eLong, Inc.
Form 20-F
June 30, 2008
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number: 000-50984

eLong, Inc.

(Exact name of Registrant as specified in its charter)

Cayman Islands

(Jurisdiction of incorporation or organization)

Block B, Xingke Plaza Building

10 Middle Jiuxianqiao Road

Chaoyang District

Beijing 100016, People s Republic of China

(Address of principal executive offices)

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

Ordinary shares, par value US$0.01 per share.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of December 31, 2007:

22,318,501 ordinary shares, par value US$0.01 per share; 28,550,704 high-vote ordinary shares, par value US$0.01 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

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

Note checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark which financial statement item the Registrant has elected to follow: Item 17 ¨ Item 18 x

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

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* Omitted because the Item is not applicable or the answer is negative.
** The Registrant has responded to Item 18 in lieu of this Item.

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In this annual report on Form 20-F, references to we, us, our company, our and eLong are to eLong, Inc., its subsidiaries, and additionally, in context of describing our operations, our affiliated Chinese entities. References to China or the PRC are to the People s Republic of China, excluding for the purpose of this annual report Hong Kong, Macau and Taiwan.

Unless the context otherwise requires, references in this annual report to shares or ordinary shares are to our ordinary shares, par value US$0.01 per share. Such references do not cover our high-vote ordinary shares, as we refer separately to such shares using the term high vote ordinary shares. References to ADSs are to our American depositary shares, each of which represents two ordinary shares, and references to ADRs are to the American depositary receipts that evidence our ADSs. References to Nasdaq are to the Nasdaq Stock Market, Inc.

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP. Our consolidated financial statements are expressed in Renminbi, the legal currency of China. In this annual report, references to RMB are to Renminbi and references to U.S. dollars, US$ or $ are to United States dollars. Our financial year ends on December 31 of each calendar year and references to any year refer, unless indicated otherwise, to the year ended December 31 of the year specified.

The eLong character in Chinese with eLong.com in English is our registered trademark in China. This annual report also contains product and service names of companies other than eLong that are trademarks of their respective owners.

We intend to make this annual report and other periodic reports publicly available from our Internet websites (http://www.eLong.com and http://www.eLong.net) without charge immediately following their filing with the U.S. Securities and Exchange Commission (or SEC). None of the information contained on our websites is incorporated by reference into this annual report. We assume no obligation to update or revise any part of this annual report, whether as a result of new information, future events or otherwise, unless we are required to do so by applicable law.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This annual report contains certain forward-looking statements. These statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. 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 Item 3: Key Information Risk Factors. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, intend, plan, anticipate, believe, estima potential, continue or the negative of these terms or other comparable terminology. One or more of these factors could materially and adversely affect our operating results and financial condition in future periods. We cannot assure you that we will attain any estimates or become profitable 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 annual report. All forward-looking statements contained in this annual report are qualified by reference to this cautionary statement.

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PART I

Item 1: Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2: Offer Statistics and Expected Timetable

Not applicable.

Item 3: Key Information

Selected Consolidated Financial and Statistical Data

You should read the following information with our consolidated financial statements and related notes and Item 5: Operating and Financial Review and Prospects below.

The selected consolidated statements of operations and cash flow data for the years ended December 31, 2005, 2006 and 2007, and the selected consolidated balance sheet data (other than ADS data) as of December 31, 2006 and 2007, are derived from our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with these consolidated financial statements and related notes. The selected consolidated statements of operations and cash flow data (other than ADS data) for the years ended December 31, 2003 and 2004 and the selected consolidated balance sheet data as of December 31, 2003, 2004 and 2005 are derived from our audited consolidated balance sheet and related notes which are not included in this annual report. These consolidated financial statements are prepared in accordance with U.S. GAAP.

Our consolidated financial statements are expressed in Renminbi, the legal currency of China. Solely for convenience, this annual report contains translations of Renminbi amounts into U.S. dollars at specified rates. For more information regarding exchange rates, see the section entitled Exchange Rate Information below.

SELECTED CONSOLIDATED FINANCIAL DATA

	eLong, Inc. Year ended December 31,					
	2003[1]	**2004[1]**	**2005[1]**	**2006[1]**	**2007**	**2007**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**US$**
	(in thousands, except for per share data)					
Selected Consolidated Statements of Operations Data						
Net revenues	68,287	124,767	179,842	249,841	297,586	40,975
Gross profit	59,266	108,273	139,395	187,596	215,089	29,486
Total operating expenses	(57,909)	(131,059)	(185,624)	(203,608)	(229,678)	(31,486)
Earnings (loss) from operations	**1,357**	**(22,786)**	**(46,229)**	**(16,012)**	**(14,589)**	**(2,000)**
Earnings (loss) from continuing operations	929	(20,803)	(43,285)	(444)	(25,691)	(3,522)
Net earnings (loss)	**1,616**	**(18,982)**	**(60,518)**	**1,040**	**(25,588)**	**(3,508)**
Earnings (loss) per share from continuing operations	0.05	(1.14)	(0.87)	(0.01)	(0.51)	(0.07)
Total basic earnings (loss) per share	0.09	(1.04)	(1.22)	0.02	(0.51)	(0.07)
Total diluted earnings (loss) per share	0.09	(1.04)	(1.22)	0.02	(0.51)	(0.07)
Earnings (loss) per ADS from continuing operations	0.11	(2.28)	(1.74)	(0.02)	(1.02)	(0.14)
Total basic earnings (loss) per ADS	0.18	(2.08)	(2.44)	0.04	(1.02)	(0.14)
Total diluted earnings (loss) per ADS	0.18	(2.08)	(2,44)	0.04	(1.02)	(0.14)

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(1) In 2007 with the adoption of EITF Issue No.06-03 *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)*, business tax expense and related surcharges have been presented on a net basis (excluded from revenues). Amounts for all prior periods presented have been reclassified for comparative purpose.

eLong, Inc. As of December 31, (in thousands)	2003 RMB	2004 RMB	2005 RMB	2006 RMB	2007 RMB	2007 US$
Selected Consolidated Balance Sheet Data						
Cash and cash equivalents	73,132	610,047	988,560	1,199,323	1,138,447	156,067
Working capital[2]	80,677	639,099	1,013,590	1,106,345	1,079,590	147,999
Property and equipment, net	8,108	15,428	33,306	37,809	43,962	6,027
Total assets	130,561	741,074	1,188,421	1,334,908	1,331,668	182,555
Long-term obligation			2,287	980		
Accumulated deficit	(24,223)	(43,205)	(103,097)	(102,056)	(127,644)	(17,498)
Shareholders equity	100,608	678,889	1,088,330	1,199,799	1,184,611	162,396

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

eLong, Inc. Year ended December 31, (in thousands)	2003 RMB	2004 RMB	2005 RMB	2006 RMB	2007 RMB	2007 US$
Selected Consolidated Cash Flow Data						
Net cash provided by (used in) operating activities	(7,429)	(5,339)	30,478	76,554	42,349	5,806
Net cash provided by (used in) investing activities	(1,628)	(30,140)	(32,813)	72,985	(43,638)	(5,982)
Net cash provided by financing activities	76,856	572,460	404,058	95,140	7,355	1,008

Exchange Rate Information

We conduct our business primarily in China and our revenues and expenses are primarily denominated in Renminbi. This annual report 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 annual report 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 annual report were made at a rate of RMB 7.2946 to US$1.00, the noon buying rate in effect as of December 31, 2007. The noon buying rate as of April 30, 2008 was RMB6.9870 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.

See Item 3: Key Information 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 Item 3: Key Information 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 shares and ADSs.

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The following tables set 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 annual report or in any other information to be provided to you. The source of these rates is the Federal Reserve Bank of New York.

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

Average exchange rates of Renminbi per U.S. Dollar

	Average
Year ended December 31, 2003	8.2771
Year ended December 31, 2004	8.2768
Year ended December 31, 2005	8.1826
Year ended December 31, 2006	7.9579
Year ended December 31, 2007	7.5806

The table below shows the high and low exchange rate of U.S. dollars per Renminbi for each of the six months from November 2007 to April 2008:

Recent exchange rates of Renminbi per U.S. Dollar Renminbi per U.S. Dollar Noon Buying Rate

	High	Low
November 2007	7.4582	7.3800
December 2007	7.4120	7.2946
January 2008	7.2946	7.1818
February 2008	7.1973	7.1100
March 2008	7.1110	7.0105
April 2008	7.0185	6.9840

Risk Factors

You should carefully consider each of the following risks and uncertainties associated with our company and the ownership of our securities. 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 with which you may be familiar. Additional risks not currently known to us or that we currently deem immaterial may also have an adverse impact on our business operations.

Risks Related to Our Business

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

We sustained net losses each of our fiscal years from 2001 to 2007, other than 2003 and 2006. We expect that, due to our anticipated growth, our operating expenses will continue to increase. As a result, we cannot assure you that we will be profitable in the future.

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Our business may be harmed if we fail to strengthen our brand recognition and ensure high quality service among customers 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 high levels of service in order for the eLong brand to be associated with quality and value. If we fail to ensure high service levels and strengthen our brand recognition among our current and potential customers and business partners, our operating results and financial condition may be adversely affected.

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 and traditional travel agencies. 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 or future 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. Therefore, we cannot assure you that we will be able to successfully compete against current or future competitors.

Growth may present significant challenges to us.

In order to be successful, we must train and manage our workforce and improve and develop our financial and managerial controls and reporting system and procedures. The expansion of our business may present significant challenges to our management, systems and resources.

Our business depends substantially on the continuing efforts of our senior executives, other key employees, and call center staff, 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 senior executives and other key employees. 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. During 2007 and the 1st quarter of 2008, we experienced a number of changes in our senior management.

In addition, we have experienced substantial turnover at all levels of our company in the last three years. If one or more of our key executives are unable or unwilling to continue in their present positions, we may not be able to easily replace them. As a result of these factors, we may incur additional expenses to recruit and train replacement personnel.

Moreover, if any of our key executives joins a competitor or forms a competing company, we may lose customers and suppliers. We cannot guarantee that we will be able to successfully enforce in court the noncompetition provisions of the employment agreements with our executive officers, senior management and key employees.

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

We are dependent on our continued relationships on favorable terms with our air, hotel and other travel service providers. In particular, the ability to contract in advance for the guaranteed availability of 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, obtain favorable contractual terms with our travel suppliers or establish new relationships with travel suppliers on terms satisfactory to us.

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We are also dependent on our continued relationships on favorable terms with certain third-party distribution partners, such as under one-year agreements, renewable annually, with certain telecommunications companies, pursuant to which we pay a commission for the hotel reservations they generate for us by transferring their customers calls to our hotel booking hotline. Third-party distribution partners accounted for approximately 20% of our total revenue for the year ended December 31, 2007. We cannot assure you that we will be able to maintain satisfactory relationships, obtain favorable contractual terms with such distribution partners or establish new relationships with similar distribution partners on terms satisfactory to us in the future.

The laws and regulations of the PRC restrict foreign investment in the air ticketing, travel agency and Internet content provision businesses 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 provisions limiting foreign ownership in PRC companies providing Internet information and other online Internet services, air ticket booking services and travel agency services. As a result, we conduct our business through contractual arrangements between our subsidiaries, eLongNet Information Technology (Beijing) Co., Ltd. (or eLong Information) and Bravado Investments Limited (or Bravado) and our affiliated Chinese entities, Beijing eLong Information Technology Co., Ltd. (or Beijing Information), Beijing Asia Media Interactive Advertising Co., Ltd. (or Beijing Media), Beijing eLong Air Services Co., Ltd. (or Beijing Air), Beijing eLong International Travel Co., Ltd. (or Beijing Travel), and Hangzhou eLong Air Service Co., Ltd. (or Hangzhou Air). Beijing Information holds a license for Internet content provision services, a license for call center services, and a license for wireless services; Beijing Air and Hangzhou Air hold the air ticketing licenses; and Beijing Travel holds a domestic travel agency license, all of which licenses and approvals are essential for our business operations.

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 or confiscating our income or the income of our affiliated Chinese entities;
- revoking our business licenses or the business licenses of our affiliated Chinese entities;
- requiring us and our affiliated Chinese entities to restructure our ownership structure or operations; and
- requiring 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, and adversely affect, our operations.

Our business depends on the technology infrastructure and service of third parties.

We rely on third-party computer systems and other service providers, including the computerized reservation systems of hotels and airlines, to make reservations and confirmations, to issue air tickets and to make deliveries. 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 deterioration in their performance could impair the quality of our service. Furthermore, if our arrangements with any of these third parties are terminated, we may not find an alternate source of support on a timely basis or on satisfactory terms.

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We may not use our existing cash and cash equivalents effectively.

We received significant proceeds from equity financing in 2004 and 2005. Our failure to make effective use of our cash and cash equivalents could prevent us from improving our financial results and competitive position. A significant portion of our cash and cash equivalents are denominated in U.S. dollars. If the Renminbi continues to appreciate we will continue to record exchange losses on these cash and cash equivalents and these losses could be material to our results of operations.

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

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 accurate information regarding the customer s check-in and check-out dates, which form the basis for calculating the commission we are entitled to receive from the hotel supplier. While we penalize 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 inaccurate information with respect to our customers length of stay, our revenues derived from hotel bookings may be materially and adversely affected.

If our 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 established effective economic control through a series of contracts. These agreements may not be as effective in providing control as would direct ownership of these businesses. 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 could be uncertain. Any legal proceeding could result in a material disruption of our business, damage to our reputation, diversion of our resources and the incurrence of substantial costs.

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, and Internet industries.

The Chinese government extensively regulates the air ticketing and travel agency 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.

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

Our call center and substantially all of our computer and communications systems are located at our main facility in Beijing and therefore vulnerable to damage or interruption from man-made or natural causes. However, we do not have a comprehensive disaster recovery solution and do not carry business interruption insurance to compensate us for losses that may occur.

We depend on our systems and information infrastructure to support all aspects of our booking transactions. If we are unable to upgrade our system to keep pace with our business growth, we may experience system outages, 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 ticket deliveries, and inaccurate reporting of travel information. Any of these factors may cause us to lose customers or suppliers.

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We may become involved in costly and time-consuming litigation regarding our intellectual property rights, the content on our websites, or breaches of security with respect to confidential information and fraudulent transactions in connection with our websites and business.

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 to 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.

Our websites contain information about hotels, flights and popular vacation destinations, and other travel-related topics. Third parties could take legal action against us for 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.

Our transactions are conducted through our websites or through access to our database of customer information. 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, 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.

Our business is subject to risks associated with credit card fraud.

An increasing portion of our revenue is paid by customers using credit cards. There have been and there likely will continue to be attempts to use fraudulently obtained credit card information to pay for our products and services. As fraudulent credit card schemes become more sophisticated, it may become increasingly difficult and costly for us to detect and prevent such fraud, which could cause us to incur significant and unforeseen losses.

We are controlled by Expedia, Inc., and conflicts of interest may arise.

Expedia controls approximately 95% of our voting power and has the power to control the election of our board of directors. As a result, Expedia is generally able to exercise control over all matters requiring approval by our board of directors or our shareholders.

