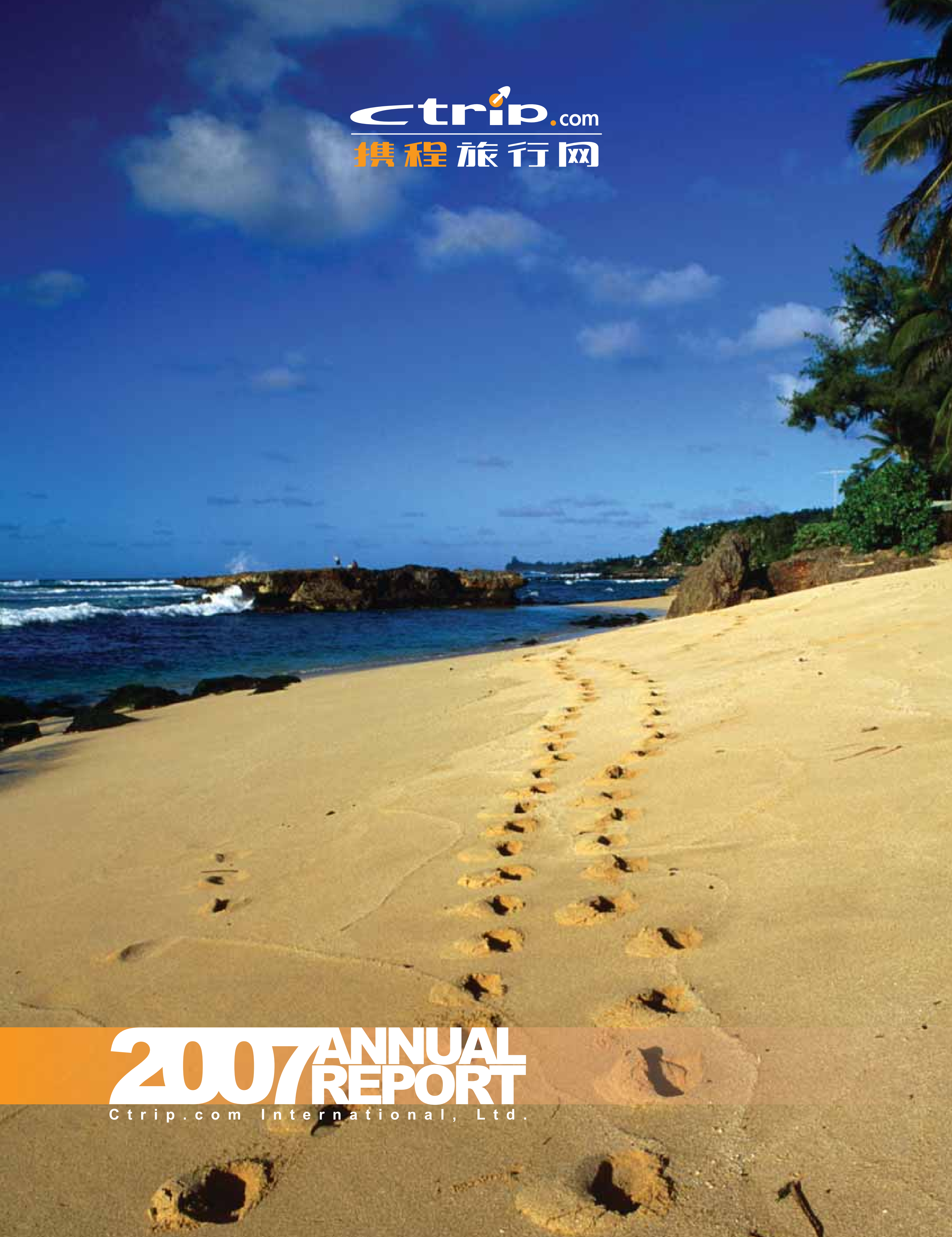

ctrip.com
携程旅行网

# 2007 ANNUAL REPORT

Ctrip.com International, Ltd.

# A “Service 2.0” company

We provide convenient, scalable
and standardized high-quality services
through innovation and advanced technology
to our customers.

携程行天下
Travel with ctrip

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# Corporate Profile

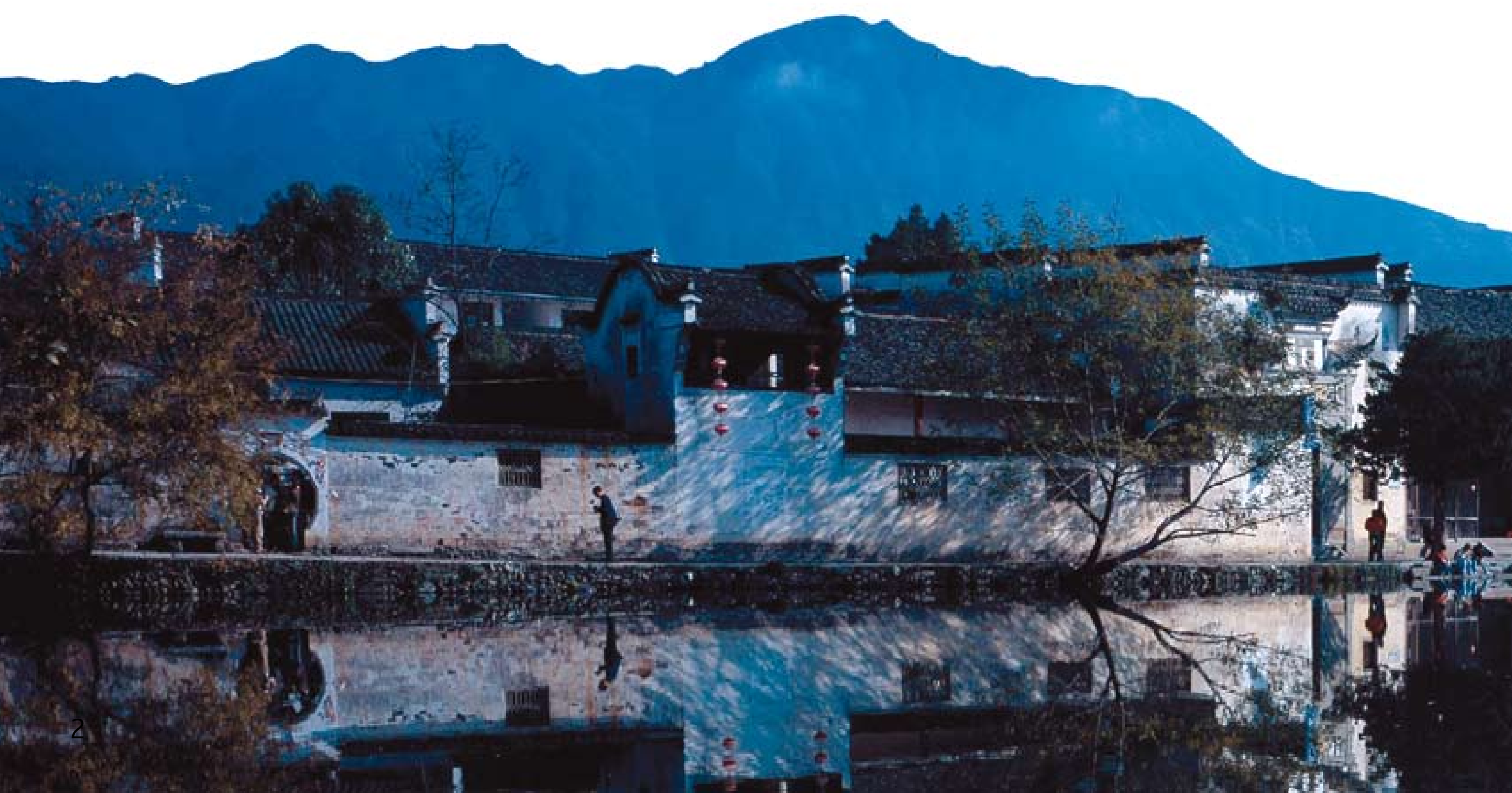
**Ctrip.com International, Ltd.** is a leading travel service provider of hotel accommodations, airline tickets and packaged-tours in China.

Ctrip aggregates information on hotels and flights and enable customers to make informed and cost-effective hotel and flight bookings.

Ctrip targets primarily business and leisure travelers in China who do not travel in groups. These travelers form a traditionally under-served yet fast-growing segment of the China travel industry.

Ctrip also offers the travel management services to the major corporations in China. Since its inception in 1999, Ctrip has experienced substantial growth and become one of the best-known travel brands in China.

The company is incorporated in the Cayman Islands and conducts substantially all of its operations in China. With its operational headquarter in Shanghai, it has branch offices in 11 other major cities in China with over 7100 employees. The company also maintains a network of sales offices in about 45 cities in China.



## Ctrip has been recognized as one of the best travel companies in China.

Dear Shareholders,

As we write this letter, we are celebrating a major event in our company's history: the visit of China's Prime Minister Wen Jiabao to our new Shanghai headquarters. Prime Minister Wen praised Ctrip for its innovative service model and ongoing efforts to make Ctrip China's leading online travel company. As we review our achievements of 2007, Prime Minister Wen's words add to our confidence and excitement about the opportunities that lie ahead.

Since its establishment, Ctrip has experienced tremendous annual growth, and 2007 was no exception. By year end, we had expanded to over 7,100 employees with subsidiaries in 11 cities throughout China. We moved into our new headquarters, the Ctrip Building, a custom-built property that represents a new and exciting stage of our development. Most importantly, all areas of our business reached new records, as we continued to expand our supplier networks and strengthen customer loyalty. Today, thanks to our past efforts and successes, we are better positioned than ever to expand our market share within China - and to progress toward our long-term goal of becoming one of the leading travel companies in the world.

## Reaching New Milestones

In 2007, we reached many milestones. Our hotel reservation business continued to show strong growth, driven by expansion into China's second-tier markets. Our supplier network grew to cover approximately 6,000 hotels and over half of them provided guaranteed room allotments to Ctrip, allowing us to increase customer satisfaction through immediate confirmations and better inventory availability.

Our air ticketing business also experienced another excellent year. With the development of e-ticket booking, we accelerated the pace of market share gains won from traditional agents. We are proud to have provided our customers with a level of service unparalleled in the market through our online booking platform, extended call center service hours and reliable nationwide ticket delivery network.

Our packaged tour business also grew at a rapid pace. We not only expanded the geographic coverage of our product offerings, but also elevated our level of service to a higher degree. Ctrip became the first company in China's travel industry to declare service standards for overseas group tours and encourage customers to measure the results against our promises. We are dedicated to establishing leadership in this area by providing the best available products and services to our customers.

We established our newest venture, corporate travel business, two years ago, and have already become a key player in the corporate travel market. We achieved impressive results in 2007, adding a spectrum of world-class clients to our portfolio and providing our clients with comprehensive supplier networks, efficient travel management services and significant budget savings.

## Enhancing Our Leading Market Position

In 2007, we continued as a strong market leader in China. According to an independent research report, Ctrip enjoys over 50% of the market share in China's online travel space. We expect the online travel industry to continue its robust growth in the foreseeable future.

To solidify our position, we vigorously pursued leadership in innovative practices. We refined and developed our direct sales approach, moving from simply handing out cards at major traffic hubs to providing PDA phone booking. We also established Customer Experience Centers in China's major airports, which will enable us to better present our products, demonstrate our service capabilities, and interact with our customers in person.

## Upgrading our services


We never stop asking ourselves one simple question: What can we do to better serve our customers? Every day we find new answers to this question, and every day we put those answers into action.

One answer has been our call center, which expanded to over 3,000 employees by the end of 2007. To maintain consistent and high-quality service across such a huge number of employees is not an easy task, but we did it-the Ctrip call center was acclaimed as one of the best call centers in China by the China Call Center and CRM Association.

As an exemplary "Service 2.0" company, we continuously strive to provide convenient, scalable and standardized high-quality services through innovation and advanced technology-and to develop the professional management and staff to put it all into practice for our customers.

## Developing Our Talents

We strongly believe that the value of our company resides not only in the prospect of robust growth in China's travel industry, but, more importantly, in our people.

We are fortunate and grateful to have had an excellent track record of helping our employees grow. In September 2007, we officially launched the Ctrip University to invest in the best and brightest people. Within the Ctrip University, Ctrip MBA program (CMBA) is designed to provide high-potential employees with tailored management knowledge and real-life experience in best practices, developing next-generation leaders who can help make Ctrip an enduring travel industry success story.

In November 2007, our ongoing investment in our people was acknowledged when Fortune China honored Ctrip by naming us one of the "Best Employers of 2007," validating our creation of a workplace where our employees can grow with the company and share in Ctrip's success.

## Contributing To Society

As a company, we have always been passionate about meeting our social responsibilities. 2007 marks the second year of the Ctrip Sunshine College Aid Program, which has helped students at 27 universities in seven cities finish their studies. More recently, Ctrip contributed RMB 1 million to help Sichuan earthquake orphans finish their primary school studies.

We are also a strong advocate for green initiatives, having formed partnerships with two environmental non-profit organizations. The first, Shanghai Roots and Shoots helps fight desertification in Inner Mongolia by planting trees, and the second, Greennovate, brings environmental education to thousands of children throughout China. Under our Ctrip Green Rewards program, Ctrip members can donate their Ctrip points in support of these efforts.

## Continuing Solid Financial Performance

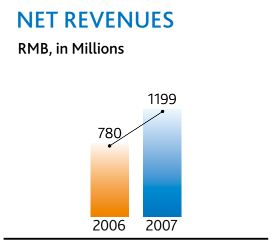
Driven by the strong economy and our team's outstanding execution, Ctrip enjoyed a very rewarding year in 2007.

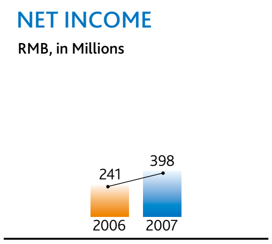
Our net revenues grew 54% year over year to US $164 million. Net income rose to US $55 million, representing a 66% increase from 2006. Before share-based compensation charges (non-GAAP), net income in 2007 was US $67 million, representing a 64% increase from the previous year. Our gross margin was as high as 80%, remaining consistent with the previous year. The operating margin was 34%, with share-based compensation charges accounting for about 7% of net revenue. Our year-end cash balance was US $147 million, compared to US $109 million at the end of 2006. This continuing strong financial performance led our shareholders and directors to distribute 30% of Ctrip's 2007 net income in dividends to our shareholders.

Our hotel reservations business continued to show very strong positive momentum in 2007. Revenues from hotel reservations reached US $93 million, increasing by 42% from the previous year. Revenues from the hotel business contributed to about 53% of total revenues in 2007.

Revenues from air ticketing reached US $69 million in 2007, representing a 72% increase over 2006. Revenues from air ticketing contributed to about 39% of the total revenues in 2007.

With the leisure travel market continuing its strong growth in 2007, our packaged tour business also grew at a healthy pace. Revenues from packaged tours reached US $10 million, a 71% increase from 2006, and contributed to 6% of our total revenues.



## Looking Ahead

We expect 2008 to be a year full of changes and challenges. Ctrip is well positioned to thrive in a tough market and establish an even stronger market position through geographic expansion, strategic development, and continuous innovation as China becomes one of the largest inbound and outbound tourist countries in the world. With increasing incomes, currency appreciation and the gradual lifting of travel restrictions, we expect to serve more Chinese customers traveling outside mainland China. We also launched our English website to introduce our services to foreign travelers.

As a leading innovator in China, we will continue to develop and introduce new practices and technologies. We are developing our state-of-the-art web interface to ensure the best possible online user experience. Meanwhile, we are investing heavily in customer relationship management to better understand our customers and provide them with superior tailored products and services.

