ctrip.com
携程旅行网

Ctrip.com International, Ltd. Annual Report 2005

Our Competitive Advantages

- Premium Brand
- Dominant Market Position
- Superior Supplier Network
- Effective Sales and Marketing
- Excellent Customer Service
- High Entry Barriers
- Scalable Business Model
- Experienced and Innovative Management Team

Table of Contents

Ctrip.com International, Ltd. is a leading travel service provider that offers hotel reservations, airline tickets and packaged tours to business and leisure travelers in China. Ctrip aggregates information on hotels, flights and vacation packages, and enables the customers to make informed and cost-effective travel bookings. Ctrip targets primarily frequent independent travelers in China who do not travel in group. These travelers form a traditionally under-served yet fast-growing segment of the China travel industry. Recently, Ctrip also initiated 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 9 other major cities in China with over 3500 employees. The company also maintains a network of sales offices in about 45 cities in China.

Ctrip has become the premium travel brand in China through innovation and vision.

Dear Shareholders,

We are pleased to report to you that we had another successful year. In 2005, we further strengthened our market position and achieved strong financial performance. As China's economy continues to grow at a rapid pace and as the growth of China's travel industry even outpaces the general economic growth, we are well-positioned to grasp the opportunities presented to us.

Ctrip has become the widely recognized premium travel brand for frequent independent travelers ("FITs") in China. Our number of new customers grew rapidly in 2005 while we continued to have recurring business from our existing customers. In 2005, we maintained and further strengthened our position as the undisputed leading consolidator of hotel accommodations, airline tickets and packaged tours in China.

IT'S ALL ABOUT CUSTOMER EXPERIENCE

The steady increase in the number of FITs will fundamentally change China's travel industry forever. Ctrip recognizes that, as China – and the world – become ever smaller and more connected, frequent travel will become increasingly more fundamental to the lives of our customers. The key to our success has been our continued focus on this under-served, yet essential, customer base, offering them excellent customer service and innovative products.

Our outstanding customer service places us far ahead of our competitors. Our experience in the travel service industry tells us that our success is dependent on how effectively we convey our service philosophy, providing convenient, thorough, reliable, personal and professional service to our customers consistently all the time. Though traveling can be exciting, it can also be potentially stressful and disruptive. When our customers are far from their homes, they rely on us for dependable and friendly services. With approximately 1,500 dedicated agents at our centralized customer service center serving our over 1.7 million customers, we operate one of the largest and best customer service centers in Asia. In 2005, we spent considerable time and effort to improve overall customer satisfaction by applying the 6 Sigma methodology towards a number of areas of our business, including the improvement of our customer loyalty program, updates to our websites and the offering of value-added services.

Our outstanding customer service places us far ahead of our competitors.

James Jianzhang Liang, Chairman, Min Fan, CEO & Jane Jie Sun, CFO

The results of our commitment to providing the best customer experience to our customers speak for themselves. The number of new customers is growing at more than 55% year-over-year. A significant portion of this growth is the result of word-of-mouth referrals. Meanwhile, existing customers contribute approximately 80% of our total transactions. Our revenue growth has been consistent with our customer growth, indicating strong support from both our new and existing customers.

INNOVATION KEEPS US AHEAD

In China's dynamic business environment, providing consistent and quality products is important. In addition, we must also look towards the future to anticipate our customers' needs and expand our new business rapidly.

Since commencing operations in 1999, we have been uncompromisingly focused on innovation in all of our major business functions. In 2005, this was no exception. Our highly motivated sales and marketing team led the industry in developing effective marketing channels, branding and partnerships. In 2005, we introduced a "service-oriented" sales approach to our customers. We also continued to develop new and creative marketing channels and establish strategic cooperation with prominent national and international brands. Following the successful launch of the first dual-currency travel credit card, we established additional strategic relationships with leading consumer service and product companies, including many major banks, airlines, telecommunication companies, popular consumer brands, and major international sports events, etc.

On the product development front, in 2005, our team introduced over 900 new travel packages and routes. Ctrip invented the concept of the "packaged-tour" in China by bundling together air tickets and hotel reservations for individual leisure travelers and is continuing to shape the market for individual leisure travel. In 2005, we grew our packaged-tour business by 117% from the prior year and we expect continuous robust growth in the upcoming years.

We will enhance our leadership in the travel industry with the upcoming launch of our "Corporate Travel" business. The market for the managed "Corporate Travel" business is still at an early stage in terms of the scope of services offered and the additional value provided by the existing suppliers. Moreover, such suppliers are highly fragmented. With Ctrip's proven success in serving the end customers and the vast network of suppliers that we have established, we believe we can offer more advantages to our target customers than other existing suppliers and foreign players, including lower prices, broader selection, convenient and timely customer service, and efficient travel management.

OUR PEOPLE ARE OUR STRONGEST ASSET

No matter how much we improve our customer service and continue our innovation, we recognize that in order to sustain our success, we must continue to develop our strongest asset – our employees. Attracting, training and retaining the very best talent in our industry has always been and will remain our foremost priority. We believe that sustained success is the result of a strong team, not just individuals. With that in mind, we've implemented efficient and effective recruiting processes and extensive classroom and on-the-job training programs, and we've created numerous opportunities for career advancement.

Our management teams are passionate practitioners of the "five virtues" – Capability, Credibility, Empathy, Courage and Discipline. We strive to provide an environment that encourages and respects the dignity and uniqueness of each individual and which gives them opportunities to reach their full potential. By practicing these five virtues, we are able to build a team of skilled and motivated employees who have helped us achieve remarkable results within six years, as compared to others who may have to take a much longer time. Going forward, we will use these virtues to build an even stronger team to lead us into future success.

Our highly motivated sales and marketing team leads the industry in developing effective marketing channels, branding, partnership, and sales force.

STRONG FINANCIAL PERFORMANCE

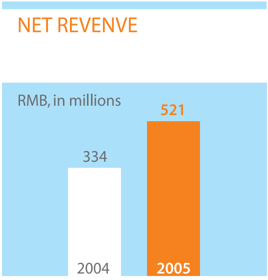
In addition to our outstanding customer satisfaction and our employees' dedication, Ctrip's commitment to excellence is also evident in our financial results.

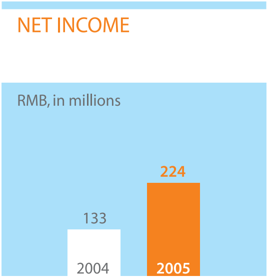
In 2005, we continued to produce record financial performance. Our net revenues grew 56% to US$65 million in 2005. Net income rose to US$28 million in 2005, representing a 68% increase over 2004. We maintained a gross margin as high as 83% and an operating margin as high as 42%. Cash flow from operations totaled US$29 million, resulting in an end-of-year cash balance of US$92 million. Due to our strong financial performance, our shareholders and directors have approved the distribution of 30% of Ctrip's 2005 net income in dividends to our shareholders.

Our hotel reservation business continued its robust growth throughout the year. Revenues from hotel reservations reached US$45 million, representing a 31% increase over 2004. A total of approximately 5.5 million room nights were booked through Ctrip in 2005.

Regarding our air-ticketing business, we have become one of the largest air-ticketing retail distributors since we commenced our air-ticketing business in 2002. Our revenues from air ticketing reached US$20 million in 2005, representing a 158% increase over 2004. The number of tickets issued through reservations made on our websites and customer service center more than doubled from approximately 1.7 million in 2004 to 3.7 million in 2005.

After two years of operation, our packaged-tour business gained momentum and became a significant contributor to our overall growth. Primarily targeting middle- and high-end customers, our packaged tours tailored to meet the growing demand for customized leisure travel with comfort and flexibility are a welcome difference from traditional guided tours. Our revenues from sales of packaged tours reached US$2.8 million in 2005, a 117% increase over 2004. This strong growth demonstrates the increasing market acceptance for our packaged-tour products.





LOOKING AHEAD

In the upcoming years, we anticipate that the travel industry in China will continue to grow and evolve rapidly. Increasing business activities and the growing demand for leisure travel in China are expected to continue to fuel our growth.

2005 was a record year for Ctrip. In 2006, we look forward to the following developments:

New product and service offerings targeting the FIT market – We will continue to develop and provide innovative new products and services to address the demand in the FIT market. We anticipate rapid growth in leisure travel particularly the demand for outbound international travel. Accordingly, we will develop packaged tours to Europe, Australia and Southeast Asia in addition to domestic destinations.

Geographic expansion – As we've strengthened our dominant position in first tier cities, we will aggressively penetrate second tier cities in 2006. For our initial roll-out destinations, we will select cities with relatively high per capita GDP and more frequent business and leisure travel activities. With the rapid economic growth in the second tier cities in China, we are confident that they will become a significant contributor to our business.

Launch our "Corporate Travel" business – The corporate travel management market is an untapped opportunity in China. In 2006, we will formally advance into this market to uncover further growth potential. Our unique position in the FIT market provides us tremendous advantages in tapping into the corporate travel business. By leveraging our brand and operational strength, we look forward to becoming a lead player in this segment.

CLOSING

As always, we want to give our sincere thanks to our shareholders, customers, suppliers and partners for your unwavering support. We also want to give special thanks to our dedicated employees who remain to be the engine that propels our business forward. In the years to come, we continue to see the rapid growth in travel industry fueled by growing general economy, increasing domestic consumption, and further development of infrastructures. New generations of business and leisure travelers will reply on Ctrip to help fulfill their travel requirements. As we enter into a new year, we look confidently towards a bright future for Ctrip with many new opportunities and possibilities.

James Jianzhang Liang
Chairman of the Board

Min Fan
Chief Executive Officer

Jane Jie Sun
Chief Financial Officer

Utilizing our scalable business model, we will reach still greater heights.

Business Milestones

June 1999
Company established

October 1999
Website launched and hotel reservation business started

www.ctrip.com

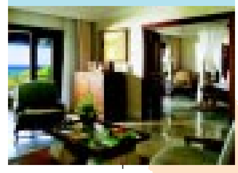
February 2002
Officially launched air ticketing services

March 2002
First profitable quarter

December 2003
IPO on NASDAQ

September 2004
Introduced first dual-currency travel credit card with China Merchants Bank

October 2004
Officially launched package tour products and services



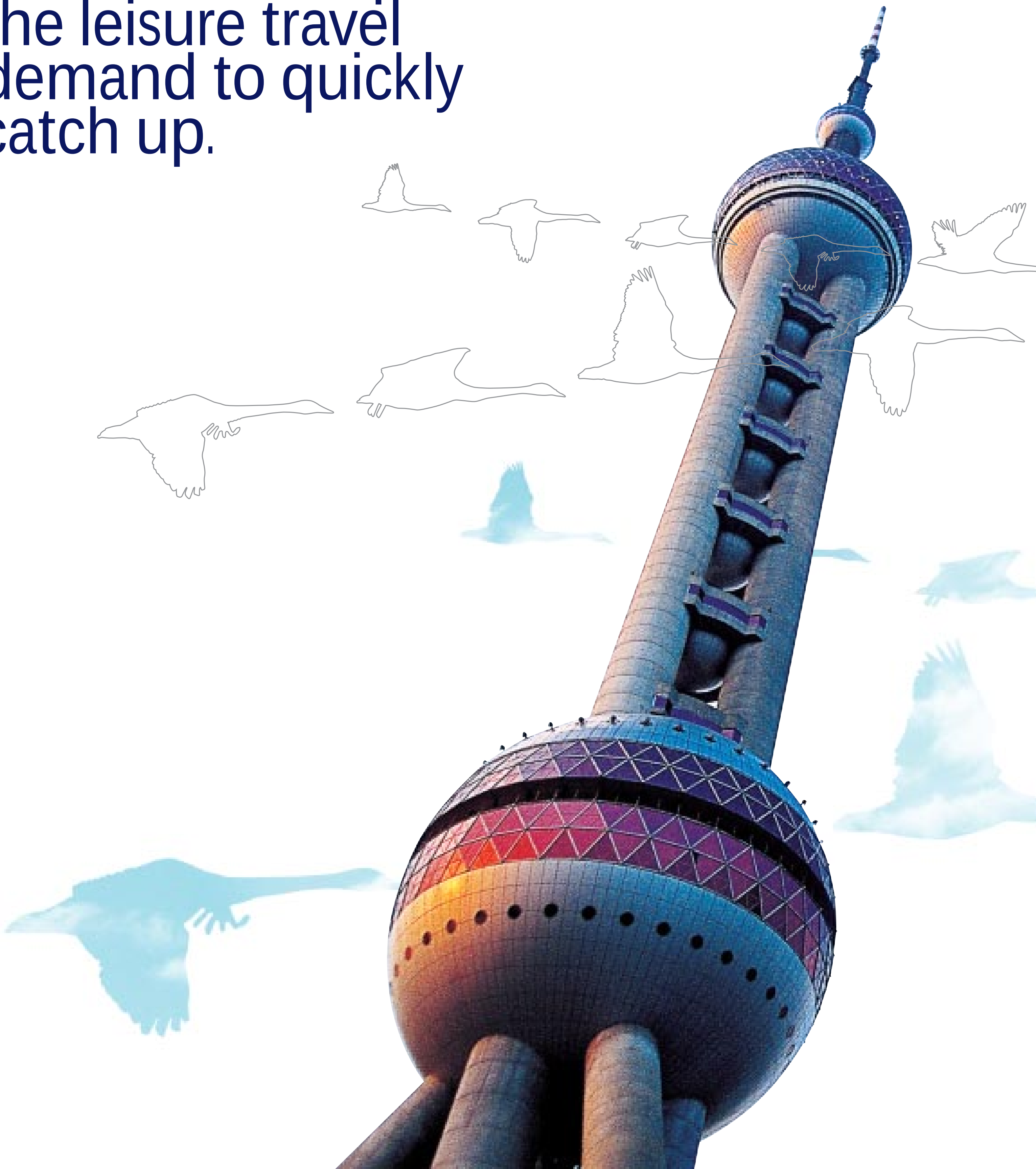
November 2004
Approved the first dividend as a public company (30% of annual earnings)