Conflicts of interest may arise between Expedia and us, including corporate opportunities, and potential acquisitions and financing transactions. Expedia s control could prevent a sale of our company or removal or replacement of our current board of directors, even if such actions would be beneficial to our other shareholders. In addition, some of our directors may have interests in both us and in Expedia, which could cause them to have conflicts of interest.

Despite the fact that Expedia controls us, Expedia is currently under no contractual obligation to provide us with benefits relating to the experience and strength of its travel and travel-related businesses, and we cannot assure you as to when or whether we will realize any benefits as a result of being controlled by Expedia.

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

A component of our business strategy is to consider acquisitions of complementary businesses in areas that provide incremental revenue. 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, acquisitions that we complete or have completed may not be successfully integrated into our existing operations. If we are unable to execute our acquisition strategy effectively, our growth may be adversely affected.

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We would be adversely affected by the discontinuation of any of the preferential tax treatments currently available to us in the PRC.

Our wholly owned PRC subsidiary, eLong Information, and one of our affiliated Chinese entities, Beijing Information, enjoyed a 15% preferential enterprise income tax rate in 2007. These Chinese entities must continue to meet a number of criteria to qualify for beneficial tax treatment, some of which criteria were revised in April 2008.

In March 2007, the Chinese government enacted the new Corporate Income Tax (CIT) Law (CIT Law) and promulgated related regulations The CIT Law, which became effective January 1, 2008, imposes a unified income tax rate of 25% for both domestic and foreign invested enterprises. High New Technology Enterprises will still enjoy a preferential CIT rate of 15%, and the qualifying criteria under the CIT Law were released in April 2008. The Group is in the process of evaluating eLong Information and Beijing Information s qualification as High New Technology Enterprises under the new rules. These two entities are subject to an annual assessment by the relevant PRC government authority before they can continue to enjoy the preferential tax rate of 15%, otherwise, a tax rate of 25% will apply. There is no assurance that eLong Information and Beijing Information will continue to meet the qualifications of High New Technology Enterprise .

The CIT Law also provides that enterprises established in foreign countries or regions for which the de facto management bodies are located within the PRC will be considered as PRC resident enterprises and will be subject to CIT at the rate of 25% on their global income. The CIT Law defines the term de facto management bodies, but the detailed implementation guidance has not released by the relevant government authority. We therefore cannot assure you that eLong, Inc. would not be considered as a resident enterprise under the CIT Law. If eLong, Inc. is considered as a resident enterprise, then we could be subject to CIT of 25% on our global income. Otherwise, a non-resident enterprise is subject to withholding tax at the rate of 10% with respect to its PRC-sourced dividend income distributed from earnings accumulated after January 1, 2008. The 10% withholding tax rate is subject to applicable tax agreements or treaties between the PRC and other tax jurisdictions.

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 business and personal discretionary spending levels, it tends to decline during general economic downturns. Adverse trends or events that tend to reduce travel and are likely to reduce our revenues include:

- increases in prices in the hotel, airline or other travel-related sectors;
- increases in the occurrence of travel-related accidents;
- outbreaks of severe acute respiratory syndrome (SARS), avian flu, or other epidemics;
- terrorist attacks or threats of terrorist attacks or wars;
- natural disasters or poor weather conditions.

As a result of any of these events, over which we have no control, we could be severely and adversely affected.

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

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

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

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

Our financial results have been, and are expected to continue to be, significantly 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 economic growth will continue or that any slow-down or increased economic volatility will not have a negative effect on our business. For example, the rate of inflation in China was significantly higher in the last quarter of 2007 and the first quarter of 2008 than in recently preceding years. The scope and the extent of inflation could adversely affect the Chinese economy as well as business and personal travel. Any slow-down of, or increased volatility in, economic growth in China may reduce expenditures for travel, which in turn would reduce our revenues.

Uncertainties and restrictions in the PRC legal system may have a material and adverse impact on our business and limit the protections available to you.

Although we believe that our current operations are compliant with applicable PRC laws and regulations, there are substantial uncertainties regarding the interpretation of existing and new PRC laws and regulations that apply to electronic commerce. 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. For example, the new PRC Employment Contract Law, which became effective on January 1, 2008, provides more employment protection to employees in China and, as a result, we may incur additional staff costs in the future. 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.

Our subsidiaries in the PRC and our affiliated Chinese entities are subject to PRC laws and regulations. We conduct part of our business through contractual arrangements with our affiliated Chinese entities, as foreign ownership is restricted in the air-ticketing, travel agency, advertising and Internet content provision industries. These entities hold the licenses and approvals that are essential for our business operations.

There are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. These uncertainties could limit the legal protections available to us and our investors. In addition, we cannot predict the effect of future developments in the PRC legal system, particularly with respect to the travel industry and 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.

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.

Further, if we and our affiliated Chinese entities are found to be in violation of any existing or future PRC laws or regulations, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation, levying fines, confiscating our income or the income of our affiliated Chinese entities, revoking our business licenses or the business licenses of our affiliated Chinese entities, requiring us and our affiliated Chinese entities to restructure our ownership structure or operations, and requiring that we discontinue any or all portions of our Internet content provision, air ticketing, travel agency or advertising businesses.

Fluctuation of the Renminbi may materially and adversely affect the value of our company and our ADSs.

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. The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People s Bank of China. The RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The PRC government may adopt a more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar.

Any changes in the value of the Renminbi may materially and adversely affect the value in foreign currency terms of our ADSs and any dividends payable by us. Substantially all of our revenue-generating operations are transacted in Renminbi, and we have a significant portion of our financial assets denominated in U.S. dollars. If the Renminbi continues to appreciate we will continue to record unrealized exchange losses on United States dollar-denominated assets and these losses could be material to our results of operations.

Governmental control of currency conversion may affect the value of our company and our ADSs.

We receive substantially all of our revenues in Renminbi, which is currently not a fully convertible currency. 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 our ADSs.

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.

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

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

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. 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 and major impediments include:

- limited use of credit card and other electronic commerce infrastructure;

- inexperience with the Internet as a sales and distribution channel;

- inadequate development of necessary infrastructure to facilitate online commerce;

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

- inexperience with credit card usage or with other means of electronic payment.

If the Internet does not become a widely accepted medium for commerce in China, our business development and growth may be significantly impeded.

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

Failure to maintain effective internal controls could have a material and adverse effect on the trading price of our ADSs.

Our management has concluded that our internal control over financial reporting is effective. See Item 15. Control and Procedures. Our independent registered public accounting firm, KPMG, has issued an attestation report on our internal control over financial reporting. The report on the audit of internal control over financial reporting appears in this Form 20-F. Effective internal controls are necessary for us to produce reliable financial reports. Any failure to maintain the effectiveness of our internal controls over financial reporting, in addition to causing us to be unable to report in future annual reports on Form 20-F that such internal controls are effective, could result in the loss of investor confidence in the reliability of our financial statements, which in turn could adversely affect the trading price of our ADSs. Furthermore, we may need to incur additional costs and use additional management and other resources in an effort to maintain compliance with Section 404 of the Sarbanes-Oxley Act.

The market price for our ADSs may be volatile.

The market price of our ADSs has been volatile and is likely to continue to be so. Since our initial public offering, the trading price of our ADSs has ranged from a low of US$7.10 per ADS to a high of $25.99 per ADS. On April 30, 2008, the closing price of our ADSs was US$9.37 per ADS. Our trading price may continue to be subject to wide fluctuations in response to various 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 companies;

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

- additions or departures of key personnel;

- sales of additional ordinary shares or ADSs; and potential litigation.

Any of these factors may materially and adversely affect the market price of our ADSs.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of technology companies, and particularly Internet-related companies.

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The future 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 in the public market substantial amounts of our ordinary shares or ADSs, including those issued upon the exercise of outstanding options and warrants and the settlement of performance units, 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.

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. 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.

Our subsidiaries and affiliated Chinese entities in China are subject to restrictions on paying dividends or making other payments to us, which may decrease our primary internal source of funds.

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

You may have fewer rights, and may have less protection for your interests as a shareholder, than you would if you were a shareholder of a U.S. company.

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

eLong is a Cayman Islands corporation. Shareholder rights under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent 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.

Item 4: Information on the Company

4A. Corporate History

eLong, Inc. was incorporated in the British Virgin Islands on April 4, 2001. On May 19, 2004, eLong, Inc. was re-incorporated in the Cayman Islands as an exempt company with limited liability under the Cayman Islands Companies Law (2004 Revision).

On August 4, 2004, we sold 11,188,570 Series B preferred shares to Expedia Asia Pacific, which is now an indirectly wholly-owned subsidiary of Expedia, for US$58.7 million. We used approximately one-half of the proceeds from Expedia Asia Pacific, or US$29.3 million, to repurchase 1,581,874 Series A preferred shares and 4,012,411 ordinary shares from certain of our then-existing shareholders. On December 17, 2004, Expedia s Series B preferred shares automatically converted into high-vote ordinary shares. In conjunction with the sale of Series B Preferred Shares to Expedia Asia Pacific we also granted to Expedia Asia Pacific a warrant to purchase that number of our high-vote ordinary shares as would result in Expedia Asia Pacific s holding approximately 52% of our outstanding shares on a fully-diluted basis and approximately 95% of our voting power. On August 4, 2004, we also granted to Expedia Asia Pacific options to purchase 711,429 ordinary shares and, in October 2004, we granted Expedia Asia Pacific options to purchase up to an additional 260,204 ordinary shares. See Item 6: Directors, Senior Management and Employees Share Ownership Options Granted to Expedia Asia Pacific for a more detailed description. On January 7, 2005, Expedia Asia Pacific purchased 17,362,134 of our high-vote ordinary shares pursuant to the exercise of Expedia Asia Pacific s warrant, for an aggregate cash purchase price of $107.8 million, or US$6.21 per share (the equivalent of $12.42 per ADS), giving Expedia Asia Pacific beneficial ownership of approximately 52% of our outstanding shares on a fully-diluted basis and approximately 95% of our voting power. We used approximately one-half of the proceeds from Expedia Asia Pacific s warrant exercise, or US$53,909,426, or US$6.21 per share, to purchase 8,681,067 ordinary shares from certain of our existing shareholders. Such warrant exercise price and share repurchase price were subject to a post-closing adjustment based upon our actual indebtedness as of December 15, 2004. In April 2006, a post-closing adjustment was made such that the warrant exercise price and share repurchase price was adjusted to $6.20434 per share (the equivalent of $12.40868 per ADS). The warrant exercise price and share repurchase price are no longer subject to any adjustments.

On November 2, 2004, we completed initial public offering of our ADSs.

Our principal executive office is located at Block B, Xingke Plaza Building, 10 Middle Jiuxianqiao Road, Chaoyang District, Beijing, 100016 in the People s Republic of China. Our telephone number is: +86 (10) 5860-2288. Our agent for service of process in the United States is CT Corporation System located at 111 Eighth Avenue, New York, NY 10011.

4B. Business

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 domestic travel market in China.

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Since our inception in April 2001, we believe we have built one of the largest travel service distribution networks 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 comprehensive travel information and the ability to book rooms at discounted rates at over 4,800 hotels in over 300 cities across China and air tickets in over 70 major cities across China. Through our parent company Expedia Asia Pacific and its affiliates, we offer the ability to book rooms at 40,000 hotels outside of China. We offer customers substantial content relevant to their hotel booking decisions, including recent photos, facility information, and for many properties, rotating 360 degree photos of the hotel rooms and facilities. In 2007, we facilitated the sales by our hotel suppliers through our booking services, of approximately 3.71 million room nights and sold approximately 1.42 million air tickets.

We have experienced significant growth since we began operations in 2001. Our revenues are primarily derived from hotel reservation, air-ticketing, other travel revenue and non travel revenues. For information on revenue attributable to different products, see Item 5 Operating and Financial Review and Prospects Principal Factors Affecting Our Results of Operations.

Our Services

We offer our customers a wide selection of travel services. In 2007, we derived 76% of our revenue before business tax and surcharges from the hotel reservation business and 18% of our revenues from the air-ticketing business.

Hotel reservations. At December 31, 2007 we had room supplier relationships with over 4,800 hotels in over 300 cities throughout China. We seek to offer a range of hotel options at a variety of prices, with the majority of our hotel suppliers being economical, three-, four- or five-star hotels, catering to higher-end customers. For the years ended December 31, 2005, 2006 and 2007, we derived 80%, 79% and 76% of our total revenue before business tax and surcharges from our hotel reservation services.

We act primarily as an agent in our hotel-related transactions. We make room reservations based on customers inquiry and, upon the completion of a customer s stay, we calculate our commissions, generally ranging from 10% to 20% of the hotel room rate, which the hotels pay us on a monthly basis. We also confirm with the hotel the length of the customer s stay. We pay no penalty to the hotel for no shows on confirmed reservations, although we are not paid any commission in respect of such no show reservations. Because we generally do not make commitments regarding hotel rooms that we book for our customers, we do not carry significant inventory risk.

Our hotel reservation volume has increased significantly since our inception and reached approximately 3.71 million room nights in 2007 compared to 1.03 million room nights in 2003. We have negotiated escalating commission rates with some 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. 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.

We enter into agreements with companies that own or operate 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. Our agreements with our hotel room suppliers are all in writing.

For hotels with which we have guaranteed room allotments, the hotel makes available to 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. Our guaranteed allotment allows us to provide more efficient customer service by enabling us to provide our customers with an instant confirmation of their reservations. We incur no obligation if the guaranteed allocation is not used.

For hotels with which we do not have guaranteed room allotments, we confirm with the hotel the availability of rooms before providing a confirmation to the customer.

Air ticketing. We provide a 24-hour air ticketing service through our toll-free call center and websites. We act as an agent 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. We receive a commission when we sell an airline ticket net of cancellation, and we have an escalating commission structure 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. In cases where the air ticket needs to be issued outside of Beijing or locations where we do not have our own licenses, 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 also use these local agents and other third party delivery companies to deliver the tickets to our customers and collect payments for 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 2007, we sold approximately 1.42 million air tickets compared to 265,600 tickets in 2004. We anticipate that the adoption of e-tickets in China will allow consumers to better use our call center and websites to book air tickets.

Vacation packages. We previously offered vacation package products that included air transportation, hotel accommodation and other travel related services to many popular destinations in China, which allowed our customers to select a desired vacation package and place an order with us. However, on June 15, 2007, following review of the costs and operating results generated by our vacation package products, we decided to suspend offering such products until we are able to do so more cost-effectively. The decision took effect as of July 13, 2007.

Non-travel services. We also derive revenues from non-travel services, including advertising on our websites and non-travel wireless messaging services. Going forward, we expect that our revenues from these non-travel services will continue to decrease relative to our revenues from hotel reservations and air ticketing.

Supplier Relationship Management and Distribution

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

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

We distribute our travel services through the following principal channels:

Call center. We operate a 24-hour call center that in December 2007 was staffed by more than 900 customer service representatives. The call center is accessible nationwide on a toll free basis for telephone calls in China.

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Our call center has been a cost-efficient distribution channel given the relatively low cost of labor in China. However, labor costs in China have been rising significantly in recent years and we may incur additional staff costs under the new PRC Employment Contract Law which became effective on January 1, 2008 and provides more employment protection to employees. We expect our call centers to remain an important distribution channel going forward with careful management of rising staff costs.