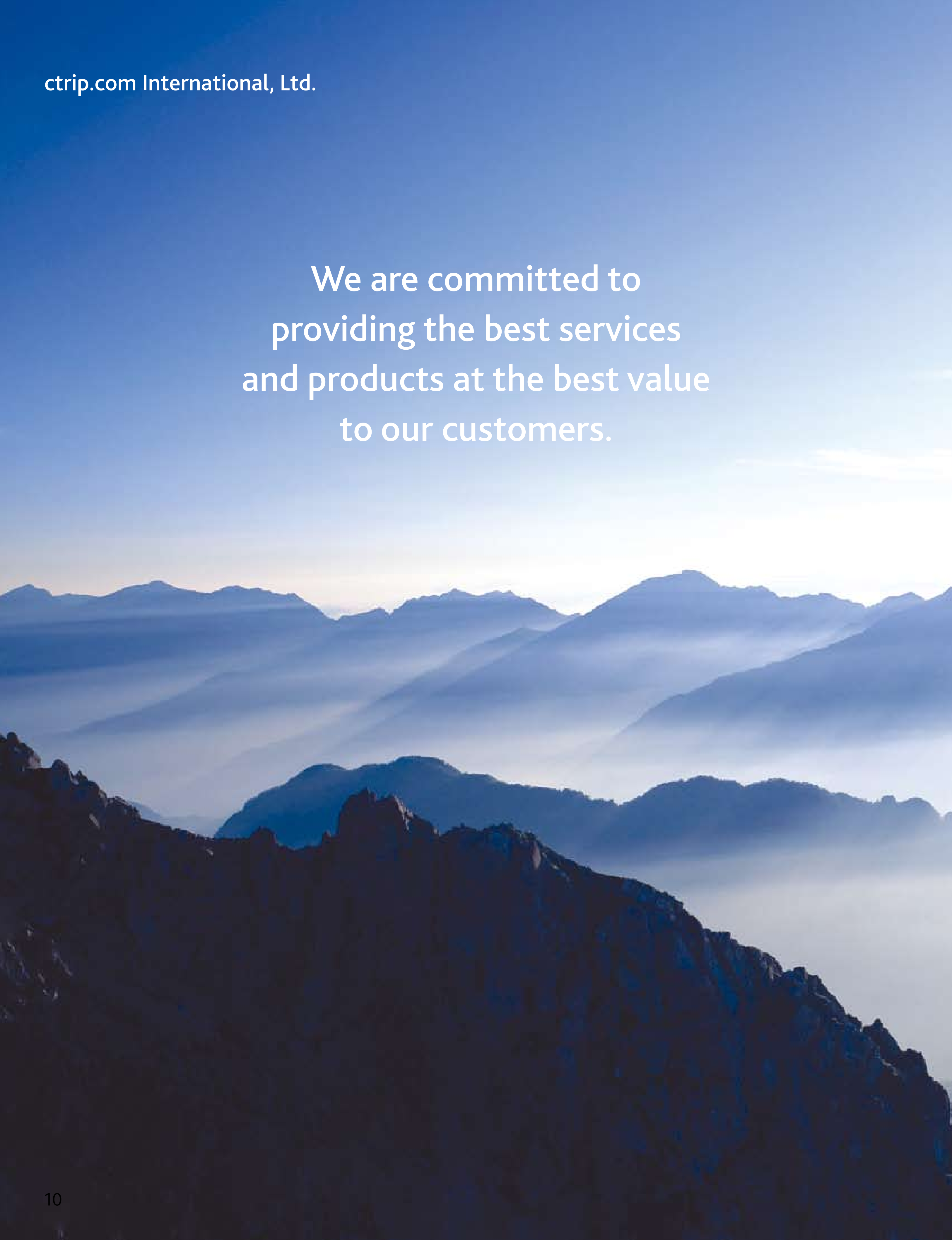
We will constantly explore new travel-related products and services and pursue strategic investments to enrich our resources and capabilities. We believe that these initiatives can help us succeed in new business areas and markets, continue to put our customer service philosophy into practice, and drive the company to new levels of success and excellence.

## Building On Success

We remain enthusiastic as ever about the future of the travel industry in China and our success as a business leader in this market. We will continue to strive to improve our customer service, to gain a better market share and to increase value for our shareholders.

As always, we are grateful to our customers for their trust, to our partners for their support, to our employees for their hard work, and to you, our valued shareholders, for placing your confidence in our future.

# Business Milestones



We are committed to
providing the best services
and products at the best value
to our customers.

# Selected Financial Data

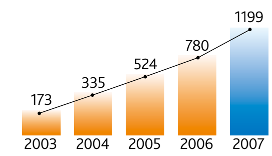
The following table presents the selected consolidated financial information for our business. You should read the following information in conjunction with Management Discussion and Analysis section. The selected consolidated statement of operations data for the years ended December 31, 2005, 2006 and 2007 and the selected consolidated balance sheet data as of December 31, 2006 and 2007 have been derived from our audited consolidated financial statements and should be read in conjunction with those statements, which are included in this annual report beginning on page 36. The selected consolidated statement of operations 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 have been derived from our audited consolidated financial statements for these periods, which are not included in this annual report.

Certain prior year amounts have been reclassified with no effect on net income or retained earnings to conform to the 2007 financial statement presentation. Additionally, all ADS data have been retroactively adjusted to reflect the current ADS to ordinary share ratio for all periods presented.

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2007 |
| | RMB | RMB | RMB | RMB | RMB | US$[2] |
| | (in thousands, except for per ordinary share data) | | | | | |
| **Consolidated Statement of Operation Data:** | | | | | | |
| Net revenues | 173,147 | 335,042 | 524,183 | 779,952 | 1,199,111 | 164,383 |
| Cost of revenues | (26,223) | (51,637) | (88,627) | (153,132) | (236,226) | (32,383) |
| Gross profit | 146,924 | 283,405 | 435,556 | 626,820 | 962,885 | 132,000 |
| Operating expenses | | | | | | |
| Product development[1] | (21,095) | (38,510) | (57,913) | (105,938) | (177,302) | (24,306) |
| Sales and marketing[1] | (47,707) | (73,051) | (112,532) | (172,492) | (243,314) | (33,356) |
| General and administrative[1] | (20,615) | (38,114) | (42,651) | (93,174) | (137,944) | (18,910) |
| Total operating expenses | (89,417) | (149,675) | (213,096) | (371,604) | (558,560) | (76,572) |
| Income from operations | 57,507 | 133,730 | 222,460 | 255,216 | 404,325 | 55,428 |
| Net interest income and other income | 6,062 | 11,952 | 32,632 | 26,846 | 52,001 | 7,129 |
| Income before income tax expense, minority interests and share of income of joint venture companies | 63,569 | 145,682 | 255,092 | 282,062 | 456,326 | 62,557 |
| Income tax expense | (10,249) | (12,517) | (30,577) | (41,277) | (58,006) | (7,952) |
| Minority interests | (79) | (39) | (269) | (221) | 4 | — |
| Share of income of joint venture companies | 573 | — | — | — | — | — |
| Net income | 53,814 | 133,126 | 224,246 | 240,564 | 398,324 | 54,605 |
| ***Earnings Per Ordinary Share Data:*** | | | | | | |
| Accretion for Series B preferred shares | (12,366) | — | — | — | — | — |
| Deemed dividends to holders of Series A and Series B preferred shares for spin-off of joint venture companies[3] | (2,829) | — | — | — | — | — |
| Deemed dividends upon repurchase of preferred shares | (35,336) | — | — | — | — | — |
| Amount allocated to participating preference shareholders | (1,910) | — | — | — | — | — |
| Net income attributable to ordinary shareholders | 1,373 | 133,126 | 224,246 | 240,564 | 398,324 | 54,605 |
| Earnings per ordinary share[4], basic | 0.13 | 4.33 | 7.06 | 7.44 | 12.10 | 1.66 |
| Earnings per ordinary share[4], diluted | 0.11 | 4.23 | 6.91 | 7.23 | 11.67 | 1.60 |
| Cash dividends per ordinary share paid[5] | — | — | 1.26 | 2.04 | 2.11 | 0.277 |

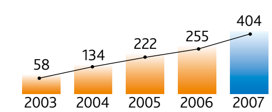
**NET REVENUES**

RMB, in Millions



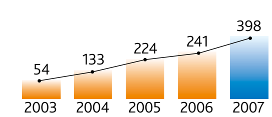

**INCOME FROM OPERATIONS**

RMB, in Millions




**NET INCOME**

RMB, in Millions



| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2007 |
| | RMB | RMB | RMB | RMB | RMB | US$(2) |
| | (in thousands) | | | | | |
| **Consolidated Balance Sheet Data:** | | | | | | |
| Cash and cash equivalents | 471,969 | 615,875 | 735,062 | 844,393 | 1,064,418 | 145,919 |
| Short-term investment | — | — | — | — | 141,174 | 19,353 |
| Accounts receivable, net | 28,940 | 35,418 | 63,392 | 136,688 | 260,684 | 35,737 |
| Other current assets | 8,283 | 19,573 | 52,861 | 72,387 | 81,365 | 11,154 |
| Non-current assets | 48,013 | 69,852 | 184,586 | 398,385 | 577,303 | 79,141 |
| Total assets | 557,205 | 740,718 | 1,035,901 | 1,451,853 | 2,124,944 | 291,304 |
| Current liabilities | 63,917 | 138,744 | 270,314 | 421,045 | 672,041 | 92,128 |
| Other long-term payables | — | — | — | 2,438 | 1,625 | 223 |
| Minority interests | 564 | 603 | 871 | 673 | 1,159 | 159 |
| Total shareholders' equity | 492,724 | 601,371 | 764,716 | 1,027,697 | 1,450,119 | 198,794 |

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

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2007 |
| | RMB | RMB | RMB | RMB | RMB | US$(2) |
| | (in thousands) | | | | | |
| Product development | 411 | 550 | 403 | 13,694 | 22,708 | 3,113 |
| Sales and marketing | 136 | 188 | 258 | 8,558 | 13,649 | 1,871 |
| General and administrative | 1,036 | 1,220 | 1,116 | 32,430 | 50,557 | 6,931 |

(2) Translation from RMB amounts into U.S. dollars was made at a rate of RMB7.2946 to US$1.00. See "Exchange Rate Information."

(3) On August 27, 2003, we resolved to distribute all of our equity interest in Home Inns & Hotels Management (Hong Kong) Limited to the then existing holders of our ordinary shares and Series A and Series B preferred shares on a pro rata as-converted basis based on the carrying value of the equity interest in the amounts of RMB2 million, RMB1 million and RMB2 million, respectively.

(4) Each ADS represents 0.5 ordinary shares.

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

## Exchange Rate Information

We have published our financial statements in RMB. Our business is primarily conducted in China in RMB. The conversion of RMB into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. For your convenience, this annual report contains translations of some RMB or U.S. dollar amounts for 2007 at US$1.00 : RMB7.2946, which was the noon buying rate in effect as of December 31, 2007. The prevailing rate at April 28, 2008 was US$1.00 : RMB7.0020. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade.

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

| | Noon Buying Rate | | | |
|---|---|---|---|---|
| Period | Period End | Average(1) | Low | High |
| | | (RMB per US$1.00) | | |
| 2003 | 8.2767 | 8.2772 | 8.2800 | 8.2765 |
| 2004 | 8.2765 | 8.2768 | 8.2771 | 8.2765 |
| 2005 | 8.0702 | 8.1826 | 8.2765 | 8.0702 |
| 2006 | 7.8041 | 7.9579 | 8.0702 | 7.8041 |
| 2007 | 7.2946 | 7.5806 | 7.8127 | 7.2946 |
| 2008 | | | | |
| January | 7.1818 | 7.2405 | 7.2946 | 7.1818 |
| February | 7.1115 | 7.1644 | 7.1973 | 7.1100 |
| March | 7.0120 | 7.0722 | 7.1110 | 7.0105 |
| April (through April 28) | 7.0020 | 7.0011 | 7.0185 | 6.9840 |

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

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

## A. Overview

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

In 2007, we derived 53%, 39%, 6% and 2% of our revenues from our hotel reservation, air ticketing, packaged-tour and other businesses, respectively.

### Major Factors Affecting the Travel Industry

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

*Growth in the Overall Economy and Demand for Travel Services in China.* We expect that our financial results will continue to be affected by the overall growth of the economy and demand for travel services in China and the rest of the world. According to the statistical report published on the website of National Bureau of Statistics of China on February 28, 2008, the gross domestic product, or GDP, of China grew from RMB13.6 trillion (US$1.7 trillion) in 2003 to RMB24.7 trillion (US$3.4 trillion) in 2007, representing a compound annual growth rate of 16%. GDP per capita in the same period rose from RMB10,542 (US$1,273) to RMB18,665 (US$2,559), representing a 15% compound annual growth rate. This growth led to a significant increase in the demand for travel services.

According to the statistical report published on the website of National Bureau of Statistics of China on February 28, 2008, domestic tourism spending grew from RMB344.2 billion (US$41.6 billion) in 2003 to RMB777.1 billion (US$106.5 billion) in 2007, representing a compound annual growth of 23%. We anticipate that demand for travel services in China will continue to increase in the foreseeable future as the economy in China continues to grow. However, any adverse changes in economic conditions of China and the rest of the world, such as a slow-down of the Chinese economy, could have a material and adverse effect on the travel industry in China, which in turn would harm our business.

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

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

- the outbreak of avian influenza, severe acute respiratory syndrome, or SARs, or any other serious contagious diseases;
- increased prices in the hotel, airline or other travel-related industries.
- increased occurrence of travel-related accidents;
- natural disasters or poor weather conditions;
- terrorist attacks or threats of terrorist attacks or war; and
- general economic downturns.

During the period from March 2003 through June 2003, the economies of several countries in Asia, including China, were severely affected by the outbreak of SARS. Our business and our operating results during that period were also adversely affected. From time to time, there have been reports on the occurrences of avian flu in various parts of China, including a few confirmed human cases and deaths. If there is a recurrence of an outbreak of SARS or any similar outbreak of other contagious diseases such as avian flu, it may adversely affect the travel industry and has a material and adverse effect on our business and operating results.


## Major Factors Affecting Our Results of Operations

### *Revenues*

Revenue Composition and Sources of Revenue Growth. We have experienced significant revenue growth since we commenced operations in 1999. Our revenues grew from RMB183 million in 2003 to RMB1,287 million (US$176 million) in 2007, representing a compound annual growth rate of 63%.

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

| | Year-Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| Revenues: | | | |
| Hotel reservation | 65% | 57% | 53% |
| Air ticketing | 29 | 35 | 39 |
| Packaged-tour* | 4 | 5 | 6 |
| Others | 2 | 3 | 2 |
| Total revenues | 100% | 100% | 100% |

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

As we generally do not take ownership of the products and services being sold and act as agent in substantially all of our transactions, our risk of loss due to obligations for cancelled hotel and airline ticket reservations is minimal. Accordingly, we recognize revenues primarily based on commissions earned rather than transaction value.

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

*Hotel Reservation.* Revenues from our hotel reservation business have been our primary source of revenue since our inception. In 2005, 2006 and 2007, revenues from our hotel reservation business accounted for RMB363 million, RMB476 million and RMB677 million (US$93 million), respectively, or 65%, 57% and 53%, respectively, of our revenues.

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

*Air-Ticketing.* Since early 2002, the air-ticketing business has been growing rapidly. In 2005, 2006 and 2007, revenues from our air-ticketing business accounted for RMB163 million, RMB293 million and RMB503 million (US$69 million), respectively, or 29%, 35% and 39%, respectively, of our revenues.