December 2004
Cumulative effective customers exceeded 1 million

June 2005
Strategic alliance with ezTravel.com in Taiwan

December 2005
Annual hotel room night bookings reached 5.5 million; annual air tickets bookings reached 3.7 million; and over 900 packaged tour products developed

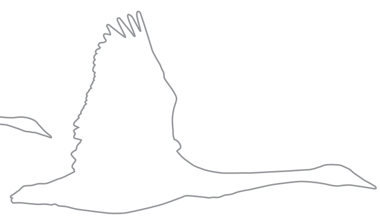
While the majority of our customers are business travelers, we expect the leisure travel demand to quickly catch up.



Selected Financial Data

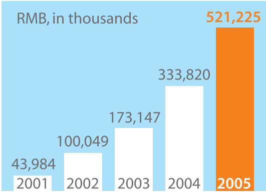
The following table presents the selected consolidated financial information for our business. You should read the following information in conjunction with Management Discussion and Analysis below. The selected consolidated statement of operations data for the years ended December 31, 2003, 2004 and 2005 and the selected consolidated balance sheet data as of December 31, 2004 and 2005 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 34. The selected consolidated statement of operations data for the years ended December 31, 2001 and 2002 and the selected consolidated balance sheet data as of December 31, 2001, 2002 and 2003 have been derived from our audited consolidated financial statements for these periods, which are not included in this annual report.

Certain accounts for prior years have been reclassified with no effect on net income or retained earnings to conform to the 2005 financial statement presentation. Additionally, all ADS data have been retroactively adjusted to reflect the current ADS to ordinary share ratio for all periods presented.

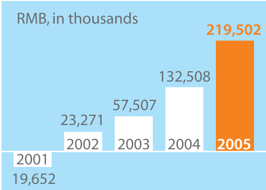


	For the Year Ended December 31,					
	2001	2002	2003	2004	**2005**	**2005**
	RMB	RMB	RMB	RMB	**RMB**	**US$[2]**
	(in thousands, except for per ordinary share and per ADS data)					
Consolidated Statement of Operation Data:						
Net revenues	43,984	100,049	173,147	333,820	**521,225**	**64,586**
Cost of services	(7,940)	(13,673)	(26,223)	(51,637)	**(88,627)**	**(10,982)**
Gross profit	36,044	86,376	146,924	282,183	**432,598**	**53,604**
Operating expenses						
Product development	(7,759)	(13,365)	(20,684)	(37,959)	**(57,510)**	**(7,126)**
Sales and marketing	(30,359)	(32,308)	(47,571)	(72,863)	**(112,274)**	**(13,912)**
General and administrative	(16,621)	(16,055)	(19,579)	(36,895)	**(41,535)**	**(5,147)**
Share-based compensation[1]	(22)	(462)	(1,583)	(1,958)	**(1,777)**	**(220)**
Other expenses incurred for joint venture companies	(935)	(915)	–	–	**–**	**–**
Total operating expenses	(55,696)	(63,105)	(89,417)	(149,675)	**(213,096)**	**(26,405)**
Income (loss) from operations	(19,652)	23,271	57,507	132,508	**219,502**	**27,199**
Net interest income and other income	2,049	1,293	6,062	13,174	**35,590**	**4,410**
Income (loss) before income tax benefit (expense), minority interests and share of income (loss) of joint venture companies	(17,603)	24,564	63,569	145,682	**255,092**	**31,609**
Income tax benefit (expense)	2,342	(10,043)	(10,249)	(12,517)	**(30,577)**	**(3,789)**
Minority interests	–	71	(79)	(39)	**(269)**	**(33)**
Share of income (loss) of joint venture companies	–	(398)	573	–	**–**	**–**
Net income (loss)	(15,261)	14,194	53,814	133,126	**224,246**	**27,787**
Earnings Per Ordinary Share and Per ADS Data:						
Accretion for Series B preferred shares	(14,316)	(16,493)	(12,366)	–	**–**	**–**
Dividends to holders of preferred shares	–	(16,762)	–	–	**–**	**–**
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 (loss) attributable to ordinary shareholders	(29,577)	(19,061)	1,373	133,126	**224,246**	**27,787**
Earnings (loss) per ordinary share or per ADS[4], basic	(3.26)	(2.00)	0.13	4.33	**7.06**	**0.87**
Earnings (loss) per ordinary share or per ADS[4], diluted	(3.26)	(2.00)	0.11	4.23	**6.91**	**0.86**
Cash dividends per ordinary share paid[5]	–	1.11	–	–	**1.26**	**0.15**

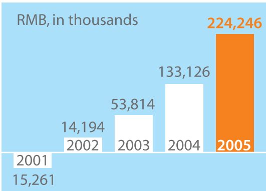
NET REVENUES



INCOME (LOSS)
FROM OPERATIONS



NET INCOME (LOSS)
FOR THE YEAR



	As of December 31,					
	2001	2002	2003	2004	**2005**	**2005**
	RMB	RMB	RMB	RMB	**RMB**	**US$**
	(in thousands)					
Consolidated Balance Sheet Data:						
Cash	42,464	38,931	471,969	615,875	**735,062**	**91,083**
Other current assets	45,932	20,580	37,223	54,991	**116,253**	**14,405**
Non-current assets	20,529	37,744	48,013	69,852	**184,586**	**22,873**
Total assets	108,925	97,255	557,205	740,718	**1,035,901**	**128,361**
Current liabilities	12,962	13,093	63,917	138,744	**270,314**	**33,495**
Minority interests	–	828	564	603	**871**	**108**
Series B preferred shares[(6)]	108,470	124,963	–	–	**–**	**–**
Total shareholders' equity (deficit)	(12,507)	(41,629)	492,724	601,371	**764,716**	**94,758**

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

	For the Year Ended December 31,					
	2001	*2002*	*2003*	*2004*	***2005***	***2005***
	RMB	*RMB*	*RMB*	*RMB*	***RMB***	***US$***
	(in thousands)					
Product development	*5*	*131*	*411*	*550*	***403***	***50***
Sales and marketing	*1*	*27*	*136*	*188*	***258***	***32***
General and administrative	*16*	*304*	*1,036*	*1,220*	***1,116***	***138***

(2) Translation from RMB amounts into U.S. dollars was made at a rate of RMB8.0702 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 one ordinary share.

(5) The dividends recognized represent dividends totaling RMB27 million distributed out of our reserves in December 2002 to holders of ordinary shares, and Series A preferred shares and Series B preferred shares on a pro rata as-converted basis at a dividend rate of RMB1.11, or US$0.1341 per ordinary share. On July 8, 2005, we distributed dividends in the aggregate amount of RMB40 million to our shareholders of record as of December 31, 2004, at a dividend rate of RMB1.26, or US$0.1525 per ordinary share.

(6) Prior to the forfeiture of the redemption feature in September 2003, Series B preferred shares were not included as part of shareholders' equity as such shares were redeemable at the option of the holder.

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 2005 at US$1.00 : RMB8.0702, which was the noon buying rate in effect as of December 31, 2005. The prevailing rate at June 15, 2006 was US$1.00 : RMB7.9990. 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 (RMB per US$1.00)			
Period	Period End	Average(1)	Low	High
2001	8.2766	8.2770	8.2786	8.2676
2002	8.2800	8.2770	8.2800	8.2669
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				
January	8.0608	8.0654	8.0702	8.0596
February	8.0415	8.0512	8.0616	8.0415
March	8.0167	8.0350	8.0505	8.0167
April	8.0165	8.0143	8.0248	8.0040
May	8.0215	8.0131	8.0300	8.0005
June (through June 15)	7.9990	8.0101	8.0225	7.9985

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

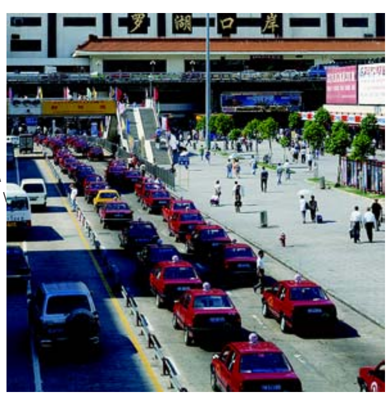
The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this annual report. This report contains forward-looking statements. These forward-looking statements 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," the negative of these terms, and other similar expressions. The accuracy of these statements may be impacted by a number of risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. In evaluating our business, you should carefully consider the risks outlined in our filings with the U.S. Securities and Exchange Commission ("SEC"), including our annual report on Form 20-F. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties. We do not undertake any obligation to update any forward-looking statements, except as required under applicable law.

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 2005, we derived 65%, 29%, 4% and 2% of our revenues from our hotel reservation, air ticketing, packaged-tour and other businesses, respectively.

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.



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. According to the 2005 China Statistical Yearbook and the 2005 National Economic and Social Development Statistical Communiqué published by the National Bureau of Statistics published on February 28, 2006, the gross domestic product, or GDP, of China grew from RMB11.0 trillion (US$1.3 trillion) in 2001 to RMB18.2 trillion (US$2.3 trillion) in 2005, representing a compound annual growth rate of 13.4%. GDP per capita in the same period rose from RMB8,676 (US$1,048) to RMB13,985 (US$1,733), representing a 12.7% compound annual growth rate. This growth led to a significant increase in the demand for travel services. According to the 2005 China Statistical Yearbook and the 2005 National Economic and Social Development Statistical Communiqué published by the National Bureau of Statistics published on February 28, 2006, domestic tourism spending grew from RMB352.2 billion (US$42.5 billion) in 2001 to RMB528.6 billion (US$65.5 billion) in 2005, representing a compound annual growth of 10.7%. 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, 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 serious epidemics;
- travel-related accidents;
- bad weather;
- natural disasters;
- threats of war or incidents of terrorism;
- general economic downturns; and
- increased prices in the hotel, airline or other travel-related industries.

During the period from March 2003 through June 2003, the economies of several countries in Asia, including China, were severely affected by the outbreak of SARS. Our business and our operating results during that period were also adversely affected. Since 2005 there have been reports on the occurrences of avian flu in various parts of China, including a few confirmed human cases. 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.

We are a leading consolidator of hotel accommodations and airline tickets in China.

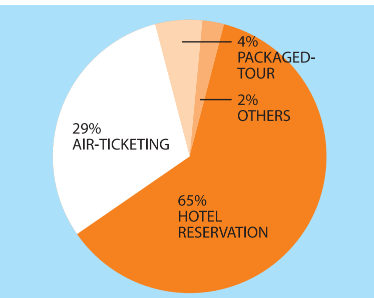
Major Factors Affecting Our Results of Operations

Revenues

Revenue Composition and Sources of Revenue Growth. We have experienced significant revenue growth since we commenced operations in 1999. Our revenues grew from RMB6.9 million in 2000 to RMB556.2 million (US$68.9 million) in 2005, representing a compound annual growth rate of 141%.

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.

TOTAL REVENUES
Year ended December 31,2005



	Year Ended December 31,		
	2003	2004	**2005**
Revenues:			
Hotel reservation	84%	78%	**65%**
Air-ticketing	11%	18%	**29%**
Packaged-tour*	3%	3%	**4%**
Others	2%	1%	**2%**
Total revenues	100%	100%	**100%**

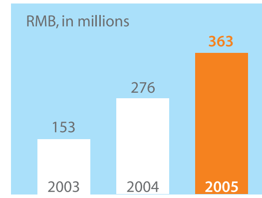
* *Certain of our packaged-tour revenues were recorded on a gross basis. See " – Major Factors Affecting Our Results of Operations – Revenues – Packaged-tour."*

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.

