customer wants the ticket to be issued and delivered. We have relationships with a network of local ticketing agents throughout major cities in China. We use these local agents and other third party delivery companies to deliver the tickets to our customers and collect

payments for

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the tickets. We then collect the airfare from the delivery company, pay the agent's commission and the cost of the tickets, and retain the balance ourselves. We currently do not pre-purchase air tickets for resale.

We believe that air-ticketing sales will represent a growing source of revenues in the future. In the six months ended June 30, 2004, we sold approximately 93,600 air tickets, compared to approximately 20,700 air tickets sold in the six months ended June 30, 2003. In July 2004, we sold approximately 21,800 air tickets and in August 2004 we sold approximately 23,700 air tickets. We anticipate that the expected adoption of e-tickets in China will allow consumers to better use our call center and websites to book air tickets and will benefit our air-ticketing business by allowing us to reach a broader customer base without materially increasing our operating costs.

Vacation packages. We offer third-party vacation packages that include air transportation, hotel accommodation and other travel related services to many popular destinations in China. A vacation package transaction begins in the same way as the majority of our other transactions, with the customer initiating an inquiry either through our toll-free call center or our websites. The customer selects the desired vacation package and places an order with us. After confirming both the hotel reservation and transportation arrangements with the appropriate travel supplier, we send our customer a confirmation and arrange for ticket delivery, if needed, through a local travel agency. The customer pays for the vacation upon delivery of the appropriate confirmation or air ticket, and we deduct our commission. In general, our customers only pay a penalty if they cancel their reservations at a late stage.

We select vacation packages to serve the unique needs of FITs. Many of our vacation packages are designed as self-guided tours which permit FITs to travel to desired locations without adhering to the rigid schedules that are typical of tour group packages.

Rental cars. We believe that rental cars for leisure or business travel will be increasingly important to FITs in the future. Currently we offer rental car services in Beijing and Shanghai. We act as agents for rental car companies with whom we have established relationships and earn a commission for the rental cars that we book. We do not incur a penalty for no-shows nor pre-pay for rental cars and consequently do not incur inventory risk.

We act as agents in our rental car business and a typical rental car transaction begins the same way as our other transactions. The customer uses our toll-free call center or websites to inquire as to the availability of rental cars and we confirm the booking with the appropriate car rental agencies. The customer pays the rental car company at the end of the rental period, and we are then paid our commission.

Corporate travel service. We have recently begun to provide companies in China a corporate travel service providing travel planning, hotel reservations, air-ticketing and rental car bookings. By centralizing their travel management functions, our corporate clients can reduce their travel costs and the associated administrative burden. We also assist companies in planning, executing and streamlining their travel budgets. We are introducing our ETA System to our corporate travel customers. The ETA system is an advanced booking engine with additional functionalities tailored to our corporate customers. It includes the ability to track employee travel applications and approvals, provide travel services, and generates customized reports for planning and cost control purposes. We provide our clients with detailed reports that monitor business trips made by individual employees, including relevant information on hotel and air-fare expenses, and the duration and frequency of trips. Upon request, we can provide confidential reports to client companies on travel outlays over any given period, with a breakdown by city, by employee or by branch.

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Other services. We derive revenues from other services including advertising on our websites, our VIP and co-branded membership cards and short messaging services with private label content to our customers' mobile telephones. Our other services are designed to complement our core travel related services and to enhance the overall customer experience with us. We derive revenue from Internet advertising based on the length of time that an Internet advertisement is displayed on our website. Our revenues from the sale of co-branded and VIP membership cards are based on the number of membership cards sold. In addition, we derive revenue from short messaging services based on the number of messages sent by the user. Going forward, we expect that our revenues from these other services will continue to decrease relative to our revenues from hotel reservations and air ticketing.

Marketing and Brand Promotion

We market our services through a combination of online marketing, direct marketing, traditional media advertising and co-marketing with established brands. We seek to build a brand identity that consumers associate with choice, convenience and value.

Direct marketing. We conduct direct marketing activities principally at major airports and transportation hubs in China. Our promotional efforts at these locations include the distribution of complimentary eLong Membership cards. eLong membership cards are part of our efforts to promote our services through a loyalty program. eLong membership cardholders are entitled to reward benefits such as complimentary hotel rooms and gifts for accumulated transactions.