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

*Packaged-tour.* Our packaged-tour business has grown rapidly in the past three years. In 2005, 2006 and 2007, revenues from our packaged tour business accounted for RMB23 million, RMB42 million and RMB71 million (US$10 million), respectively. We conduct our packaged-tour business mainly through Shanghai Ctrip Charming, Beijing Ctrip, Guangzhou Ctrip, Shenzhen Ctrip, and Shanghai Huacheng. Shanghai Ctrip Charming, Beijing Ctrip, Guangzhou Ctrip, Shenzhen Ctrip, and Shanghai Huacheng bundle the packaged-tour products and receive referral fees from different travel suppliers for different components and services of the packaged-tour sold through our transaction and service platform. Referral fees are recognized as net revenues after the packaged-tour services are rendered. Shanghai Ctrip Charming, Beijing Ctrip, Guangzhou Ctrip, Shenzhen Ctrip, and Shanghai Huacheng also, from time to time, act as principal in connection with the packaged-tour services provided by them. When they act as principal, they recognize gross amounts received from customers as revenues after the packaged-tour services are rendered.

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


### *Cost of Revenues*

Cost of revenues are costs directly attributable to rendering our revenues, which consist primarily of payroll compensation, telecommunication expenses, credit card charges and other direct expenses incurred in connection with our transaction and service platform. Payroll compensation accounted for 62%, 63% and 64% of our cost of revenues in 2005, 2006 and 2007, respectively. Telecommunication expenses accounted for 14% of our cost of revenues in 2005, 2006 and 2007. Credit card charges accounted for 9%, 11% and 15% of our cost of revenues in 2005, 2006 and 2007, respectively.

Cost of revenues accounted for 17%, 20% and 20% of our net revenues in 2005, 2006 and 2007, respectively. We believe our relatively low ratio of cost of revenues to revenues is primarily due to competitive labor costs in China and high efficiency of our customer service system. Our cost efficiency was further enhanced by our website operations, which require significantly fewer service staff to operate and maintain. The increase of percentage of cost of revenues over net revenue was largely due to the relatively higher cost of revenues as a result of increased revenue contribution from air-ticketing services and packaged tours, which was partially offset by efforts to increase efficiency of customer service.

### *Operating Expenses*

Operating expenses consist primarily of product development expenses, sales and marketing expenses, general and administrative expenses, all of which include share-based compensation expense. Effective January 1, 2006 we adopted SFAS No.123R and recorded share-based compensation expense under the fair value method. Prior to January 1, 2006, we accounted for share-based compensation under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and used the intrinsic value method. In the year ended December 31, 2007, we recorded RMB87 million (US$12 million) of share-based compensation expense compared to RMB2 million and RMB55 million for the years ended December 31, 2005 and 2006, respectively. Share-based compensation expense is included in the same income statement category as the cash compensation paid to the recipient of the share-based award.

Product development expenses primarily include expenses we incur to develop our travel suppliers network and expenses we incur to develop, maintain and monitor our transaction and service platform. Product development expenses as a percentage of net revenues increased from 11% in 2005 to 14% in 2006, and increased slightly to 15% in 2007, primarily due to increase of share-based compensation and product development personnel resources.

Sales and marketing expenses primarily comprise payroll compensation and benefits for our sales and marketing personnel, advertising expenses, commissions for our marketing partners for referring customers to us, and production costs of marketing materials and membership cards. Our sales and marketing expenses as a percentage of net revenues had remained generally consistent at 21%, 22% and 20% for 2005, 2006 and 2007, respectively.

General and administrative expenses consist primarily of payroll compensation, benefits and travel expenses for our administrative staff, professional service fees, as well as administrative office expenses. General and administrative expenses as a percentage of net revenues increased from 8% to 12% from 2005 to 2006 primarily due to increase of share-based compensation, and remained consistent at 12% for 2007.

### *Foreign Exchange Risk*

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

### *Income Taxes and Financial Subsidies*

Income Taxes. Our effective income tax rate was 12%, 15% and 13% for 2005, 2006 and 2007, respectively. Prior to December 31, 2007, pursuant to the applicable tax laws in China, companies established in China were generally subject to EIT at a statutory rate of 33%. The 33% EIT rate applied to our subsidiaries and affiliated Chinese entities established in China, except for our subsidiaries, Ctrip Computer Technology, Ctrip Travel Information and Ctrip Travel Network, and our consolidated affiliated Chinese entity, Shenzhen Ctrip, as discussed below.

On March 16, 2007, the National People's Congress, the Chinese legislature, passed the new EIT Law, which became effective on January 1, 2008. The new EIT Law applies a uniform 25% enterprise income tax rate to both foreign invested enterprises and domestic enterprises. According to a grandfathering provision of a law published by the State Department, there will be a five-year transition period during which enterprises are allowed to continue to enjoy their existing preferential tax treatments approved by the applicable tax laws and administrative regulations. For certain enterprises established in special economic zones, including Pudong New Area, a transitional preferential income tax rate of 18%, 20%, 22%, 24% and 25% for the respective five-year transition period is allowed. The increase in the effective tax rate for 2006 from 2005 was primarily due to an increase of non-tax deductible share-based compensation recognized under FAS 123R. The decrease in the effective tax rate for 2007 from 2006 was primarily due to an increase in deferred tax benefit resulting from the application of the tax rate of 25% under the new EIT Law as of December 31, 2007, as required by applicable accounting guidelines.

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

- Our subsidiary, Ctrip Computer Technology, was entitled to a 15% EIT rate in 2007 as it had been classified as a "High and New Technology Development Enterprise" by relevant PRC government authorities. Ctrip Computer Technology is subject to a tax rate of 25%, or 15% if its application for treatment as a high and new technology enterprise is approved in 2008.

- Our subsidiary, Ctrip Travel Information, historically enjoyed a preferential income tax rate of 15% as it is registered in Pudong New District, Shanghai. During the fourth quarter of 2004, Ctrip Travel Information obtained approval from the relevant tax bureau for full exemption of income tax for 2004 and a 50% reduction of the income tax statutory rate for the period from 2005 to 2007 as it obtained the status of "software development company." Ctrip Travel Information is subject to a transitional preferential tax rate of 18%, or 15% if its application for treatment as a high and new technology enterprise is approved in 2008.

- Our subsidiary, Ctrip Travel Network, obtained approval from the relevant tax bureau during the fourth quarter of 2007 for a 50% reduction of its statutory and local income tax rate for the period from 2007 to 2009 as it obtained the status of "software development company." Ctrip Travel Network's qualification for the above preferential EIT rate is subject to annual re-assessment by the relevant government authorities. Ctrip Travel Network is subject to a tax rate of 25%, or 15% if its application for treatment as a high and new technology enterprise is approved in 2008.

- Our affiliated Chinese entity, Shenzhen Ctrip, was entitled to a preferential tax rate of 15% as granted by the local tax bureau based on its registration in the city of Shenzhen in China in 2007. Shenzhen Ctrip is entitled to a transitional preferential tax rate of 18% for 2008.

On April 14, 2008, the Ministry of Science and Technology and the Ministry of Finance and State Administration of Taxation jointly issued Guokefahuo (2008) No.127, "Administrative Measures for Assessment of High-New Tech Enterprises," or Measures, and "Catalogue of High/New Tech Domains Strongly Supported by the State," or Catalogue, each of which is retroactively effective as of January 1, 2008. The Measures mainly set forth general guidelines regarding criteria as well as application procedures for qualification as a High New Tech Enterprise under the new EIT Law. Currently, we are in the process of reviewing and assessing the implications of the Measures and the Catalogue on our subsidiaries and VIEs in China. Our future effective income tax rate depends on various factors, such as tax legislation, the geographic composition of our pre-tax income and non-tax deductible expenses incurred. Our management carefully monitors these legal developments and will timely adjust our effective income tax rate when necessary.

Financial Subsidies. In 2005, 2006 and 2007, our subsidiaries in China received business tax rebates in the form of financial subsidies from the government authorities in Shanghai in the amount of approximately RMB18 million, RMB11 million and RMB21 million (US$3 million), respectively, which we recorded as other income on a cash basis.

Such financial subsidies were granted to us at the sole discretion of the government authorities. We cannot assure you that our subsidiaries will continue to receive business tax rebates or other financial subsidies in the future.

## Critical Accounting Policies

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

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

*Goodwill,* Intangible Assets and Long-Lived Assets. In addition to the original cost of goodwill, intangible assets and long-lived assets, the recorded value of these assets is impacted by a number of policy elections, including estimated useful lives, residual values and impairment charges. Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," provides that intangible assets that have indefinite useful lives and goodwill will not be amortized but rather will be tested at least annually for impairment. Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets" requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from its undiscounted future cash flow. For each of 2005, 2006 and 2007, we did not recognize any impairment charges for goodwill, intangible assets or long-lived assets based on the expanding and prospective business of our subsidiaries and affiliated Chinese entities. Throughout the past year, there were no circumstances or events that indicated that the assets may be impaired. If different judgments or estimates had been utilized, material differences could have resulted in the amount and timing of the impairment charge.

*Customer Reward Program*. We offer a customer reward program that allows customers to receive travel awards and other gifts based on accumulated membership points that vary depending on the products and services purchased by the customers. Because we have an obligation to provide such travel awards and other gifts, we recognize a liability and corresponding expense for the related future obligations. As of December 31, 2006 and 2007, our accrued balance for the customer reward program were approximately RMB30 million and RMB45 million (US$6 million), respectively. We estimate our liabilities under our customer reward program based on accumulated membership points and our estimate of probability of redemption. If actual redemption differs significantly from our estimate, it will result in an adjustment to our liability and the corresponding expense.

*Share-Based Compensation*. Effective January 1, 2006 we adopted SFAS No.123R using the modified prospective method and therefore have not restated prior periods' results. Under the fair value recognition provisions of SFAS No.123R, we recognize share-based compensation net of an estimated forfeiture rate and therefore only recognize compensation cost for those shares expected to vest over the service period of the award. Prior to SFAS No. 123R adoption, we accounted for share-based payments under APB No. 25 and accordingly, recognized share-based compensation expense related to stock options with intrinsic value approach with required disclosures and accounted for forfeitures as they occurred.

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

*Deferred Tax Valuation Allowances.* We provide a valuation allowance on our deferred tax assets to the extent we consider it to be more likely than not that we will be unable to realize all or part of such assets. Our future realization of our deferred tax assets depends on many factors, including our ability to generate taxable income within the period during which temporary differences reverse or before our tax loss carry forwards expire, the outlook for the Chinese economy and overall outlook for our industry. We consider these factors at each balance sheet date and determine whether valuation allowances are necessary. As of December 31, 2006 and 2007, we recorded deferred tax assets of RMB3 million and RMB11 million (US$1.5 million), respectively. If, however, unexpected events occur in the future that would prevent us from realizing all or a portion of our net deferred tax assets, an adjustment would result in a charge to income in the period in which such determination was made. As of December 31, 2006 and 2007, we did not record any valuation allowances to reduce our deferred tax assets, as we believed that our deferred tax asset amounts were more likely than not to be realized based on our estimate of future taxable income.

*Allowance for doubtful accounts.* Accounts receivable are recorded at the invoiced amount and do not bear interest. We provide a general provision for doubtful accounts for the outstanding trade receivable balances based on historical experience and information available. Additionally, we make specific bad debt provisions based on (i) our specific assessment of the collectibility of all significant accounts; and (ii) any specific knowledge we have acquired that might indicate that an account is uncollectible. The facts and circumstances of each account may require us to use substantial judgment in assessing its collectibility. As of the end of December 31, 2006 and 2007, the allowance for doubtful accounts was RMB8,469 and RMB3,002,114, respectively.

## Results of Operations

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

| | For the Year Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2005 | | 2006 | | 2007 | | |
| | RMB (in thousands) | % | RMB (in thousands) | % | RMB (in thousands) | US$ (in thousands) | % |
| Revenues: | | | | | | | |
| Hotel reservation | 362,857 | 69 | 476,495 | 61 | 676,511 | 92,742 | 56 |
| Air ticketing | 162,645 | 31 | 292,701 | 38 | 503,453 | 69,017 | 42 |
| Packaged-tour(1) | 22,756 | 4 | 41,702 | 5 | 71,496 | 9,801 | 6 |
| Others | 10,915 | 3 | 23,129 | 3 | 35,818 | 4,910 | 3 |
| Total revenues | 559,173 | 107 | 834,027 | 107 | 1,287,278 | 176,470 | 107 |
| Less: Business tax and related surcharges | (34,990) | (7) | (54,075) | (7) | (88,167) | (12,087) | (7) |
| Net revenues | 524,183 | 100 | 779,952 | 100 | 1,199,111 | 164,383 | 100 |
| Cost of revenues | (88,627) | (17) | (153,132) | (20) | (236,226) | (32,383) | (20) |
| Gross profit | 435,556 | 83 | 626,820 | 80 | 962,885 | 132,000 | 80 |
| Operating expenses: | | | | | | | |
| Product development(2) | (57,913) | (11) | (105,938) | (14) | (177,302) | (24,306) | (15) |
| Sales and marketing(2) | (112,532) | (21) | (172,492) | (22) | (243,314) | (33,356) | (20) |
| General and administrative(2) | (42,651) | (8) | (93,174) | (12) | (137,944) | (18,910) | (12) |
| Total operating expenses | (213,096) | (41) | (371,604) | (48) | (558,560) | (76,572) | (47) |
| Income from operations | 222,460 | 42 | 255,216 | 33 | 404,325 | 55,428 | 34 |
| Interest income | 12,661 | 2 | 15,632 | 2 | 16,704 | 2,290 | 1 |
| Other income | 19,971 | 4 | 11,214 | 1 | 35,297 | 4,839 | 3 |
| Income before income tax expense and minority interests | 255,092 | 49 | 282,062 | 36 | 456,326 | 62,557 | 38 |
| Income tax expense | (30,577) | (6) | (41,277) | (5) | (58,006) | (7,952) | (5) |
| Minority interests | (269) | — | (221) | — | 4 | — | — |
| Net income | 224,246 | 43 | 240,564 | 31 | 398,324 | 54,605 | 33 |

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

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

| | For the Year Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2005 | | 2006 | | 2007 | | |
| | RMB (in thousands) | % | RMB (in thousands) | % | RMB (in thousands) | US$ (in thousands) | % |
| Product development | (403) | — | (13,694) | (2) | (22,708) | (3,113) | (2) |
| Sales and marketing | (258) | — | (8,558) | (1) | (13,649) | (1,871) | (1) |
| General and administrative | (1,116) | — | (32,430) | (4) | (50,557) | (6,931) | (4) |

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

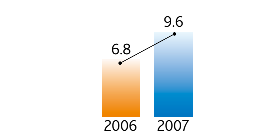
## 2007 compared to 2006

### *Revenues*

Total revenues were RMB1,287 million (US$176 million) in 2007, an increase of 54% over RMB834 million in 2006. This revenue growth was principally driven by the substantial volume growth in hotel room nights booked and air tickets sold in 2007.

TOTAL NUMBERS OF HOTEL ROOM NIGHTS BOOKING

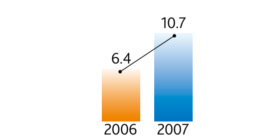
in Millions




*Hotel Reservation.* Revenues from our hotel reservation business increased by 42% to RMB677 million (US$93 million) in 2007 from RMB476 million in 2006, primarily as a result of the continued rapid growth in our hotel room nights sales volume. The total number of hotel room nights booked in 2007 was approximately 9.6 million compared to over 6.8 million in 2006. In 2007, the average commission per room night was approximately RMB70, remain consistent with 2006.