Because current PRC laws and regulations impose substantial restrictions on foreign ownership of air-ticketing, travel agency, advertising and Internet content provision 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 "Variable interest entities" under Note 2 of "Notes to the Consolidated Financial Statements".

Hotel Reservation. Revenues from our hotel reservation business have been our primary source of revenue since our inception. In 2003, 2004 and 2005, revenues from our hotel reservation business accounted for RMB153 million, RMB276 million and RMB363 million (US$45 million), respectively, or 84%, 78% and 65% respectively, of our revenues.

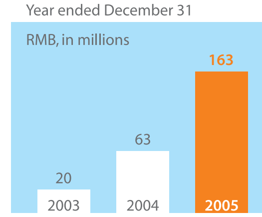
We derive our hotel reservation revenues through commissions from hotels, primarily based on the room rates paid by our customers. We recognize revenue when we receive confirmation from a hotel that a customer who booked the hotel through us has stayed and checked out from the hotel. While we generally 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.



GROWTH OF HOTEL RESERVATION REVENUE
Year ended December 31

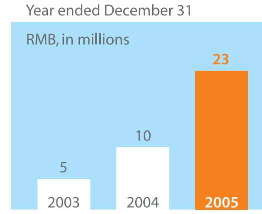
Air-Ticketing. Since early 2002, the air-ticketing business has been growing rapidly. In 2003, 2004 and 2005, revenues from our air ticketing business accounted for RMB20 million, RMB63 million and RMB163 million (US$20 million), respectively, or 11%, 18% and 29%, respectively, of our revenues.

We conduct our air-ticketing business through Beijing Ctrip, Shanghai Huacheng, Guangzhou Ctrip and Shenzhen Shencheng, all of which are our 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.



GROWTH OF AIR-TICKETING REVENUE
Year ended December 31

Packaged-tour. Our packaged-tour business has grown rapidly in the past three years. In 2003, 2004 and 2005, revenues from our packaged tour business accounted for RMB5 million, RMB10 million and RMB23 million (US$3 million), respectively. We conduct our packaged-tour business mainly through Shanghai Huacheng and Shanghai Ctrip Charming. Shanghai Huacheng and Shanghai Ctrip Charming 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 Huacheng and Shanghai Ctrip Charming also, from time to time, act as principal in connection with the packaged-tour services provided by them. When Shanghai Huacheng and Shanghai Ctrip Charming act as principal, they recognize gross amounts received from customers as revenues after the packaged-tour services are rendered.



GROWTH OF PACKAGED-TOUR REVENUE
Year ended December 31

Other Businesses. Our other business lines primarily consist of advertising services, sales of Ctrip travel guidebooks and sales of our VIP membership cards. We place our customers' advertisements on our websites and in our introductory brochures. 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 many cities in China. We conduct the advertising business through Ctrip Commerce, and we recognize revenue when Ctrip Commerce renders advertising services.

Cost of Services

Cost of services are costs directly attributable to rendering our revenues, which consist primarily of payroll compensation, telecommunication expenses and other direct expenses incurred in connection with our transaction and service platform. Payroll compensation accounted for 60%, 60% and 62% of our cost of services in 2003, 2004 and 2005, respectively. Telecommunication expenses accounted for 26%, 19% and 14% of our cost of services in 2003, 2004 and 2005, respectively.

Cost of services accounted for 15%, 15% and 17% of our net revenues in 2003, 2004 and 2005, respectively. We believe our relatively low ratio of cost of services 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.

Our relatively low cost of services to revenue ratio reflects China's competitive labor costs and Ctrip's highly efficient customer service system.

Operating Expenses

Operating expenses consist primarily of product development expenses, sales and marketing expenses, general and administrative expenses and share-based compensation.

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.

Sales and marketing expenses primarily comprise payroll compensation and benefits for our sales and marketing personnel, expenses for customer reward program, advertising expenses, commissions for our marketing partners for referring customers to us, production costs of marketing materials and membership cards and expenses associated with our membership reward program. Our sales and marketing expenses as a percentage of net revenues had declined from 2003 to 2004 and remained unchanged from 2004 to 2005 due to our more effective and focused marketing efforts to promote our brand and services.

General and administrative expenses consist primarily of payroll compensation, benefits and travel expenses for our administrative staff, administrative office expenses, as well as professional service fees. General and administrative expenses as a percentage of net revenues have decreased over the past three years.

Share-based compensation is the difference, if any, between the estimated fair value of our ordinary shares and the amount an employee is required to pay to acquire the shares, as determined on the date the share option is granted. We amortize share-based compensation and charge it to expense over the three-year vesting period of the underlying options. We have adopted SFAS 123R, "Share-Based Payment, " beginning from January 1, 2006, and could have ongoing accounting charges significantly greater than those we would have recorded under our prior method of accounting for share options.

Income Taxes and Financial Subsidies

Income Taxes. Our effective income tax rate was 16%, 9% and 12% for 2003, 2004 and 2005, respectively. Pursuant to the applicable tax laws in China, companies established in China are generally subject to EIT at a statutory rate of 33%. The 33% EIT rate applies to our subsidiaries, affiliated Chinese entities and joint venture companies established in China, except for our subsidiaries, Ctrip Computer Technology and Ctrip Travel Information, and our affiliated Chinese entities, Shanghai Huacheng and Shenzhen Shencheng.

- Our subsidiary, Ctrip Computer Technology, is currently entitled to a 15% EIT rate because it has been classified as a "new and high technology enterprise." Ctrip Computer Technology's qualification as a "new and high technology enterprise" is subject to annual re-assessment by relevant government authorities.
- Our subsidiary, Ctrip Travel Information, is currently entitled to a 15% EIT rate due to its registration in the Pudong Economic Development Zone and such rate is further reduced by 50% for each of the years from 2005 to 2007 due to its classification as a "software enterprise." Ctrip Travel Information's qualification as a "software enterprise" is also subject to annual re-assessment by relevant government authorities.
- Our affiliated Chinese entity, Shanghai Huacheng, is entitled to a 30% tax reduction for each of the years from 2004 to 2006 due to its classification as an entity that provides job opportunities for unemployed individuals. Shanghai Huacheng's preferential tax treatment is also subject to annual re-assessment by relevant government authorities.
- Our affiliated Chinese entity, Shenzhen Shencheng, is entitled to a preferential tax rate of 15% as granted by the local tax bureau, because it is registered in the city of Shenzhen in China.

Our subsidiaries and affiliated Chinese entities either have received approvals from the relevant government authorities, or are in the process of being assessed by the relevant government authorities, with respect to their qualification assessment. Based on our past experience and information currently available, we expect that our subsidiaries and affiliated Chinese entities will pass the re-assessment and continue to be entitled to the preferential tax treatments in 2006.

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 factors and timely adjusts the effective income tax rate accordingly.

Financial Subsidies. In 2003, 2004 and 2005, 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 RMB5 million, RMB6 million and RMB18 million (US$2 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.

Our financial records are prepared in accordance with US GAAP and backed by sound business judgment.

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. In considering 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," we believe that our policies for revenue recognition and presentation of statement of operations are appropriate. 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 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 2003, 2004 and 2005, 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, 2004 and 2005, our provisions for the customer reward program were approximately RMB10 million and RMB20 million (US$2 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.

We offer a customer reward program that allows our customers to receive travel rewards and other benefits based on accumulated membership points.

Share-Based Compensation. We have share option plans to grant share options to officers, directors, and employees of our company. We account for these plans under Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," the intrinsic value approach, with the required disclosures under the related accounting guidance in our consolidated financial statements included elsewhere in this annual report. For 2003, 2004 and 2005, we recognized share-based compensation under the share option plans in the amounts of RMB2 million, RMB2 million and RMB2 million (US$0.2 million), respectively. While we believe that the share-based compensation we recognized for the plans under APB No. 25 is appropriate, changes in our assumptions, including estimated fair value of our ordinary shares, will result in an adjustment to our deferred share-based compensation and the corresponding share-based compensation. As of December 31, 2005, we have recorded share-based compensation to the extent that the fair value of the shares on the date of grant exceeds the exercise price of the option. We recognize compensation expense over the related vesting periods. Beginning in 2006, we will adopt SFAS 123R, "Share-Based Payment," and will recognize the fair value of the share-based awards as an expense in the income statement accordingly.

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 carryforwards 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, 2004 and 2005, we recorded deferred tax assets of RMB1 million and RMB2 million (US$0.3 million), respectively. If, however, unexpected events occur in the future that would prevent us from realizing all or a portion of our net deferred tax assets, an adjustment would result in a charge to income in the period in which such determination was made.

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.

	Year Ended December 31,						
	2003		2004		2005		
	RMB (in thousands)	%	RMB (in thousands)	%	**RMB (in thousands)**	**USD (in thousands)**	**%**
Revenues:							
Hotel reservation	153,389	89	276,043	83	**362,857**	**44,962**	**70**
Air ticketing	20,323	12	63,006	19	**162,645**	**20,154**	**31**
Packaged- tour*	4,789	3	10,480	3	**22,756**	**2,820**	**4**
Others	4,178	2	4,500	1	**7,957**	**986**	**2**
Total revenues	182,679	106	354,029	106	**556,215**	**68,922**	**107**
Less: Business tax and related surcharges	(9,532)	(6)	(20,209)	(6)	**(34,990)**	**(4,336)**	**(7)**
Net revenues	173,147	100	333,820	100	**521,225**	**64,586**	**100**
Cost of services	(26,223)	(15)	(51,637)	(15)	**(88,627)**	**(10,982)**	**(17)**
Gross profit	146,924	85	282,183	85	**432,598**	**53,604**	**83**
Operating expenses:							
Product development	(20,684)	(12)	(37,959)	(11)	**(57,510)**	**(7,126)**	**(11)**
Sales and marketing	(47,571)	(27)	(72,863)	(22)	**(112,274)**	**(13,912)**	**(22)**
General and administrative	(19,579)	(11)	(36,895)	(11)	**(41,535)**	**(5,147)**	**(8)**
Share-based compensation	(1,583)	(1)	(1,958)	(1)	**(1,777)**	**(220)**	**(0)**
Total operating expenses	(89,417)	(51)	(149,675)	(45)	**(213,096)**	**(26,405)**	**(41)**
Income from operations	57,507	34	132,508	40	**219,502**	**27,199**	**42**
Interest income	401	0	5,543	2	**12,661**	**1,569**	**2**
Other income	5,661	3	7,631	2	**22,929**	**2,841**	**5**
Income before income tax expense, minority interests and share of loss in joint venture companies	63,569	37	145,682	44	**255,092**	**31,609**	**49**
Income tax expense	(10,249)	(6)	(12,517)	(4)	**(30,577)**	**(3,789)**	**(6)**
Minority interests	(79)	(0)	(39)	(0)	**(269)**	**(33)**	**(0)**
Share of income of joint venture companies	573	0	–	–	**–**	**–**	**–**
Net income	53,814	31	133,126	40	**224,246**	**27,787**	**43**

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

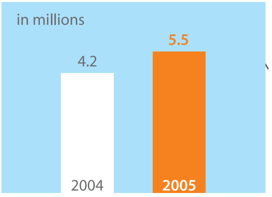
2005 compared to 2004

Revenues

Revenues were RMB556 million (US$69 million) in 2005, an increase of 57% over RMB354 million in 2004. This revenue growth was principally driven by the substantial volume growth in hotel room nights booked and air tickets sold in 2005.

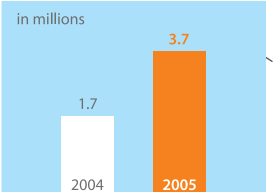
Hotel Reservation. Revenues from our hotel reservation business increased by 31% to RMB363 million (US$45 million) in 2005 from RMB276 million in 2004, primarily as a result of the continued rapid growth in our hotel room nights sales volume. The total number of hotel room nights booked in 2005 was over 5.5 million compared to over 4.2 million in 2004. In 2005, the average commission per room night had remained at approximately RMB66 compared to 2004.

TOTAL NUMBER OF HOTEL ROOM NIGHTS BOOKING



Air Ticketing. Revenues from our air ticketing business increased substantially by 158% to RMB163 million (US$20 million) in 2005 from RMB63 million in 2004, 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 2005 was approximately 3.7 million, compared to approximately 1.7 million in 2004. In 2005, the average commission per ticket sold increased to RMB44 from RMB37 in 2004.

TOTAL NUMBER OF AIR TICKET SOLD



Packaged-tour. Packaged-tour revenues increased substantially from RMB10 million in 2004 to RMB23 million (US$3 million) in 2005, an increase of 117% as we continued growing our packaged-tour business. See " – Major Factors Affecting Our Results of Operations – Revenues – Packaged-tour."