In addition, as part of our direct marketing efforts we maintain a showroom at the Beijing International Airport. Our showroom at the Beijing International Airport includes eLong customer service representatives and a business center, allowing our customers full access to the Internet, fax, telecommunications and other amenities such as food and beverages. We also use our showroom at the Beijing International Airport to expose travelers and potential customers to our eLong brand.

Online marketing. We have established marketing agreements with top Internet portals in China including Yahoo!China, Sohu.com and Tom.com in order to expand our online presence. These portals feature hyperlinks to our websites for their hotel service recommendations to their web visitors. In some cases we operate on a co-branded basis, where we provide our services and our brand is featured on these portals. In other cases, we operate on a private label basis, where we deliver our services using the brand name of the originating website. In both cases, we pay commissions based on the bookings generated through our co-marketers. We feel that our online marketing effort is an important part of our marketing strategy and serves as a cost-effective marketing tool. In addition, our online presence serves as an additional channel to capture targeted customers through association with established Internet brands in China. We believe that the Internet will continue to experience growth in China, and our relationships with top Internet portals in China will position us well to exploit its potential.

Traditional marketing. Our traditional media advertising efforts include in-flight airline magazine advertising, flyer distribution and outdoor billboards. The focus of our media advertising efforts is to promote awareness of the eLong brand among our potential customers.

Co-marketing relationships. We seek to expand our market reach by entering into co-marketing agreements with companies that have a large customer base and strong brand recognition. We believe that we are able to reach more customers and capitalize on their brand recognition in promoting our services and in enhancing our credibility. We have developed

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co-marketing agreements with some of the largest companies in China, including major telecommunications service providers, major airlines in China, major consumer product companies and major financial institutions, with a view to establishing our brand.

The following sets forth a brief description of our co-marketing arrangements with these companies. Currently, we earn less than 4% of our travel related revenues through these arrangements.

Under the terms of our agreements with major telecommunications companies (China Mobile, China Unicom and China Telecom), we will be one of the service providers for travel related services to customers of the telecommunications company. The telecommunications companies will receive a commission for the reservations they generate for us. Our co-marketing agreements with these major telecommunications companies are valid for periods ranging from one to five years.

Under the terms of our agreements with major airlines (China Eastern, China Southern and Hainan Airlines), the frequent flyer members of these major airlines are entitled to use our services under similar terms currently enjoyed by eLong card members and earn mileage for booking hotel rooms with us. The mileage earned by frequent flyer members would be purchased by us based on a pre-determined price. Our co-marketing agreements with these major airlines are valid for periods ranging from one to three years.

Under the terms of our agreements with major consumer product companies such as Motorola, Inc., we will provide travel services, including hotel and air-ticket reservations and dining and entertainment discount services, to members of the user club of the particular consumer product company. Our co-marketing agreements with consumer product companies vary in duration.

In October 2002, CITIC Industrial Bank, or CITIC, issued a co-branded banking card called the CITIC eLong Card. Under the terms of our agreement with CITIC, CITIC will provide financial services to holders of the card and we will provide travel services relating to hotel and air-ticket reservations and dining and entertainment discounts to the card holders.

eLong membership program. We promote our brand through our loyalty program that rewards repeat customers. Membership in our eLong membership program entitles our customers to receive awards such as free travel services, non-cash gifts and amenities. Our membership program is designed to encourage repeat transactions in higher-end travel services that offer higher margins for us and forms the cornerstone of our customer retention program.

Distribution

We are one of the leading online travel service providers in China. We distribute our travel services through the following principal channels:

our twenty-four hours per day, seven days per week, toll-free call center;

our popular Internet websites; and

our extensive nationwide network of over 4,000 resellers.

Call center. We operate a 24-hour call center staffed by more than 300 customer service representatives. The call center is accessible nationwide on a toll free basis for fixed line telephone calls in China and by calling 1-888-eLongok in the U.S. and Canada. Mobile users currently cannot access toll-free service in general, but can access our services by calling our

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Beijing call center number. Our call center typically handles more than 15,000 calls per day, and accounts for approximately 75% of our total hotel and 100% of our air-ticketing reservations in terms of revenues. We believe that our call center constitutes a cost-efficient distribution channel because of the available pool of low-cost labor in China. We expect our call center to remain our principal distribution channel going forward, due to China's large and growing mobile and fixed-line phone subscribers and consumer preference for the personalized service we are able to provide through our call center.