Websites. We offer our travel services through our user-friendly websites with the following addresses: *http://www.eLong.com* and *http://www.eLong.net*. Our websites offer travel content that empowers our customers to compare and select optimal travel options. 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.

Telephone Booking Services. Under the terms of our annual agreements with various subsidiaries of China Telecom and China Netcom, we are a hotel service provider to customers that use China Telecom s and China Netcom s directory assistance services. When a potential customer calls the subsidiaries of China Telecom or China Netcom through a certain number for information about hotel reservations, the subsidiaries of China Telecom or China Netcom will transfer such calls to our hotel booking hotline. The various subsidiaries of China Telecom and China Netcom will receive a commission for the hotel reservations they generate for us through this telephone booking service.

Reseller network. We have developed an extensive nationwide network of over 3,000 non-exclusive resellers, consisting of primarily smaller travel and air ticketing agencies. These agencies 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.

Marketing and Brand Promotion

We market our services through a combination of direct marketing, online 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 which entitles members to receive benefits such as complimentary hotel rooms and other non-cash gifts for accumulated transactions.

Online marketing. In order to expand our online presence, we have entered into cooperation contracts with Baidu China and Google China pursuant to which we have purchased travel-related keywords which will direct Baidu and Google users to our website. We feel that our online marketing effort is an important part of our marketing strategy and serves as a cost-effective marketing tool.

Traditional marketing. Our traditional media advertising efforts include newspapers, travel magazines, in-flight airline magazine advertising and flyer distribution. 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 and revenues 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, and both entities share the revenues generated in such co-marketing activities. We have entered into co-marketing agreements with telecommunications service providers, airlines and financial institutions in China in order to increase our business volume and strengthen our brand.

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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.

Technology

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

Since the first quarter 2008, we have been implementing Oracle ERP and Siebel CRM system to upgrade our accounting, customer relationship management, business intelligence and staff performance management functions. We also employ several systems and software packages to help with the development of our business, including, the Travel Industry Automation, or TIA system, which provides end-to-end technology support for our entire travel business; E-Booking software which links hotels directly into TIA system; the Air Booking System which provides links to airline companies for our customers; the agent management module provides our agents with virtual reservation information; and a security system which is designed to ensure that our users can only access and use our system. according to their assigned authorization levels. Our in-bound call center can process phone based bookings. See Item 3: Key Information on the Company: 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.

Competition

We primarily compete with other consolidators of travel service including Ctrip.com, traditional travel agencies and hotel and airline suppliers that sell directly to consumers. 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. As China s market continues to grow, we may face further competition from other new domestic hotel room and airline ticket consolidators or international players that may 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.

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. Most of our full-time 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 subsidiaries in China, eLong Information, we currently have registered our Internet domain names *www.eLong.com, www.eLong.net*, *www.eLong.cn*, *www.eLong.com.cn, www.eLong.net.cn and www.xici.net* , with established domain name registration centers.

The eLong character in Chinese with eLong.com in English is our registered trademark in China. We have registered this and related trademarks with the PRC National Trademark Office.

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Seasonality

See Item 5: Operating and Financial Review and Prospects Major Factors Affecting the Travel Industry Seasonality in the travel service industry for a description of seasonal factors influencing our business.

Capital Expenditures

Our capital expenditures for property and equipment were RMB 19.9 million for 2005, RMB 20.7 million for 2006, and RMB22.2 million for 2007. Principal areas of investment during 2007 related to purchases of software and computer systems. See Item 5: Operating and Financial Review and Prospects Liquidity and Capital Resources for further details regarding capital expenditures. We expect to make capital expenditures of approximately RMB40 million in 2008, primarily for investment related to purchases of software and computer system.

Governmental Regulation

Regulatory Authorities

Certain areas in the PRC related to the Internet, such as telecommunications, Internet information services, international connections to computer information networks, information security and censorship, as well as those areas related to online air ticketing, online advertising and online travel agency, are covered in detail by a number of existing laws and regulations issued by various governmental authorities in the PRC, including:

- the newly created Ministry of Industry and Information, created in March 2008 through the merger and reorganization of the Ministry of Information Industry, or MII, and the State Council Information Office, or SCIO.
- the State Administration for Industry and Commerce, or SAIC;
- the Ministry of Commerce, or MOC;
- the Ministry of Public Security, or MPS ; and

In addition, businesses relating to air ticketing or travel agency are covered in detail by a number of existing laws and regulations issued by various governmental authorities in the PRC, including:

- the Civil Aviation Administration of China, or CAAC; and
- the China National Tourism Administration, or CNTA.

Scope of Regulation

eLong is structured as an online company engaged in the businesses of travel agency, air ticketing and advertising. Current PRC laws and regulations impose substantial restrictions on foreign ownership in these businesses in China. As a result, we have subsidiaries in China that conduct operations through a series of contractual arrangements with our affiliated Chinese entities. See Section *4C. Organizational Structure* for a detailed description.

In the opinion of our PRC counsel, TransAsia Lawyers, the ownership structure, businesses and operations of our subsidiaries and affiliated Chinese entities in China comply with all existing PRC laws, regulations and rules. In addition, no consent, approval or license, other than those already obtained, is currently required under existing PRC laws, regulations and rules for such ownership structure, businesses and operations.

Telecommunications Laws and Regulations

The *Telecommunications Regulations of the People s Republic of China*, or the Telecoms Regulations, as implemented on September 25, 2000, require that telecommunications service providers must procure operating licenses as a mandatory precondition for the commencement of operations. A distinction is drawn between basic telecoms services and value-added telecoms services. Value-added telecoms services are defined as telecommunications and information services provided through public networks.

A Catalogue of Telecommunications Services by Category , which is attached to the Telecoms Regulations and was updated in June 2001 and April 2003, categorizes services as basic or value-added. The Catalogue s list of value-added services includes online data and transaction processing, on-demand voice and image communications, domestic Internet virtual private networks, Internet data centers, message storage and forwarding (including voice mailbox, e-mail and online fax services), call centers, Internet access, and online information and data search. We are engaged in various types of value-added services that are subject to the Telecoms Regulations.

Foreign direct investment in telecommunications companies in China is regulated by the *Regulations for the Administration of Foreign-Invested Telecommunications Enterprises*, or the FITE Regulations, which were issued by the PRC State Council on December 11, 2001, and became effective on January 1, 2002. The FITE Regulations stipulate that foreign-invested telecommunications enterprises, or FITEs, must be established as Sino-foreign equity joint ventures. FITEs can undertake operations in basic and value-added telecommunications services. Under the FITE Regulations and in accordance with WTO-related documentation, the foreign party to a value-added FITE may currently hold up to 50% equity, with no geographic restrictions on its operations. The PRC government has not made any further commitment to liberalize its regulation of FITEs. In accordance with the FITE Regulations and *Sino-Foreign Equity Joint Venture Law*, we may consider establishing a foreign-invested telecommunications entity at an appropriate time.

On December 26, 2001, the MII promulgated the *Administrative Measures for Telecommunications Business Operating Licenses*, or Telecoms License Measures, to supplement the FITE Regulations. The Telecoms License Measures confirm that there are two types of telecommunications operating licenses for operators in China (including FITEs), namely: licenses for basic services and licenses for value-added services. With respect to the latter, a distinction is made as to whether a license is granted for intra-provincial or trans-regional (inter-provincial) activities. An appendix to the license will detail the permitted activities of the enterprise to which it was granted. An approved telecommunications service operator must conduct its business (whether basic or value-added) in accordance with the specifications recorded on its Telecoms Service Operating License. The Telecoms License Measures also confirm that the MII is the competent approval authority for foreign-invested telecommunications enterprises.

Online Advertising

On June 25, 2001, the SAIC issued to eLong an advertising operating license, which enables us to conduct our online advertising business. The SAIC has renewed this license annually.

In accordance with the Administrative Regulations for Advertising Licenses and the Implementation Rules for the Administrative Regulations for Advertising Licenses, both of which were issued by SAIC on November 30, 2004 and effective as of January 1, 2005, enterprises (except for broadcast stations, television stations, newspapers and magazines, non-corporate entities and other entities specified in laws or administrative regulations) are generally exempted from the previous requirement to obtain an Advertising License. Exempted enterprises are only required to apply for the inclusion of advertising services in their business license.

Internet Information Services

On September 25, 2000, the State Council approved the *Measures for the Administration of Internet Information Services*, or the ICP Measures. Under the ICP Measures, any entity that provides information to online users of the Internet is obliged to obtain an operating license from the MII or its local branch at the provincial or municipal level in accordance with the Telecoms Regulations described above.

The ICP Measures stipulate further that ICPs must display their operating license numbers in a conspicuous location on their home page. ICPs are obliged to police their Websites in order to remove categories of harmful content that are broadly defined. This obligation reiterates Internet content restrictions that have been promulgated by other ministries over the past few years.

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Most importantly for foreign investors, the ICP Measures stipulate that ICPs must obtain the prior consent of the MII prior to establishing an equity or cooperative joint venture with a foreign partner.

On July 13, 2006, the MII promulgated a *Notice of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services (the MII VAT Notice).* The Notice is designed to strengthen the administration of foreign investment in PRC telecommunications businesses, particularly those involving value-added telecommunications services, which encompass a wide variety of activities related to the provision of service and content via telecommunications networks. As such, the Notice requires the following: Telecom companies (or their shareholders) must hold the domain names and trademarks that they use in their provision of value-added telecommunication services, and must hold the necessary business premises and facilities (including servers) within the region covered by their ICP licenses and which correspond to their ICP services.

Therefore, under the MII VAT Notice, an enterprise holding an ICP permit must be the entity in possession of the key relevant intellectual property rights, e.g., domain names and trademarks, used by the enterprise. Such intellectual property rights can also be held by the direct shareholders of the enterprise holding the ICP permit. We have taken appropriate measures to comply with the MII VAT Notice.

On March 31, 2004, the Beijing Telecommunications Administration, or BTA, issued to eLong a Telecoms and Information Services Operating License authorizing the provision of Internet information services. On October 25, 2000, the MII issued to eLong Internet a Value-Added Telecoms Services Operating License authorizing the provision of mobile-network value-added telecommunications services nationwide. Both of these permits have been renewed, remain valid and are subject to annual inspections.

E-Signatures and E-Commerce

On August 29, 2004, the Standing Committee of the PRC National People s Congress passed the *Electronic Signature Law of the People s Republic of* China, or E-Signature Law, which took effect as of April 1, 2005. This law details the procedures for the use and verification of electronic signatures, or e-signatures, in order to conclude legally binding documents. In many respects, the law enacts, at a national level, certain provisions that were already effective in Guangdong Province under local legislation.

The E-Signature Law provides that, in order for an e-signature to be legally valid, it must identify the signer, confirm the content of the signed file and be verified by an online signature certification authority. The law also establishes a regulatory framework for the administration of such certification authorities by the Chinese government.

As a legal framework for e-commerce emerges in China, we will adopt necessary measures to ensure our full compliance with PRC law.

Information Security and Censorship

The principal pieces of PRC legislation concerning information security and censorship are:

The Law of the People s Republic of China on the Preservation of State Secrets (1988) and its Implementing Rules (1990);

The Law of the People s Republic of China Regarding State Security (1993) and its Implementing Rules (1994);

Rules of the People s Republic of China for Protecting the Security of Computer Information Systems (1994);

Notice Concerning Work Relating to the Filing of Computer Information Systems with International Connections (1996);

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Administrative Regulations for the Protection of Secrecy on Computer Information Systems Connected to International Networks (1999);

Regulations for the Protection of State Secrets for Computer Information Systems on the Internet (2000);

*Notice issued by the Ministry of Public Security of the People s Republic of China Regarding Issues Relating to the Implementation of the Administrative Measure for the Security Protection of International Connections to Computer Information Networks (*2000);

The Decision of the Standing Committee of the National People s Congress Regarding the Safeguarding of Internet Security (2000); and

Measures for the Administration of Commercial Website Filings for the Record (2002) and their Implementing Rules (2002).

These pieces of legislation specifically prohibit the use of Internet infrastructure where it results in a breach of public security, the provision of socially destabilizing content or the divulgence of State secrets, as follows:

A breach of public security includes breach of national security or disclosure of state secrets; infringement on state, social or collective interests or the legal rights and interests of citizens; or illegal or criminal activities.

Socially destabilizing content includes any action that incites defiance or violation of Chinese laws; incites subversion of state power and the overturning of the socialist system; fabricates or distorts the truth, spreads rumors or disrupts social order; advocates cult activities; or spreads feudal superstition, involves obscenities, pornography, gambling, violence, murder, or horrific acts or instigates criminal acts.

State secrets are defined as matters that affect the security and interest of the state. The term covers such broad areas as national defense, diplomatic affairs, policy decisions on state affairs, national economic and social development, political parties and other State secrets that the State Secrecy Bureau has determined should be safeguarded.

According to the aforementioned legislation, it is mandatory for Internet companies in the PRC to complete security filing procedures with the local public security bureau and for them to update regularly with the local public security bureau regarding information security and censorship systems for their websites. In this regard, the *Detailed Implementing Rules for the Measures for the Administration of Commercial Website Filings for the Record*, promulgated in September 2000 by the Beijing AIC, state that Websites must comply with the following requirements:

they must file with the Beijing AIC and obtain electronic registration marks;

they must place the registration marks on their websites homepages; and

they must register their Website names with the Beijing AIC.

We registered our websites with the Beijing AIC on October 25, 2000. Accordingly, our electronic registration mark is prominently placed on our homepage.

Encryption Software

In October 1999, The State Council promulgated the *Regulations for the Administration of Commercial Encryption*, followed by announcements by the State Encryption Administration Commission (The State Encryption Administration Bureau) for implementation purposes. In 2006 these authorities issued additional regulations addressing the research, production and sale of encryption products. These regulations also address the use in China of software with encryption functions. According to these regulations, encryption products

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purchased for use must be reported. Violation of the encryption regulations may result in the issuance of a warning, levying of a penalty, confiscation of the encryption products and even criminal liabilities. In the past, the Office of the State Commission for the Administration of Cryptography (SCAB) issued a public announcement regarding the regulations as below:

Only specialized hardware and software, the core functions of which are encryption and decoding, fall within the administrative scope of the regulations as encryption products and equipment containing encryption technology. Other products such as wireless telephones, Windows software and browsers do not fall within this scope.

SCAB maintains authority over the importation, research, production, sale and use of encryption products in China (products are defined to include any encryption technologies and products used in encryption or to secure authentication of information other than state secrets). The legislation restricts the importation, research, production and sale of encryption products and requires that encryption software be registered with the SCAB for reasons of national security. As noted earlier, the regulations address software primarily designed for encryption purposes, which does not apply to software used by us.

In response to inquiries, relevant officials have been inconsistent in their advice regarding whether mainstream software products that carry ancillary software encryption features need to be registered. We have not been requested to register encryption software with the SCAB.

Consumer Protection

The MII has set forth various requirements for consumer protection in a notice issued on April 15, 2004, which address certain problems in the telecoms sector, including ambiguity in billing practices for premium services, poor quality of connections and unsolicited SMS messages, all of which infringe upon the rights of consumers.