TOTAL NUMBERS OF AIR TICKETS SOLD

in Millions




*Air-Ticketing.* Revenues from our air-ticketing business increased by 72% to RMB503 million (US$69 million) in 2007 from RMB293 million in 2006, primarily due to strong growth of air tickets sales volume as we continued to expand our air ticketing capabilities significantly. The total number of air tickets sold in 2007 was approximately 10.7 million, compared to approximately 6.4 million in 2006. In 2007, the average commission per ticket sold increased to RMB47 from RMB46 in 2006.

*Packaged-tour.* Packaged-tour revenues increased by 71% from RMB42 million in 2006 to RMB71 million (US$10 million) in 2007, as we continued growing our packaged-tour business.

*Other businesses.* Revenues from other businesses increased by 55% from RMB23 million in 2006 to RMB36 million (US$5 million) in 2007 primarily due to increased sales of air-ticket insurance and advertising service.

### *Business tax and related surcharges*

Our business tax and related surcharges increased by 63% from RMB54 million in 2006 to RMB88 million (US$12 million) in 2007 as a result of our increased revenues in all of our business lines.

### *Cost of Revenues*

Cost of revenues in 2007 increased by 54% to RMB236 million (US$32 million) from RMB153 million in 2006. This increase was primarily attributable to increased costs associated with our air-ticketing and packaged-tour businesses and, to a less extent, the expansion of our hotel reservation business.

### *Operating Expenses*

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

*Product Development.* Product development expenses increased by 67% to RMB177 million (US$24 million) in 2007 from RMB106 million in 2006, primarily due to increase of product development personnel as we expanded our air ticketing and packaged-tour businesses and increase of RMB9 million (US$1 million) in share-based compensation expenses from 2006 to 2007.

*Sales and Marketing.* Sales and marketing expenses increased by 41% to RMB243 million (US$33 million) in 2007 from RMB172 million in 2006, primarily attributable to increased salary and benefit expenses for the increased number of sales and marketing staff, advertisements expenses and marketing and promotion expenses, as well as the increase of RMB5 million (US$0.7 million) in share-based compensation expenses from 2006 to 2007.

*General and Administrative.* General and administrative expenses increased by 48% to RMB138 million (US$19 million) in 2007 from RMB93 million in 2006, primarily due to the increase of RMB18 million (US$2 million) in share-based compensation charges and the hiring of general and administrative personnel in 2007.

*Interest Income.* Interest income increased to RMB17 million (US$2 million) in 2007 from RMB16 million in 2006 due to the increased cash generated from operations.

*Other Income.* Other income increased by 215% to RMB35 million (US$5 million) in 2007 from RMB11 million in 2006, primarily due to increase of subsidy income.

*Income Tax Expense.* Income tax expense was RMB58 million (US$8 million) in 2007, an increase of 41% over RMB41 million in 2006, primarily due to the increase of our taxable income in 2007. Our effective income tax rate in 2007 was 13%, as compared to 15% in 2006, primarily due to an increase in deferred tax benefit resulting from the application of the tax rate of 25% under the new EIT Law as of December 31, 2007, as required by applicable accounting guidelines.

## 2006 compared to 2005

### *Revenues*

Total revenues were RMB834 million in 2006, an increase of 49% over RMB559 million in 2005. This revenue growth was principally driven by the substantial volume growth in hotel room nights booked and air tickets sold in 2006.

*Hotel Reservation.* Revenues from our hotel reservation business increased by 31% to RMB476 million in 2006 from RMB363 million in 2005, primarily as a result of the continued rapid growth in our hotel room nights sales volume. The total number of hotel room nights booked in 2006 was approximately 6.8 million compared to over 5.5 million in 2005. In 2006, the average commission per room night was approximately RMB70 compared to approximately RMB66 in 2005.

*Air-Ticketing.* Revenues from our air-ticketing business increased by 80% to RMB293 million in 2006 from RMB163 million in 2005, primarily due to strong growth of air tickets sales volume as we continued to expand our air ticketing capabilities significantly. The total number of air tickets sold in 2006 was approximately 6.4 million, compared to approximately 3.7 million in 2005. In 2006, the average commission per ticket sold increased to RMB46 from RMB44 in 2005.

*Packaged-tour.* Packaged-tour revenues increased by 83% from RMB23 million in 2005 to RMB42 million in 2006, as we continued growing our packaged-tour business.

*Other businesses.* Revenues from other businesses increased by 112% from RMB11 million in 2005 to RMB23 million in 2006, primarily due to increased sales of our air ticket insurance and advertising service.

### *Business tax and related surcharges*

Our business tax and related surcharges increased by 55% from RMB35 million in 2005 to RMB54 million in 2006 as a result of our increased revenues in all of our business lines.

### *Cost of Revenues*

Cost of revenues in 2006 increased by 73% to RMB153 million from RMB89 million in 2005. This increase was primarily attributable to increased costs associated with our air-ticketing and packaged-tour businesses and, to a less extent, the expansion of our hotel reservation business.

### *Operating Expenses*

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

*Product Development.* Product development expenses increased by 83% to RMB106 million in 2006 from RMB58 million in 2005, primarily due to increase of product development personnel as we expanded our air ticketing and packaged-tour businesses and increase of RMB13 million in share-based compensation expenses from 2005 to 2006.

*Sales and Marketing.* Sales and marketing expenses increased by 53% to RMB172 million in 2006 from RMB113 million in 2005, primarily attributable to increased salary and benefit expenses for the increased number of sales and marketing staff, advertisements expenses and marketing and promotion expenses, as well as the increase of RMB8 million in share-based compensation expenses from 2005 to 2006.

*General and Administrative.* General and administrative expenses increased by 118% to RMB93 million in 2006 from RMB43 million in 2005, primarily due to the increase of RMB31 million in share-based compensation charges and the hiring of general and administrative personnel in 2006.

*Interest Income.* Interest income increased to RMB16 million in 2006 from RMB13 million in 2005 due to the increased cash generated from operations.

*Other Income.* Other income decreased by 44% to RMB11 million in 2006 from RMB20 million in 2005, primarily because we received less financial subsidies in 2006 as compared to 2005.

*Income Tax Expense.* Income tax expense was RMB41 million in 2006, an increase of 35% over RMB31 million in 2005, primarily due to the increase of our taxable income in 2006. Due to the non-tax deductible nature of the share-based compensation upon the adoption of SFAS No. 123R, our effective income tax rate in 2006 was 15%, as compared to 12% in 2005.

## B. Liquidity and Capital Resources

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

| | For the Year Ended | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| | RMB | RMB | RMB |
| | | (in thousands) | |
| Net cash provided by operating activities | 231,364 | 347,892 | 485,581 |
| Net cash used in investing activities | (72,816) | (206,973) | (269,583) |
| Net cash (used in)/provided by financing activities | (30,340) | (27,130) | 16,367 |
| Net increase in cash and cash equivalents | 119,187 | 109,331 | 220,025 |
| Cash and cash equivalents at beginning of year | 615,875 | 735,062 | 844,393 |
| Cash and cash equivalents at end of year | 735,062 | 844,393 | 1,064,418 |

Net cash provided by operating activities was RMB485 million (US$67 million) in 2007, compared to RMB348 million in 2006 and RMB231 million in 2005, primarily due to the increase in our net income resulting from our increased transaction volume.

Net cash used in investing activities amounted to RMB270 million (US$37 million) in 2007, compared to net cash used in investing activities of RMB207 million in 2006. This increase in 2007 from 2006 was primarily due to our investment in time deposits, construction of our new facilities and purchase of additional servers, workstations, computers, computer software and other items related to our network infrastructure. Net cash used in investing activities amounted to RMB207 million in 2006, compared to net cash used in investing activities of RMB73 million in 2005. This increase in 2006 from 2005 was due to our investment in ezTravel, construction of our new facilities, purchase of the land use right for our new premises, and purchase of additional servers, workstations, computers, computer software and other items related to our network infrastructure.

Net cash provided by financing activities amounted to RMB16 million (US$2 million) in 2007, compared to net cash used in financing activities of RMB27 million in 2006 and net cash used in financing activities of RMB30 million in 2005. This change in 2007 was primarily due to proceeds of RMB88 million from the exercise of share options, which was offset by RMB72 million of dividends paid to shareholders. The change in 2006 from 2005 was primarily attributable to the fact that dividends paid to shareholders amounted to RMB67 million in 2006, partially offset by the proceeds of RMB40 million from the exercise of share options.

*Capital Resources.*

As of December 31, 2007, our primary source of liquidity was RMB1,064 million (US$146 million) of cash. Except as disclosed in this annual report, we have no outstanding bank loans or financial guarantees or similar commitments to guarantee the payment obligations of third parties. We believe that our current cash and cash equivalents and cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for the foreseeable future. We may, however, require additional cash resources due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue.

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

Our research and development efforts consist of continuing to develop our proprietary technology as well as incorporating new technologies from third parties. We intend to continue to upgrade our proprietary booking, customer relationship management and yield management software to keep up with the continued growth in our transaction volume and the rapidly evolving technological conditions. We will also seek to continue to enhance our electronic confirmation system and promote such system with more hotel suppliers, as we believe that the electronic confirmation system is a cost-effective and convenient way for hotels to interface with us. In addition, we have utilized and will continue to utilize the products and services of third parties to support our technology platform.

## D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2007 to December 31, 2007 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

## E. Off-Balance Sheet Arrangements

In connection with our air-ticketing business, we, on behalf of our affiliated Chinese entities, are required by CAAC to provide guarantees for tickets obtained from various airlines. As of December 31, 2007, the amount under these guarantee arrangements was approximately RMB653 million. Based on historical experience and information currently available, we do not believe that it is probable that we will be required to pay any amount under these guarantee arrangements. Therefore, we have not recorded any liability beyond what is required in connection with these guarantee arrangements.

Operating lease obligations for the year 2008, 2009 and 2010 are RMB16 million, RMB6 million and RMB2 million, respectively. Rental expenses amounted to approximately RMB9 million, RMB17 million and RMB25 million for the years ended December 31, 2005, 2006 and 2007, respectively. Rental expense is charged to the statements of income when incurred.

## F. Tabular Disclosure of Contractual Obligations

The following sets forth our contractual obligations as of December 31, 2007:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| | (in RMB thousands) | | | | |
| Operating lease obligations | 24,309 | 16,396 | 7,913 | — | — |
| Purchase obligations | 33,547 | 26,303 | 4,436 | 2,808 | — |
| Liabilities incurred for minority interest in a VIE | 3,188 | 1,563 | 1,625 | — | — |
| | 61,044 | 44,262 | 13,974 | 2,808 | — |

We have outstanding purchase obligations totaling RMB34 million, most of which are related to the construction of the information and technology center and purchase of additional customer service center equipment. We accrue the amount once the services are rendered by our service providers. While the table above indicates our contractual obligations as of December 31, 2007, the actual amounts we are eventually required to pay may be different in the event that any agreements are renegotiated, cancelled or terminated.

## G. Safe Harbor

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

- our anticipated growth strategies;
- our future business development, results of operations and financial condition;
- our ability to continue to control costs and maintain profitability; and
- the expected growth of and change in the travel and online commerce industries in China.

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

- a slow-down of economic growth or economic downturn in China or globally may adversely affect our growth and profitability;
- declines or disruptions in the travel industry generally could reduce our revenue;
- the trading price of our ADSs has been volatile historically and may continue to be volatile regardless of our operating performance;
- if we are unable to maintain existing travel suppliers and strategic alliances, or establish new arrangements with travel suppliers and strategic alliances similar to those we currently have, our business may suffer;
- if we fail to further increase our brand recognition, we may face difficulty in obtaining new business partners and customers, and our business may be harmed;
- if we do not compete successfully against new and existing competitors, we may lose our market share, and our profitability may be adversely affected;
- our business may be harmed if our infrastructure and technology are damaged or otherwise fail or become obsolete; and
- if the ownership structure of our affiliated Chinese entities and the contractual arrangements among us, our consolidated affiliated Chinese entities and their shareholders are found to be in violation of any PRC laws or regulations, we and/or our affiliated Chinese entities may be subject to fines and other penalties, which may adversely affect our business and results of operations.

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

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

# Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Ctrip.com International, Ltd. and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Report of Management on Internal Control over Financial Reporting included in Item 15 of the accompanying Form 20-F. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which were integrated audits in 2007 and 2006). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, the People's Republic of China

April 29, 2008

# Consolidated Statements of Income and Comprehensive Income

for the years ended December 31, 2005, 2006 and 2007

| | 2005 | 2006 | 2007 | 2007 |
|---|---|---|---|---|
| | RMB | RMB | RMB | US$ |
| Revenues: | | | | |
| Hotel reservation | 362,856,812 | 476,494,606 | 676,511,238 | 92,741,376 |
| Air-ticketing | 162,645,049 | 292,701,199 | 503,453,383 | 69,017,271 |
| Packaged-tour | 22,755,626 | 41,702,488 | 71,495,585 | 9,801,166 |
| Others | 10,915,639 | 23,128,346 | 35,818,022 | 4,910,210 |
| Total revenues | 559,173,126 | 834,026,639 | 1,287,278,228 | 176,470,023 |
| Less: business tax and related | | | | |
| surcharges | (34,989,970) | (54,075,096) | (88,167,081) | (12,086,623) |
| Net revenues | 524,183,156 | 779,951,543 | 1,199,111,147 | 164,383,400 |
| Cost of revenues | (88,627,315) | (153,131,864) | (236,226,063) | (32,383,690) |
| Gross profit | 435,555,841 | 626,819,679 | 962,885,084 | 131,999,710 |
| Operating expenses: | | | | |
| Product development | (57,912,533) | (105,938,184) | (177,301,995) | (24,305,924) |
| Sales and marketing | (112,532,026) | (172,491,625) | (243,314,529) | (33,355,431) |
| General and administrative | (42,650,522) | (93,173,911) | (137,943,756) | (18,910,394) |
| Total operating expenses | (213,095,081) | (371,603,720) | (558,560,280) | (76,571,749) |
| Income from operations | 222,460,760 | 255,215,959 | 404,324,804 | 55,427,961 |
| Interest income | 12,660,661 | 15,632,481 | 16,703,553 | 2,289,852 |
| Other income | 19,970,593 | 11,213,801 | 35,297,223 | 4,838,815 |
| Income before income tax | | | | |
| expense and minority interests | 255,092,014 | 282,062,241 | 456,325,580 | 62,556,628 |
| Income tax expense | (30,577,400) | (41,277,020) | (58,005,983) | (7,951,907) |
| Minority interests | (268,790) | (221,374) | 4,013 | 550 |
| Net income | 224,245,824 | 240,563,847 | 398,323,610 | 54,605,271 |

| | 2005 | 2006 | 2007 | 2007 |
|---|---|---|---|---|
| | RMB | RMB | RMB | US$ |
| Other comprehensive income: | | | | |
| Foreign currency translation | | | | |
| adjustments | (9,021,663) | (8,459,660) | (20,321,443) | (2,785,820) |
| Comprehensive income | 215,224,161 | 232,104,187 | 378,002,167 | 51,819,451 |
| Earnings per ordinary share | | | | |
| - Basic | 7.06 | 7.44 | 12.10 | 1.66 |
| - Diluted | 6.91 | 7.23 | 11.67 | 1.60 |
| Earnings per ADS | | | | |
| - Basic | 3.53 | 3.72 | 6.05 | 0.83 |
| - Diluted | 3.46 | 3.62 | 5.84 | 0.80 |
| Weighted average ordinary | | | | |
| shares outstanding | | | | |
| - Basic shares | 31,762,419 | 32,342,998 | 32,927,454 | 32,927,454 |
| - Diluted shares | 32,441,131 | 33,268,220 | 34,121,390 | 34,121,390 |
| Share-based compensation | | | | |
| included in Operating | | | | |
| expense above is as follows: | | | | |
| Product development | (402,693) | (13,694,058) | (22,707,705) | (3,112,947) |
| Sales and marketing | (258,523) | (8,557,942) | (13,648,562) | (1,871,050) |
| General and administrative | (1,115,636) | (32,430,027) | (50,557,618) | (6,930,828) |