Other businesses. Revenues from other businesses increased by 77% from RMB5 million in 2004 to RMB8 million (US$1 million) in 2005, primarily due to increased sales of our advertising service, Ctrip travel guidebooks and special marketing alliance projects in 2005.

Business tax and related surcharges

Our business tax and related surcharges increased by 73% from RMB20 million in 2004 to RMB35 million (US$4 million) in 2005 as a result of our increased revenues in all of our business lines.

Cost of Services

Cost of services in 2005 increased by 72% to RMB89 million (US$11 million) from RMB52 million in 2004. 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.

VIP membership allows our customers to enjoy priority services and discounts from various restaurants and shops.

Operating Expenses

Operating expenses in 2005 increased by 42% to RMB213 million (US$26 million) from RMB150 million in 2004, primarily due to a significant increase in product development expenses as well as sales and marketing and general and administrative expenses. However, operating expenses as a percentage of net revenues decreased from 45% in 2004 to 41% in 2005, reflecting the scalability and profitability of our business platform.

Product Development. Product development expenses increased by 52% to RMB58 million (US$7 million) in 2005 from RMB38 million in 2004, primarily due to increased staff hiring mainly for the air-ticketing and packaged-tour businesses.

Sales and Marketing. Sales and marketing expenses increased by 54% to RMB112 million (US$14 million) in 2005 from RMB73 million in 2004, primarily attributable to increased expenses in connection with our customer reward program, advertisement expenses, as well as increased salary and benefit expenses for the increased number of sales and marketing staff and increased costs for promotional materials.

General and Administrative. General and administrative expenses increased by 13% to RMB42 million (US$5 million) in 2005 from RMB37 million in 2004, primarily due to increased salary and benefits for the increased number of general and administrative staff.

Share-based Compensation. Share-based compensation decreased by 9% to RMB1.8 million (US$220, 000) in 2005 from RMB2.0 million in 2004, primarily due to the effect of amortization of share-based compensation expenses associated with share options issued before December 2003.

Interest Income. Interest income increased to RMB13 million (US$2 million) in 2005 from RMB6 million in 2004 because of the increased cash generated from operation.

Other Income. Other income increased by 200% to RMB23 million (US$3 million) in 2005 from RMB8 million in 2004, primarily due to higher amount of financial subsidies we received in 2005.

Income Tax Expense. Income tax expense was RMB31 million (US$4 million) in 2005, an increase of 144% over RMB13 million in 2004, primarily because of the increase of our taxable income in 2005. Our effective income tax rate in 2004 was lower than that in 2005 because one of our subsidiaries, namely, Ctrip Travel Information, was exempted from paying EIF in 2004 while it was subject to a 7.5% EIT in 2005.

2004 compared to 2003

Revenues

Revenues were RMB354 million in 2004, an increase of 94% over RMB183 million in 2003. This revenue growth was principally driven by the substantial volume growth in hotel room nights booked and air tickets sold in 2004.

Hotel Reservation. Revenues from our hotel reservation business increased by 80% to RMB276 million in 2004 from RMB153 million in 2003, primarily as a result of the continued rapid growth in our hotel room nights sales volume, offset by the negative impact of SARS to our hotel reservation business in the first half of 2003. The total number of hotel room nights booked in 2004 was over 4.2 million compared to over 2.4 million in 2003.

Air Ticketing. Revenues from our air ticketing business increased significantly by 210% to 63 million in 2004 from RMB20 million in 2003, primarily due to strong growth of air tickets sales volume as we continued to expand our air ticketing capabilities significantly, offset by the negative impact of SARS to our air ticketing business in the first half of 2003. The total number of air tickets sold in 2004 was approximately 1.7 million, compared to approximately 610,000 in 2003.

Packaged-tour. Packaged-tour revenues increased significantly from RMB5 million in 2003 to RMB 10 million in 2004, an increase of 119% as we continued growing our packaged-tour business. See "– Major Factors Affecting Our Results of Operations – Revenues – Packaged-tour."

Other businesses. Revenues from other businesses increased by 8% from RMB4 million in 2003 to RMB5 million in 2004, primarily due to increased sales of our advertising service and special marketing alliance projects in 2004.

Business tax and related surcharges

Our business tax and related surcharges increased by 112% from RMB10 million in 2003 to RMB20 million in 2004 as a result of our increased revenues in all of our business lines.

Cost of Services

Cost of services in 2004 increased by 97% to RMB52 million from RMB26 million in 2003. This increase was primarily attributable to the hiring of additional customer service representatives and increased telecommunication expenses resulting from the overall expansion of our hotel reservation and air ticketing businesses.

Operating Expenses

Operating expenses in 2004 increased by 67% to RMB150 million from RMB89 million in 2003, primarily due to a significant increase in product development expenses as well as sales and marketing and general and administrative expenses. However, operating expenses as a percentage of net revenues decreased from 52% in 2003 to 45% in 2004, reflecting the scalability and profitability of our business platform.

Product Development. Product development expenses increased by 84% to RMB38 million in 2004 from RMB21 million in 2003, primarily due to increased salary and benefit expenses for the increased number of product development staff mainly in the air-ticketing and packaged-tour sectors.

Sales and Marketing. Sales and marketing expenses increased by 53% to RMB73 million in 2004 from RMB48 million in 2003, primarily because of increased salary and benefit expenses for the increased number of sales and marketing staff, increased expenses in connection with our customer reward program, advertisements and commission payments to our marketing partners.

General and Administrative. General and administrative expenses increased by 88% to RMB37 million in 2004 from RMB20 million in 2003, primarily due to increased salary and benefits for the increased number of general and administrative staff and increased professional service fees.

Share-based Compensation. Share-based compensation increased by 24% to RMB2.0 million in 2004 from RMB1.6 million in 2003, primarily due to the effect of amortization of share-based compensation expenses associated with share options issued in 2003.

*Interest Income.*Interest income increased significantly to RMB6 million in 2004 from RMB401,000 in 2003 because of the increase in our cash balance and the increase in the interests rates of our bank deposits.

*Other Income.*Other income increased by 35% to RMB8 million in 2004 from RMB6 million in 2003, primarily due to an increase in other expenses, offset in part by the higher amount of financial subsidies we received in 2004.

Income Tax Expense. Income tax expense was RMB13 million in 2004, an increase of 22% over RMB10 million in 2003, primarily because of the increase of our taxable income in 2004. Our effective income tax rate in 2004 was lower than 2003 because a substantial portion of our income was generated by Ctrip Travel Information, which was exempted from paying EIT in 2004.

B. LIQUIDITY AND CAPITAL RESOURCES

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

	Year ended December 31,			
	2003	2004	**2005**	**2005**
	RMB	RMB	**RMB**	**US$**
		(in thousands)		
Net cash provided by operating activities	74,661	162,731	**231,364**	**28,669**
Net cash used in investing activities	(12,706)	(14,320)	**(72,816)**	**(9,023)**
Net cash provided by (used in) financing activities	369,609	(4,311)	**(30,340)**	**(3,760)**
Net increase in cash and cash equivalents	433,038	143,906	**119,187**	**14,768**
Cash and cash equivalents at beginning of year	38,931	471,969	**615,875**	**76,315**
Cash and cash equivalents at end of year	471,969	615,875	**735,062**	**91,083**

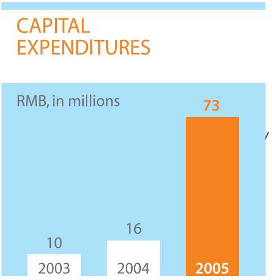
Net cash provided by operating activities was RMB231 million (US$29 million) in 2005, compared to RMB163 million in 2004 and RMB75 million in 2003, primarily due to the increase in our net revenue resulting from our increased transaction volume, coupled with the increased operating margin.

Net cash used in investing activities amounted to RMB73 million (US$9 million) in 2005, compared to net cash used in investing activities of RMB14 million in 2004 and RMB13 million in 2003. This increase in 2005 from the prior two years was due to our purchase of the land use right for our new premises, construction of our new facilities, and purchase of additional servers, workstations, computers, computer software and other items related to our network infrastructure.

Net cash used in financing activities amounted to RMB30 million (US$4 million) in 2005, compared to net cash used in financing activities of RMB 4 million in 2004, and net cash provided by financing activities of RMB370 million in 2003. This change in 2005 is primarily attributable to the fact that dividends paid to shareholders amounted to RMB40 million (US$5 million) in 2005, partially offset by the proceeds of RMB10 million (US$1 million) from the exercise of share options. The change in 2004 from 2003 was primarily attributable to the fact that we received the net proceeds of RMB369 million from our initial public offering in 2003 and paid the expenses related thereto in 2004, partially offset by the proceeds we received in connection with the exercise of the employee share options in 2004.

Capital Resources. We have financed our capital expenditure requirements with cash flows from operations and through the sale of our Series A preferred shares and Series B preferred shares and our initial public offering in 2003.

Our principal capital expenditures for 2003 and 2004 consisted of expenditures on our network infrastructure. The capital expenditures for 2005 consisted of the purchase price for the land use right of our new premises, expenditures on the construction of our new facilities, and the purchase of other capital equipment. Our capital expenditures for 2003, 2004 and 2005 were approximately RMB10 million, RMB16 million and RMB73 million (US$9 million), respectively.



Our current cash flow will enable us to meet foreseeable future initiatives including a new information and technology center.

Our main capital expenditure for 2006 will include construction of a new information and technology center and purchase of additional servers, workstations, computers, computer software and other items. We plan to build a new information and technology center on the premises and move our principal executive offices, 24-hour customer service center, product development center and administrative and support facilities to the new premises. The aggregate investment for the new premises is estimated to be approximately between US$25 million and US$30 million, of which US$6 million were paid in 2005, and the remainder will be paid by the completion of the construction of the new premises, which is expected to be around mid-2007. Capital expenditures in 2006 have been, and are expected to continue to be, funded through operating cash flows and through our existing capital resources.

As of December 31, 2005, our primary source of liquidity was RMB735 million (US$91 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

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, 2003 to December 31, 2005 that are reasonably likely to have a material and adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

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, 2005, the amount under these guarantee arrangements was approximately RMB180 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 2006, 2007, 2008 and 2009 are RMB8.7 million, RMB2.6 million, RMB0.4 million and RMB0.3 million respectively. Rental expenses amounted to approximately RMB4 million, RMB6 million and RMB9 million for the years ended December 31, 2003, 2004 and 2005, respectively. Rental expense is charged to the statements of income when incurred.

F. CONTRACTUAL OBLIGATIONS

The following sets forth our contractual obligations as of December 31, 2005:

	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	11,950	8,685	2,980	285	–
Purchase obligations	122,344	99,533	22,811	–	–
	134,294	108,218	25,791	285	–

We have outstanding purchase obligations totaling RMB122 million, most of which are related to the construction of the new information and technology center and purchase of additional customer service center equipment mentioned above. We will accrue the amount once the services are rendered by our service providers. While the table above indicates our contractual obligations as of December 31, 2005, the actual amounts we are eventually required to pay may be less in the event that any agreements are renegotiated, cancelled or terminated.

G. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. Our exposure to interest rate risk for changes in interest rates relates primarily to the interest income generated by excess cash deposited in banks. We have not used any derivative financial instruments to hedge interest rate risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates. Based on our cash balance, one percentage point decrease in interest rates would result in approximately RMB150,000 decrease in our interest income on an annual basis. Our future interest income may fluctuate in line with changes in interest rates. However, the risk associated with fluctuating interest rates is principally confined to our interest-bearing cash deposits, and, therefore, our exposure to interest rate risk is limited.

Foreign Exchange Risk. We are exposed to foreign exchange risk arising from various currency exposures. Some of our expenses are denominated in foreign currencies while almost all of our 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.

H. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, "Accounting Changes and Error Corrections - a Replacement of APB Opinion No.20 and FASB Statement No.3" ("SFAS No. 154"), which requires retrospective application to prior periods' financial statements of every voluntary change in accounting principle unless it is impracticable to do so. SFAS No. 154 is effective for accounting changes and corrections of errors beginning in our fiscal year 2006. We do not expect the adoption of this standard to have a material effect on our financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS No. 123R"), which replaced SFAS No. 123 and superseded APB No. 25. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their grant date fair values. Under SFAS No. 123R, the pro forma disclosures previously permitted no longer will be an alternative to financial statement recognition. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the SEC's interpretation of SFAS No. 123R and the valuation of share-based payments for public companies.

We will adopt SFAS No. 123R and related FASB Staff Position starting from the first quarter of 2006. We will apply the Black-Scholes valuation model in determining the fair value of share-based payments to employees, and will recognize compensation expense on a straight-line basis over the requisite service period. We will apply the modified prospective method, which requires that compensation expense be recorded for all unvested stock options upon adoption of SFAS No. 123R. We estimate the stock option compensation expense for the first quarter of 2006, due to the effect of adoption of SFAS No. 123R, to be less than RMB15 million.