In addition, there has been a movement in China toward industry self-regulation to combat the problem of unsolicited e-mails. Specifically, on March 25, 2003, the China Internet Association issued the *Anti-Spam E-Mail Guidelines*. These guidelines set forth a number of mechanisms that Internet service providers in China may adopt to cut down the use of their systems in sending unsolicited e-mail. We have adopted these guidelines in our operations.

On February 20, 2006, the MII promulgated the Measures for the Administration of Internet E-mail Services, effective as of March 30, 2006. Under these new regulations, the Opt-in System is expected to be introduced into the area of e-mail services, whereby e-mails containing commercial advertisements are not delivered unless specifically requested by users. Furthermore, the subject of all e-mails containing commercial advertisements will be required to be labeled with advertisement or AD . In addition, the IP address of each server that supports e-mail will be registered in order to facilitate the tracing and identification of spam sources. We will fulfill the relevant requirements for registration and accordingly adjust our e-mail forms for commercial marketing use.

We are aware of the increasingly strict legal environment covering consumer protection in China, and are prepared to adopt any legally mandated protections for our customers.

Air Ticketing

Air ticketing. The air ticketing business is subject to the supervision of the CAAC and its regional branches. The principal regulations governing air ticketing business in China are the *Regulations on the Administration of Civil Aviation Transportation Sales Agencies* (1993). Under these regulations, an air ticketing agency must obtain a permit from the CAAC or its regional branch in every city in which the agency proposes to conduct business. Effective as of March 31, 2006, the CAAC promulgated the *Rules Concerning the Affirmation for the Qualification of Aviation Transportation Sales Agencies.* The air ticketing agency sector is currently regulated by an industrial association, rather than a government-based administration as it was previously. In 2007 we completed the air ticketing agency qualification certificate renewal procedure.

The principal regulation governing foreign ownership in the air ticketing business in China is the *Foreign Investment Industrial Guidance Catalogue* (2004). In the past, this regulation prevented foreign investors (including investors from Hong Kong and Macau) from owning 100% of air ticketing agencies in China. However, in accordance with the *Second Supplementary Regulations regarding Foreign Investment in Civil Aviation Transportation Industry* (promulgated on and effective from January 4, 2007), qualified service providers from Hong Kong or Macau are allowed to own 100% of aviation transportation sale agencies in China with the only restriction that they are still prohibited from selling tickets to passengers for domestic PRC air travel.

The CAAC and the NDRC jointly regulate the pricing of airline tickets as well as commissions payable to air ticketing agencies.

Travel Agency

Travel agency. The travel agency industry is subject to the supervision of the CNTA and local tourism administrations. The principal regulations governing travel agencies in China include:

- the *Administration of Travel Agencies Regulations* (2001), as amended; and
- the *Rules of Implementation of the Administration of Travel Agencies Regulations* (2001).

Under these regulations, foreign investors must:

- have annual revenue from travel services exceeding US$40 million;
- be members of travel industrial associations in their home countries or regions; and
- be a travel agency or primarily engaged in the travel agency business.

Investors that meet these requirements are allowed to engage in the provision of tourist services for visitors from abroad as well as for Chinese nationals. Foreign-invested travel agencies are prohibited from engaging in the business of overseas travel by PRC citizens or travel by PRC citizens from the other regions of the PRC to Hong Kong, Macau or Taiwan. In accordance with the announcement of the chairman of CNTA on January 18, 2007, foreign-invested agencies will be allowed to open branch offices in China starting from July 1, 2007.

The principal regulation governing foreign ownership of travel agencies in China is the *Establishment of Foreign-Controlled and Wholly Foreign-Owned Travel Agencies (Tentative Provisions)* (2003), which was revised on February 17, 2005, and its supplementary regulations promulgated on December 19, 2006 and effective from January 1, 2007. Certain foreign investors have been permitted to establish or own travel agencies in China, provided that such investors meet the following qualifications:

- are a travel agency or are primarily engaged in the travel agency business;
- have annual revenue from travel services exceeding US$40 million (in the case of foreign-controlled travel agencies) or US$500 million (in the case of wholly foreign-owned travel agencies); and for investors from Hong Kong or Macau, have annual revenue from travel services exceeding US$ 12 million (in the case of foreign-controlled travel agencies) or US$20 million (in the case of wholly foreign-owned travel agencies);

enjoy good international reputation and advanced experience in managing travel agencies; and

are members of travel industry associations in their home countries or regions

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The investors must also receive the approval of the PRC government, subject to substantial restrictions on the scope of their respective businesses. For example, foreign-invested travel agencies are prohibited from engaging in the provision of overseas tourist services for domestic PRC citizens, or travel by persons from the other regions of the PRC to Hong Kong, Macau or Taiwan. In addition, investors are only permitted to establish one foreign-controlled or wholly-owned travel agency and, other than its head office, foreign-invested travel agencies are not allowed to open branch offices.

Regulation of Foreign Currency Exchange and Dividend Distribution

Foreign currency exchange. The principal regulation governing foreign currency exchange in China is the Foreign Currency Administration Rules (1996), as amended in 1997. Under these rules, the Renminbi is freely convertible for trade and service-related foreign exchange transactions, but not for direct investment, loans or investments in securities outside China without the prior approval of the State Administration of Foreign Exchange of the People s Republic of China, or SAFE.

Pursuant to the Foreign Currency Administration Rules, foreign-invested enterprises in China may purchase foreign exchange without the approval of SAFE for trade and service-related foreign exchange transactions by providing commercial documents evidencing these transactions. They may also retain foreign exchange, subject to a cap approved by SAFE, to satisfy foreign exchange liabilities or to pay dividends. However, the relevant Chinese government authorities may limit or eliminate the ability of foreign-invested enterprises to purchase and retain foreign currencies in the future. In addition, foreign exchange transactions for direct investment, loan and investment in securities outside China are still subject to limitations and require approvals from SAFE.

Dividend distribution. The principal regulations governing distribution of dividends by foreign-invested companies include:

- the Sino-foreign Equity Joint Venture Law (2001);
- the Regulations of Implementation of the Sino-foreign Equity Joint Venture Law (2001);
- the Foreign Investment Enterprise Law (2000); and
- the Regulations of Implementation of the Foreign Investment Enterprise Law (2001).

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

In addition, our affiliated Chinese entities are required to allocate 10% of their respective after-tax profits to their respective statutory common reserve, unless such statutory common reserve amounts to over 50% of the entity s registered capital. After the entities have allocated to their statutory common reserve from their after-tax profits, they may, upon a resolution adopted at shareholders meeting, allocate to a discretionary common reserve from their after-tax profits.

The new PRC *Corporate Income Tax Law*, (the CIT Law), which became effective on January 1, 2008, provides that a maximum income tax rate of 20% may be applicable to dividends payable to non-PRC investors that are non-resident enterprises , to the extent such dividends are derived from sources within the PRC, and the State Council has reduced such rate to 10% through the *Implementation Rules for the CIT Law*, which were issued in November 2007 and became effective on January 1, 2008. We are a Cayman Islands holding company and substantially all of our income may be derived from dividends we receive from our affiliated Chinese entities. Thus, dividends paid to us by our affiliated Chinese entities in the PRC may be subject to the 10% income tax if we are considered as a non-resident enterprise under the CIT Law.

Employment Contract Law of the PRC

The new Employment Contract Law of the PRC became effective on January 1, 2008. In general, the new law expands the rights and protections of employees and provides long-term job security to employees. For example, the new law requires employers to provide written employment contracts to their employees within one month after the employment relationship is established. If an employer fails to enter into a written contract with an employee within the one-month period, the employer must pay to the employee twice his/her salary until a written contract is concluded. The new law also requires employers to provide a severance payment to their employees after their employment relationships are terminated, except under a limited number of specified circumstances.

4C: Organizational Structure

We are an indirect subsidiary of Expedia, Inc. (Nasdaq: EXPE), which is an online travel company, that provides business and leisure travelers with the tools and information to efficiently research, plan, book and experience travel. Expedia, Inc. controls 95% of our voting power.

eLong, Inc. is incorporated in the Cayman Islands. eLong, Inc. s direct subsidiaries consist of three wholly-owned subsidiaries, eLongNet Information Technology (Beijing) Co., Ltd., or eLong Information, which is incorporated in the PRC, Bravado Investments Limited, or Bravado, which is incorporated in the British Virgin Islands, and Shanghai Xinwang Computer Technology Co., Ltd., or Fortune Trip, which is incorporated in the PRC.

Foreign ownership in Internet content provision, call center, air ticketing and travel agency businesses is subject to significant restrictions under current PRC laws and regulations. As a result, our subsidiary eLong Information conducts operations in China through a series of contractual arrangements with our affiliated Chinese entities, which hold the licenses and permits required to conduct our business. These affiliated Chinese entities include:

- Beijing eLong Information Technology Co., Ltd., or Beijing Information, which holds a license for Internet content provision services (or ICP license), a license for call center services, and a license for value added telecommunications services (or SP license) which provides us the right to conduct wireless services including but not limited to short messaging services and multimedia messaging services.

- Beijing eLong Air Services Co., Ltd., or Beijing Air, which holds domestic and international air ticketing licenses.

- Beijing Asia Media Interactive Advertising Co., Ltd., or Beijing Media, which is licensed to provide advertising services.

- Beijing eLong International Travel Co., Ltd., or Beijing Travel, which holds domestic and international (inbound/outbound) travel agency licenses.

- Hangzhou eLong Air Service Co., Ltd., or Hangzhou Air, which holds domestic and international air ticketing licenses.

- Beijing XICI Interactive Information Technology Co. Ltd. or XICI ICP, which plans to apply for an ICP license and a special Bulletin Board System (BBS) permit.

Beijing Information as holder of an ICP and SP license is subject to separate annual inspections in order to maintain these licenses. The Beijing Information ICP license will expire in December 2010, and the SP license in November 2009, but both may be renewed upon application.

On July 30, 2007, Linda Dong and Thomas Zheng entered into an equity interest transfer agreement under which Ms. Dong transferred all her equity interest in Beijing Media to Mr. Zheng.

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On December 28, 2007, Thomas Zheng and Guangfu Cui entered into an equity interest transfer agreement under which Mr. Zheng transferred all his equity interest in Beijing Media to Mr. Cui.

As of April 30, 2008, Justin Tang, one of the members of our board of directors, Raymond Huang, our former Investor Relations Manager, and Veronica Chen, our former Director of Finance, own 75%, 12.5% and 12.5%, respectively, of Beijing Information as our nominees; Mr. Tang and Guangfu Cui, own 75% and 25% respectively, of Beijing Media as our nominees; Beijing Information and Beijing Media own 80% and 20%, respectively, of Beijing Air; Beijing Information and Beijing Air own 70% and 30%, respectively, of Beijing Travel; Beijing Air owns 100% of Hangzhou Air; and Beijing Information owns 100% of Beijing XICI. We are in the process of replacing certain nominee shareholders (Veronica Chen and Raymond Huang) with certain employees approved by our board of directors and senior management.

4D: Property and Equipment

We do not own any real estate, and lease all of our 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 9,676 square meters at Tower A, B and C, Xingke Plaza, 10 Middle Jiuxianqiao Road, Chaoyang District, Beijing, 100016, PRC. We lease the premises for our headquarters under a number of leases, the most significant of which expire in November 2008. The leases provide us with an option to renew for an additional two-year term with a rental increase agreed at a modest percentage increase over the current rent. We also maintain branch and sales offices in major cities in China including Shanghai, Guangzhou, Shenzhen, Wuhan, Nanjing, Hangzhou and Chengdu. We believe that our existing facilities are adequate for our current needs and that additional space will be available to accommodate our future expansion.

Item 5: Operating and Financial Review and Prospects

You should read the following discussion of our financial condition and results of operations in conjunction with our audited consolidated financial statements and the related notes and other financial information included elsewhere in this annual report. This discussion contains forward-looking statements. See Special Note Regarding Forward Looking Statements . We caution you that our business and financial performance are subject to substantial risks and uncertainties. In evaluating our business, you should carefully consider the information provided under Item 3. Key Information on the Company Risk Factors in this annual report.

OVERVIEW

We are a leading online travel service provider in China. We provide our customers with consolidated travel information and the ability to book rooms, air tickets and other travel related services utilizing a centralized modern call center and web-based distribution technologies.

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. 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. Our results in the future may be affected by seasonal fluctuations in the use of our services by our customers.

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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 such as the March 2003 outbreak of SARS or a significant outbreak of the avian influenza A H5N1 virus (or the bird flu);
- 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.

OPERATING RESULTS

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 experienced year-over-year increases in revenue of 39% and 19% from 2005 to 2006 and from 2006 to 2007, respectively. Our increase in revenues from 2006 to 2007 was due to the ongoing growth of the China travel market and our development of our hotel and air ticketing business, including improvements in our service platform and product offerings and acquiring more customers.

Because we generally do not pre-purchase the travel services that we book for our customers, we do not carry inventory risk.

The table below sets forth the revenues from our principal lines of business for the periods indicated.

	Year ended December 31,					
	2005		2006		2007	
	(in thousands of RMB, except percentage data)					
Revenues						
Hotel reservation commissions(1)	151,990	80%	209,275	79%	240,803	76%
Air ticketing commissions(2)	23,773	13	38,288	15	57,456	18
Other travel revenue(3)	2,696	1	8,398	3	5,588	2
Total travel revenue	178,459	94	255,961	97	303,847	96
Non travel(4)	11,870	6	8,583	3	11,550	4
	190,329	100%	264,544	100%	315,397	100%

(1) Revenues from our hotel reservation services are determined by the number of room nights we book and the commissions we earn. Our customers pay the hotels directly, and we collect our commissions based on the number of room nights our customers stay. Under our agreements with some of the hotels, we receive an escalating commission rate that is subject to specified 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. We also confirm with the hotel the customer s stay. Because we act as an agent in transactions with no risk of losses due to obligations for cancelled visits, we recognize our revenues from hotel transactions on a net basis in our statements of operations.

(2) Air ticketing. 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 our affiliated Chinese entities as well as local agents for the issuance and delivery of air

tickets and collection of air ticketing fares. Commissions from air-ticketing services rendered are recognized upon the delivery of the ticket to the customer, net of estimated cancellations. Contracts with certain airlines contain discretionary escalating commissions that are subject to achieving specific performance targets. Such escalating commissions are recognized on a cash basis because we cannot reasonably estimate such commissions.

(3) Other travel revenue related services for 2005, 2006 and the first half of 2007 primarily includes vacation packages revenue. The vacation packages business was suspended in July 2007.

(4) Non travel revenue for 2005, 2006 and 2007 primarily includes Internet advertising revenue.

Going forward, we plan to continue to focus growth on our travel revenues from our core businesses, hotel reservations and air ticketing.

Our December 31, 2007 accounts receivable balance mainly represents amounts from our travel suppliers, delivery companies and credit card companies. We perform periodic credit evaluations of the financial condition of our suppliers. 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 write-off experience and the general credit history of the supplier. The increase in accounts receivable, to RMB41.1 million (US$5.64 million) as of December 31, 2007 from RMB28.2 million as of December 31, 2006, was due mainly to increases in our hotel and air ticketing business.