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

# Consolidated Balance Sheets

As of December 31, 2006 and 2007

| | 2006 | 2007 | 2007 |
|---|---|---|---|
| | RMB | RMB | US$ |
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | 844,392,604 | 1,064,418,278 | 145,918,663 |
| Restricted cash | 6,600,000 | 6,600,000 | 904,779 |
| Short-term investment | — | 141,174,094 | 19,353,233 |
| Accounts receivable, net | 136,688,354 | 260,683,770 | 35,736,541 |
| Due from related parties | 939,000 | 2,138,947 | 293,223 |
| Prepayments and other current assets | 61,931,154 | 61,350,652 | 8,410,420 |
| Deferred tax assets, current | 2,916,151 | 11,275,767 | 1,545,769 |
| Total current assets | 1,053,467,263 | 1,547,641,508 | 212,162,628 |
| Long-term deposits | 80,174,984 | 147,092,990 | 20,164,641 |
| Land use rights | 66,449,208 | 65,083,814 | 8,922,191 |
| Property, equipment and software | 153,690,484 | 267,194,788 | 36,629,121 |
| Investment | 80,416,250 | 80,416,250 | 11,024,079 |
| Goodwill | 14,595,849 | 14,595,849 | 2,000,912 |
| Intangible assets | 3,058,465 | 2,918,809 | 400,133 |
| Total assets | 1,451,852,503 | 2,124,944,008 | 291,303,705 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable | 151,408,198 | 230,904,562 | 31,654,177 |
| Due to related parties | 407,128 | 249,910 | 34,260 |
| Salary and welfare payable | 32,778,110 | 65,497,142 | 8,978,853 |
| Taxes payable | 34,913,392 | 49,079,149 | 6,728,148 |
| Advances from customers | 38,178,866 | 96,672,341 | 13,252,590 |
| Accrued liability for customer reward program | 29,566,712 | 44,659,657 | 6,122,290 |
| Dividend payable | 72,169,155 | 119,497,083 | 16,381,582 |
| Other payables and accruals | 61,623,712 | 65,481,300 | 8,976,681 |
| Total current liabilities | 421,045,273 | 672,041,144 | 92,128,581 |

| | 2006 | 2007 | 2007 |
|---|---|---|---|
| | RMB | RMB | US$ |
| Other long-term payables | 2,437,500 | 1,625,000 | 222,767 |
| Total liabilities | 423,482,773 | 673,666,144 | 92,351,348 |
| Minority interests | 672,780 | 1,158,767 | 158,853 |
| Commitments and contingencies (note 15) | | | |
| Shareholders' equity | | | |
| Share capital (US$0.01 par value; 100,000,000 shares authorized, 32,649,753 and 33,193,693 share issued and outstanding as of December 31, 2006 and 2007, respectively.) | 2,700,889 | 2,742,210 | 375,923 |
| Additional paid-in capital | 627,461,168 | 791,336,910 | 108,482,564 |
| Statutory reserves | 53,787,911 | 60,869,845 | 8,344,507 |
| Cumulative foreign currency translation adjustments | (16,099,263) | (36,420,706) | (4,992,831) |
| Retained earnings | 359,846,245 | 631,590,838 | 86,583,341 |
| Total shareholders' equity | 1,027,696,950 | 1,450,119,097 | 198,793,504 |
| Total liabilities and shareholders' equity | 1,451,852,503 | 2,124,944,008 | 291,303,705 |

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

# Consolidated Statements of Shareholders' Equity



For the years ended December 31, 2005, 2006, and 2007

| | Ordinary shares (US$0.01 par value) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares | Par Value | Additional paid-in capital | Statutory reserves | Deferred share-based compensation | Cumulative foreign currency translation adjustments | Retained earnings | Total shareholders' equity |
| | | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| Balance as of December 31, 2004 | 31,565,040 | 2,613,542 | 511,367,287 | 19,256,862 | (2,258,908) | 1,382,060 | 69,010,525 | 601,371,368 |
| Exercise of share option | 472,569 | 38,600 | 13,578,370 | — | — | — | — | 13,616,970 |
| Deferred share-based compensation | — | — | (16,801) | — | 1,793,653 | — | — | 1,776,852 |
| Appropriations to statutory reserves | — | — | — | 22,512,619 | — | — | (22,512,619) | — |
| Dividends | — | — | — | — | — | — | (67,273,747) | (67,273,747) |
| Foreign currency translation adjustments | — | — | — | — | — | (9,021,663) | — | (9,021,663) |
| Net income | — | — | — | — | — | — | 224,245,824 | 224,245,824 |
| Balance as of December 31, 2005 | 32,037,609 | 2,652,142 | 524,928,856 | 41,769,481 | (465,255) | (7,639,603) | 203,469,983 | 764,715,604 |
| Exercise of share option | 612,144 | 48,747 | 48,315,540 | — | — | — | — | 48,364,287 |
| Adoption of SFAS No. 123R | — | — | (465,255) | — | 465,255 | — | — | — |
| Share-based compensation | — | — | 54,682,027 | — | — | — | — | 54,682,027 |
| Appropriations to statutory reserves | — | — | — | 12,018,430 | — | — | (12,018,430) | — |
| Dividends | — | — | — | — | — | — | (72,169,155) | (72,169,155) |
| Foreign currency translation adjustments | — | — | — | — | — | (8,459,660) | — | (8,459,660) |
| Net income | — | — | — | — | — | — | 240,563,847 | 240,563,847 |
| Balance as of December 31, 2006 | 32,649,753 | 2,700,889 | 627,461,168 | 53,787,911 | — | (16,099,263) | 359,846,245 | 1,027,696,950 |
| Exercise of share option | 543,940 | 41,321 | 76,961,857 | — | — | — | — | 77,003,178 |
| Share-based compensation | — | — | 86,913,885 | — | — | — | — | 86,913,885 |
| Appropriations to statutory reserves | — | — | — | 7,081,934 | — | — | (7,081,934) | — |
| Dividends | — | — | — | — | — | — | (119,497,083) | (119,497,083) |
| Foreign currency translation adjustments | — | — | — | — | — | (20,321,443) | — | (20,321,443) |
| Net income | — | — | — | — | — | — | 398,323,610 | 398,323,610 |
| Balance as of December 31, 2007 | 33,193,693 | 2,742,210 | 791,336,910 | 60,869,845 | — | (36,420,706) | 631,590,838 | 1,450,119,097 |

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

# Consolidated Statements of Cash Flows

For the years ended December 31, 2005, 2006 and 2007

| | 2005 | 2006 | 2007 | 2007 |
|---|---|---|---|---|
| | RMB | RMB | RMB | US$ |
| Cash flows from operating activities: | | | | |
| Net income | 224,245,824 | 240,563,847 | 398,323,610 | 54,605,271 |
| Adjustments to reconcile net income to cash provided by operating activities: | | | | |
| Share-based compensation | 1,776,852 | 54,682,027 | 86,913,885 | 11,914,825 |
| Provision for doubtful accounts | — | 141,462 | 3,643,214 | 499,440 |
| Depreciation of property, equipment and software | 8,413,707 | 12,254,080 | 24,773,735 | 3,396,175 |
| Amortization of intangible assets and land use rights | 419,303 | 1,960,182 | 1,505,050 | 206,324 |
| Minority interests | 268,790 | 221,374 | (4,013) | (550) |
| Deferred tax benefits | (1,125,768) | (780,980) | (8,359,616) | (1,146,001) |
| Loss from disposal of property, equipment and software | 95,717 | 680,494 | 1,164,610 | 159,654 |
| Changes in current assets and liabilities: | | | | |
| Increase in restricted cash | (6,600,000) | — | — | — |
| Increase in accounts receivable | (27,973,532) | (77,556,256) | (137,176,380) | (18,805,196) |
| Increase in due from related parties | (590,997) | (288,751) | (1,199,947) | (164,498) |
| Increase in prepayments and other current assets | (20,570,031) | (14,526,301) | (18,098,226) | (2,481,044) |
| Increase in long-term deposits | (27,569,254) | (25,890,183) | (66,918,006) | (9,173,636) |
| Increase in accounts payable | 42,203,089 | 79,054,806 | 79,496,364 | 10,897,975 |
| Increase (decrease) in due to related parties | 289,043 | (683,344) | (157,218) | (21,553) |
| Increase in salary and welfare payable | 7,233,171 | 11,434,209 | 32,719,032 | 4,485,377 |
| (Decrease) increase in taxes payable | (7,371,225) | 18,863,360 | 14,165,757 | 1,941,951 |
| Increase in advances from customers | 21,646,104 | 10,861,282 | 58,493,475 | 8,018,736 |
| Increase in accrued liability for customer reward program | 9,314,090 | 9,790,519 | 15,092,945 | 2,069,057 |
| Increase in other payables and accruals | 7,259,120 | 27,110,163 | 1,202,469 | 164,844 |
| Net cash provided by operating activities | 231,364,003 | 347,891,990 | 485,580,740 | 66,567,151 |

| | 2005 | 2006 | 2007 | 2007 |
|---|---|---|---|---|
| | RMB | RMB | RMB | US$ |
| Cash flows from investing activities: | | | | |
| Purchase of property, equipment and software | (31,885,163) | (96,572,815) | (126,846,348) | (17,389,075) |
| Purchase of land use right | (41,430,515) | (26,839,219) | — | — |
| Cash paid for short-term investment | — | — | (141,174,094) | (19,353,233) |
| Cash paid for investment | — | (80,416,250) | — | — |
| Cash paid for minority interest in a VIE | — | (750,000) | (1,562,500) | (214,200) |
| Purchase of intangible assets | — | (2,395,071) | — | — |
| Decrease in long-term loans to related parties | 500,000 | — | — | — |
| Net cash used in investing activities | (72,815,678) | (206,973,355) | (269,582,942) | (36,956,508) |
| Cash flows from financing activities: | | | | |
| Proceeds from exercise of share option | 9,597,760 | 40,143,700 | 88,045,825 | 12,070,000 |
| Cash received from minority investors | — | — | 490,000 | 67,173 |
| Dividends paid | (39,937,887) | (67,273,747) | (72,169,155) | (9,893,504) |
| Net cash used in (provided by) financing activities | (30,340,127) | (27,130,047) | 16,366,670 | 2,243,669 |
| Effect of foreign exchange rate changes on cash and cash equivalents | (9,021,663) | (4,457,882) | (12,338,794) | (1,691,496) |
| Net increase in cash and cash equivalents | 119,186,535 | 109,330,706 | 220,025,674 | 30,162,816 |
| Cash and cash equivalents, beginning of year | 615,875,363 | 735,061,898 | 844,392,604 | 115,755,847 |
| Cash and cash equivalents, end of year | 735,061,898 | 844,392,604 | 1,064,418,278 | 145,918,663 |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid during the year for income taxes | 26,754,036 | 33,822,731 | 52,918,146 | 7,254,427 |
| Supplemental schedule of non-cash investing and financing activities: | | | | |
| Accruals related to land use right | (25,000,000) | — | — | — |
| Accruals related to purchase of property, equipment and software | — | (17,470,657) | (26,301,297) | (3,605,585) |
| Liabilities incurred for minority interest in a VIE | — | (4,750,000) | — | — |

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

## 1. ORGANIZATION AND NATURE OF OPERATIONS

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES

***Basis of presentation***

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

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

***Consolidation***

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

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

(Amounts expressed in RMB unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (Consolidation)

***Consolidation****(Continued)*

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

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(Consolidation)*

***Variable interest entities***

As of December 31, 2007, the Company conducts a part of its operations through a series of agreements with certain VIEs as stated in above. These VIEs are used solely to facilitate the Group's participation in Internet content provision, advertising business, travel agency and air-ticketing services in the PRC where foreign ownership is restricted.

Shanghai Ctrip Commerce is a domestic company incorporated in Shanghai, the PRC. Shanghai Ctrip Commerce holds a value-added telecommunications business license and is primarily engaged in the provision of advertising business on the Internet website. A director and a senior executive of the Company collectively hold 100% of the equity interest in Shanghai Ctrip Commerce. The registered capital of Shanghai Ctrip Commerce as of December 31, 2007 was RMB10,000,000.

Shanghai Huacheng is a domestic company incorporated in Shanghai, the PRC. Shanghai Huacheng holds a domestic travel agency license and an air transport sales agency license and mainly provides domestic tour services and air-ticketing services. Shanghai Ctrip Commerce and a director of the Company collectively hold 98.33% of the equity interest in Shanghai Huacheng. The registered capital of Shanghai Huacheng as of December 31, 2007 was RMB3,000,000.

Beijing Ctrip is a domestic company incorporated in Beijing, the PRC. Beijing Ctrip holds an air transport sales agency license, domestic and cross-border travel agency license and is mainly engaged in the provision of air-ticketing services and packaged tour services. A director of the Company and Shanghai Ctrip Commerce collectively hold 100% of the equity interest in Beijing Ctrip. The registered capital of Beijing Ctrip as of December 31, 2007 was RMB4,500,000.

Guangzhou Ctrip is a domestic company incorporated in Guangzhou, the PRC. Guangzhou Ctrip holds air transport sales agency license, domestic and inbound travel agency license and is mainly engaged in the provision of air-ticketing services and packaged tour services. Two senior executives of the Company collectively hold 100% of the equity interest in Guangzhou Ctrip. The registered capital of Guangzhou Ctrip as of December 31, 2007 was RMB3,000,000.

Shanghai Ctrip Charming is a domestic company incorporated in Shanghai, the PRC. Shanghai Ctrip Charming holds domestic and cross-border travel agency licenses, air transport sales agency license and mainly provides domestic and cross-border tour services. Two senior executives of the Company collectively control 98.2% of the equity interest in Shanghai Ctrip Charming. The registered capital of Shanghai Ctrip Charming as of December 31, 2007 was RMB5,000,000.

Shenzhen Ctrip is a domestic company incorporated in Shenzhen, the PRC. Shenzhen Ctrip holds air transport sales agency license and domestic travel agency license and is engaged in the provision of air-ticketing service. Two senior executives of the Company collectively hold 100% of the equity interest in Shenzhen Ctrip. The registered capital of Shenzhen Ctrip as of December 31, 2007 was RMB2,500,000.

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(Consolidation)*

***Variable interest entities****(Continued)*

The capital injected by the director, senior executives or senior executive's family member are funded by the Company and are recorded as long-term business loans to related parties. The Company does not have any ownership interest in these VIEs.

As of December 31, 2007, the Company has various agreements with its consolidated VIEs, including loan agreements, exclusive technical consulting and services agreements, share pledge agreements, exclusive option agreements and other operating agreements.

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

***Powers of Attorney:*** The equity owners of the VIEs irrevocably appointed the Company's officers to vote on their behalf on all matters they are entitled to vote on, including matters relating to the transfer of any or all of their respective equity interests in VIEs and the appointment of the chief executive officer of the VIEs.