Websites. We offer our travel services through our user-friendly websites *www.eLong.com* and *www.eLong.net*. Our Chinese and English language websites allow us to expand our customer base and improve customer service with minimum transaction costs. Customers can browse travel service options, compare prices, book and confirm orders through our websites. Our websites are designed to provide customers with a quick, efficient and flexible service that facilitates comparison among our large number of travel suppliers. Presently, our websites account for approximately 25% of the hotel reservations revenues.

Reseller network. We have developed an extensive nationwide network of over 4,000 non-exclusive resellers, consisting of smaller travel and air-ticketing agencies, that utilize our call center and websites to distribute travel services. We pay our resellers a portion of our commission, subject to an escalating scale, based on the number of hotel reservations and air-ticket bookings they generate for us.

Technology

We believe that we have a leading technology team in the travel service industry in China. Our goal is to develop a high-performance, reliable, scalable and secure system in-house to support our business demands for new features and functionalities.

We have built a sophisticated, proprietary back office system encompassing order processing, customer relationship management, inventory control, business intelligence and staff performance management functions that coordinates the activities of our internal departments, clients, agents and partners within a single cohesive platform. We have also invested in an advanced, in-bound call center for phone based bookings and a scalable network infrastructure platform utilizing hardware and software from top-tier vendors.

Our Travel Industry Automation, or TIA, system provides end-to-end technology support for our entire travel business. Developed completely in-house, this modular software suite combines order-processing and fulfillment functions with tools in business intelligence, customer relationship management, inventory control, and staff performance management. Web-based and connected to the our websites, the TIA system is accessible from many of our remote office locations. We can feed data into our financial system, interface with our toll-free call center system and reach China's mobile phone subscriber base.

Our system connects us with our suppliers, clients, partners and agents. Our web-based e-Booking software links hotels directly into our system, enabling them to manage their own inventories and more efficiently process our bookings. Our Enterprise Travel Management system helps our corporate clients streamline business travel and better manage their travel costs. Our agent management module provides our agents with a virtual reservation center complete with booking, client management and reporting capabilities.

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Our co-located server farm has two 100Mb/sec connections to China's Internet backbone. We deploy multiple redundancy features to ensure operational continuity. We back up our data

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daily onsite and monthly on tapes. The back up data are stored at a secured separate location to allow timely and complete recovery in the event of data loss.

Our infrastructure security system is designed to ensure that our users can only access and use our system according to their assigned authorization levels. Our system also includes VPN and encryption technologies to allow for secure Intranet access, as well as an intrusion detection system, which is designed to detect security breaches. Our infrastructure security system, however, may not be adequate at all times and we may experience occasional security breaches. See Risk Factors Risks Related to Our Business We could be liable for breaches of security on our websites and fraudulent transactions by users of our websites.

As of June 30, 2004, we employed 45 staff members to maintain and enhance our transaction and service infrastructure.

Competition

The travel service industry in China is extremely large, highly fragmented and intensely competitive. We compete with Ctrip.com International, Ltd, traditional travel agencies such as CTS, CITS and CYTS, and hotel suppliers that sell their room inventory directly to consumers. The major markets in which we currently compete include the relatively affluent coastal areas of China. As China's market continues to grow, we may face further competition from other new domestic hotel room consolidators or international players such as expedia.com or priceline.com that may seek to expand into China. We may also face increasing competition from hotels and airlines should they further expand into the direct selling market or engage in alliances with other travel service providers besides us. We compete on the basis of brand recognition, selection, price, ease of use, accessibility of information, breadth of services offered, convenience, and customer service and satisfaction.

We cannot assure you that we will compete successfully with any of our current or future competitors. See Risk Factors Risks Related to Our Business We may not be able to compete successfully against our current or future competitors.