We receive commissions from our suppliers based on the number of hotel room nights and air tickets that we book. As we increase our revenues and the number of hotel and air 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 and air agent suppliers to pay the balances due to us within 30 to 60 days.

Cost of services. Cost of services consists primarily of payroll compensation, share-based compensation, telecommunications expenses, rent and related overhead expenses, credit card handling fee, air ticket delivery costs incurred by call centers, and service platform costs which are directly attributable to the provision of our travel services and non travel services. For the years ended December 31, 2005, 2006 and 2007, cost of services accounted for 22%, 25% and 28% of our total net revenues, respectively. Because these costs are largely variable in nature, we expect that cost of services in future periods will generally increase in line with our expanding business operations.

Operating expenses. Operating expenses primarily consist of service development, sales and marketing, and general and administrative expenses.

Service development expenses primarily consist of expenses we incur to develop our transaction and service platform, expenses to maintain, monitor and manage websites and hotel and air product teams. We expect service development expenses to increase as we continue to upgrade our transaction platform, increase investment in technology, websites and air and hotel products. As a result of the growth in business and the suspension of our vacation package product, our service development expenses as a percentage of our total net revenues were 20%, 17%, and 16% for the years ended December 31, 2005, 2006 and 2007, respectively.

Sales and marketing expenses include advertising expenses, commissions to co-marketers and resellers, expenses associated with the production of marketing materials and loyalty program, and the payroll and other expenses for marketing personnel. Sales and marketing expenses as a percentage of our total net revenues were 52%, 40% and 43% for the years ended December 31, 2005, 2006 and 2007, respectively. The increase in 2007 is largely a result of increased sales commission paid to third party distribution partners, such as China Telecom and China Netcom, in line with revenue growth in this distribution channel, and increased online marketing effort as compared to previous years.

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General and administrative expenses primarily include finance, legal, human resources and executive office expenses. General and administrative expenses as a percentage of our total net revenues for the year ended December 31, 2007 decreased to 17% from 25% for the year ended December 31, 2006, primarily because of a decrease in incentive and share-based compensation. We expect in the future that as we continue to grow our business, 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 increase the compensation of our senior management in accordance with our employment contracts with these employees. See Item 6: Directors, Senior Management and Employees Employment Agreements with Executive Officers for more details regarding our compensation arrangement with each of the senior members of our management team.

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. We are required to make contributions to these plans at a stated contribution rate based on monthly basic compensation of qualified 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. In 2005, 2006 and 2007, we contributed RMB12.6 million, RMB16.2 million and RMB17.8 million (US$2.4 million), respectively, to various government-mandated multi-employer defined contribution.

During the third quarter of fiscal 2005, we recognized a one-time non-cash write-down of goodwill and intangible assets of RMB17.5 million, which related to Raytime, a company we acquired in November 2004 and sold in May 2006. During 2007, we recognized an impairment of property and equipment of RMB0.5 million (US$0.1 million), which related to vacation package business that we suspended in July 2007 and a one-time impairment of intangible assets of RMB0.5 million (US$0.1million) which related to Fortune Trip s customer list.

During the year ended December 31, 2007 we recorded in other income (expense) exchange losses of RMB65.8 million (US$9.0 million) as compared to RMB33 million in 2006. The exchange loss was a result of the Renminbi appreciation against the US dollar and was derived from the translation of our US dollar-denominated cash deposits into Renminbi for financial reporting purposes. This exchange loss was partially offset by interest income of RMB55.5 million (US$7.6 million) for fiscal 2007.

Under PRC law, our services related revenues are subject to a 5% business tax. In addition, our advertising service revenues are subject to a cultural development surcharge of 3% of such advertising service revenues. Both of these items are captured in Business tax and surcharges in the table below under Results of Operations.

Income tax. Because we, our subsidiaries and our affiliated Chinese entities are incorporated in different jurisdictions, we file separate income tax returns. In May 2004, we reincorporated our corporate domicile in the Cayman Islands. Under the laws of the Cayman Islands, we were and are exempt from income tax. In addition, there are no withholding taxes in the Cayman Islands.

In accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises, all of our subsidiaries and affiliated Chinese entities, except for eLong Information and Beijing Information, were subject to enterprise income tax, or EIT, at a rate of 33% for each of the fiscal years ended December 31, 2005, 2006 and 2007.

On March 16, 2007, the PRC government passed the new CIT Law, which imposes a unified CIT rate of 25% for both domestic enterprises and foreign-invested enterprises and took effect on January 1, 2008. The impact of the changes in tax rates on our deferred taxes is recognized in 2007, when the CIT Law was enacted.

eLong Information obtained the status of a High New Technology Development Enterprise in 2006, which status has entitled it to an income tax rate of 15% since January 1, 2006. This status will be subject to review under new government standards for a High New Technology Development Enterprise under the CIT Law, but the relevant government authority has not started the review process yet. eLong Information will be entitled to the 15% income tax rate only upon approval by the relevant government authority.

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Beijing Information also obtained the status of a High New Technology Development Enterprise in 2002, which entitled it to an income tax rate of 15% until December 31, 2008. Beijing Information was then granted preferential tax treatment at a reduced income tax rate of 7.5% for 2004, 2005 and 2006. As of January 1, 2007, Beijing Information s income tax rate returned to 15%. This status, too, will be subject to review under the new government standards for a High New Technology Development Enterprise under the CIT Law. Beijing Information will be entitled to the 15% income tax rate only upon approval by the relevant government authority.

Acquisitions and Disposals

In November 2004, we completed the purchase of 80% of the outstanding equity interest of Raytime Consultants Limited (Raytime), which through its wholly-owned PRC subsidiary Golden VIP is a leading operator of hotel loyalty programs in China, for an aggregate purchase price of up to RMB27.8 million, including a total fixed cash consideration of RMB16.5 million and contingent consideration of up to RMB11.3 million subject to the satisfaction of certain post-closing financial milestones in 2005 and 2006. We recorded impairment losses of approximately RMB17 million on the goodwill and intangible assets related to Raytime during 2005. In May 2006, we sold all of our outstanding equity interest of Raytime back to the original sellers. The payment of such purchase price was made as an offset against the amounts we owed to the original sellers in connection with our acquisition of Raytime in November 2004. We recognized a gain of RMB 2,649,682 in 2006 as a result of such sale, which was reported an income from discontinued operations.

On July 7, 2005, we completed the purchase from Sina Corp. of all of the outstanding equity interests of Fortune Trip and Bravado. Fortune Trip and Bravado are together principally engaged in the business of providing online and offline hotel reservation and air-ticketing services in the PRC. The total purchase price for Fortune Trip and Bravado was US$2,567,637, plus capitalized acquisition costs of RMB1,394,134. The total purchase price excluded (i) consideration of $375,000 that was contingent upon certain employment conditions, and (ii) a contingent adjustment to the net asset value according to the finalization of certain assumed liabilities. During 2006 the employment condition was not met, and as a result we were not required to pay the US$375,000. The adjustment to the net asset value was RMB 563,786, and was recorded as additional purchase consideration upon its payment in December 2006.

In September 2006, we entered into an asset purchase agreement and a cooperation agreement with Match.com (and two Match subsidiaries), or Match, for disposition of our online dating business operated under the name eDodo. The total purchase price for the disposition was US$14,625,000. The disposition was effective in October 2006 at which time the purchased assets and employees were transferred to the purchasers and 90% of the purchase price was paid to us by Match.com. The remaining 10% of the purchase price was placed in escrow and will be released 18 months from the closing subject to satisfaction of agreed upon conditions. The agreements contain confidentiality and non-compete provisions. The cooperation agreement provides for general support services, including technology, human resources, finance, payroll, and legal, to be provided by us to the Match parties at market rates, based on time records to be provided by us. In addition, during the 18 month term of the cooperation agreement, we are obligated to provide, at no additional charge to the Match parties, billing support services.

Match.com is a wholly owned subsidiary of IAC/InterActiveCorp (IAC) . Barry Diller is the Chairman and chief executive officer of IAC. Under the terms of a stockholders agreement between Mr. Diller and Liberty Media Corporation, Mr. Diller holds an irrevocable proxy to vote shares of IAC stock beneficially owned by Liberty Media. By virtue of the proxy, as well as through shares owned by Mr. Diller directly, Mr. Diller generally has the ability to control the outcome of all matters submitted to a vote of IAC s stockholders (except with regard to certain specified matters). Expedia, through Expedia Asia Pacific, is the indirect owner of approximately 52% of our outstanding shares on a fully-diluted basis and holds approximately 95% of our voting power. Mr. Diller is also Expedia s Chairman and Senior Executive and, by virtue of a similar stockholders agreement with Liberty Media that grants him an irrevocable proxy to vote shares of Expedia stock beneficially owned by Liberty Media and as well as by virtue of shares he owns directly, Mr. Diller also generally has the

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ability to control the outcome of all matters submitted to a vote of Expedia s stockholders (except with regard to certain specified matters). The buyer (Match) and seller (eLong) in the transaction therefore are considered entities under common control for US GAAP purposes. The eDodo asset transfer to Match.com and subsidiaries are thus accounted for as a transfer of assets to a company under common control. Accordingly, no gain was recognized as a result of the transfer and the excess of net sale proceeds over the carrying value of the net assets sold RMB 94.17 million is recorded as an increase to additional paid-in capital. The results of operations of the eDodo business have been presented as discontinued operations for all periods presented.

Critical Accounting Policies

The discussion and analysis of our operating results and financial condition are based on our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Our operating results and financial condition are sensitive to assumptions and estimates that underlie the preparation of our consolidated 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 consolidated financial statements. Our principal accounting policies are set forth in detail in Note 2 to our audited consolidated financial statements included in this annual report. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our consolidated financial statements.

Depreciation. Our property and equipment 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 of long-lived assets. We review periodically the carrying amounts of long-lived assets, including property, equipment and definitive lived 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 other 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. The fair value is determined based upon a combination of multiple of earnings and future cash flows.

Impairment of 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 indicate that the assets might be impaired. We evaluate the recoverability of goodwill using a two-step impairment test approach at the reporting unit level. 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. The impairment test on an intangible asset that is not subject to amortization consists of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

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. During the year ended December 31, 2007, the Company wrote off provisions for accounts receivables of RMB 4.0 million which were aged one year or longer which were deemed to be uncollectable after all means of collection have been exhausted and the potential for recovery is considered remote.

Deferred income tax. Deferred income taxes are provided using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion, or all, of the deferred tax assets will not be realized.

In accordance with SFAS No. 109 *Accounting for Income Taxes* , the tax benefits associated with the utilization of pre-acquisition net operating losses carryforwards for which a valuation allowance was established at the date of the acquisition are recognized in the consolidated financial statements after the acquisition date as follows: (i) first to reduce to zero any goodwill related to the acquisition; (ii) second to reduce to zero other non-current intangible assets related to the acquisition; and (iii) third to reduce income tax expense. We reduced goodwill by RMB 4,083,112 in 2006 and nil for the years ended December 31, 2005 and 2007, respectively, for the utilization of acquired tax benefits for which a valuation allowance was previously established. The amount of valuation allowance associated with pre-acquisition net operating losses of RMB 610,584 as of December 31, 2007 will be recorded as a reduction of goodwill if recognized in future years.

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. Due to the limited history of the loyalty points reward program, we cannot make reasonable and reliable estimates of the forfeiture levels of loyalty points. Therefore, we recognize estimated costs to provide free travel and other non-cash gifts based on historical redemption rates and recognize such costs as sales and marketing expenses in the statements of operations. The liabilities for loyalty points are reduced upon the redemption or expiration of the loyalty points. If actual redemption rates differ significantly from our estimates, it will result in an adjustment to our liabilities and the corresponding expenses.

Share-based compensation. We have adopted SFAS No. 123R. Under the fair value based method, compensation cost related to employee stock options and similar equity instruments is measured at the grant date based on the value of the award and is recognized over the requisite 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 and the expected volatility, are required to determine the fair value of the options. Forfeitures are estimated at the date of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from

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initial estimates. If different assumptions had been used, the fair value of the options, net of estimated forfeitures, would have been different from the amount we computed and recorded, which would have resulted in either an increase or decrease in the compensation cost. We have increased the estimated forfeiture rate due to the high turnover in senior management in 2007. Stock-based compensation awards which are settled in cash upon vesting are classified as liabilities and included in accrued expenses and other current liabilities in the consolidated balance sheet. Compensation cost related to liability-classified awards, is determined based on the current share price and other pertinent factors at grant date, and the proportionate amount of the requisite service that has been rendered to date.

We account for equity instruments issued to non-employee vendors in accordance with the provisions of SFAS No. 123R 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, 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 associated compensation cost.

Revenue recognition. Our revenues are principally derived from the provision of travel services, including hotel reservation, air ticketing and other related travel services. Commissions from air-ticketing services rendered are recognized upon the delivery of the ticket to the customer, net of estimated cancellations. Estimated cancellations were insignificant for the years ended December 31, 2005, 2006 and 2007. We describe our revenue recognition policies in our consolidated financial statements. We believe our revenue recognition policies are consistent with Staff Accounting Bulleting 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. As such, we are not the primary obligor in the travel reservation services and we therefore recognize commissions on a net basis.

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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:

	Year ended December 31,			
	2005	**2006**	**2007**	**2007**
	RMB	**RMB**	**RMB**	**US$**
Revenues:				
Travel	178,459,309	255,960,988	303,846,548	41,653,627
Other	11,869,843	8,582,692	11,550,123	1,583,380
Total revenues	**190,329,152**	**264,543,680**	**315,396,671**	**43,237,007**
Business tax and surcharges	10,487,647	14,702,612	17,810,292	2,441,572
Net revenues	**179,841,505**	**249,841,068**	**297,586,379**	**40,795,435**
Cost of services	40,446,988	62,245,355	82,497,585	11,309,405
Gross profit	**139,394,517**	**187,595,713**	**215,088,794**	**29,486,030**
Operating expenses:				
Service development	36,297,589	41,921,653	48,602,279	6,662,775
Sales and marketing	93,184,664	99,091,184	126,971,094	17,406,176
General and administrative	55,506,942	61,534,710	52,005,466	7,129,310
Amortization of intangibles	634,055	1,060,000	1,060,000	145,313
Write-down of property and equipment and intangible assets			1,038,896	142,420
Loss from operations	**(46,228,733)**	**(16,011,834)**	**(14,588,941)**	**(1,999,964)**
Other income (expenses):				
Interest income	30,940,838	51,429,793	55,470,781	7,604,361
Foreign exchange loss	(25,862,167)	(33,016,052)	(65,819,578)	(9,023,055)
Other expense, net	(531,318)	(10,775)	131,630	18,045
Total other income (expenses), net	**4,547,353**	**18,402,966**	**(10,217,167)**	**(1,400,649)**
Earnings (loss) from continuing operations before income tax expense	(41,681,380)	2,391,132	(24,806,108)	(3,400,613)
Income tax expense	1,603,154	2,835,259	885,343	121,369
Loss from continuing operations	**(43,284,534)**	**(444,127)**	**(25,691,451)**	**(3,521,982)**
Earnings (loss) from discontinued operations before income tax (including gain on disposal of RMB 2,649,682 in 2006)	(16,934,889)	1,226,768	112,260	15,389
Income tax expense of discontinued operations	298,236	24,302	8,420	1,154
Total earnings (loss) from discontinued operations, net of income taxes	**(17,233,125)**	**1,202,466**	**103,840**	**14,235**
Net earning (loss) before cumulative effect of change in accounting principle	(60,517,659)	758,339	(25,587,611)	(3,507,747)
Cumulative effect of change in accounting principle		282,072		
Net earnings (loss)	**(60,517,659)**	**1,040,411**	**(25,587,611)**	**(3,507,747)**

Certain of the prior year comparative figures have been reclassified to conform to the current year s presentation, including a reclassification of business tax and related charges from component of operating expenses to a reduction of revenue (net basis) to reflect the adoption of EITF 06-3.