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

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(Consolidation)*

***Foreign currencies***

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

Transactions denominated in currencies other than functional currencies are translated at the exchange rates quoted by the People's Bank of China (the "PBOC") or The Hong Kong and Shanghai Banking Corporation Limited (the "HSBC") prevailing at the dates of the transaction for PRC and Hong Kong subsidiaries respectively.

Gains and losses resulting from foreign currency transactions are included in the consolidated statements of income. Monetary assets and liabilities denominated in foreign currencies are translated using the applicable exchange rates quoted by the PBOC or HSBC at the balance sheet dates. All such exchange gains and losses are included in the statements of income. The exchange differences for the translation of group companies balances are included in foreign currency translation adjustments, which is a separate component of shareholders' equity on the consolidated financial statements.

Translations of amounts from RMB into US$ are solely for the convenience of the reader and were calculated at the rate of US$1.00 = RMB7.2946, on December 31, 2007, representing the noon buying rate in the City of New York for cable transfers of RMB, as certified for customs purposes by the Federal Reserve Bank of New York. No representation is intended to imply that the RMB amounts could have been, or could be, converted, realized or settled into US$ at that rate on December 31, 2007, or at any other rate.

***Stock Split***

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

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

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

***Cash and cash equivalents***

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(Consolidation)*

***Restricted cash***

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

***Short-term investment***

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

***Property, equipment and software***

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

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

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

***Investment***

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(Consolidation)*

***Investment****(Continued)*

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

***Goodwill and other intangible assets***

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

Separately identifiable intangible assets that have determinable lives continued to be amortized, and consisted primarily of a cross-border travel agency license as of December 31, 2007. As required under SFAS No. 142, the Company amortizes intangible assets on a straight-line basis over their estimated useful lives, which is eight years.

The Company has prospectively ceased the amortization of goodwill upon the adoption of SFAS No. 142. Other intangible assets that have indefinite useful life include a golf membership certificate and a domain name as of December 31, 2007. The Company evaluates the remaining useful life of an intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, the asset is tested for impairment.

The Company reviews goodwill and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable, and also reviews goodwill and intangibles with indefinite lives annually for impairment. No impairment on goodwill and other intangible assets was recognized for the years ended December 31, 2005, 2006 and 2007 in accordance with SFAS No. 142.

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

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

No impairment of long-lived assets was recognized for the years ended December 31, 2005, 2006 and 2007.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Consolidation)*

***Financial instruments***

Financial instruments of the Group primarily comprise of cash and cash equivalents, restricted cash, short-term investment, accounts receivable, due from related parties, accounts payable, due to related parties, advances from customers and other payables. As of December 31, 2006 and 2007, their carrying value approximated their fair value.

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

The Group's customers participate in a reward program, which provides travel awards and other gifts to members based on accumulated membership points that vary depending on the services rendered and fees paid. The estimated incremental costs to provide free travel and other gifts are recognized as sales and marketing expense in the statements of income and accrued for as a current liability as members accumulate points. As members redeem awards or their entitlements expire, the accrued liability is reduced correspondingly. As of December 31, 2006 and 2007, the Group's accrued liability for its customer reward program amounted to RMB29,566,712 and RMB44,659,657, respectively, based on the estimated liabilities under the customer reward program.

***Revenue recognition***

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

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

*Hotel reservation services*

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(Consolidation)*

***Revenue recognition****(Continued)*

*Air-ticketing services*

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

*Packaged-tour*

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

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

*Other businesses*

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

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(Consolidation)*

### *Allowance for doubtful accounts*

Accounts receivable are recorded at the invoiced amount and do not bear interest. We provide a general provision for doubtful accounts for the outstanding trade receivable balances based on historical experience and information available. Additionally, we make specific bad debt provisions based on (i) our specific assessment of the collectibility of all significant accounts; and (ii) any specific knowledge we have acquired that might indicate that an account is uncollectible. The facts and circumstances of each account may require us to use substantial judgment in assessing its collectibility. The following table summarized the details of the Company's allowance for doubtful accounts (in RMB):

| | 2005<br>RMB | 2006<br>RMB | 2007<br>RMB |
|---|---|---|---|
| Balance at beginning of year | — | — | 8,469 |
| Provision for doubtful accounts | — | 141,462 | 3,643,214 |
| Write-offs | — | (132,993) | (649,569) |
| Balance at end of year | — | 8,469 | 3,002,114 |

### *Cost of revenues*

Cost of revenues consists primarily of payroll compensation of customer service center personnel, telecommunication expenses, credit card service fee, direct cost of principal travel tour services, depreciation, rentals and related expenses incurred by the Group's transaction and service platform which are directly attributable to the rendering of the Group's travel related services and other businesses.

### *Product development*

Product development expenses include expenses incurred by the Group to develop the Group's travel supplier networks as well as to maintain, monitor and manage the Group's transaction and service platform. The Group recognizes website and software development costs in accordance with Statement of Position ("SOP") No. 98-1- "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" . As such, the Group expenses all costs that are incurred in connection with the planning and implementation phases of development and costs that are associated with repair or maintenance of the existing websites or the development of software and websites content.

### *Sales and marketing*

Sales and marketing expenses consist primarily of costs of payroll and related compensation for the Company's sales and marketing personnel, advertising expenses, and other related marketing and promotion expenses. Advertising expenses, amounting to RMB16,750,270, RMB25,230,545 and RMB35,658,739 for the years ended December 31, 2005, 2006 and 2007, respectively, are charged to the statements of income when incurred.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Consolidation)*

***Share-based compensation***

*Adoption of SFAS No. 123R, "Share-Based Payment" ("SFAS No. 123R")*

Effective January 1, 2006 the Company has adopted SFAS No. 123R, which replaced SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") and superseded APB No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). The Company adopted SFAS No. 123R using the modified prospective approach and accordingly prior periods have not been restated to reflect the impact of SFAS No. 123R. In accordance with SFAS No. 123R, all grants of stock options are recognized in the financial statements based on their grant date fair values. The valuation provisions of SFAS No. 123R apply to new awards, to awards granted to employees before the adoption of SFAS No. 123R whose related requisite services had not been provided, and to awards which were subsequently modified or cancelled. In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") No. 107 ("SAB No. 107") relating to SFAS No. 123R. The Company has applied the provisions of SAB No. 107 in its adoption of SFAS No. 123R.

SFAS No. 123R requires that the deferred share-based compensation on the consolidated balance sheet on the date of adoption be netted against additional paid-in capital. As of January 1, 2006, there was a balance of RMB465,255 of deferred share-based compensation that was netted against additional paid-in capital.

SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Share-based compensation expense was recorded net of estimated forfeitures such that expense was recorded only for those share-based awards that are expected to vest. Previously under APB No. 25 to the extent awards were forfeited prior to vesting, the corresponding previously recognized expense was reversed in the period of forfeiture. Upon the adoption of SFAS No. 123R, the Company recorded an amount to account for the expected forfeitures of share-based awards granted prior to January 1, 2006 for which the Company previously recorded as an expense. This amount was not material and was recorded as a reduction to share-based compensation expense in the year ended December 31, 2006.

Under SFAS No. 123R, the Company applied the Black-Scholes valuation model in determining the fair value of options granted. Risk-free interest rates are based on US Treasury yield for the terms consistent with the expected life of award at the time of grant. Expected life is based on historical exercise patterns, which the Company believes are representative of future behavior. Expected dividend yield is determined in view of the Company's historical dividend payout rate. The Company estimates expected volatility at the date of grant based on historical volatilities. The Company recognizes compensation expense on all share-based awards on a straight-line basis over the requisite service period, generally a three-year vesting period. Forfeiture rate is estimated based on historical forfeiture patterns and adjusted to reflect future change in circumstances and facts, if any. If actual forfeitures differ from those estimates, we may need to revise those estimates used in subsequent periods.

For the year ended December 31, 2006, the Company recorded share-based compensation of RMB54,682,027. There were no capitalized share-based compensation costs during the year ended December 31, 2006. As a result of adopting SFAS No. 123R, the Company's income from operations and net income was lower by RMB54,216,772 for the year ended December 31, 2006, than if the Company had continued to account for share-based compensation under APB No. 25. The implementation of SFAS No. 123R reduced basic and diluted earnings per share by RMB1.68 and RMB1.63, respectively, for the year ended December 31, 2006. The adoption of SFAS No. 123R did not result in any impact on the cash flows from operating activities, investing activities and financing activities.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Consolidation)*

***Share-based compensation****(Continued)*

Prior to adoption of SFAS No. 123R, the Company accounted for share-based compensation under APB No. 25 and used the intrinsic value method supplemented by pro forma disclosures in accordance with APB No. 25 and SFAS No. 123.

*Share option plans*

On April 15, 2003, the Company adopted a 2003 share option plan that provides for the issuance of up to 1,187,510 ordinary shares ("2003 Option Plan"). Under this share option plan, the directors may, at their discretion, grant any employees, officers and directors of the Company and/or its subsidiaries to take up share options to subscribe for shares. These share options are vested over a period of 3 years and can be exercised within 5 years from the date of grant. As of December 31, 2007, 93,076 options were outstanding under the 2003 Option Plan.

On November 5, 2004, the Company's board of directors adopted a 2005 Employee's Stock Option Plan ("2005 Option Plan"). The 2005 Option Plan was approved by the shareholders of the Company in October 2005. The Company has reserved 3,000,000 ordinary shares for future issuances of options under the 2005 Option Plan. The terms of the 2005 Option Plan are substantially similar to the Company's 2003 Option Plan. As of December 31, 2007, 2,321,673 options were outstanding under the 2005 Option Plan.

On October 17, 2007, the Company adopted a 2007 Share Incentive Plan ("2007 Incentive Plan"), which was approved by the shareholders of the Company on June 15, 2007. Under the 2007 Incentive Plan, the maximum aggregate number of shares, which may be issued pursuant to all share-based awards (including Incentive Share Options), is one million ordinary shares as of the first business day of 2007, plus an annual increase of one million shares to be added on the first business day of each calendar year beginning in 2008 to 2016. Under the 2007 Incentive Plan, the directors may, at their discretion, grant any employees, officers and directors of the Company and/or its subsidiaries such share-based awards. Shares options granted under 2007 Incentive Plan are vested over a period of 4 years and can be exercised within 5 years from the date of grant. As of December 31, 2007, no options were granted under the 2007 Incentive Plan.

*A summary of option activity under the share option plans*

The following table summarized the Company's share option activity under all the option plans (in US$, except shares):

(Amounts expressed in RMB unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES *(Consolidation)*

***Share-based compensation****(Continued)*

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at January 1, 2005 | 1,128,077 | 4.8666 | | |
| Granted | 1,813,580 | 22.3577 | | |
| Exercised | (472,569) | 3.5551 | | |
| Forfeited | (66,924) | 17.3684 | | |
| Outstanding at December 31, 2005 | 2,402,164 | 17.9795 | | |
| Granted | 220,300 | 41.0321 | | |
| Exercised | (612,144) | 9.9778 | | |
| Forfeited | (50,370) | 27.4659 | | |
| Outstanding at December 31, 2006 | 1,959,950 | 22.8259 | | |
| Granted | 1,054,900 | 60.2973 | | |
| Exercised | (543,940) | 18.6542 | | |
| Forfeited | (56,161) | 43.3669 | | |
| Outstanding at December 31, 2007 | 2,414,749 | 39.6576 | 3.2428 | 181,788,203 |
| Vested and expect to vest at December 31, 2007 | 2,278,252 | 39.2330 | 3.2226 | 172,479,658 |
| Exercisable at December 31, 2007 | 708,531 | 22.5920 | 2.4345 | 65,431,389 |

The Company's current practice is to issue new shares to satisfy share option exercises.

The expect to vest options are the result of applying the pre-vesting forfeiture rate assumptions to total unvested options.

The aggregate intrinsic value in the table above represents the total intrinsic value (the aggregate difference between the closing stock price of the Company's closing stock price of US$114.94 as of December 31, 2007 and the exercise price for in-the-money options) that would have been received by the option holders if all in-the-money options had been exercised on December 31, 2007.

The total intrinsic value of options exercised during the year ended December 31, 2005, 2006 and 2007 were US$10 million, US$24 million and US$33 million, respectively.

(Amounts expressed in RMB unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES *(Consolidation)*

***Share-based compensation****(Continued)*

The following table summarized information related to outstanding and exercisable options as of December 31, 2007 (in US$, except shares):

| | Outstanding | | | Exercisable | | |
|---|---|---|---|---|---|---|
| Range of Exercise Prices | Number of shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Number of shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) |
| $0-$4.99 | 15,965 | 2.1100 | 0.2889 | 15,965 | 2.1100 | 0.2889 |
| $5.00-$7.49 | 19,296 | 6.5235 | 0.8295 | 19,296 | 6.5235 | 0.8295 |
| $7.50-$9.99 | 5,782 | 7.6500 | 0.8694 | 5,782 | 7.6500 | 0.8694 |
| $10.00-$16.99 | 52,033 | 12.8671 | 1.4369 | 52,033 | 12.8671 | 1.4369 |
| $17.00-$22.99 | 558,417 | 19.6346 | 2.1173 | 256,373 | 19.6663 | 2.1196 |
| $23.00-$34.99 | 592,239 | 26.4494 | 2.9482 | 322,099 | 26.2969 | 2.9419 |
| $35.00-$44.99 | 138,317 | 43.8500 | 3.6111 | 36,983 | 43.8500 | 3.6111 |
| $45.00-$58.99 | 930,900 | 58.3900 | 4.1167 | — | — | — |
| $59.00-$77.99 | 101,800 | 77.0200 | 4.6167 | — | — | — |
| | 2,414,749 | | | 708,531 | | |

The weighted average fair value of options granted during the years ended December 31, 2005, 2006 and 2007 was US$10.5409, US$12.9369, and US$18.2969 per share, respectively.

As of December 31, 2007, there was US$17 million of total unrecognized compensation cost, net of estimated forfeitures, related to unvested share options which is expected to be recognized over a weighted average period of 1.8 year. Total unrecognized compensation cost may be adjusted for future changes in estimated forfeitures. For the year ended December 31, 2007, total cash received from the exercise of share options amounted to RMB88,045,825 (US$12 million).

The Company calculated the estimated fair value of share options on the date of grant using the Black-Scholes pricing model with the following assumptions for the year ended 2005, 2006 and 2007:

| | 2005 | 2006 | 2007 |
|---|---|---|---|
| Risk-free interest rate | 3.65%-4.44% | 4.66% -4.93% | 4.49% -4.85% |
| Expected life (years) | 4 | 2.5 | 2.5 |
| Expected dividend yield | 0.66% | 0.89% | 0.45% |
| Volatility | 55% - 64% | 45% - 54% | 39% - 44% |
| Fair value of options at grant date per share | from US$8.7288 to US$11.7557 | from US$10.8156 to US$13.5044 | from US$17.9183 to US$21.6161 |

(Amounts expressed in RMB unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES *(Consolidation)*

***Share-based compensation****(Continued)*

*Pro Forma Information under SFAS No. 123 for Prior Periods*

Prior to year 2006, the Company followed the disclosure-only provision of SFAS No. 123. If the compensation cost for the Company's share-based compensation plan had been determined based on the estimated fair value at the grant dates for the share option awards as prescribed by SFAS No. 123, using the Black-Scholes pricing model, the Company's net income attributable to ordinary shareholders and earnings per share would have resulted in the pro forma amounts disclosed below:

| | 2005 |
|---|---|
| | RMB |
| Net income as reported | 224,245,824 |
| Add: Compensation expense under APB No. 25 | 1,776,852 |
| Less: Compensation expense under SFAS No. 123 | (33,429,286) |
| Pro forma net income | 192,593,390 |
| Basic earnings per share | |
| - As reported | 7.06 |
| - Pro forma | 6.06 |
| Diluted earnings per share | |
| - As reported | 6.91 |
| - Pro forma | 5.94 |

***Operating leases***

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received by the Group from the leasing company are charged to the statements of income on a straight-line basis over the lease periods.