Intellectual Property

To protect our proprietary rights, we rely upon a combination of copyright and trademark laws, trade secrets, and confidentiality agreements with both employees and third party protective contractual provisions. All of our employees have executed confidentiality and non-use agreements that transfer any rights they may have to copyrights and patents to us. In addition, prior to discussing business and technologies with outside parties, we typically require that the parties enter into a non-disclosure agreement with us. If these discussions result in a license or other business relationship, we also require that the agreement setting forth the parties' respective rights and obligations include provisions protecting our intellectual property rights.

Through one of our wholly-owned subsidiaries in China, elongNet Information Technology (Beijing) Co., Ltd., we have registered our domain names *www.eLong.com* and *www.eLong.net* with Register.com, Inc. and Tucows, Inc, respectively, two widely recognized Internet domains registries. We have also registered *www.eLong.com.cn* with the China Internet Network Information Center, a Chinese domain name registration service. The eLong character in Chinese is our registered trademark.

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The following table sets forth the number of our employee categorized by function as of the dates indicated.

	As of December 31,			As of
	2001	2002	2003	June 30,
				2004
Management and administration	47	56	67	91
Customer service	103	202	361	577
Sales and marketing	151	289	381	453
Supplier management	61	62	52	68
Technical services	21	24	32	45
Total	383	633	893	1,234

We participate in government-mandated multi-employer defined contribution plans under which certain pensions, medical and other welfare benefits are provided to employees. We make monthly payments to these plans based on the employee's compensation.

We have not entered into any collective bargaining agreements. We consider our relations with our employees to be good.

Facilities

Our headquarters in Beijing, consisting of our administrative center, sales and marketing division, technical services department and call center, is located in a leased space of approximately 3,700 square meters. We lease the premises for our headquarters under a three-year term lease, expiring in November 2006, with an option to renew for an additional two-year term. We also maintain branch and sales offices in major cities in China including Shanghai, Guangzhou, Shenzhen, Wuhan, Nanjing, Hangzhou and Chengdu. We believe that adequate facilities are available to accommodate our future expansion plans.

Legal Proceedings

We are currently not involved in any material litigation, arbitration or administrative proceedings that could have a material adverse effect on our financial condition or results of operations. From time to time, we may be involved in disputes with individual employees. So far as we are aware, no material litigation, arbitration or administrative proceedings are pending.

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INVESTMENT BY IAC/INTERACTIVECORP

Overview

On July 23, 2004, we and our two wholly-owned subsidiaries entered into a transaction agreement with IAC and IACT Asia Pacific Limited, an indirectly wholly-owned subsidiary of IAC, under which, among other things, IACT Asia Pacific agreed to purchase our Series B preferred shares from us. We also entered into a transfer and escrow contribution agreement with our existing shareholders and IACT Asia Pacific on July 23, 2004, under which, among other things, we agreed to repurchase some of our ordinary shares and Series A preferred shares from our existing shareholders. On August 4, 2004, the transactions contemplated by the transaction agreement and transfer agreement were completed.

Issuance and Sale to IAC of Series B Preferred Shares

On August 4, 2004, we issued and sold to IACT Asia Pacific Limited 11,188,570 Series B preferred shares, which represented approximately 30% of our outstanding ordinary shares on a fully-diluted basis as of that date (based on the current one-to-one conversion rate of Series B preferred shares into ordinary shares). For more information on the terms of the Series B preferred shares, see Description of Share Capital Preferred Shares Series B Preferred Shares. The aggregate purchase price for the Series B preferred shares sold to IAC was US\$58,690,062, or approximately US\$5.25 per share, a portion of which was deposited into escrow as described below. The purchase price is subject to a post-closing adjustment based on the amount of our cash and cash equivalents as of the August 4 closing. If our cash level as of closing was more than US\$6,288,508, IAC would be obligated to pay us 30% of the excess, and if our cash level was less than US\$6,288,508 as of closing, we would be obligated to pay IAC 30% of the deficit. If there is a dispute between the parties regarding the cash level as of closing, a nationally recognized accounting firm mutually acceptable to us and IAC will be engaged to settle the dispute. Currently, we have not determined or discussed the post-closing adjustment with IAC.