The accompanying consolidated financial statements of the Group as of and for the years ended December 31, 2005 and 2006 have been adjusted from previously issued financial statements to correct the following immaterial errors.

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1) As of December 31, 2006, the Group accrued income tax and business tax liabilities in relation to expenses for which, based on the Group s estimate and then available information, the related tax-qualified invoices were not expected to be collected and therefore not deductible for tax purposes. Subsequent to December 31, 2006 and prior to the issuance of the 2006 financial statements, the Group collected the majority of the tax qualified invoices and therefore such expenses were deductible for tax purpose as of and for the year ended December 31, 2006. The effect of this adjustment for the year ended December 31, 2006 is to decrease income tax expense by RMB1.6 million, decrease income taxes payable by RMB2.0 million, and decrease by RMB 0.4 million each of the following: statement of operations line item, business tax and surcharges, and balance sheet line items, prepaid expenses and other current assets, and accrued expenses and other current liabilities

2) In 2007, we re-evaluated our accounting for the mirror options granted to Expedia Asia Pacific, an entity controlled by Expedia, Inc., and concluded that the Expedia Asia Pacific options should be classified as a liability and re-measured to their fair value each reporting period until settlement. As a result, we revised the previously issued financial statements as of and for the years ended December 31, 2005 and 2006 to correct an immaterial error corresponding to our accounting for 260,204 Expedia Asia Pacific mirror options. The impact of the adjustment to the consolidated financial statements and related notes reported in the consolidated financial statements as of and for the years ended December 31, 2005 and 2006 is included in Note (3) to the consolidated financial statements.

2007 Compared to 2006

Revenues. The following table sets forth certain information relating to our revenues for the years ended December 31, 2006 and 2007.

	Year ended December 31,					
	2006		2007			
	RMB	% of revenues	RMB	US$	% of revenues	% growth
	(in thousands, except percentage data)					
Revenues						
Hotel commissions	209,275	79%	240,803	33,011	76%	15%
Air ticketing commissions	38,288	15%	57,456	7,877	18%	50%
Other travel revenue	8,398	3%	5,588	766	2%	-33%
Total travel revenue	255,961	97%	303,847	41,654	96%	19%
Non travel	8,583	3%	11,550	1,583	4%	35%
Total revenues	264,544	100%	315,397	43,237	100%	19%

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 years ended December 31, 2006 and 2007.

	Year ended December 31,		
	2006	2007	% growth
Number of room nights booked	3,251,000	3,711,000	14%
Average commission per room night (RMB)	64	65	2%
Number of air tickets sold	1,006,000	1,416,000	41%
Average commission per air ticket (RMB)	38	41	8%

For the year ended December 31, 2007, we generated revenues of RMB315.4 million (US$43.2 million), an increase of 19% over RMB264.5 million in revenues generated in the year ended December 31, 2006. The increase was attributable to a 19% year on year increase in our travel revenue and 35% year on year increase in our non travel revenue.

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The 2006 to 2007 year on year changes in our travel revenue which consists of hotel, air and other travel are explained below.

The increase in our hotel reservations revenues from RMB209.3 million in 2006 to RMB240.8 million (US$33.0 million) in 2007, a year on year growth of 15% reflects an increase in the number of hotel room nights we booked from 3,251,000 in 2006 to 3,711,000 in 2007 and an improvement in the revenue per room from RMB64 in 2006 to RMB65 (US$8.9) in 2007. The increase in the number of hotel room nights was due to eLong s enlarged customer base, which includes both old and new customers, increases in revenue from our co-marketing partners including China Telecom and China Netcom. We also increased our product offerings from approximately 3,505 hotels at December 31, 2006 to over 4,800 hotels at December 31, 2007. Our revenue per room increased from RMB64 in 2006 to RMB65 (US$8.9) in 2007, a year on year growth of 2%.

Air ticketing. The increases in our air ticketing commission revenues from RMB38.3 million in 2006 to RMB57.5 million (US$7.9 million) in 2007, a year on year growth of 50%, was mainly attributable to an increase in the number of air tickets booked which increased from 1,006,000 in 2006 to more than 1,416,000 in 2007, and an increase in revenue per ticket from RMB38 in 2006 to RMB41 (US$5.6) in 2007. Air continued to be an important focus for eLong in 2007 and the 2007 growth was the result of continuing investment in technology and improvement in call center and customer service including the launch of a 24-hour air ticket booking service during 2007.

Other revenues. Our other travel revenues decreased from RMB8.4 million in 2006 to RMB5.6 million in 2007 (US$0.8 million) mainly due to we suspended vacation package business in July 2007. Our non travel services revenues increased from RMB8.6 million in 2006 to RMB11.6 million (US$1.6 million) in 2007 mainly due to an increase in the internet advertising revenue.

Business tax and surcharges. We recorded more business taxes and surcharges in 2007 compared to 2006 due to increases in our revenues. Business tax was 5.6% of total revenue in both years of 2006 and 2007.

Cost of services and gross profit. For the years ended December 31, 2006 and 2007, our cost of services as a percentage of revenue was 25% and 28% of our total net revenues respectively. The three percent reduction in our gross margin from 75% in 2006 to 72% in 2007 was primarily due to increased investments in our hotel and air call center to improve our service level and because our air ticketing services, which have a lower gross margin than our hotel business, accounted for a larger percentage of our revenue in 2007 as compared to 2006.

Operating expenses. The following table sets forth a breakdown of our operating expenses for the years ended December 31, 2006 and 2007.

	Year ended December 31,					
	2006		2007			
	RMB[1]	% of net revenues	RMB	US$	% of net revenues	% growth
	(in thousands, except for percentage data)					
Operating expenses						
Service development	41,922	17%	48,602	6,663	16%	16%
Sales and marketing	99,091	40	126,971	17,406	43	28
General and administrative	61,535	25	52,006	7,130	18	-15
Amortization of intangible assets	1,060		1,060	145		
Write-down of property and equipment and intangible assets			1,039	142		N/A
Total operating expenses	203,608	82%	229,678	31,486	77%	13%

(1) Certain of the prior year comparative figures have been reclassified to conform to the current year s presentation

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Our operating expenses in 2007 increased by 13% to RMB229.7 million (US$31.5 million) from RMB203.6 million in 2006 for the reasons explained below.

Service development. Our service development expenses primarily consist of expenses we incur to develop our transaction and service platform, expenses to maintain, monitor and manage our websites and our hotel, vacation package and air product teams. Our service development expenses increased 16% to RMB48.6 million (US$6.7 million) in 2007 from RMB41.9 million in 2006 primarily due to additional amounts we invested in our technology, website, hotel, and air product offerings. Our service development expenses were 16% of net revenues in 2007 as compared to 17% in 2006.

Sales and marketing. 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. In 2007, our sales and marketing expenses increased 28% to RMB 127.0 million (US$17.4 million) from RMB 99.1 million in 2006 which was mainly due to the increase in our business volume, as our 2007 revenue increased 19% from 2006. Our sales and marketing expenses increased for the year ended 2007 because of increased sales commission in line with revenue growth, and increased online marketing efforts as compared to previous years. Our sales and marketing expenses were 43% of net revenues in 2007 as compared to 40% in 2006.

General and administrative. Our general and administrative expenses primarily include finance, legal, human resources and executive office expenses. Our general and administrative expenses decreased 15% to RMB 52.0 million (US$7.1 million) in 2007 from RMB 61.5 million in 2006 primarily because of decrease in incentive and share-based compensation. Our general and administrative expenses as a percentage of net revenues for the year ended December 31, 2007 decreased to 18% compared to 25% for the year ended December 31, 2006, primarily because of increased revenues and decreased share-based compensation expense.

Other income (expense), net. We recorded net other expense of RMB 10.2 million (US$1.4 million) in 2007 compared to net other income of RMB 18.4 million in 2006. The net other expense in 2007 was primarily due to a foreign exchange loss of RMB 65.8 million (US$9.0 million) resulting from the appreciation of the Renminbi during the year. This exchange loss was partially offset by interest income of RMB 55.5 million (US$7.6 million) for fiscal 2007.

Income tax expense. We incurred a tax expense of RMB 0.9 million (US$0.1 million) in 2007, compared to a tax expense of RMB 2.8 million in 2006. The fluctuation in income tax expense from 2006 to 2007 is mainly because during 2006, the utilization of pre-acquisition net operation loss resulted in more income tax expenses while during 2007 a significant portion of our net loss is related to foreign exchange loss which is recorded in eLong, Inc., which is exempted from income tax.

Net loss. Net loss increased to RMB 25.6 million (US$3.5 million) in 2007 from RMB 1.0 million net earnings in 2006, as a result of the factors discussed above. We recorded a net loss applicable to ordinary shareholders of RMB 25.6 million (US$3.5 million) for the year ended December 31, 2007 and a net profit applicable to ordinary shareholders of RMB1.0 million for the year ended December 31, 2006.

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2006 Compared to 2005

Revenues. The following table sets forth certain information relating to our revenues for the years ended December 31, 2005 and 2006.

	Year ended December 31,				
	2005		2006		
	RMB[(1)]	% of revenues	RMB[(1)]	% of revenues	% growth
	(in thousands, except percentage data)				
Revenues					
Hotel commissions	151,990	80%	209,275	79%	38%
Air ticketing commissions	23,773	13	38,288	15	61%
Other travel revenue	2,696	1%	8,398	3	211%
Total travel revenue	178,459	94	255,961	97	43%
Non travel	11,870	6	8,583	3	-28%
Total revenues	190,329	100%	264,544	100%	39%

(1) Certain of the prior year comparative figures have been reclassified to conform to the current year s presentation.

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 years ended December 31, 2005 and 2006.

The number of room nights booked and the average commission per room night

	Year ended December 31,		
	2005	2006	% growth
Number of room nights booked	2,537,000	3,251,000	28%
Average commission per room night (RMB)	60	64	7%
Number of air tickets sold	651,000	1,006,000	55%
Average commission per air ticket (RMB)	37	38	3%

For the year ended December 31, 2006, we generated revenues of RMB 264.5 million, an increase of 39% over RMB 190.3 million in revenues generated in the year ended December 31, 2005. The increase was attributable to a 43% year on year increase in our travel revenue offset by 28% year on year decrease in our non travel revenue.

The 2005 to 2006 year on year changes in our travel revenue, which consists of hotel, air and other travel, are explained below.

The increase in our hotel reservations revenues from RMB 152.0 million in 2005 to RMB 209.3 million in 2006, a year on year growth of 38%, reflects an increase in the number of hotel room nights we booked, which increased from 2,537,000 in 2005 to 3,251,000 in 2006, and an improvement in the revenue per room from RMB 60 in 2005 to RMB 64 in 2006. The increase in the number of hotel room nights was due to eLong s enlarged customer base, which includes both old and new customers, increases in revenue from our co-marketing partners, including China Telecom and China Netcom, as well as our acquisition of Fortune Trip and Bravado in July 2005. We also increased our product offerings from approximately 3,000 hotels at December 31, 2005 to over 3,505 hotels at December 31, 2006. Our revenue per room increased from RMB 60 in 2005 to RMB 64 in 2006, a year on year growth of 7%.

The increases in our air ticketing commission revenues from RMB23.8 million in 2005 to RMB38.3 million in 2006, a year on year growth of 61%, was mainly attributable to an increase in the number of air tickets booked

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which increased from 651,000 in 2005 to more than 1 million in 2006, and an increase in revenue per ticket from RMB37 in 2005 to RMB38 in 2006. Air continued to be an important focus for eLong in 2006 and the 2006 growth was the result of such focus and an investment in product, technology and marketing which began in 2004.

Our other travel revenues increased from RMB2.7 million in 2005 to RMB8.4 million in 2006, mainly due to the revenues earned via an Expedia-eLong shared inventory and service program of RMB3.1 million.

Our non travel services revenues decreased from RMB11.9 million in 2005 to RMB8.6 million in 2006, mainly due to a decline in our provision of wireless services.

Business tax and surcharges. We recorded more business taxes and surcharges in 2006 compared to 2005 due to increases in our revenues.

Cost of services and gross profit. Our cost of services consists primarily of payroll compensation, share based compensation, telecommunications expenses, rent and related overhead expenses, credit card charges, air ticket delivery costs incurred by our call centers and service platform which are directly attributable to the provision of our travel services and non travel services. For the years ended December 31, 2005 and 2006, our cost of services as a percentage of net revenue was 22% and 25%, respectively, of our total net revenues. The three percent reduction in our gross margin from 78% in 2005 to 75% in 2006 was primarily due to increased investments in our hotel and air call center to improve our service level and because air, which has a lower gross margin than our hotel business, accounted for a larger percentage of our revenue in 2006 as compared to 2005. We had a gross profit of RMB187.6 million in 2006, an increase of 35% over RMB139.4 million in 2005.

Operating expenses. The following table sets forth a breakdown of our operating expenses for the two years ended December 31, 2005 and 2006.

	Year ended December 31,				
	2005		2006		
	RMB[(1)]	% of net revenues	RMB[(1)]	% of net revenues	% growth
	(in thousands, except percentage data)				
Operating expenses					
Service development	36,298	20%	41,922	17%	15%
Sales and marketing	93,185	52	99,091	40	6
General and administrative	55,507	31	61,535	25	11
Amortization of intangibles	634		1,060		67
Total operating expenses	185,624	103%	203,608	82%	10%

(1) Certain of the prior year comparative figures have been reclassified to conform to the current year s presentation

Our operating expenses in 2006 increased by 10% to RMB203.6 million from RMB185.6 million in 2005 for the reasons explained below.

Service development. Our service development expenses primarily consist of expenses we incur to develop our transaction and service platform, expenses to maintain, monitor and manage our websites and expenses of our hotel, vacation package and air product teams. Our service development expenses increased 15% to RMB41.9 million in 2006 from RMB36.3 million in 2005 primarily due to additional amounts we invested in our technology, website, hotel, air and vacation package product offerings. Our service development expenses were 17% of net revenues in 2006 as compared to 20% in 2005.