***Taxation***

Deferred income taxes are provided using the balance sheet liability method. Under this method, deferred income taxes are recognized for the tax consequences of significant temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The effect on deferred taxes of a change in tax rates is recognized in income in the period 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 of, or all of, the deferred tax assets will not be realized.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Consolidation)*

***Taxation****(Continued)*

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements in accordance with FASB Statement 109, "Accounting for Income Taxes", and prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures.

The Company did not have any adjustment to the opening balance of retained earnings as of January 1, 2007 as a result of the implementation of FIN 48. As of December 31, 2007, the Company did not record any liability for uncertain tax positions. The Company's policy is to recognize, if any, tax related interest as interest expenses and penalties as general and administrative expenses. For the year ended December 31, 2007, the Company did not have any interest and penalties associated with tax positions.

***Other income***

Other income primarily consists of financial subsidies. During the years ended December 31, 2005, 2006 and 2007, the Group received financial subsidies amounting to RMB17,917,051, RMB10,700,687 and RMB21,174,612, respectively, from local PRC government authority. Such amounts were recorded as other income in the consolidated statements of income. There are no defined rules and regulations to govern the criteria necessary for companies to enjoy such benefits and the amount of financial subsidy are determined at the discretion of the relevant government authority. Financial subsidies are recognized as other income when received.

***Statutory reserves***

The Company's PRC subsidiaries and the VIEs are required to allocate at least 10% of their after-tax profit to the general reserve in accordance with the PRC accounting standards and regulations. The allocation to the general reserve can be stopped if such reserve has reached 50% of the registered capital of each company. Appropriations to the enterprise expansion fund, staff welfare and bonus fund are at the discretion of the board of directors of Ctrip Computer Technology, Ctrip Travel Information and Ctrip Travel Network, the subsidiaries of the Company. Appropriations to discretionary surplus reserve are at the discretion of the board of directors of the VIEs. These reserves can only be used for specific purposes and are not transferable to the Company in form of loans, advances, or cash dividends. During the years ended December 31, 2005, 2006 and 2007, appropriations to statutory reserves have been made of RMB22,512,619, RMB12,018,430 and RMB7,081,934, respectively.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Consolidation)*

***Dividends***

Dividends are recognized when declared.

PRC regulations currently permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. The Company's PRC subsidiaries can only distribute dividends after they have met the PRC requirements for appropriation to statutory reserves. Additionally, as the Company does not have any direct ownership in the VIEs, the VIEs cannot directly distribute dividends to the Company. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. Because substantial part of our revenues are in RMB, any restrictions on currency exchange may limit our ability to use revenue generated in RMB to fund our business activities outside China or to make dividend payments in U.S. dollars.

As a result of the aforementioned PRC regulation and the Company's organizational structure, accumulated profits of the subsidiaries in PRC distributable in the form of dividends to the parent as of December 31, 2005, 2006 and 2007 were RMB285 million, RMB552 million and RMB696 million, respectively. The Company's PRC subsidiaries and VIEs are able to enter into royalty and trademark license agreements or certain other contractual arrangements at the discretion of the Company without third party consent, for which the compensatory element of the arrangement is excluded from the accumulated profits.

On October 21, 2005, the Company announced that the shareholders have adopted a resolution to approve the Company's proposed distribution of 30% of its net income for 2005 (as determined in accordance with the US GAAP and reported in the audited consolidated financial statements for the year ended December 31, 2005) as dividends to shareholders of record as of June 30, 2006. The Board of Directors had also approved such proposed dividend distribution. The Company accrued RMB67,273,747 dividend payable for the year ended December 31, 2005. On July 14, 2006, the Company distributed the dividend to its shareholders of record as of June 30, 2006, at a dividend rate of RMB2.04 (US$0.255) per ordinary share.

On October 17, 2006, the Company announced that the shareholders have adopted a resolution to approve the Company's proposed distribution of 30% of its net income for 2006 (as determined in accordance with the US GAAP and reported in the audited consolidated financial statements of the Company for the year ended December 31, 2006) to the shareholders of the Company as dividends, subject to determination of the record date by the Company's Board of Directors. The Board of Directors had also approved such proposed dividend distribution. The Company accrued dividend payable of RMB72, 169,155 for the year ended December 31, 2006. On July 6, 2007, the Company distributed the dividends to its shareholders of record as of June 29, 2007, at a divided rate of RMB2.11(US$0.277), per ordinary share.

On June 15, 2007, the Company announced that the shareholders have adopted a resolution to approve the Company's proposed distribution of 30% of its net income for 2007 (as determined in accordance with the US GAAP and reported in the audited consolidated financial statements of the Company for the year ended December 31, 2007) to the shareholders of the Company as dividends, subject to determination of the record date by the Company's Board of Directors. The Board of Directors had also approved such proposed dividend distribution. The Company accrued dividend payable of RMB119,497,083 (US$16,381,582) for the year ended December 31, 2007.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Consolidation)*

***Earnings per share***

In accordance with SFAS No. 128, "Computation of Earnings Per Share" ("SFAS No. 128"), basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated by dividing net income attributable to common shareholders as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the year. Dilutive ordinary equivalent shares consist of ordinary shares issuable upon the exercise of outstanding share options (using the treasury stock method).

***Segment reporting***

The Company operates and manages its business as a single segment. In accordance with SFAS No. 131, "Disclosures about Segment of an Enterprise and Related Information" ("SFAS No. 131"), the Company's chief operating decision-maker has been identified as the CEO, who reviews operating results to make decisions about allocating resources and assessing performance for the entire company. Since the Company operates in one reportable segment, all financial segment and product information required by SFAS No. 131 can be found in the Consolidated Statements.

The Company primarily generates its revenues from customers in China. Accordingly, no geographical segments are presented.

***Recent accounting pronouncements***

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), which clarifies the definition of fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS No. 157 on its financial position, cash flows, and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS No. 159 on its financial position, cash flows, and results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51" ("SFAS No. 160"), which clarifies the presentation of a noncontrolling interest in consolidated financial statements, establishes a single method of accounting for changes in a parent's ownership interest and expands disclosure requirements. SFAS No. 160 will be effective for the Company on January 1, 2009. The Company is currently evaluating the impact of adopting SFAS No. 160 on its financial position, cash flows, and results of operations.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Consolidation)*

***Recent accounting pronouncements****(Continued)*

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business combinations" ("SFAS No. 141R"), which replaces SFAS 141. SFAS No. 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R will be effective for the Company on January 1, 2009. The Company is currently evaluating the impact of adopting SFAS No. 141R on its financial position, cash flows, and results of operations.

In December 2007, the SEC published Staff Accounting Bulletin No. 110 ("SAB No. 110) which amends SAB No. 107 to allow for the continued use, under certain circumstances, of the "simplified" method in developing an estimate of the expected term of so-called "plain vanilla" stock options accounted for under FASB Statement No. 123R, "Share-Based Payment". The Company is currently evaluating the impact of adopting SAB No. 110 on its financial position, cash flows, and results of operations.

***Certain risks and concentration***

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, short-term investment, accounts receivable, due from related parties and prepayments and other current assets. As of December 31, 2005, 2006 and 2007, substantially all of the Company's cash and cash equivalents, restricted cash and short-term investment were held in major financial institutions located in the PRC and in Hong Kong, which management considers to be of high credit quality. Accounts receivable are generally unsecured and denominated in RMB, and are derived from revenues earned from operations arising primarily in the PRC.

No individual customer accounted for more than 10% of net revenues for the years ended December 31, 2005, 2006 and 2007. No individual customer accounted for more than 10% of accounts receivable as of December 31, 2006 and 2007.

***Reclassifications***

Certain prior year amounts have been reclassified with no effect on net income or retained earnings to conform to the 2007 financial statement presentation.

(Amounts expressed in RMB unless otherwise stated)

## 3. PREPAYMENTS AND OTHER CURRENT ASSETS

Components of prepayments and other current assets as of December 31, 2006 and 2007 were as follows:

| | 2006<br>RMB | 2007<br>RMB |
|---|---|---|
| Prepayments and deposits to vendors | 35,928,972 | 46,016,315 |
| Receivables from financial institution | 15,345,427 | 9,368,713 |
| Prepayments for acquisition of property, equipment and software | 4,065,660 | 300,000 |
| Interest receivable | 2,293,605 | 2,722,534 |
| Employee advances | 549,294 | 1,306,161 |
| Others | 3,748,196 | 1,636,929 |
| Total | 61,931,154 | 61,350,652 |

## 4. LONG-TERM DEPOSITS

The Group's subsidiaries and VIEs are required to pay certain amounts of deposit to airline companies to obtain blank air tickets for sales to customers. The subsidiaries and VIEs are also required to pay deposit to local Travel Bureau as pledge for insurance of traveler's safety.

Components of long-term deposit as of December 31, 2006 and 2007 were as follows:

| | 2006<br>RMB | 2007<br>RMB |
|---|---|---|
| Deposits paid to airline suppliers | 69,987,550 | 136,681,643 |
| Deposit paid to travel bureau | 4,200,000 | 4,800,000 |
| Others | 5,987,434 | 5,611,347 |
| Total | 80,174,984 | 147,092,990 |

## 5. LAND USE RIGHTS

Land use rights are related to the payment to acquire land use rights of total cost RMB68,269,734 for approximately 17,000 square meters of land in Shanghai, on which the Group built the aforementioned new information and technology center. According to land use right policy in the PRC, the Company has a 50-year use right over the land, which is used as the basis for amortization. Amortization expense for the years ended December 31, 2006 and 2007 was RMB1,820,526 and RMB1,365,394, respectively. As of December 31, 2006 and 2007, the net book value was RMB66,449,208 and RMB65,083,814, respectively.

(Amounts expressed in RMB unless otherwise stated)

## 6. PROPERTY, EQUIPMENT AND SOFTWARE

Property, equipment and software and its related accumulated depreciation and amortization as of December 31, 2006 and 2007 were as follows:

| | 2006 RMB | 2007 RMB |
|---|---|---|
| Building | 7,702,800 | 147,832,241 |
| Leasehold improvements | 5,900,705 | 6,971,075 |
| Website-related equipment | 18,901,414 | 23,649,926 |
| Computer equipment | 42,473,879 | 102,528,527 |
| Furniture and fixtures | 23,751,502 | 26,934,863 |
| Software | 5,163,163 | 10,739,845 |
| Construction in progress | 82,082,977 | 471,000 |
| Less: accumulated depreciation and amortization | (32,285,956) | (51,932,689) |
| Total net book value | 153,690,484 | 267,194,788 |

In 2007, the Company finished the constructions of the new information and technology center in Shanghai. This new building now serves as our headquarters, 24-hour customer service center, production development center and administrative and support facilities. All direct costs of the new information and technology center in Shanghai were originally capitalized as construction in progress, and were reclassified to property and equipment, when the building was completed and available for use.

Depreciation expense for the years ended December 31, 2005, 2006 and 2007 was approximately RMB8,413,707, RMB12,254,080 and RMB24,773,735, respectively.

## 7. INVESTMENT

On March 12, 2006, our wholly-owned subsidiary C-Travel, a Cayman Island company, made a minority investment in ezTravel Co., Ltd. (“ezTravel”), an online travel service provider in Taiwan that offers packaged-tours as well as hotel and airline tickets reservation services. The Company accounted for the investment in ezTravel using the cost method of accounting as the Company did not exercise significant influence over ezTravel. Total amount paid for this acquisition was approximately US$10 million in cash then, equivalent to approximately RMB80 million.

In 2007, shares of ezTravel were made available to public on Xyn Gui, the Taiwanese national stock exchange for pre-IPO companies. The Company applied SFAS 115 and the investment in ezTravel was classified as available for sale and stated at fair value. As of December 31, 2007, the cost approximated the fair market value of the shares of ezTravel.

(Amounts expressed in RMB unless otherwise stated)

## 8. GOODWILL

The changes in the carrying amount of goodwill for the years ended December 31, 2006 and 2007 were as follows:

| | 2006 RMB | 2007 RMB |
|---|---|---|
| Balance at beginning of year | 9,515,849 | 14,595,849 |
| Acquisitions | 5,080,000 | — |
| Balance at ending of year | 14,595,849 | 14,595,849 |

During the year of 2006, Ctrip Computer Technology entered an agreement with two minority shareholders of Shanghai Ctrip Charming, which resulted in the Company's effective control of an additional 8.4% equity interests in Shanghai Ctrip Charming. As a result of this transaction, two senior executives of the Company collectively control 98.2% of the equity interest in Shanghai Ctrip Charming. Additionally, consistent with arrangements with other VIEs, Ctrip Computer Technology has exclusive option rights to purchase the 8.4% equity interest of Ctrip Charming upon the Chinese government lifting its substantial restrictions on foreign ownership of travel agency businesses.

Total purchase price for this transaction amounted to RMB5.5 million, of which RMB750, 000 and RMB 1,562,500 was paid in July 2006 and January 2007 respectively. The remaining amount were recorded as liabilities, RMB1,562,500 in Other Payables and Accruals and RMB1,625,000 in Long-term Payables in the accompanying balance sheet, and is payable in various amounts through 2010.

Goodwill is not amortized but is reviewed annually for impairment according to SFAS No. 142. The Company performed goodwill impairment tests in year 2006 and 2007, and the results of these tests indicated that the Company's goodwill assets were not impaired.

## 9. INTANGIBLE ASSETS

Intangible assets as of December 31, 2006 and 2007 were as follows:

| | 2006 RMB | 2007 RMB |
|---|---|---|
| Intangible assets— | | |
| Cross-border travel agency license | 1,117,277 | 1,117,277 |
| Golf membership certificate | 2,000,000 | 2,000,000 |
| Domain name | 395,071 | 395,071 |
| | 3,512,348 | 3,512,348 |
| Less: accumulated amortization— | | |
| Cross-border travel agency license | (453,883) | (593,539) |
| Golf membership certificate | — | — |
| Domain name | — | — |
| | (453,883) | (593,539) |
| Net book value | 3,058,465 | 2,918,809 |

Amortization expense for the years ended December 31, 2005, 2006 and 2007 was approximately RMB419,303, RMB139,656, and RMB 139,656, respectively.

(Amounts expressed in RMB unless otherwise stated)

## 9. INTANGIBLE ASSETS *(Consolidation)*

The annual estimated amortization expense for the cross-border travel agency license for the following years is as follows:

| | Amortization RMB |
|---|---|
| 2008 | 139,656 |
| 2009 | 139,656 |
| 2010 | 139,656 |
| 2011 | 104,770 |
| | 523,738 |

## 10. TAXATION

*Cayman Islands*

Under the current laws of Cayman Islands, the Company is not subject to tax on income or capital gain. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

*Hong Kong*

The Company's subsidiaries did not have assessable profits that were earned in or derived from Hong Kong during the years ended December 31, 2005, 2006 and 2007. Accordingly, no Hong Kong profit tax has been provided for.

*China*

The Company's subsidiaries and VIEs registered in the PRC are subject to PRC Enterprise Income Tax ("EIT") on the taxable income as reported in their respective statutory financial statements adjusted in accordance with relevant PRC income tax laws.

In 2007, in accordance with old "Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises" and "China Enterprise Income Tax Law", the applicable EIT rates are 30% plus a local income tax of 3%, except for Ctrip Computer Technology, Ctrip Travel Information, Ctrip Travel Network and Shenzhen Ctrip.