Repurchase from Shareholders of Our Securities

On August 4, 2004 we used US\$29,345,029, approximately one-half of the proceeds of the sale of Series B preferred shares to IAC, to repurchase from some of our existing shareholders an aggregate of 4,012,411 of our ordinary shares and 1,581,874 of our Series A preferred shares for a purchase price of approximately US\$5.25 per share. In connection with the issuance and sale of Series B preferred shares to IAC, we agreed with IAC that immediately after that issuance and sale, IAC would own approximately 30% of the shares of our company on a fully-diluted basis. We agreed with IAC that IAC would obtain such 30% through (1) a direct purchase of Series B preferred shares from our company and (2) a repurchase by us from our existing shareholders of a certain number of their shares, with the number of Series B preferred shares sold being roughly equal to half of the number of shares we purchased from existing shareholders. In connection with the IAC transaction, we offered to all of our existing shareholders the opportunity to sell to us a portion of their shares in our company. In addition, we offered to the holders of vested warrants or options who elected to exercise their vested warrants or options the opportunity to sell to us shares issued in connection with such exercises. The number of shares that each shareholder, warrant holder and option holder ultimately agreed to sell to us and that we agreed to buy was based upon discussions between us and each shareholder, warrant holder and option holder and the level of interest in selling expressed by each such holder. As further described below under Indemnification and Escrow, ten percent of the consideration to the existing shareholders was deposited into escrow. We agreed with these existing shareholders that they would reimburse us for 50% of

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any post-closing purchase price adjustment payments, as described above under Issuance and Sale to IAC of Series B Preferred Shares, that we might become obligated to pay to IAC, and that we would pay to them 50% of such post-closing adjustment payments that IAC might become obligated to pay to us.

In addition, under a transfer and escrow contribution agreement by and among our company, IAC and some of our shareholders, we agreed that, if IAC exercises its warrant, we will repurchase from some of our existing shareholders, at the same purchase price per share as IAC pays in connection with its exercise of the warrant, that number of ordinary shares equal to 50% of the number of high-vote ordinary shares which IAC purchases under the warrant. All of our existing shareholders and holders of vested warrants or options (other than IAC) were offered the opportunity to participate in such repurchase. The number of shares that each shareholder, warrant holder and option holder agreed to sell to us if IAC exercises the warrant was based upon discussions between us and each shareholder, warrant holder and option holder. As with the initial purchase, ten percent of the consideration to be paid to these existing shareholders upon the repurchase will be deposited into escrow and will be held in accordance with the terms described below under Indemnification and Escrow.

Under the transfer and escrow contribution agreement, the shareholders who agreed to participate in the repurchase described in the preceding paragraphs have agreed to indemnify IAC, its affiliates, and their respective officers, directors, agents and employees, successors and assigns as described below under Indemnification and Escrow.

Indemnification and Escrow

We and our existing shareholders have agreed to indemnify IAC, its affiliates, and their respective officers, directors, agents and employees from and against any costs, expenses, liabilities, damages or other losses incurred by any of them and arising out of the breach by us of any of our representations or covenants in the transaction agreement and related agreements. Our representations in the transaction agreement include customary warranties relating to our business and to our issuance of the Series B preferred shares. Such representations survive until March 31, 2006, except for certain major representations, such as with respect to taxes, capitalization and corporate authority, which survive through the expiration of their respective statutes of limitations. Our covenants in the transaction agreement generally relate to the post-closing operations of our business.

In addition, we and our existing shareholders have agreed to pay IAC 30% of any payments made by, penalties levied on, or judgments entered against us, our subsidiaries or our affiliated Chinese entities in connection with certain actions that we have agreed to take after the closing of the IAC investment. Payments due to IAC in connection with this obligation will be made by releasing the appropriate amount from the escrow deposit described below.

In order to secure the indemnification and payment obligations of us and the existing shareholders, US\$7,336,258 was deposited into escrow on August 4, 2004, of which US\$2,934,502, or 40%, represented the amount held back at closing from the net proceeds of the existing shareholders and the remaining US\$4,401,756, or 60%, represented the amount of our net proceeds withheld at closing. In addition, if IAC exercises its warrant as described below, 12.5% of the aggregate exercise price paid by IAC under the warrant will be deposited into escrow as additional security, 40% of which will represent the amount held back from our existing shareholders in connection with the repurchase of their ordinary shares relating to the warrant exercise and the remaining 60% of which will represent the amount of our net proceeds from the IAC warrant exercise withheld at the closing of such exercise.