Sales and marketing. 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 increased 6% to RMB99.1 million in 2006 from RMB93.2 million in 2005, which mainly due to the increase in our business volume, as our 2006 revenue increased 39% from 2005. Our sales and marketing expenses increased for the year ended 2006 because we increased our promotion and marketing efforts in 2006 in order to increase our customer acquisition and brand awareness. These efforts included the distribution of more eLong membership cards, additional online marketing programs, increased spending on our customer loyalty program and other promotional activities. Our sales and marketing expenses were 40% of net revenues in 2006 as compared to 52% of net revenues in 2005, as we had some improvement in our marketing efficiencies.

General and administrative. Our general and administrative expenses primarily include finance, legal, human resources and executive office expenses. Our general and administrative expenses increased 11% to RMB61.5 million in 2006 from RMB55.5 million in 2005 primarily because of increased professional fees, which is consistent with the increase in our business volume as our 2006 revenue increased 39% from 2005. Our general and administrative expenses as a percentage of net revenues for the year ended December 31, 2006 decreased to 25% compared to 31% for the year ended December 31, 2005, primarily because of increased revenues, improved headcount management and other efficiencies.

Other income, net. We recorded other income of RMB18.4 million in 2006 compared to other income of RMB4.5 million in 2005. The increase in other income in 2006 was primarily due to an increase in interest income of RMB51.4 million partially offset by the net realized and unrealized foreign exchange loss of RMB33.0 million as a result of the Renminbi appreciation in 2006.

Income tax expense. We incurred a tax expense of RMB2.8 million in 2006, compared to RMB1.6 million in 2005. The fluctuation in income tax expense from 2005 to 2006 is due to utilization of pre-acquisition net operating losses in 2006 which resulted in increase in income tax expenses of RMB4 million. In addition, during 2005, a significant portion of our losses was related to foreign exchange loss which is recorded in eLong, Inc., which is exempted from income tax.

Income / loss from discontinued operations before income tax. We recorded income from discontinued operations of RMB1.2 million in 2006, compared to loss from discontinued operations of RMB 16.9 million in 2005. The discontinued operations information was presented to illustrate the sales of Raytime in May 2006 and of our online dating division in October 2006.

Net loss. Net earnings increased to RMB 1.0 million in 2006 from RMB 60.5 million net loss in 2005, as a result of the factors discussed above. We recorded a net earning available to ordinary shareholders of RMB1.0 million for the year ended December 31, 2006 and a net loss applicable to ordinary shareholders of RMB60.5 million for the year ended December 31, 2005.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

As of December 31, 2007, we had approximately RMB 1,138.4 million (US$156.1 million) in cash and cash equivalents. Our cash and cash equivalents consist of cash and liquid financial instruments with maturities of 90 days or less when purchased. We generally deposit our excess cash in interest bearing bank accounts.

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

	Year ended December 31,			
	2005 RMB	2006 RMB	2007 RMB	2007 US$
	(in thousands)			
Net cash provided by operating activities	30,478	76,554	42,349	5,806
Net cash provided by (used in) investing activities	(32,813)	72,985	(43,638)	(5,982)
Net cash provided by financing activities	404,058	95,140	7,355	1,008
Effect of foreign exchange rate changes on cash	(23,210)	(33,917)	(66,943)	(9,177)
Net increase (decrease) in cash and cash equivalents	378,513	210,763	(60,876)	(8,345)
Cash and cash equivalents at beginning of year	610,047	988,560	1,199,323	164,412
Cash and cash equivalents at end of year	**988,560**	**1,199,323**	**1,138,447**	**156,067**

Operating activities. Net cash provided by operating activities was RMB42.3million (US$5.8 million) in 2007 compared to RMB76.6 million provided by operating activities in 2006 and compared to RMB30.5 million provided by operating activities in 2005. The level of cash generated by operating activities was lower in 2007 than in 2006 mainly due to increased spending on personnel due to increase in headcount and average labor cost and consulting services of RMB136 million (US$18.7 million) in 2007 compared to RMB108.7 million in 2006 and income tax payments of RMB14.2 million (US$2.0 million) mainly for income tax imposed on gain from disposal of a business in 2007. The level of cash generated by operating activities was higher in 2006 than in 2005 mainly as a result of positive working capital movements including a higher sales in cash and higher interest income in 2006 where we generated RMB 51.4 million in 2006 compared to RMB 30.9 million in 2005.

Investing activities. Our net cash used in investing activities was RMB43.6 million (US$6.0 million) in 2007 compared to net cash provided by investing activities of RMB73.0 million in 2006 and compared to net cash used in investing activities of RMB32.8 million in 2005. The change from cash inflow in 2006 to cash outflow in 2007 was mainly due to RMB102.6 million cash received of proceeds from disposal of business in 2006 and the cash used in 2007 was mainly for short-term investment of RMB19.1 million (US$2.6 million) and capital expenditure of RMB22.2 million (US$3.0 million). The change from cash outflow in 2005 to cash inflow in 2006 was mainly due to net cash proceeds received upon disposal of our online dating division of RMB102.6 million.

Financing activities. Our net cash provided by financing activities was RMB7.4 million (US$1.0 million) in 2007 compared to RMB95.1 million in 2006 and RMB404.1 million in 2005. The net cash from financing activities in 2007 is mainly from the exercise of stock option of RMB3.1 million (US$0.4 million) and proceeds received on behalf of related parties of RMB4.8 million (US$0.7 million). The increase in 2005 was due to Expedia Asia Pacific s investment in us offset by our repurchase of ordinary shares. The increase in 2006 in restricted cash released was due to cash released from escrow of US$9.7 million (including RMB25.9 million received on behalf of selling shareholders) compared to RMB24.0 million for proceeds from release of restricted cash in 2005. In 2006, we also received RMB26.7 million in share disposal proceeds on behalf of former shareholders, which were associated with the sale of ordinary shares by the selling shareholders to the public in our initial public offering.

Our capital expenditures totaled RMB19.9 million, RMB20.7 million and RMB22.2 million (US$3.0 million) in 2005, 2006, and 2007 respectively. Our capital expenditures relate primarily to purchases of computer equipment, servers and computer software to support the expansion of our business and renovations for additional office space.

We expect our capital expenditures in 2008 to amount to approximately RMB40 million (US$5.5 million). Capital expenditures in 2008 have been, and are expected to continue to be, funded through operating cash flows and through our existing capital resources.

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Capital Resources

As of December 31, 2007, our primary sources of liquidity were US$156.1 million in cash and cash equivalents. We have no outstanding bank loans or financial guarantees or similar commitments to guarantee the payment obligations of third parties. We believe that 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.

TREND INFORMATION

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

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements, transactions or other relationships with unconsolidated entities. 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.

CONTRACTUAL OBLIGATIONS

The following table presents our aggregate contractual obligations as of December 31, 2007 with payments due in the periods indicated and in the currency indicated:

	Total Payments due	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Operating Lease Obligations(1)	RMB10 million	RMB9 million	RMB0.9 million	RMB0.1 million	
Purchase Obligations(2)	RMB2.6 million	RMB2.5 million	RMB0.1 million		
Total	RMB12.6 million	RMB11.5 million	RMB1 million	RMB0.1 million	

(1) Includes future minimum lease payments under non-cancelable operating leases, including approximately nine lease payments on our branch offices, with initial or remaining lease terms in excess of one year as of December 31, 2007. In September 2007, we renewed four fourteen-month leasing agreements for 5,118 square meters of office space in Beijing for our headquarters. The annual payment under the lease is RMB4.5 million (US$0.6 million). In July and November 2007, we entered into two new lease agreements for 413 square meters of office space in Beijing for our headquarters. The annual payment under the lease is RMB182 thousand (US$25 thousand). For branches, our lease contract terms vary from six months to three years, and the total leased space under the agreements is 3,740 square meters of office space. The annual payment under the leases is RMB2.2 million (US$0.3 million).

(2) We have outstanding purchase obligations totaling RMB2.6 million, which are primarily related to contracts for provision of services at airports and railway stations. We accrue the amount once the services are rendered by our service providers. The above table indicates our contractual obligations as of December 31, 2007, the actual payment amounts may differ as agreements are renegotiated, cancelled or terminated.

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 1.8%, 1.5 % and 4.8% in 2005, 2006 and 2007, respectively. The rate of inflation in China was markedly higher in late 2007 and the first quarter of 2008 than in recent preceding years. According to the National Bureau of Statistics of China, the increase in the Consumer Price Index in China for the months of January, February, March and April 2008 (compared to the same periods in 2007) was 7.1%, 8.7%, 8.3% and 8.5%, respectively. The scope and extent of inflation could adversely affect the Chinese economy, business and personal travel and our results of operations. See Item 3. Key information on the Company Risk Factors Risk related to Doing Business in the People s Republic of China A slow-down of, or increased volatility in, economic growth in China may adversely affect our growth and profitability.

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 and liquid financial instruments with maturities of 90 days or less when purchased.

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, 2007, 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. At December 31, 2007, we had approximately US$134 million (RMB980 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. During the year ended December 31, 2007 we recorded RMB65.8 million (US$9.0 million) in foreign exchange losses due to the appreciation of the Renminbi against the United States dollar. If the Renminbi continues to appreciate we will continue to record foreign exchange losses on United States dollar denominated assets and these losses are likely to be material. See Item 3. Key Information on the Company 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measurement of fair value, and expands disclosures required for fair value measurements. SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. On February 12, 2008, the FASB issued FASB Staff position No. 157-2, *Effective date of FASB Statement No. 157* which defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS No. 157 is required to be adopted by the Group in fiscal year 2008. The Group does not expect the adoption of SFAS No. 157 will have a material impact on the consolidated financial statements.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The entity shall report unrealized gains and losses on items for which the fair value option has been elected. SFAS No.159 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by the Group in fiscal

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year 2008. In connection with current period financial statements, the Group does not have items eligible for Fair Value Option under SFAS No. 159. The Group does not expect the adoption of SFAS No. 159 will have a material impact on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R (Revised), *Business Combinations* (SFAS No. 141R). SFAS No. 141R establishes requirements for the recognition and measurement of acquired assets, liabilities, goodwill, and non-controlling interests (formerly minority interests). SFAS No. 141R also provides disclosure requirements related to business combinations. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. SFAS No. 141R will be applied prospectively to business combinations with an acquisition date on or after December 15, 2008. The Group is in the process of evaluating the impact of the adoption of SFAS 141R on its consolidated financial statements.

Item 6. Directors, Senior Management and Employees

Directors, Executive Officers and Senior Management

Our board of directors currently consists of nine directors. The members of our board of directors are elected by our shareholders. Our shareholders are entitled to vote together as a single class on all matters submitted to shareholder vote, including the election of the members of our board of directors. Each ordinary share is entitled to one vote. Each of the 28,550,704 high-vote ordinary shares held by Expedia Asia Pacific or its affiliates is entitled to 15 votes. As a result, Expedia Asia Pacific and its indirect parent Expedia control approximately 95% of the voting power of all shares of our voting stock. In addition, certain other shareholders are parties to an investors agreement with Expedia Asia Pacific under which they have agreed to vote their ordinary shares in the election of directors designated by Expedia Asia Pacific. Expedia, Expedia Asia Pacific s parent, has the ability to control the composition of our board of directors, including the right to select six of the nine members of our board of directors, the ability to nominate the remaining directors and vote their shares to elect them and the right to vote their shares to remove members of our board of directors. See Item 7: Major Shareholders and Related Party Transactions.

Each member of our board of directors is elected to hold office until the annual general meeting of shareholders following the date on which each member is elected to serve as a director and until such director s successor is elected and duly qualified, or until such director s earlier death, bankruptcy, insanity, resignation or removal.

There are no family relationships among any of our directors or executive officers named below.

Our executive officers are appointed by, and serve at the discretion of, our board of directors.

The names of our current directors and executive officers, their ages as of April 30, 2008 and the principal positions with eLong held by each of them are as follows:

Name	Age	Position/Title
Guangfu Cui	39	Chief Executive Officer
Chris Chan	42	Chief Financial Officer
Kenneth Liao	46	Vice President and Chief Technology Officer
Qi Chen	44	Vice President of Human Resources
Jack Wang	35	Vice President of Hotel Partner Service Group (PSG)
Jason Xie	32	Vice President of Business Development
James Li	35	Vice President of Sales
Yu Zheng	34	Vice President of Marketing
Henrik Vilhelm Kjellberg(2)(3)	37	Director
Thomas Gurnee(1)(3)	57	Director

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Name	Age	Position/Title
Barney Harford	36	Director
Michael Doyle(2)(3)	38	Director
Leo Austin(1)	36	Director
Justin Tang	37	Director
Michael Scown(1)	49	Director
Arthur Hoffman(2)	39	Director
Johan Svanstrom(2)	36	Director

(1) Member of the audit committee of our board of directors. Mr. Gurnee is the chairman of the audit committee.
(2) Nominated by Expedia Asia Pacific.
(3) Member of the compensation committee of our board of directors. Mr. Kjellberg is the chairman of the compensation committee.

The business address of each of our executive officers and employee directors is c/o Block B, Xingke Plaza Building, 10 Middle Jiuxianqiao Road, Chaoyang District, Beijing 100016, People s Republic of China. The business address for Mr. Doyle is: Expedia Asia Pacific Limited, 5th Floor, Dina House, Ruttonjee Centre, 11 Duddell Street Central, Hong Kong. The address for Mr. Harford is: 2220 22nd Ave E, Seattle WA 98112, USA. The business address for Mr. Tang is 3701 Tower A, Beijing Fortune Plaza, No. 7 Middle Dongsanhuan Rd., Chaoyang District, Beijing 100020 P.R. China. The business address for Mr. Hoffman is Expedia Asia Pacific-Alpha Limited., Level 5, 95 Pitt Street, Sydney NSW 2000, Australia. The business address for Mr. Gurnee is GEM Services USA, 2880 Lakeside Dr., Suite 203, Santa Clara, CA 95054 USA. The business address for Mr. Svanstrom is Expedia Asia Pacific, Room 1402, Ruttonjee House, 11 Duddell Street, Hong Kong. The business address for Mr. Kjellberg is Expedia Asia Pacific Limited, 5th Floor, Dina House, Ruttonjee Centre, 11 Duddell Street Central, Hong Kong. The business address for Mr. Scown is Intel Capital, c/o Intel Semiconductor, Inc. 32/F, Two Pacific Place, 88 Queensway, Hong Kong. The business address for Mr. Austin is FLAT 701, Unit 1, Block 6, Shanshuiwenyuan 3 Q1, Hongyandonglu, Chaoyang District, Beijing 100021.

Biographical Information

Executive Officers and Directors

Guangfu Cui, Chief Executive Officer

Guangfu Cui has served as our Chief Executive Officer (CEO) since October 8, 2007. Prior to joining eLong, Mr. Cui was the Managing Director for FedEx Kinko China. Mr. Cui positioned the company as a market leader in the digital printing industry in China, with 16 centers and 300 employees within four years after his joining. Prior to FedEx Kinko s, Mr. Cui worked for Procter & Gamble China for over 12 years, including two and half years working in the United States. He was instrumental in building Procter & Gamble China s distribution network and retail coverage system. Guangfu Cui holds an MBA from Kellogg School of Management at Northwestern University in Evanston, Illinois, and a BA in Law from Peking University.