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 as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers Zhong Tian
Certified Public Accountants Ltd. Co.

Shanghai, the People's Republic of China
June 15, 2006

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31, 2003, 2004 and 2005

	2003	2004	**2005**	**2005**
	RMB	RMB	**RMB**	**US$**
Revenues:				
Hotel reservation	153,388,686	276,042,944	**362,856,812**	**44,962,555**
Air-ticketing	20,322,986	63,005,651	**162,645,049**	**20,153,782**
Packaged-tour	4,788,727	10,479,780	**22,755,626**	**2,819,710**
Others	4,178,419	4,500,698	**7,957,187**	**985,996**
Total revenues	182,678,818	354,029,073	**556,214,674**	**68,922,043**
Less: business tax and related surcharges	(9,532,290)	(20,208,996)	**(34,989,970)**	**(4,335,700)**
Net revenues	173,146,528	333,820,077	**521,224,704**	**64,586,343**
Cost of services	(26,222,490)	(51,637,069)	**(88,627,315)**	**(10,982,047)**
Gross profit	146,924,038	282,183,008	**432,597,389**	**53,604,296**
Operating expenses:				
Product development	(20,683,821)	(37,959,208)	**(57,509,840)**	**(7,126,198)**
Sales and marketing	(47,571,050)	(72,863,325)	**(112,273,503)**	**(13,912,109)**
General and administrative	(19,578,959)	(36,894,361)	**(41,534,886)**	**(5,146,698)**
Share-based compensation*	(1,583,409)	(1,958,022)	**(1,776,852)**	**(220,175)**
Total operating expenses	(89,417,239)	(149,674,916)	**(213,095,081)**	**(26,405,180)**
Income from operations	57,506,799	132,508,092	**219,502,308**	**27,199,116**
Interest income	400,557	5,542,520	**12,660,661**	**1,568,816**
Other income	5,661,636	7,631,760	**22,929,045**	**2,841,200**
Income before income tax expense, minority interests and share of income of joint venture companies	63,568,992	145,682,372	**255,092,014**	**31,609,132**
Income tax expense	(10,249,404)	(12,517,121)	**(30,577,400)**	**(3,788,927)**
Minority interests	(79,496)	(38,961)	**(268,790)**	**(33,307)**
Share of income of joint venture companies	573,423	–	**–**	**–**
Net income	53,813,515	133,126,290	**224,245,824**	**27,786,898**

	2003	2004	**2005**	**2005**
	RMB	RMB	**RMB**	**US$**
Accretion for Series B Redeemable				
Convertible Preferred Shares	(12,365,534)	–	–	–
Deemed dividends to holders of Series A and				
Series B Preferred Shares				
for spin-off of joint venture companies	(2,829,064)	–	–	–
Deemed dividends upon repurchase of Preferred Shares	(35,336,150)	–	–	–
Amount allocated to participating preference shareholders	(1,909,600)	–	–	–
Net income attributable to ordinary shareholders	1,373,167	133,126,290	**224,245,824**	**27,786,898**
Other comprehensive income: Translation adjustments	1,474,545	193,673	**(9,021,663)**	**(1,117,898)**
Comprehensive income	55,288,060	133,319,963	**215,224,161**	**26,669,000**
Earnings per ordinary share and per ADS				
– Basic	0.13	4.33	**7.06**	**0.87**
– Diluted	0.11	4.23	**6.91**	**0.86**
Weighted average ordinary shares outstanding				
– Basic	10,605,957	30,712,466	**31,762,419**	**31,762,419**
– Diluted	12,312,207	31,504,702	**32,441,131**	**32,441,131**
* Share-based compensation was related to the				
associated operating expense categories as follows:				
Product development	(411,359)	(550,573)	**(402,693)**	**(49,899)**
Sales and marketing	(136,189)	(187,850)	**(258,523)**	**(32,034)**
General and administrative	(1,035,861)	(1,219,599)	**(1,115,636)**	**(138,242)**

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

Consolidated Balance Sheets

As of December 31, 2004 and 2005

	2004	2005	2005
	RMB	RMB	US$
ASSETS			
Current assets:			
Cash and cash equivalents	615,875,363	735,061,898	91,083,479
Restricted cash	–	6,600,000	817,824
Accounts receivable	35,418,477	63,440,215	7,861,046
Due from related parties	59,252	602,043	74,601
Prepayments and other current assets	18,503,778	43,475,298	5,387,140
Deferred tax assets, current	1,009,403	2,135,171	264,575
Total current assets	670,866,273	851,314,625	105,488,665
Long-term loans to related parties	500,000	–	–
Long-term deposits	26,715,547	54,284,801	6,726,574
Long-term prepayment	–	66,430,515	8,231,582
Property, equipment and software	31,897,651	53,552,243	6,635,802
Goodwill	9,515,849	9,515,849	1,179,134
Other intangible assets	1,222,353	803,050	99,508
Total assets	740,717,673	1,035,901,083	128,361,265
LIABILITIES			
Current liabilities:			
Accounts payable	30,150,303	72,353,392	8,965,502
Due to a related party	3,378,980	2,329,155	288,612
Salary and welfare payable	14,110,730	21,343,901	2,644,780
Taxes payable	23,421,257	16,050,032	1,988,802
Advances from customers	6,526,639	28,172,743	3,490,959
Provisions for customer reward program	10,462,103	19,776,193	2,450,521
Dividend payable	39,937,887	67,273,747	8,336,069
Other payables and accruals	10,755,790	43,014,910	5,330,092
Total current liabilities	138,743,689	270,314,073	33,495,337
Minority interests	602,616	871,406	107,978
Commitments and contingencies			
Shareholders' equity			
Share capital (US$0.01 par value; 40,000,000 shares authorized, 31,565,040 shares issued and outstanding as of December 31, 2004; 32,037,609 shares issued and outstanding as of December 31, 2005)	2,613,542	2,652,142	328,634
Additional paid-in capital	511,367,287	524,928,856	65,045,334
Statutory reserves	19,256,862	41,769,481	5,175,768
Deferred share-based compensation	(2,258,908)	(465,255)	(57,651)
Cumulative translation adjustments	1,382,060	(7,639,603)	(946,643)
Retained earnings	69,010,525	203,469,983	25,212,508
Total shareholders' equity	601,371,368	764,715,604	94,757,950
Total liabilities and shareholders' equity	740,717,673	1,035,901,083	128,361,265

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

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2003, 2004 and 2005

	Ordinary shares (US$0.01 par value)		Series A Convertible Preferred Share (US$0.01 par value)		Series B Redeemable Convertible Preferred Share (US$0.01 par value)		Series C Convertible Preferred Share (US$0.01 par value)							
	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value	Additional paid-in capital	Statutory reserves	Deferred share-based compensation	Cumulative translation adjustments	Retained earnings (accumulated Deficit)	Total shareholders' equity (deficit)
		RMB		RMB		RMB		RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as of December 31, 2002	9,520,698	788,314	4,320,000	357,696	–	–	–	–	–	–	(1,077,460)	101,188	(41,798,873)	(41,629,135)
Accretion for Series B Redeemable Convertible Preferred Shares	–	–	–	–	–	–	–	–	–	–	–	–	(12,365,534)	(12,365,534)
Spin-off of joint venture companies	–	–	–	–	–	–	–	–	–	–	–	–	(4,611,623)	(4,611,623)
Reclassification upon removal of redemption rights for Series B Convertible Preferred Shares	–	–	–	–	7,193,464	595,621	–	–	136,732,417	–	–	–	–	137,328,038
Issuance of Series C Convertible Preferred Shares	–	–	–	–	–	–	2,180,755	180,570	82,619,430	–	–	–	–	82,800,000
Repurchase of shares upon issuance of Series C Convertible Preferred Shares	(842,938)	(69,792)	(382,482)	(31,671)	(636,891)	(52,735)	–	–	(82,645,802)	–	–	–	–	(82,800,000)
Conversion of Preferred Shares into ordinary shares upon initial public offering	15,953,131	1,320,919	(3,937,518)	(326,025)	((6,556,573)	(542,886)	(2,180,755)	(180,570)	(271,438)	–	–	–	–	–
Issuance of ordinary shares	5,400,000	447,120	–	–	–	–	–	–	355,722,337	–	–	–	–	356,169,457
Exercise of share option	144,000	11,923	–	–	–	–	–	–	908,068	–	–	–	–	919,991
Deferred share-based compensation	–	–	–	–	–	–	–	–	5,501,356	–	(3,917,947)	–	–	1,583,409
Appropriations to statutory reserves	–	–	–	–	–	–	–	–	–	5,531,309	–	–	(5,489,810)	41,499
Translation adjustments	–	–	–	–	–	–	–	–	–	–	–	1,474,545	–	1,474,545
Net income	–	–	–	–	–	–	–	–	–	–	–	–	53,813,515	53,813,515
Balance as of December 31, 2003	30,174,891	2,498,484	–	–	–	–	–	–	498,566,368	5,531,309	(4,995,407)	1,575,733	(10,452,325)	492,724,162
Exercise of share option	1,390,149	115,058	–	–	–	–	–	–	13,579,396	–	–	–	–	13,694,454
Deferred share-based compensation	–	–	–	–	–	–	–	–	(778,477)	–	2,736,499	–	–	1,958,022
Appropriations to statutory reserves	–	–	–	–	–	–	–	–	–	13,725,553	–	–	(13,725,553)	–
Dividends	–	–	–	–	–	–	–	–	–	–	–	–	(39,937,887)	(39,937,887)
Translation adjustments	–	–	–	–	–	–	–	–	–	–	–	(193,673)	–	(193,673)
Net income	–	–	–	–	–	–	–	–	–	–	–	–	133,126,290	133,126,290
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

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2003, 2004 and 2005

	Ordinary shares (US$0.01 par value)		Series A Convertible Preferred Share (US$0.01 par value)		Series B Redeemable Convertible Preferred Share (US$0.01 par value)		Series C Convertible Preferred Share (US$0.01 par value)							
	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value	Additional paid-in capital	Statutory reserves	Deferred share-based compensation	Cumulative translation adjustments	Retained earnings (accumulated Deficit)	Total shareholders' equity (deficit)
		RMB		RMB		RMB		RMB	RMB	RMB	RMB	RMB	RMB	RMB
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)
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

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2003, 2004 and 2005

	2003	2004	2005	2005
	RMB	RMB	RMB	US$
Cash flows from operating activities:				
Net income	53,813,515	133,126,290	224,245,824	27,786,898
Adjustments for:				
Share-based compensation	1,583,409	1,958,022	1,776,852	220,175
Depreciation and amortization of property, equipment and software and other intangible assets	6,013,402	7,450,585	8,833,010	1,094,522
Minority interests	79,496	38,961	268,790	33,306
Loss from disposal of property, equipment and software	24,928	553,942	95,717	11,861
Share of income of joint venture companies	(573,423)	–	–	–
Appropriations to statutory reserves	41,499	–	–	–
Increase in restricted cash	–	–	(6,600,000)	(817,824)
Increase in accounts receivable	(14,970,300)	(6,478,777)	(28,021,738)	(3,472,248)
(Increase) decrease in due from related parties	3,612,838	552,388	(542,791)	(67,259)
Increase in prepayments and other current assets	(3,460,993)	(5,676,788)	(20,570,031)	(2,548,887)
Increase in long-term deposits	(9,859,821)	(15,523,270)	(27,569,254)	(3,416,180)
(Increase) decrease in deferred tax assets	51,843	(468,103)	(1,125,768)	(139,497)
Increase in accounts payable	13,692,698	15,456,246	42,203,089	5,229,497
Increase (decrease) in due to related parties	2,767,422	(639,304)	289,043	35,816
Increase in salary and welfare payable	7,417,997	4,311,020	7,233,171	896,282
Increase (decrease) in taxes payable	7,332,438	14,092,163	(7,371,225)	(913,388)
Increase in advances from customers	1,948,349	2,686,796	21,646,104	2,682,226
Increase in provisions for customer reward program	2,411,267	5,753,433	9,314,090	1,154,135
Increase in other payables and accruals	2,734,001	5,537,317	7,259,120	899,496
Net cash provided by operating activities	74,660,565	162,730,921	231,364,003	28,668,931
Cash flows from investing activities:				
Proceeds from disposal of equity interest in a former subsidiary	199,962	–	–	–
Purchase of property, equipment and software	(9,896,098)	(16,130,030)	(31,885,163)	(3,950,975)
Purchase of land use right	–	–	(41,430,515)	(5,133,766)
Purchase of other intangible assets	(1,010,638)	–	–	–
(Increase) decrease in long-term loans to related parties	(210,000)	1,810,000	500,000	61,956
Decrease in cash arising from deconsolidation of a former subsidiary	(1,789,594)	–	–	–
Net cash used in investing activities	(12,706,368)	(14,320,030)	(72,815,678)	(9,022,785)