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Our indemnification and payment obligations are limited in certain respects. IAC's sole recourse for indemnification with respect to breaches of our representations (other than for major representations, such as with respect to taxes, capitalization and corporate authority) is to the amounts deposited in escrow. Subject to any pending indemnification claims by IAC, on August 4, 2005, 25% of the amount then in escrow will be released to us and the existing shareholders, and any remaining amounts in escrow will be released on March 31, 2006. Our maximum liability for indemnification with respect to breaches of our major representations is US\$58,690,062.

In addition to bearing a portion of the indemnification obligations with respect to our representations and covenants and our payments in connection with certain post-closing matters, our existing shareholders have also agreed to indemnify IAC for breaches of their respective representations and covenants in the transfer agreement.

Stock Options

August Grant to IAC. In connection with the IAC investment, on August 4, 2004, we granted to IAC an option to purchase up to 711,429 of our ordinary shares at a purchase price of US\$5.25 per ordinary share. The option mirrors the terms and conditions of the 1.66 million options granted to certain of our employees and officers on July 23, 2004. The option becomes exercisable by IAC each time any such officer or employee exercises any of such 1.66 million options. In connection with each exercise by an employee or officer, IAC is entitled to exercise a portion of its option such that IAC would receive (if IAC exercises to the fullest extent in connection with such employee or officer exercise) 30% of the aggregate ordinary shares issued to such employee or officer and IAC in connection with such employee or officer exercise. To the extent that any such officer's or employee's options terminate or expire without being exercised, an amount of IAC's option equal to 30% of such officer's or employee's terminated or expired options will likewise terminate or expire.

October Grant to IAC. On October 1, 2004, we issued to certain of our officers options to purchase an aggregate of 250,000 ordinary shares. Under the investors agreement we entered into with IAC and our other shareholders on July 23, 2004, our Series A preferred shareholders and IAC each have a right of first offer with respect to any sales or issuances by us of any of our securities after August 4, 2004 and prior to the completion of this offering (including with respect to the issuance on October 1, 2004 of the 250,000 options), which gives each of our Series A preferred shareholders and IAC the right to buy, on the same terms, up to a portion of such issuance equal to the proportion that the number of shares held by such shareholder bears to the total number of our outstanding ordinary shares, on an as-converted and fully-diluted basis. In addition, under the investors agreement, we are not permitted to issue any of our securities (including the October 1, 2004 issuance of the 250,000 options to certain of our officers) without the prior written consent of IAC. See Governance and Other Rights of IAC Current Rights Attributable to the Warrant and Series B Preferred Shares.

Prior to October 1, 2004, each of our Series A shareholders waived their respective rights of first offer with respect to the issuance by us on October 1, 2004 of the 250,000 options to certain of our officers and the issuance by us on October 1, 2004 to IAC of an option to purchase up to 260,204 of our ordinary shares, as further described below.

On October 1, 2004, we entered into a stock option agreement with IAC pursuant to which, in exchange for IAC giving its consent to the issuance of the 250,000 options to certain of our

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officers, we granted to IAC an option to purchase up to 260,204 of our ordinary shares at a purchase price of US\$5.25 per ordinary share. The option mirrors the terms and conditions of the 250,000 options granted to our officers on October 1, 2004. The option becomes exercisable by IAC each time any such officer exercises any of the 250,000 options. In connection with each exercise by an officer, IAC is entitled to exercise a portion of its option such that IAC would receive (if IAC exercises to the fullest extent in connection with such officer exercise) 51% of the aggregate ordinary shares issued to such officer and IAC in connection with such officer exercise. To the extent that any such officer's options terminate or expire without being exercised, an amount of IAC's option equal to 51% of such officer's terminated or expired options will likewise terminate or expire.