Chris Chan, Chief Financial Officer

Chris Chan has served as our Chief Financial Officer since March 10, 2007. Prior to joining eLong, Mr. Chan was Finance Director of Pepsico China Beverages, responsible for financial reporting in China, Hong Kong and Taiwan. Prior to Pepsico, Mr. Chan served as Financial Services Manager of Sun Microsystems, Greater China. Prior to Sun, Mr. Chan served as CFO of Netstar Hong Kong Limited, Greater China and as Financial Controller of GE Plastics China. Mr. Chan received his MBA from Purdue University and his Bachelor of Science from Cornell University. Mr. Chan is a Certified Public Accountant in the U.S. and in Hong Kong.

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Kenneth Liao, Chief Technology Officer

Kenneth Liao has served as our Chief Technology Officer (CTO) since October 7, 2007. Mr. Liao held technology management positions in several leading U.S. technology companies. He came to eLong from Cisco Systems, Inc., where he served in various technology leadership roles for 10 years, including as the Director of Engineering for the Security Technology Group. In this role he oversaw a global team of more than 120 staff. Prior to Cisco, Mr. Liao managed technology teams at Bay Networks, IBM, and Digital Transparencies. Mr. Liao holds a Master s degree in Electrical Engineering from Rice University, in Houston Texas, and a Master s degree in Mathematics from the University of Houston. He also holds a BS degree in Computer Science from Zhongshan University.

Qi Chen, Vice President of Human Resources

Chen Qi has served as our Vice President of Human Resources since February 28, 2008. Prior to joining eLong, she was the Greater China HR Director for Momentive Performance Materials (formerly, GE Advanced Materials). Prior to that, she had worked with GE Infrastructure, Baxter Healthcare, Shell Petroleum and Glaxo Pharmaceutical as the Pacific Organization & Staffing Manager, China HR Manager, China Learning Consultant and Regional Sales Manager, respectively. Ms. Qi holds a Master Degree in Pharmaceutical Science from the Medical School of Peking University, as well as a Master Degree in Psychological Counseling and Psychotherapy from a program jointly sponsored by Peking University and the Chinese University of Hong Kong.

Jack Wang, Vice President of Hotel PSG

Jack Wang has served as Vice President of our Partner Service Group since December 2007. Prior to joining eLong, Mr. Wang worked for Proctor & Gamble for almost 10 years. Mr. Wang has significant experience in customer business development and trade marketing. Mr. Wang holds a Bachelor of Engineering degree in Hydro-machine and a Bachelor of Arts degree in Journalism from Tsinghua University.

Jason Xie, Vice President of Business Development

Jason Xie has served as our Vice President of Sales & Business Development since January 1, 2008. Prior to joining eLong, Mr. Xie had several years of sales & management experience in multinational companies including Procter & Gamble, Citibank and FedEx. Mr. Xie received his MBA degree from China Europe International Business School and BA of Economics from Nanjing University.

James Li, Vice President of Sales

James Li has served as our Vice President of Sales since January 1, 2008. Mr. Li joined eLong as Senior Sales Director for North Division in March 2007 and was promoted to Vice President of Sales due to his outstanding leadership and contribution to eLong. Prior to joining eLong, Mr. Li had served as a sales leader in multi-national companies such as Procter and Gamble, Motorola and PepsiCo, and has significant sales management experience. Mr. Li graduated from Harbin Institute of Technology with a bachelor degree in Marketing.

Yu Zheng, Vice President of Marketing

Zheng Yu has served as Vice President of Marketing since February 25, 2008. Prior to joining eLong, he was the acting marketing VP of Nippon Paint (China) Co. LTD. Prior to that, he worked with Coca-cola as Beverage Partner Worldwide China Director, and with Proctor & Gamble as Associate Marketing Director for Greater China Oral Care. Mr. Zheng has more than 10 years of experience in marketing, brand management and general management. He successfully launched and built Pampers disposable diaper brand to be a brand with over 50% market share. He also led Crest to become the No.1 toothpaste brand in China. Mr. Zheng Yu holds a Master Degree in Biochemical Engineering from Zhejiang University.

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Henrik Vilhelm Kjellberg, Chairman of the Board of Directors

Henrik Kjellberg was Interim CEO of eLong, Inc. for a portion of 2007. Mr. Kjellberg has also served as Chairman of the board of directors of eLong, Inc. since March, 2007 and has been a member of its board of directors since October, 2005. Mr. Kjellberg is also President of Expedia Asia Pacific, a subsidiary of Expedia, Inc. Prior to assuming his responsibilities in Asia Pacific, Mr. Kjellberg held roles as Expedia, Inc. s Senior Vice President of international lodging & destination services as well as Vice President and Managing Director, Supply Europe, in which role he oversaw all hotel, car and destination services for the region. Since joining Expedia in 2001, Mr. Kjellberg has overseen the launches of Expedia Netherlands and Expedia Italy. Additionally, he has managed Expedia.com s WWTE(TM) private-label service in Europe. Prior to joining Expedia, Mr. Kjellberg worked for Procter & Gamble and Scandinavian Internet portal Spray. Mr. Kjellberg holds a Master of Science in economics from the Stockholm School of Economics.

Thomas Gurnee, Director

Thomas Gurnee has served as a member of our Board of Directors since November 2, 2004. Mr. Gurnee is Chief Financial Officer of GEM Services, Inc., a privately held semiconductor manufacturer. His previous positions include President and Chief Operating Officer of GlobiTech Inc. and Chief Financial Officer of Sohu.com Inc. Prior to joining Sohu, Mr. Gurnee held a number of senior positions with Chartered Semiconductor Manufacturing Ltd., including Vice President for Business Development, President (North America), Chief Operating Officer (Singapore) and Chief Financial Officer (Singapore). Previously, Mr. Gurnee spent 13 years at Schlumberger Ltd. as finance director of various divisions in France, Singapore and the United States. From November 2000 until June 2006, Mr. Gurnee was a member of the Sohu Board of Directors. and is currently a member of the Board of Directors of US-listed companies Longtop Financial Technologies (LFT) and Xin Yuan Real Estate (XIN). Mr. Gurnee received a BA degree from Stanford University and an MBA degree from the University of Santa Clara.

Barney Harford, Director

Barney Harford has been a member of our Board of Directors since August 2004, and served as Chairman of eLong, Inc. from July 2006 to March, 2007. Mr. Harford also serves as a member of the Board of Directors of LiquidPlanner, an on-demand project management service that is transforming the way organizations manage complex projects; and GlobalEnglish, a leading provider of on-demand English language training services to multinational corporations. From March 1999 to December 2006, Mr. Harford served in a variety of roles at Expedia, Inc. As President of Expedia Asia Pacific from July 2004, he launched Expedia s business in the region, leading the company s entry into China, Japan and Australia. Previously at Expedia, he held positions as Product Planner, Director of Corporate Development & Strategic Planning, Vice President of New Channel Development and Senior Vice President of Air, Car & Private Label. Prior to joining Expedia, Mr. Harford worked in the United Kingdom as a strategy consultant with The Kalchas Group. He holds an MBA from INSEAD and an MA in Natural Sciences from Clare College, Cambridge University.

Michael Doyle, Director

Michael Doyle has served as a member of our Board of Directors since December 2004. Mr. Doyle is Chief Financial Officer of Expedia Asia Pacific, a division of Expedia, Inc. Prior to this role, Mr. Doyle served as a corporate development director responsible for Expedia s investment activities in Asia. Before joining Expedia, Mr. Doyle worked as Chief Financial Officer of Teledesic, a Bellevue, Washington, based broadband communications company founded by Craig McCaw and Bill Gates. Prior to Teledesic, Doyle was an investment banker at Morgan Stanley & Company in New York and Singapore. While in Singapore, he also worked for the Government of Singapore Investment Corporation, making private equity investments in Southeast Asia. Mr. Doyle holds a Bachelor s degree in Finance from Southern Methodist University and an MBA from Harvard Business School.

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Justin Tang, Director

Justin Tang is a co-founder of Blue Ridge China, a private equity fund formed in 2006 that invests in companies in China. Prior to that, Mr. Tang was the co-founder of eLong, Inc. From 2001 to 2006, Mr. Tang served as Chairman and CEO of eLong and in similar key executive positions at its predecessor company from 1999 to 2001. Prior to founding eLong, Mr. Tang held various positions in the financial services industry in the United States from 1993 to 1999. Mr. Tang studied at Nanjing University in China and received his BS degree from Concordia College in the United States.

Arthur Hoffman, Director

Arthur Hoffman has served as a member of our Board of Directors since December 2004. Mr. Hoffman is Managing Director of Expedia Asia Pacific and joined Expedia in December 2004 with the responsibility to expand Expedia s international presence. Prior to joining Expedia, Mr. Hoffman worked for Qantas Airways for 3 years as the General Manager for Strategy, e-Commerce and Technology for Qantas Holidays. Previously, Mr. Hoffman worked six years as a strategy consultant for Booz Allen & Hamilton and Arthur Andersen, both consulting firms, in the APAC region and throughout Europe. Mr. Hoffman also served as a conscript officer in the Royal Dutch Navy and worked a year for the Dutch Ministry of Economic Affairs. Mr. Hoffman holds an MA in Science from the University of Utrecht (Netherlands) and an MBA from INSEAD.

Johan Svanstrom, Director

Johan Svanstrom has served as a member of our Board of Directors since February 2006. Mr. Svanstrom is General Manager of Private Label of Expedia Asia Pacific, in which role he is responsible for building Expedia s Private Label business across the Asia Pacific region. Prior to joining Expedia, Mr. Svanstrom was in charge of the Digital Innovations Group at McDonald s Corporation for three years. Prior to that, Mr. Svanstrom was co-founder and CEO of Freefund, a company providing online grant search capabilities for university students in four different European countries. From 1999 to 2002 Mr. Svanstrom served as Vice President of Business Development at Glocalnet, a voice-over-IP telecom company, which he helped take public and which is listed on the Stockholm Stock Exchange. Mr. Svanstrom holds a BA in Business Administration and an MBA from the Stockholm School of Economics.

Leo Austin, Director

Leo Austin is a Partner with Augus Partners, a Beijing-based corporate advisory firm, and focuses on the mainland China travel, consumer goods and infrastructure industries. He has lived and worked in China for eleven years. Prior to consulting, Leo was a Principal with Incubasia Inc, a venture capital firm based in Hong Kong and also served as COO of enAbilis, a travel industry wholesale platform. Leo started his China career as Senior Product Manager with Bass PLC in Beijing and Jilin. Prior to coming to China, he was an Associate Consultant with LEK Consulting in London. Leo speaks, reads and writes Mandarin Chinese and has a master s degree in Modern History and Economics from Oxford University.

Michael Scown, Director

Michael Scown has been a member of our Board of Directors and its Audit Committee since December 2007. Mr. Scown is the Asia Managing Director, Treasury, for Intel Capital. From 1999 to 2006 he served as Intel Capital s Asia Regional Counsel. Before joining Intel he practiced law for 10 years as an associate and partner with Russin & Vecchi in the firm s San Francisco and Ho Chi Minh City, Vietnam offices where he was a founder and Chairman of the Board of Governors of the American Chamber of Commerce and also worked in hotel development as Asia Assistant Regional Counsel for Marriott International, Inc. Prior to commencing his legal practice, Mr. Scown served as a Foreign Service Officer with the U.S. Department of State. He is a graduate of U.C. Berkeley (A.B.), the University of San Francisco School of Law (J.D.) and a member of the California Bar.

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Board Practices

For information regarding the terms of our current directors and the period during which our officers and directors have served in their respective positions please see Directors, Executive Officers and Senior Management above. During 2007, our board passed resolutions by unanimous written consent 18 times, including audit committee and compensation committee meetings.

We have not entered into any service contracts or other arrangements providing for benefits upon termination with our non-executive directors, provided, however, that the option agreements between us and our non-executive directors provide that any non-vested options granted to such directors shall vest in full in the event that Expedia effects a going private transaction of us and provided, further, that upon a termination during the one-year period following a change in control, such non-executive directors incur a termination other than by reason of death, disability or cause, the non-executive directors are entitled to an additional 12 months of vesting on their unvested options.

Committees of the Board of Directors

Audit Committee

The audit committee of our board of directors currently consists of Leo Austin, Michael Scown, and Thomas Gurnee who also serves as the chairman of the audit committee. Mr. Austin and Mr. Scown joined the audit committee on December 18, 2007, filling vacancies in the audit committee resulting from the previously reported resignations of Mr. David Goldhill as a member of the audit committee effective July 30, 2007 and of Mr. Martin Pompadur as a member of the audit committee effective December 18, 2007. Following Mr. Goldhill s resignation, Nasdaq Listing Qualifications notified us that a cure period would be provided to allow us to regain compliance with Marketplace Rule 4350(d)(2), which requires that every Nasdaq company have an audit committee comprised of at least three directors. On December 20, 2007, our outside legal counsel received a letter from Nasdaq Listing Qualifications stating that, as a result of information provided to Nasdaq Listing Qualifications by us regarding the appointments of Mr. Austin and Mr. Scown to our audit committee, we are in compliance with the audit committee requirement for continued listing on the Nasdaq Global Market set forth in Marketplace Rule 4350(d)(2). Our board of directors has determined that all of our audit committee members are independent under Nasdaq s Marketplace Rules and Section 10A(m) of the U.S. Securities Exchange Act of 1934. In addition, our board of directors has determined that Mr. Gurnee is an audit committee financial expert as defined in Item 16A of the Instructions to Form 20-F and that Messrs. Austin and Scown each has the requisite financial knowledge and experience to be qualified to serve as a member of our audit committee.

Our board of directors has adopted a written audit committee charter pursuant to which the audit committee is responsible for the appointment of our independent public accountants and reports to our board of directors regarding the scope and results of our annual audits, compliance with our accounting and financial policies and management s procedures and policies concerning the adequacy of our internal accounting controls.

Compensation Committee

The compensation committee of our board of directors reviews and makes recommendations to our full board of directors regarding compensation policies and all forms of compensation to be provided to our executive officers and directors. In addition, the compensation committee approves bonus and, subject to the requirement that there be at least two Expedia designees on the compensation committee, stock compensation arrangements for all of our employees other than our CEO.

The compensation committee currently consists of Michael Doyle, Thomas Gurnee and Henrik Kjellberg, who also serves as the chairman of the compensation committee. Mr. Doyle and Mr. Kjellberg were appointed by Expedia under a certain investors agreement with Expedia Asia Pacific and certain other shareholders. Under the investors agreement, Expedia has the right to appoint two directors to the compensation committee, and the compensation committee does not have the authority to approve the issuance of stock options unless two directors nominated by Expedia are on the compensation committee.

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Duties of Directors

Under Cayman Islands law, each of our directors has a duty of loyalty to act honestly, in good faith and with a view to the best interests of our company. Our directors also have a duty to exercise the skills that they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. Our directors must ensure compliance with our company s memorandum and articles of association. A shareholder has the right to seek damages on behalf of our company if a duty owned by our directors is breached.

Limitation on Liability and Other Indemnification Matters

Cayman Islands law does not limit the extent to which a company s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. The articles of association of our company provide for indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such, but the indemnity does not extend to any matter in respect of any willful neglect or intentional malfeasance which may be attached to such person.

Compensation of Executive Officers and Directors