Ctrip Computer Technology was entitled to a 15% EIT rate in 2007 as it had been classified as a "High and New Technology Development Enterprise" by relevant PRC government authorities.

Ctrip Travel Information historically enjoyed a preferential income tax rate of 15% as it is registered in Pudong New District, Shanghai. During the fourth quarter of 2004, Ctrip Travel Information obtained approval from the relevant tax bureau for full exemption of income tax for 2004 and a 50% reduction of the income tax statutory rate for the period from 2005 to 2007 as it obtained the status of "software development company".

## 10. TAXATION *(Continued)*

Ctrip Travel Network obtained approval from relevant tax bureau, during the fourth quarter of 2007, for a 50% reduction of statutory and local income tax rate for the period from 2007 to 2009 as it obtained the status of "software development company". Ctrip Travel Network's qualification for the above preferential EIT rate is subject to annual re-assessment by the relevant government authorities.

Shenzhen Ctrip was entitled to a preferential tax rate of 15% as granted by the local tax bureau as it is registered in the city of Shenzhen in China in 2007.

In 2007, the National People's Congress passed new PRC EIT Law and Detailed Implementation Rules of China EIT Law. The new tax laws take effect on January 1, 2008. The new tax laws apply a general enterprise income tax rate of 25% to both foreign-invested enterprises and domestic enterprises. Preferential tax treatments will continue to be granted to enterprises, which conduct business in certain encouraged sectors and to enterprises otherwise classified as a high and new technology enterprise. On April 14, 2008, the Ministry of Science and Technology and the Ministry of Finance and State Administration of Taxation jointly issued Guokefahuo [2008] No.127, "Administrative Measures for Assessment of High-New Tech Enterprises," or Measures, and "Catalogue of High/New Tech Domains Strongly Supported by the State," or Catalogue, each of which is retroactively effective as of January 1, 2008. The Measures mainly set forth general guidelines regarding criteria as well as application procedures for qualification as a High New Tech Enterprise under the new EIT Law. Currently, we are in the process of reviewing and assessing the implications of the Measures and the Catalogue on our subsidiaries and VIEs in China.

According to grandfathering law published by the State Department, there will be a five-year transition period during which enterprises are allowed to continue to enjoy their existing preferential tax treatments approved by the applicable tax laws and administrative regulations.

Pursuant to the New EIT Law and Circular Caishui [2008] No. 1 issued by Ministry of Finance of China on February 22, 2008, the dividends declared out of the profits earned after January 1, 2008 by a foreign invested enterprise("FIE") to its immediate holding company outside China would be subject to withholding taxes. A favorable withholding tax rate will be applied if there is a tax treaty arrangement between Mainland China and the jurisdiction of the foreign holding company. The Company's subsidiaries, Ctrip Computer Technology, Ctrip Travel Information, Ctrip Travel Network and Ctrip Information Technology are considered FIEs and are directly held by our subsidiary in Hong Kong. According to tax treaty between Mainland and Hong Kong Special Administrative Region, dividends payable by an FIE in China to the company in Hong Kong will be subject to 5% withholding tax. All of these foreign invested enterprises will be subject to the withholding tax for their earnings generated after January 1, 2008.

(Amounts expressed in RMB unless otherwise stated)

## 10. TAXATION *(Continued)*

*Composition of income tax expense*

The current and deferred portion of income tax expense included in the consolidated statements of income for the years ended December 31, 2005, 2006 and 2007 were as follows:

| | 2005<br>RMB | 2006<br>RMB | 2007<br>RMB |
|---|---|---|---|
| Current income tax expense | (31,703,168) | (42,058,000) | (66,365,599) |
| Deferred tax benefits | 1,125,768 | 780,980 | 8,359,616 |
| Income tax expense | (30,577,400) | (41,277,020) | (58,005,983) |

*Reconciliation of the differences between statutory tax rate and the effective tax rate*

A reconciliation between the statutory EIT rate and the Group's effective tax rate for the years ended December 31, 2005, 2006 and 2007 was as follows:

| | 2005 | 2006 | 2007 |
|---|---|---|---|
| Statutory EIT rate | 33% | 33% | 33% |
| Tax differential from statutory rate applicable to Subsidiaries in the PRC | (21)% | (25)% | (25)% |
| Enacted EIT rate change | — | — | (1)% |
| Non-deductible expenses incurred | 0% | 7% | 6% |
| Effective EIT rate | 12% | 15% | 13% |

Significant components of deferred tax assets

| | 2006<br>RMB | 2007<br>RMB |
|---|---|---|
| Accrued liability for customer reward program and e-coupons | 3,321,519 | 11,925,767 |
| Deferred tax liabilities | (405,368) | (650,000) |
| Total deferred tax assets | 2,916,151 | 11,275,767 |

We did not record any valuation allowances to reduce our deferred tax assets, as we believed that our deferred tax asset amounts were more likely than not to be realized based on our estimate of future taxable income.

(Amounts expressed in RMB unless otherwise stated)

## 11. EMPLOYEE BENEFITS

The full-time employees of Ctrip Computer Technology, Ctrip Travel Information, Ctrip Travel Network and the VIEs, which were established in the PRC, are entitled to staff welfare benefits including medical care, welfare subsidies, unemployment insurance and pension benefits. Ctrip Computer Technology, Ctrip Travel Information, Ctrip Travel Network and the VIEs are required to accrue for these benefits based on certain percentages of the employees' salaries in accordance with the relevant PRC regulations and make contributions to the state-sponsored pension and medical plans out of the amounts accrued for medical and pension benefits. The total provision accrued for such employee benefits amounted to RMB19,204,326, RMB41,332,075 and RMB67,048,322 for the years ended December 31, 2005, 2006 and 2007 respectively. The PRC government is responsible for the medical benefits and ultimate pension liability to these employees.

## 12. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2005, 2006 and 2007 significant related party transactions were as follows:

| | 2005<br>RMB | 2006<br>RMB | 2007<br>RMB |
|---|---|---|---|
| Commissions from Home Inns & Hotel management Inc. and its affiliates (collectively, "Home Inns") | 512,724 | 6,272,966 | 8,936,554 |
| Commissions from Hanting Hotels Inc. and its affiliates (collectively, "Hanting") | 287,734 | 1,427,512 | 5,569,353 |
| Advertising expenses to Focus Media Holding Ltd. | 2,131,501 | 1,543,900 | — |
| Marketing expenses to Alibaba-Yahoo! China | 718,874 | 800,000 | — |
| Rental expense to a family member of a director | 550,000 | 550,000 | 281,650 |

Our hotel supplier, Home Inns has two directors in common with our company. Another hotel supplier, Hanting has a director in common with our company and a director who is a family member of one of our officers. Home Inns and Hanting have entered into agreements with us, respectively, to provide hotel rooms for our customers. Commissions from Home Inns and Hanting for the years ended December 31, 2005, 2006 and 2007 are presented as above.

Two of our advertising suppliers, Focus Media Holding Ltd. and Alibaba -Yahoo! China had entered into agreements with us to provide certain advertising services for us. Focus Media Holding Ltd. has a director in common with our company. Alibaba -Yahoo! China is affiliated with a family member of one of our officers. Total advertising expenses to Focus Media Holding Ltd. and Alibaba -Yahoo! China for the years ended December 31, 2005, 2006 and 2007 are presented as above.

We lease approximately 1,223 square meters of our office premises in Shanghai from a company controlled by a family member of one of our directors. Rental expenses for the years ended December 31, 2005, 2006 and 2007 are presented as above.

(Amounts expressed in RMB unless otherwise stated)

## 12. RELATED PARTY TRANSACTIONS *(Continued)*

As of December 31, 2006 and 2007, significant balances with related parties were as follows:

| | 2006<br>RMB | 2007<br>RMB |
|---|---|---|
| Due from related parties: | | |
| Due from Home Inns | 666,026 | 1,298,362 |
| Due from Hanting | 272,974 | 840,585 |
| | 939,000 | 2,138,947 |
| Due to related parties: | | |
| Due to Home Inns | 18,000 | — |
| Due to related parties of a VIE | 389,128 | 249,910 |
| | 407,128 | 249,910 |

The amounts due from and due to related parties as of December 31, 2006 and 2007 primarily resulted from the transactions disclosed above and revenue received and expenses paid on behalf on each other. They are not collateralized, interest-free and have no fixed repayment terms.

## 13. OTHER PAYABLES AND ACCRUALS

Components of other payables and accruals as of December 31, 2006 and 2007 were as follows:

| | 2006<br>RMB | 2007<br>RMB |
|---|---|---|
| Accruals for property and equipment | 17,470,657 | 26,301,297 |
| Accrued operating expenses | 14,571,411 | 22,423,539 |
| Due to employees for stock option proceeds received on their behalf | 20,795,861 | 5,506,208 |
| Deposits received from suppliers and packaged-tour customers | 1,862,824 | 4,883,206 |
| Liability incurred for minority interest in a VIE | 2,312,500 | 1,562,500 |
| Others | 4,610,459 | 4,804,550 |
| Total | 61,623,712 | 65,481,300 |

(Amounts expressed in RMB unless otherwise stated)

## 14. EARNINGS PER SHARE

Basic earnings per share and diluted earnings per share were calculated in accordance with SFAS No. 128 as follows:

| | 2005 RMB | 2006 RMB | 2007 RMB |
|---|---|---|---|
| **Numerator:** | | | |
| Net income | 224,245,824 | 240,563,847 | 398,323,610 |
| **Denominator:** | | | |
| Denominator for basic earnings per ordinary share —weighted average ordinary shares outstanding | 31,762,419 | 32,342,998 | 32,927,454 |
| Dilutive effect of share options | 678,712 | 925,222 | 1,193,936 |
| Denominator for diluted earnings per ordinary share | 32,441,131 | 33,268,220 | 34,121,390 |
| Basic earnings per ordinary share | 7.06 | 7.44 | 12.10 |
| Diluted earnings per ordinary share | 6.91 | 7.23 | 11.67 |
| Basic earnings per ADS | 3.53 | 3.72 | 6.05 |
| Diluted earnings per ADS | 3.46 | 3.62 | 5.84 |

## 15. COMMITMENTS AND CONTINGENCIES

*Operating lease commitments*

The Company has entered into leasing arrangements relating to office premises, equipment and others that are classified as operating leases for the periods from 2008 to 2010. Future minimum lease payments for non-cancelable operating leases are as follows:

| | Office premises RMB |
|---|---|
| 2008 | 16,396,342 |
| 2009 | 5,949,809 |
| 2010 | 1,963,089 |
| | 24,309,240 |

Rental expense amounted to RMB9,498,348, RMB16,813,230 and RMB24,771,180 for the years ended December 31, 2005, 2006 and 2007, respectively. Rental expense is charged to the statements of income when incurred.

## 15. COMMITMENTS AND CONTINGENCIES *(Continued)*

*Purchase commitments*

As of December 31, 2007, the Company had outstanding purchase commitments totaling RMB7,245,868, which mainly relates to the design of Nantong call center.

*Guarantee*

In connection with our air-ticketing business, the Company, on behalf of its VIEs, are required by the Civil Aviation Administration of China to provide guarantees for tickets obtained from various airlines. As of December 31, 2007, the amount under these guarantee arrangements was approximately RMB653 million. Based on historical experience and information currently available, we do not believe that it is probable that we will be required to pay any amount under these guarantee arrangements. Therefore, we have not recorded any liability beyond what is required in connection with these guarantee arrangements.

Contingencies

The Company is incorporated in Cayman Islands and is considered as a foreign entity under PRC laws. Due to the restrictions on foreign ownership of the air-ticketing, travel agency, advertising and internet content provision businesses, the Company conducts these businesses partly through various VIEs. These VIEs hold the licenses and approvals that are essential for the Company's business operations. In the opinion of the Company's PRC legal counsel, the current ownership structures and the contractual arrangements with these VIEs and their shareholders as well as the operations of these VIEs are in compliance with all existing PRC laws, rules and regulations. However, there may be changes and other developments in PRC laws and regulations. Accordingly, the Company cannot be assured that PRC government authorities will not take a view in the future contrary to the opinion of the Company's PRC legal counsel. If the current ownership structures of the Company and its contractual arrangements with VIEs were found to be in violation of any existing or future PRC laws or regulations, the Company may be required to restructure its ownership structure and operations in China to comply with changing and new Chinese laws and regulations.

## 16. SUBSEQUENT EVENTS

To support the future business expansion, the Company acquired the land use right to a piece of land in Nantong, in January 2008. Nantong is a city in Jiangsu Province and is approximately 110 kilometers north of Shanghai. The Company plans to build its second call center on this piece of land.

# Corporate Information

## Corporate Officers

| | |
|---|---|
| Mr. Min Fan | Co-founder and Chief Executive Officer |
| Ms. Jane Jie Sun | Chief Financial Officer |

## Directors

| | |
|---|---|
| Mr. JP Gan | Managing Director<br>Qiming Venture Partners |
| Mr. Qi Ji | Chief Executive Officer<br>Powerhill Holdings Ltd. |
| Mr. Gabriel Li | Managing Director<br>Orchid Asia Group Management Co., LLC. |
| Mr. James Jianzhang Liang | Chairman of the Board<br>Ctrip.com International Ltd. |
| Mr. Min Fan | Chief Executive Officer<br>Ctrip.com International Ltd. |
| Mr. Neil Nanpeng Shen | Founding Managing Partner<br>Sequoia Capital China Advisors (Hong Kong) Ltd. |
| Mr. Suyang Zhang | Vice President<br>IDG Technology Venture Investment Inc. |

## Corporate Headquarter

Ctrip Building, No.99 Fu Quan Road
Shanghai, 200335, People's Republic of China
Tel.: (86 21) 3406 4880

## The Depositary of ADS

The Bank of New York Mellon

## U.S. Legal Counsel

Latham & Watkins LLP – Hong Kong

## Cayman Island Legal Counsel

Maples and Calder Asia – Hong Kong

## Independent Accountant

PricewaterhouseCoopers Zhong Tian CPAs Limited Company
Shanghai, People's Republic of China

## Investor Relations

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Shanghai Headquarters

## EXTENSIVE HOTEL SUPPLIER NETWORK

Beijing · Shanghai · Guangzhou · Shenzhen · Hong Kong · Chengdu
Chongqing · Changsha · Changchun · Changshu · Dalian · Fuzhou
Guilin · Guiyang · Hankou · Harbin · Hefei · huangshan · Hangzhou
Haikou · Jinan · Kunming · Lanzhou · Luoyang · Lhasa · Macau
Nanjing · Nanning · Ningbo · Nanchang · Qingdao · Suzhou · Sanya
Shenyang · Shijiazhuang · Tianjin · Taiyuan · Urumqi · Wuhan · Wuxi
Wenzhou · Xian · Yinchuan...

Bali · Bankok · Boston · Frankfurt · London · Melbourne
New York · Paris · Phuket · Singapore · Sydney...

## BROAD AIR TICKETING FULFILLMENT COVERAGE

Beijing · Shanghai · Guangzhou · Shenzhen · Nanjing · Hangzhou
Xian · Chongqing · Chengdu · Wuxi · Zhuhai · Wenzhou · Tianjin
Fuzhou · Xiamen · Ningbo · Suzhou · Shantou · Changchun
Changsha · Harbin · Dalian · Shanyang · Wuhan · Urumqi · Hefei
Qingdao · Jinan · Nanchang · Sanya · Naning · Zhengzhou · Haikou
Guilin · Kunming · Shijiazhuang · Hugehaote · Taiyuan · Guiyang...

**Corporate Headquarter**

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People's Republic of China, 310003

Xiamen
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Shenyang
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