Warrant

On August 4, 2004, we granted IAC a warrant which is exercisable by IAC during the first 30 business days following the completion of this offering. If IAC does not exercise the warrant within 30 business days of this offering, the warrant will expire. IAC's warrant entitles it to purchase that number of our high-vote ordinary shares equal to:

51% of our fully-diluted ordinary shares outstanding (but excluding the stock options granted to IAC in August 2004 and in October 2004 and the stock options we expect to issue upon the closing of this offering) minus the number of ordinary shares (including securities exercisable for or convertible into ordinary shares, but excluding IAC's stock options and warrant) held by IAC at the time of exercise;

divided by 0.745.

The purchase by IAC of that number of high-vote ordinary shares will result in IAC's holding approximately 52% of our outstanding ordinary shares on a fully-diluted basis and, in conjunction with the conversion of its Series B preferred shares into high-vote ordinary shares after its exercise of the warrant, approximately 96% of the total voting power of our shares (assuming in each case that the underwriters exercise their over-allotment option in full). Assuming the completion of this offering, the exercise price for the warrant will be equal to the lower of:

the initial public offering price for this offering; or

the price determined using: (1) US\$205 million, minus our indebtedness, plus our cash and cash equivalents, plus the pro forma consideration that would be received in connection with the exercise of all vested or unvested in-the-money options (but excluding the stock options we expect to issue upon the closing of this offering), warrants or other convertible securities of the company, in each case at the time of exercise, divided by (2) the total number of our outstanding ordinary shares on a fully-diluted basis at the time of exercise (but excluding out-of-the-money options, warrants or securities and the stock options we expect to issue upon the closing of this offering).

If IAC exercises the warrant, it will deposit 12.5% of the aggregate purchase price into escrow as security for its indemnification rights, as more fully described above under Indemnification and Escrow.

In connection with any exercise of the warrant by IAC, we will simultaneously repurchase from the existing shareholders that number of ordinary shares equal to 50% of the high-vote ordinary shares being purchased by IAC under the warrant. The purchase price for such repurchase would be the same as IAC's purchase price under the warrant.

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Restrictions on IAC

Transfers and Acquisitions. In connection with its investment in us, IAC has agreed to a number of restrictions, including:

IAC has agreed not to sell any of its shares in this offering;

If IAC exercises its warrant, it will not transfer any of its shares prior to the one-year anniversary of the completion of this offering;

IAC has agreed that, for the twenty-four month period following the consummation of this offering, it will not (and it will cause its affiliates, officers, directors, employees and representatives not to) solicit, initiate, entertain, consider, encourage or accept the submission of an inquiry, proposal or offer relating to the acquisition (whether by merger, purchase of stock or assets, or otherwise) of us (a) by IAC or any other party or (b) as part of a going-private transaction; and

If IAC's warrant expires unexercised and it holds less than 50% of the then-outstanding ordinary shares on an as-converted basis, then for a period of two years following the expiration of the warrant, IAC will not (and will not permit its affiliates to) acquire or agree to acquire, whether directly or indirectly, any equity securities of our company, with certain customary exceptions, such as for stock dividends, reorganization or other transaction, such as a rights offering, affecting any class of our securities generally; provided, that the restriction will cease upon the earlier to occur of (a) the date that IAC holds more than 50% of our outstanding shares on an as-converted basis, (b) the date on which an existing shareholder or its affiliate makes an offer to acquire or acquires an amount of our securities which, when added together with all of our securities that they have purchased since July 23, 2004, would equal 5% or more of our fully-diluted ordinary shares outstanding and (c) the date on which a third party makes a bona fide offer to acquire or acquires an amount of our securities which would result in such party holding 5% or more of our fully-diluted ordinary shares outstanding.

Non-Compete. As long as IAC holds more than a 15% economic interest in us (unless it transfers the voting rights with respect to that interest to us), it will be prohibited from owning, managing, operating or otherwise controlling any entity or business which operates a travel service in China or which markets travel services specifically to Chinese residents. The non-compete restriction is subject to exceptions for certain pre-existing IAC businesses, such as IAC's Interval International timeshare business, and IAC's private label arrangements with third-party websites that are operated within China that promote IAC's travel services to Chinese residents (including travel services provided in China) on their websites. In addition, IAC is not restricted from acquiring entities or participating in joint ventures or strategic relationships with entities that engage in a competitive business, so long as the assets and revenues attributable to the competitive business do not exceed 10% of the assets or revenues of the acquired entity, the joint venture or our company.