	2003	2004	**2005**	**2005**
	RMB	RMB	**RMB**	**US$**
Cash flows from financing activities:				
Proceeds from issuance of Series C Convertible Preferred Shares	82,800,000	–	**–**	**–**
Proceeds from initial public offering, net of issuance costs of RMB33,719,000 paid	368,688,999	–	**–**	**–**
Payment of issuance costs of initial public offering	–	(12,309,120)	**–**	**–**
Proceeds from exercise of share option	919,991	7,998,415	**9,597,760**	**1,189,283**
Repurchase of ordinary and Series A and B Convertible Preferred Shares	(82,800,000)	–	**–**	**–**
Cash received by a subsidiary on issuance of ordinary shares from minority shareholders	–	–	**–**	**–**
Dividends paid	–	–	**(39,937,887)**	**(4,948,810)**
Net cash provided by (used in) financing activities	369,608,990	(4,310,705)	**(30,340,127)**	**(3,759,527)**
Effect of foreign exchange rate changes on cash and cash equivalents	1,474,545	(193,673)	**(9,021,663)**	**(1,117,898)**
Net increase in cash and cash equivalents	433,037,732	143,906,513	**119,186,535**	**14,768,721**
Cash and cash equivalents, beginning of year	38,931,118	471,968,850	**615,875,363**	**76,314,758**
Cash and cash equivalents, end of year	471,968,850	615,875,363	**735,061,898**	**91,083,479**
Supplemental disclosure of cash flow information				
Cash paid during the year for income taxes	5,903,981	12,757,167	**26,754,036**	**3,315,164**
Supplemental schedule of non-cash investing and financing activities:	(12,309,120)	–	**(25,000,000)**	**(3,097,817)**

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 lesser extent, Internet-related advertising and other related services. The Group had also been engaged in hotel management operations in the People's Republic of China ("PRC") through Home Inns & Hotels Management (Hong Kong) Limited ("Home Inns Hong Kong").

Home Inns Hong Kong was incorporated in Hong Kong as a wholly-owned subsidiary of the Company on May 8, 2001. Subsequent to the issuance of convertible preferred shares by Home Inns Hong Kong on February 28, 2003, the Company ceased to have control over Home Inns Hong Kong. Accordingly, investment in Home Inns Hong Kong was accounted for by equity method until August 27, 2003 when all equity interest of the Company in Home Inns Hong Kong was distributed to the then existing holders of Series A and Series B Convertible Preferred Shares and ordinary shares as share dividends on a pro rata as-converted basis (Note 2).

On December 9, 2003, the Company registered its prospectus with the Securities and Exchange Commission in the United States and was listed on the NASDAQ National Market in the United States of America by offering 2,700,000 American Depositary Shares ("ADS"), each ADS then represented two ordinary shares, at US$18 per ADS to the public. The net proceeds to the Company from the offering amounted to RMB356,169,457, net of issuance costs paid.

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 statue or agreement among the shareholders or equity holders.

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The Company has adopted Financial Accounting Standards Board ("FASB") Interpretation No. 46 – "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46") in July 2003. FIN 46 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" formerly Beijing Chenhao Xinye Air-Ticketing Service Co., Ltd.)	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 Travel Agency Co., Ltd. ("Guangzhou Ctrip" formerly Guangzhou Guangcheng Commercial Service Co., Ltd.)	Established on April 28, 2003
Shanghai Ctrip Charming International Travel Agency Co., Ltd. ("Shanghai Ctrip Charming")	Acquired on September 23, 2003
Shenzhen Shencheng Information Consulting Service Co., Ltd. ("Shenzhen Shencheng")	Established on April 13, 2004

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 two senior executives of the Company. Such director and officers collectively own a 100% equity interest in all of the VIEs except for Shanghai Huacheng and Shanghai Ctrip Charming which are 1.67% and 34% owned by third parties, respectively. The Company has consolidated the assets and liabilities of the above VIEs in accordance with transition guidance under FIN 46.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Variable interest entities

As of December 31, 2005, 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 in these areas is restricted.

Shanghai Ctrip Commerce is a domestic company incorporated in Shanghai, the PRC. Shanghai Ctrip Commerce holds an Internet content provider ("ICP") license and advertising 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, 2005 is RMB6,100,000.

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, 2005 is RMB3,000,000.

Beijing Ctrip, formerly known as Beijing Chenhao, renamed on March 21, 2005. The Company is a domestic company incorporated in Beijing, the PRC. Beijing Ctrip holds an air transport sales agency license and domestic travel agency license and is mainly engaged in the provision of air-ticketing 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, 2005 is RMB2,000,000.

Guangzhou Ctrip, formerly known as Guangzhou Guangcheng Commercial Service Co., Ltd., renamed on April 20, 2006. The Company is a domestic company incorporated in Guangzhou, the PRC. Guangzhou Ctrip holds air transport sales agency license and domestic travel agency license and is mainly engaged in the provision of air-ticketing 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, 2005 is RMB2,000,000.

Shanghai Ctrip Charming is a domestic company incorporated in Shanghai, the PRC. Shanghai Ctrip Charming holds domestic and cross-border travel agency licenses and mainly provides domestic and cross-border tour services. A senior executive of the Company holds 66% of the equity interest in Shanghai Ctrip Charming. The registered capital of Shanghai Ctrip Charming as of December 31, 2005 is RMB1,500,000.

Shenzhen Shencheng is a domestic company incorporated in Shenzhen, the PRC. Shenzhen Shencheng holds air transport sales 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 Shencheng. The registered capital of Shenzhen Shencheng as of December 31, 2005 is RMB1,500,000.

The capital injected by the director or senior executives are funded by the Company and were recorded as long-term business loans to related parties prior to the adoption of FIN 46. The Company does not have any ownership interest in these VIEs.

As of December 31, 2005, 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Variable interest entities *(Continued)*

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 described above.

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

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

Foreign currencies

The Company's reporting currency is the Renminbi ("RMB"). The Company's subsidiaries and VIEs, with an exception of the subsidiary located in Hong Kong, use RMB as their functional currency. The Company's functional currency is the currency of the primary economic environment in which it operates, which is RMB for most of the Company's subsidiaries and VIEs. The Company's subsidiary located in Hong Kong operates primarily using the Hong Kong dollar ("HK$"), and therefore, the HK$ has been determined to be the functional currency for the subsidiary.

Transactions denominated in currencies other than functional currencies are translated at the exchange rates quoted by the People's Bank of China (the "PBOC") prevailing at the dates of the transactions. 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 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 translation adjustments, which is a separate component of shareholders' equity on the consolidated financial statements.

Translations of amounts from RMB into United States dollars ("US$") are solely for the convenience of the reader and were calculated at the rate of US$1.00 = RMB8.0702, on December 31, 2005, representing the noon buying rate in the City of New York for cable transfers of RMB, as certified for customs purposes by the Federal Reserve Bank of New York. No representation is intended to imply that the RMB amounts could have been, or could be, converted, realized or settled into US$ at that rate on December 31, 2005, or at any other rate.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

Restricted cash

Restricted cash represents cash which can not 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, which is not allowed to be withdrawn until the cooperation agreement expires in March 2006.

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 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. Any internal costs that are capitalized are limited to those costs that can be directly identified with the design, engineering, or construction of a specific project and should not include any costs related to production, general corporate overhead, or similar activities. In 2005, the Company started the construction of a new information and technology center in Shanghai. All direct costs of constructing the center are capitalized as construction in progress until the new building is substantially completed and available for use.

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. The Group adopted SFAS No. 142 in 2002 and performed the initial steps of the transitional impairment tests as required.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Goodwill and other intangible assets *(Continued)*

Separately identifiable intangible assets that have determinable lives continue to be amortized, and consist primarily of a customer list, a travel supplier agreement and a domestic and cross-border travel agency license. As required under SFAS No. 142, the Group continues to amortize intangible assets on a straight-line basis over their estimated useful lives, which range from one to eight years. The Group has prospectively ceased the amortization of goodwill upon the adoption of SFAS No. 142.

No impairment on goodwill and other intangible assets was recognized for the years ended December 31, 2003, 2004 and 2005 based on the test performed.

Impairment of long-lived assets

Since January 1, 2002, the Group has adopted 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 net book value of such assets exceeds the future undiscounted cash flows attributable to such assets.

No impairment of long-lived assets was recognized for the years ended December 31, 2003, 2004 and 2005.

Long-term loans to related parties

Long-term loans to related parties were made to a director and two senior executives of the Company to fund their acquisition or establishment of certain VIEs that 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. The Group expects that it will continue to be involved in, and provide financial support to, the VIEs. Accordingly, to the extent losses not recoverable are incurred by the VIEs, the Group will accrue for such losses by recording a valuation allowance against long-term business loans to related parties. Upon adoption of FIN 46, the VIEs are consolidated and our long-term business loans to the related parties are eliminated upon consolidation.

Financial instruments

Financial instruments of the Group primarily comprise of cash and cash equivalents, accounts receivable, due from related parties, long-term loans to related parties, accounts payable, due to related parties, advances from customers and other payables. As of December 31, 2004 and 2005, their carrying value approximated their fair value.

Provisions 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 provision is reduced correspondingly. As of December 31, 2004 and 2005, the Group made provisions of RMB10,462,103 and RMB19,776,193, respectively, based on the estimated liabilities under the customer reward program.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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") and Ctrip Travel Network Technology (Shanghai) Co., Ltd. ("Ctrip Travel Network"). Some of the operations of Ctrip Computer Technology and Ctrip Travel Network are conducted through a series of services and other agreements with the VIEs.

Ctrip Computer Technology, Ctrip Travel Information, Ctrip Travel Network 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 gross revenues to arrive at net revenues. The effective business tax and related surcharges rate is approximately 6% on gross 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 does not assume any inventory risks and generally has no obligations for cancelled hotel reservations.

Air-ticketing services

The Group receives commissions from travel suppliers for air-ticketing services through the Group's transaction and service platform under various services agreements. Commissions from air-ticketing services rendered are recognized after air tickets are issued. The Group presents revenues from such transactions on a net basis in the statements of income as the Group does not assume any inventory risks and generally 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 commission on a net basis after the packaged-tour products are sold and collections are reasonably assured.

Shanghai Huacheng and Shanghai Ctrip Charming conduct domestic and cross-border travel tour services. Revenues, mainly referral fees, are recognized as commission on a net basis after the services are rendered. In case if Shanghai Huacheng and Shanghai Ctrip Charming 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Other businesses

Other businesses comprise primarily Internet-related advertising services and the sale of VIP membership cards.

Shanghai Ctrip Commerce receives advertising revenue, 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.

Revenue from the sale of VIP membership cards is recognized when the products are sold, provided that no significant obligations remain for the Group.

Allowance for doubtful accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. Our reserve for doubtful accounts is 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.

Cost of services

Cost of services consists primarily of payroll compensation, 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 costs 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 platforms. 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. Costs incurred in the development phase are capitalized and amortized over the estimated product life.

Sales and marketing

Sales and marketing costs consist primarily of costs of advertising expenses, commission fees, production costs of marketing materials, expenses associated with the Company's customer reward program and payroll and related compensation for the Company's sales and marketing personnel. Advertising expenses, amounted to RMB5,245,937, RMB10,648,334 and RMB16,750,270 for the years ended December 31, 2003, 2004 and 2005, respectively, are charged to the statements of income when incurred.

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Share-based compensation

The Company accounts for share-based compensation arrangements in accordance with Accounting Principles Board ("APB") Opinion No. 25 – "Accounting for Stock Issued to Employees" ("APB No. 25"), and complies with the disclosure provisions of SFAS No. 123 – "Accounting for Stock-Based Compensation" ("SFAS No. 123"). In general, compensation cost under APB No. 25 is recognized based on the difference, if any, between the estimated fair value of the Company's ordinary shares and the amount an employee is required to pay to acquire the ordinary shares, as determined on the date the option is granted. Total compensation cost as determined at the grant date of option is recorded in shareholders' equity as additional paid-in-capital with an offsetting entry recorded to deferred share-based compensation. Deferred share-based compensation is amortized on a straight-line basis and charged to expense over the vesting period of the underlying options.