Governance and Other Rights of IAC

Current Rights Attributable to the Warrant and Series B Preferred Shares. Our corporate governance documents and agreements with our shareholders provide IAC with a greater degree of control and influence in the operation of our business and the management of our affairs than is typically available to non-majority shareholders of a publicly-traded company. As the sole holder of our Series B preferred shares, IAC has considerable approval rights with respect to the operations and management of our business, including with respect to the acquisition of any assets or businesses in excess of US\$1 million or the incurrence of any

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indebtedness in excess of US\$1 million. For a further description of such rights, please see Description of Share Capital Preferred Shares Series B Preferred Shares Protective Provisions.

In connection with IAC's investment in us, we entered into an investors agreement with IAC and our other shareholders on July 23, 2004, under which IAC has been granted similar approval rights. In addition, under the investors agreement, without IAC's prior written approval, we are prohibited from issuing any of our securities or allowing any of our subsidiaries or Chinese affiliates from issuing any of their securities, including in each case any stock options or convertible securities, except with respect to this offering.

These extraordinary approval rights will terminate within 31 business days of the completion of this offering. IAC's special approval rights under the investors agreement cease upon the earlier of (a) its exercise of the warrant and (b) the date on which its warrant expires unexercised, which would occur 30 business days from the completion of this offering if it chose not to exercise the warrant. The Series B preferred shares will automatically convert into ordinary shares or high-vote ordinary shares 31 business days after the completion of this offering.

IAC's Control Upon the Exercise of Its Warrant. If IAC exercises its warrant and purchases our high-vote ordinary shares, it will result in IAC's holding approximately 52% of our outstanding ordinary shares on a fully-diluted basis and, in conjunction with the conversion of its Series B preferred shares into high-vote ordinary shares after its exercise of the warrant, approximately 96% of the total voting power of all of our shares of voting stock (assuming in each case that the underwriters exercise their over-allotment option in full). Each ordinary share has one vote on all matters submitted to our shareholders whereas each high-vote ordinary share, which IAC would hold exclusively, has 15 votes.

Upon the exercise of the warrant, the parties to the investors agreement are required to do all things necessary to cause our board of directors to increase in size from seven members to eleven and to cause the four vacancies to be filled by IAC's designees, which would result in IAC designees comprising a majority of our board of directors.

Therefore, as a result of IAC's exercise of its warrant, IAC will be able to exercise control over all matters requiring approval by the board of directors or our shareholders, and this power may continue even if IAC owns a minority economic interest in us.

IAC's Rights If It Does Not Exercise Its Warrant. If IAC chooses not to exercise its warrant, it will within 31 business days of the completion of this offering lose the special approval rights described above under Current Rights Attributable to the Warrant and Series B Preferred Shares. However, even if IAC no longer has those approval rights, it will continue to have a number of control rights over the operation and management of our business as a result of the size of its equity interest in us and its rights under the transaction agreement and investors agreement.

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 (assuming the conversion of its Series B preferred shares into ordinary shares and assuming the underwriters exercise their over-allotment option in full). Although IAC will not have the power on its own to control the management of our company or prevent us from taking most actions, it will be considerably more difficult for our shareholders to approve matters submitted to them without the support of IAC, including some matters which the majority of our non-IAC shareholders support.

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Similarly, under the investors agreement, after the expiration of IAC's warrant, we and our shareholders who are parties to that agreement will continue to be 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 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. For more information regarding the director election rights under our investors agreement, see Management Board Practices.

IAC will also continue to have certain rights under the transaction agreement with respect to the operations and management of our company. For example, without the consent of IAC, neither we nor our subsidiaries or affiliates will be allowed to amend any of the contracts between our wholly-owned subsidiaries and our affiliated Chinese entities which govern our management rights over the affiliated Chinese entities and the operation of our business. For more information regarding such agreements, see Corporate Structure and Related Party Transactions. In addition, IAC has the right to replace the current shareholders of the affiliated Chinese entities with designees of its choice.

IAC will continue to have these rights until the earlier of: (1) 90 days after the earlier of (a) the date on which IAC's beneficial ownership of our capital stock is equal to or less than 15% on a fully-di