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, the Company's net income attributable to ordinary shareholders and earnings per ordinary share would have resulted in the pro forma amounts disclosed below:

	2003	2004	**2005**
	RMB	RMB	**RMB**
Net income attributable to ordinary shareholders as reported	1,373,167	133,126,290	**224,245,824**
Add: Compensation expense under APB No. 25	1,583,409	1,958,022	**1,776,852**
Less: Compensation expense under SFAS No. 123	(2,172,399)	(5,720,437)	**(33,429,286)**
Pro forma net income attributable to ordinary shareholders	784,177	129,363,875	**192,593,390**
Basic earnings per ordinary share			
– As reported	0.13	4.33	**7.06**
– Pro forma	0.07	4.21	**6.06**
Diluted earnings per ordinary share			
– As reported	0.11	4.23	**6.91**
– Pro forma	0.06	4.11	**5.94**

The effects of applying SFAS No. 123 methodology in this pro forma disclosure are not indicative of future amounts. Additional share option awards in future years are expected.

The Company calculated the estimated fair value of share options on the date of grant using the Black-Scholes pricing method with the following assumptions:

	2003	2004	**2005**
Risk-free interest rate	2.65%	2.65%	**3.65% - 4.44%**
Expected life (years)	5	5	**4**
Expected dividend yield	0	0	**0.66%**
Volatility	0	65% ~ 76%	**55% ~ 64%**
Fair value of options at grant date per ordinary share	from US$0.6701 to US$2.8505	from US$7.5838 to US$9.4613	**from US$8.7288 to US$11.7557**

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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.

Other income

Other income primarily consists of financial subsidies and insurance sales income. During the year ended December 31, 2003, 2004 and 2005, the Group received financial subsidies amounted to RMB4,991,204, RMB6,165,086 and RMB17,917,051, respective, from local PRC government authority. Such amounts were recorded as other income in the statement 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. In addition, the VIEs are required to allocate at least 5% of its after-tax profit to the statutory welfare fund. 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, 2003, 2004 and 2005, appropriations to statutory reserves have been made of RMB 5,531,309, RMB 13,725,553 and RMB 22,512,619, respectively.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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 (Note 2). Additionally, as the Company does not have any direct ownership in the VIEs, the VIEs cannot directly distribute dividends to the Company.

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, 2003, 2004 and 2005 are RMB50 million, RMB170 million and RMB285 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 August 27, 2003, the Company's Board of Directors resolved to distribute all equity interest of the Company in Home Inns Hong Kong to the then existing holders of Series A and Series B Convertible Preferred Shares and ordinary shares, respectively, as dividends on a pro rata as-converted basis, based on the carrying value of the equity interest which was RMB4,611,623. The allocation for the dividends to the then existing holders of Series A and Series B Convertible Preferred Shares and ordinary shares were RMB808,827, RMB2,020,237 and RMB1,782,559, respectively. The number of shares of Home Inns Hong Kong distributed to the holders of Series A and Series B Convertible Preferred Shares and ordinary shares were 1,543,427 shares, 3,855,067 shares and 3,401,506 shares, respectively.

On November 5, 2004, the Company announced that the shareholders have adopted a resolution to approve the Company's proposed distribution of 30% of its net income for 2004 (as reported in the audited consolidated financial statements of the Company for the year ended December 31, 2004) to the shareholders as dividend provided that the Company's net income for 2004 exceeds US$10 million. The Company's Board of Directors has also approved such proposed dividend distribution. The Company has accrued RMB39,937,887 dividend payable for the year ended December 31, 2004.

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 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 has also approved such proposed dividend distribution. The Company has accrued RMB67,273,747 dividend payable for the year ended December 31, 2005.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Earnings per share

In accordance with SFAS No. 128, "Computation of Earnings Per Share" ("SFAS No. 128") and EITF Issue 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128," basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of unrestricted ordinary shares outstanding during the year using the two-class method. Under the two class method, net income is allocated between ordinary shares and other participating securities based on their participating rights. The Company's Series A, B and C Preferred Shares (Note 10 - 12) were participating securities. Diluted earnings per ordinary 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. Ordinary equivalent shares consist of the ordinary shares issuable upon the conversion of the convertible Preferred shares (using the if-converted method) and 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. All material operating segments qualify for aggregation under SFAS 131 due to similarities in the following: customer base; economic characteristics; nature of products and services; nature of production processes, distribution method and regulatory environment. Since the Company operates in one reportable segment and in one group of similar products and services, 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Recent accounting pronouncements

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, "Accounting Changes and Error Corrections - a Replacement of APB Opinion No.20 and FASB Statement No.3" ("SFAS No. 154"), which requires retrospective application to prior periods' financial statements of every voluntary change in accounting principal unless it is impracticable to do so. SFAS No. 154 is effective for accounting changes and corrections of errors beginning in the Company's fiscal year 2006. We do not expect the adoption of this standard to have a material effect on our financial position or results of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS No. 123R"), which replaced SFAS No. 123 and superseded APB No. 25. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their grant date fair values. Under SFAS No. 123R, the pro forma disclosures previously permitted no longer will be an alternative to financial statement recognition. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the SEC's interpretation of SFAS No. 123R and the valuation of share-based payments for public companies.

The Company will adopt SFAS No. 123R and related FASB Staff Position starting from the first quarter of 2006. The Company will apply the Black-Scholes valuation model in determining the fair value of share-based payments to employees, and will recognize compensation expense on a straight-line basis over the requisite service period. The Company will apply the modified prospective method, which requires that compensation expense be recorded for all unvested stock options upon adoption of SFAS No. 123R. The Company estimates the stock option compensation expense for the first quarter of 2006, due to the effect of adoption of SFAS No. 123R, to be less than RMB15 million.

Certain risks and concentration

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable, due from related parties and prepayments and other current assets. As of December 31, 2004 and 2005, substantially all of the Company's cash and cash equivalents was 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 in the PRC.

No individual customer accounted for more than 10% of net revenues for the years ended December 31, 2003, 2004 and 2005. No individual customer accounted for more than 10% of accounts receivable as of December 31, 2004 and 2005.

Reclassifications

Certain accounts for prior years have been reclassified with no effect on net income or retained earnings to conform to the 2005 financial statement presentation.

(Amounts expressed in RMB unless otherwise stated)

3. INVESTMENTS IN JOINT VENTURE COMPANIES

In 2002, Home Inns Hong Kong, an investment holding company, together with a Chinese joint venture partner, established joint venture companies engaged in hotel investment, management and franchise operations in the PRC.

Prior to the spin-off of Home Inns Hong Kong, the operations of the joint venture companies were not included in the consolidated financial statements as the Group did not exercise effective control over these companies due to certain substantive participating rights held by the minority shareholders.

On August 27, 2003, all the equity interest in Home Inns Hong Kong and its interest in the joint venture companies were distributed to the then existing holders of Series A and Series B Convertible Preferred Shares and ordinary shares as share dividends on a pro rata as-converted basis.

Combined financial information of the joint venture companies as of and for the year ended December 31, 2002 and 2003, based on their management accounts, are as follows:

	2002	**2003**
	RMB (unaudited)	**RMB (unaudited)**
Balance sheet:		
Current assets	5,448,470	**–**
Less: current liabilities	(2,331,894)	**–**
Non-current assets	6,160,108	**–**
Net assets	9,276,684	**–**
Statement of operations:		
Revenues	4,414,845	**21,138,389***
Net loss	(723,316)	**715,479***

* Comprised result of operations of the joint venture companies up to August 27, 2003.

(Amounts expressed in RMB unless otherwise stated)

4. PREPAYMENTS AND OTHER CURRENT ASSETS

Components of prepayments and other current assets as of December 31 are as follows:

	2004	2005
	RMB	RMB
Prepayments for hotel, air-ticketing reservation and packaged-tour business	5,445,810	19,856,114
Employee advances	295,181	448,497
Inventory for resale	675,629	1,006,300
Rental and other deposits	1,152,178	5,613,008
Prepayments for acquisition of property, equipment and software	291,359	2,027,506
Prepayments for rental and advertisement	2,970,890	3,905,203
Receivables from financial institution	5,696,045	8,363,523
Interest receivable	449,970	999,538
Others	1,526,716	1,255,609
Total	18,503,778	43,475,298

5. 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. All long-term deposits are refundable and cancelable.

Components of long-term deposit as of December 31 are as follows:

	2004	2005
	RMB	RMB
Deposits paid to airline suppliers	23,306,500	48,167,800
Deposit paid to travel bureau	1,150,000	2,400,000
Others	2,259,047	3,717,001
Total	26,715,547	54,284,801

(Amounts expressed in RMB unless otherwise stated)

6. LONG-TERM PREPAYMENT

Long-term prepayment as of December 31, 2005 for amounted to RMB66,430,515 is related to the payment to acquire land use rights for approximately 16,670 square meters of land in Shanghai, on which the Group plans to build the aforementioned new information and technology center.

7. PROPERTY, EQUIPMENT AND SOFTWARE

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

	2004	**2005**
	RMB	**RMB**
Building	7,569,600	**7,947,600**
Leasehold improvements	6,424,504	**3,780,782**
Website-related equipment	8,870,806	**11,421,158**
Computer equipment	14,988,961	**27,908,100**
Furniture and fixtures	9,542,627	**13,082,293**
Software	621,363	**5,152,363**
Construction in progress	–	**5,097,318**
Less: accumulated depreciation and amortization	(16,120,210)	**(20,837,371)**
Total net book value	31,897,651	**53,552,243**

(Amounts expressed in RMB unless otherwise stated)

8. OTHER INTANGIBLE ASSETS

Gross carrying amount, accumulated amortization and net book value of other intangible assets as of December 31 are as follows:

	2004	**2005**
	RMB	**RMB**
Other intangible assets –		
Customer list	1,766,206	**1,766,206**
Cross-border travel agency license	1,117,277	**1,117,277**
	2,883,483	**2,883,483**
Less: accumulated amortization –		
Customer list	(1,486,555)	**(1,766,206)**
Cross-border travel agency license	(174,575)	**(314,227)**
	(1,661,130)	**(2,080,433)**
Net book value	1,222,353	**803,050**

The annual estimated amortization expense for the acquired intangible assets for the following years is as follows:

	Amortization
	RMB
2006	139,660
2007	139,660
2008	139,660
2009	139,660
2010 and thereafter	244,410
	803,050

9. 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, 2003, 2004 and 2005. Accordingly, no Hong Kong profit tax has been provided for.

China

The Company's subsidiaries, its VIEs and joint venture companies 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. Normally, in accordance with "Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises," the applicable EIT rates are 30% plus a local income tax of 3% except for Ctrip Computer Technology, Ctrip Travel Information, Shanghai Huacheng and Shenzhen Shencheng.

Ctrip Computer Technology received approval from relevant PRC government authorities to be classified as a "High New Technology Development Enterprise" in September 2003 and subsequently received an approval from the relevant tax bureau to enjoy a preferential EIT rate of 15% for the year ended December 31, 2003. Accordingly, EIT previously accrued on a rate of 33% of approximately RMB5 million during the period from January 1, 2003 to September 30, 2003 was reversed to reflect the preferential EIT rate of 15% in the fourth quarter of 2003. Ctrip Computer Technology's qualification for the above preferential EIT rate is subject to annual re-assessment by the relevant 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". Accordingly, income tax previously paid for 2004 at the 15% rate of approximately RMB8 million was refunded and the amount has been reflected as a tax benefit for the fourth quarter of 2004. Ctrip Travel Information's qualification for the above preferential EIT rate is also subject to annual re-assessment by the relevant government authorities.

Shanghai Huacheng is entitled to a 30% tax reduction for each of the years from 2004 to 2006 due to its classification as an entity that provides job opportunities for unemployed individuals. Shanghai Huacheng's preferential tax treatment is also subject to annual re-assessment by relevant government authorities.

Shenzhen Shencheng is entitled to a preferential tax rate of 15% as granted by the local tax bureau, because it is registered in the city of Shenzhen in China.

(Amounts expressed in RMB unless otherwise stated)

9. 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 are as follows:

	2003	2004	2005
	RMB	RMB	RMB
Current income tax expense	(10,197,561)	(12,985,224)	**(31,703,168)**
Recognition (utilization) of deferred tax assets	(51,843)	468,103	**1,125,768**
Income tax expense	(10,249,404)	(12,517,121)	**(30,577,400)**

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 is as follows:

	2003	2004	2005
Statutory EIT rate	33%	33%	**33%**
Tax differential from statutory rate applicable to subsidiaries in the PRC	(20)%	(25)%	**(21)%**
Non-deductible expenses incurred outside the PRC	3%	1%	**0%**
Effective EIT rate	16%	9%	**12%**

Significant components of deferred tax assets

	2004	2005
	RMB	RMB
Provisions for customer reward program	1,264,403	**2,265,269**
Provisions for electric coupons	–	**191,364**
Deferred tax liabilities	(255,000)	**(321,462)**
Total deferred tax assets	1,009,403	**2,135,171**

We have not recorded any valuation allowances to reduce our deferred tax assets, as we believe that our deferred tax asset amounts are more likely than not to be realized based on our estimate of future taxable income and prudent and feasible tax planning strategies.

10. SERIES A CONVERTIBLE PREFERRED SHARES

In March 2000, the Company entered into a Series A Preferred Share Subscription Agreement, whereby the Company authorized and issued 432,000 shares of the Company's Series A Convertible Preferred Shares ("Series A Preferred Shares") at an issue price of $10.4167 per share. In June 6, 2000, the Company increased the number of Series A Preferred Shares from 432,000 shares to 4,320,000 shares by decreasing the par value from US$0.10 each to US$0.01 each. The authorized and issued Series A Preferred Shares were increased to 4,320,000 shares accordingly.

A holder of Series A Preferred Shares could convert all but not part at any time after issuance date into such number of fully paid and non-assessable ordinary shares at a conversion price of US$1.04167 (each Series A Convertible Preferred Share was convertible into one ordinary share). No beneficial conversion feature charge was recognized for the issuance of Series A Preferred Shares as the estimated fair value of the ordinary shares was less than the conversion price on the date of issuance.

Each Series A Preferred Share was automatically converted into ordinary shares at the then effective conversion price upon the closing of a qualified underwritten public offering of the ordinary shares of the Company. Upon the completion of the Company's initial public offering on December 9, 2003, all of the issued and outstanding Series A Preferred Shares were converted into ordinary shares.

11. SERIES B REDEEMABLE CONVERTIBLE PREFERRED SHARES

In November 2000, the Company entered into a Series B Preferred Shares Subscription Agreement, whereby the Company authorized and issued 7,193,464 shares of the Company's Series B Mandatory Redeemable Convertible Preferred Shares ("Series B Preferred Shares") at an issue price of US$1.5667 per share.

Prior to the issuance of Series C Convertible Preferred Shares, each Series B Preferred Share were redeemable at the option of the holders of a majority of the then outstanding shares of Series B Preferred Shares at any time commencing five calendar years after the Series B Preferred Shares issue date, at a redemption price equal to US$3.13334 per share plus all declared but unpaid dividends.

A holder of Series B Preferred Shares could convert all but not part at any time after issuance date into such number of fully paid and non-assessable ordinary shares at an initial conversion price of US$1.04445 (each Series B Convertible Preferred Share was convertible into 1.5 ordinary shares). Upon the issuance of Series C Convertible Preferred Shares, holders of Series B Preferred Shares agreed to forfeit its redemption rights for no consideration.

No beneficial conversion feature charge was recognized for the issuance of Series B Preferred Shares as the estimated fair value of the ordinary shares was less than the conversion price on the date of issuance.

Each Series B Preferred Share was automatically converted into ordinary shares at the then effective conversion price upon the closing of a qualified underwritten public offering of the ordinary shares of the Company. Upon the completion of the Company's initial public offering on December 9, 2003, all of the issued and outstanding Series B Preferred Shares were converted into ordinary shares.

12. SERIES C CONVERTIBLE PREFERRED SHARES

In September 2003, the Company entered into a Series C Preferred Share Subscription Agreement, whereby the Company authorized and issued 2,180,755 shares of the Company's Series C Convertible Preferred Shares ("Series C Preferred Shares") at an issue price of $4.5856 per share.

In September 2003, immediately after the issuance of Series C Preferred Shares, the net proceeds received from investors were fully utilized to repurchase 842,938, 382,482 and 636,891 shares of Company's ordinary shares, Series A and Series B Preferred Shares at US$4.5282, US$4.5282 and US$6.7924, respectively, on a pro-rata as-converted basis. The repurchase price per share for each class of shares was determined based on the issuance price of Series C Preferred Shares adjusted for the legal and professional fees and conversion features, where applicable.

As the purchase price of the Series A and Series B Preferred Shares were higher than the carrying value on the date of the repurchase, the excess of the purchase price over the carrying value were recognized as deemed dividends to the holders of Preferred Shares upon repurchase. The amount of deemed dividend was RMB11,223,324 and RMB24,112,826 for Series A and Series B Preferred Shares, respectively.

A holder of Series C Preferred Shares could convert all but not part at any time after issuance date into such number of fully paid and non-assessable ordinary shares at a conversion price of US$4.5856 (each Series C Convertible Preferred Share was convertible into one ordinary share).

No beneficial conversion feature charge was recognized for the issuance of Series C Preferred Shares as the estimated fair value of the ordinary shares was less than the conversion price on the date of issuance.

Each Series C Preferred Share was automatically converted into ordinary shares at the then effective conversion price upon the closing of a qualified underwritten public offering of the ordinary shares of the Company. Upon the completion of the Company's initial public offering on December 9, 2003, all of the issued and outstanding Series C Preferred Shares were converted into ordinary shares.

13. SHARE OPTION PLAN

On April 15, 2000, the Company adopted a share option plan that provides for the issuance of up to 144,000 ordinary shares in effect for a term of 10 years unless terminated earlier by shareholders and Board of Directors ("2000 Option Plan"). Under the 2000 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. On June 6, 2000, the Company increased the number of ordinary shares from 2,000,000 shares to 20,000,000 shares by decreasing the par value from US$0.10 each to US$0.01 each. The total number of ordinary shares reserved for the 2000 Option Plan increased from 144,000 to 1,440,000 accordingly. On July 1, 2001, the total number of ordinary shares reserved for the 2000 Option Plan was further increased to 1,728,000 shares. All share options granted under the 2000 Option Plan have an exercise price of US$0.7716. As of December 31, 2005, 53,290 options were outstanding under the 2000 Option Plan.

(Amounts expressed in RMB unless otherwise stated)

13. SHARE OPTION PLAN *(Continued)*

The following table summarizes the Company's share option activity under the 2000 Option Plan as of and for the years ended December 31:

	2003	2004	**2005**
Outstanding at beginning of year	1,448,720	1,389,880	**195,030**
Granted	113,200	–	**–**
Exercised	(144,000)	(1,155,972)	**(141,740)**
Forfeited	(28,040)	(38,878)	**–**
Outstanding at end of year	1,389,880	195,030	**53,290**
Vested and exercisable at end of year	1,114,680	66,529	**53,290**

On April 15, 2003, the Company adopted a new 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, 2005, 587,694 options were outstanding under the 2003 Option Plan.

The following table summarizes the Company's share option activity under the 2003 Option Plan as of and for the years ended December 31:

	2003	2004	**2005**
Outstanding at beginning of year	–	977,440	**933,047**
Granted	980,640	257,600	**–**
Exercised	–	(234,177)	**(330,829)**
Forfeited	(3,200)	(67,816)	**(14,524)**
Outstanding at end of year	977,440	933,047	**587,694**
Vested and exercisable at end of year	–	90,303	**374,831**

On November 5, 2004, the board of directors adopted a 2005 Employee's Stock Option Plan ("2005 Option Plan"), which will cover the Company's option issuances during the period from 2005 to 2009. 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, 2005, 1,761,180 options were outstanding under the 2005 Option Plan.

(Amounts expressed in RMB unless otherwise stated)

13. SHARE OPTION PLAN *(Continued)*

The following table summarizes the Company's share option activity under the 2005 Option Plan as of and for the year ended 2005:

	2005
Outstanding at beginning of year	–
Granted	1,813,580
Exercised	–
Forfeited	(52,400)
Outstanding at end of year	1,761,180
Vested and exercisable at end of year	324,524

The following is additional information relating to options outstanding as of December 31, 2005:

	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	362,616	1.9133	2.2133	315,081	1.8836	2.2077
$5.00-$7.49	90,350	6.5001	2.8333	42,757	6.5821	2.8333
$7.50-$9.99	21,498	7.6500	2.8750	11,289	7.6500	2.8750
$10.00-$16.99	166,520	13.3079	3.4781	58,994	13.0598	3.4576
$17.00-$22.99	1,005,080	19.5998	4.1306	303,488	19.5468	4.1164
$22.99-$26.99	756,100	26.2250	4.9167	21,036	26.2250	4.9167
	2,402,164			752,645		

In connection with the share options granted, the Company recognized deferred share-based compensation amounted to RMB3, 917,947 for 2003 and zero for both 2004 and 2005. Deferred share-based compensation is being amortized over the vesting period of three years. Share-based compensation expense recognized during the years ended December 31, 2003, 2004 and 2005, amounted to RMB1,583,409, RMB 1,958,022 and RMB 1,776,852, respectively.

14. 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 RMB4,973,561, RMB11,818,432 and RMB19,204,326 for the years ended December 31, 2003, 2004 and 2005, respectively. The PRC government is responsible for the medical benefits and ultimate pension liability to these employees.

(Amounts expressed in RMB unless otherwise stated)

15. RELATED PARTY TRANSACTIONS

During the years ended December 31, significant related party transactions are as follows:

	2003 RMB	2004 RMB	2005 RMB
Air-ticketing service fees from Beijing Chenhao (Note a)	1,358,612	–	–
Packaged-tour service fees from Shanghai Huacheng (Note a)	140,000	–	–
Advertising service fees from Shanghai Ctrip Commerce (Note a)	678,502	–	–
Commission income from Home Inns Hong Kong and its affiliates	622,452	489,432	512,724
Sales and marketing expense to Home Inns Hong Kong and its affiliates	160,000	–	–
Rental expense to a related party	500,000	500,000	550,000

(Note a) Prior to the adoption of FIN 46 in July 2003, Beijing Chenhao, Shanghai Huacheng and Shanghai Ctrip Commerce were considered related parties as these VIEs were owned by directors and senior executives of the Company. Upon the adoption of FIN 46, these VIEs are included in the consolidated financial statements of the Company.

As of December 31, significant balances with related parties are as follows:

	2004 RMB	2005 RMB
Due from related parties:		
Due from Home Inns Hong Kong and its affiliates	59,252	**602,043**
Long-term loans to related parties:		
– Senior executives	500,000	**–**
Due to related parties:		
Advance from a director for stock option	2,677,668	**1,238,683**
Due to other related parties	701,312	**1,090,472**
	3,378,980	**2,329,155**

The amounts due from and due to related parties as of December 31, 2004 and 2005 primarily resulted from the transactions disclosed above and revenue received and expenses paid on behalf on each other. They are unsecured, interest-free and have no fixed repayment terms.

The long-term loans to related parties as of December 31, 2004 represented loan granted to two senior executives for the purpose of establishing a VIE. However, the VIE was subsequently de-registered and the full amount was subsequently repaid to the Group.

In 2003, a director made payment of RMB4,018,284 to the Company for early exercise of his options issued under the 2003 Option Plan to purchase 230,000 ordinary shares. In connection with the early exercise, the Company has a call option to repurchase the shares that are not yet vested if the employee terminates prior to the option's vesting at the original exercise price. As the early exercise of the options is not considered a substantial exercise for accounting purposes, the cash paid for the exercise price is recognized as a liability, which is reduced when options are exercised and such ordinary shares are not considered issued.

(Amounts expressed in RMB unless otherwise stated)

16. OTHER PAYABLES AND ACCRUALS

Components of other payables and accruals as of December 31 are as follows:

	2004	2005
	RMB	RMB
Deposits received from suppliers	1,349,962	3,576,335
Accrued operating expenses	8,376,133	12,727,320
Accrued for outstanding land use right fees	–	25,000,000
Deferred revenue	–	160,000
Others	1,029,695	1,551,255
Total	10,755,790	43,014,910

17. EARNINGS PER SHARE

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

	2003	2004	2005
	RMB	RMB	RMB
Numerator:			
Net income	53,813,515	133,126,290	224,245,824
Accretion for Series B Redeemable Convertible Preferred Shares	(12,365,534)	–	–
Dividends to holders of Series A and Series B Convertible Preferred Shares for spin-off of joint venture companies	(2,829,064)	–	–
Deemed dividends upon repurchase of Preferred Shares	(35,336,150)	–	–
Amount allocated to participating preference shareholders	(1,909,600)	–	–
Numerator for basic earnings per ordinary share and numerator for diluted earnings per ordinary share	1,373,167	133,126,290	224,245,824
Denominator:			
Denominator for basic earnings per ordinary share – weighted average ordinary shares outstanding	10,605,957	30,712,466	31,762,419
Dilutive effect of share options	1,706,250	792,236	678,712
Denominator for diluted earnings per ordinary share	12,312,207	31,504,702	32,441,131
Basic earnings per ordinary share	0.13	4.33	7.06
Diluted earnings per ordinary share	0.11	4.23	6.91

(Amounts expressed in RMB unless otherwise stated)

17. EARNINGS PER SHARE *(Continued)*

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 03-06, "Participating Securities and the Two-Class Method under FASB Statement No. 128" ("EITF No. 03-06"). EITF No. 03-06 provides guidance regarding the computation of earnings per share by companies that have issued securities other than common share that entitle the holder to participate in dividends and earnings of the company. In addition, EITF No. 03-06 provides guidance on what constitutes a participating security and requires the application of the two-class method in determining earnings per share. EITF No. 03-06 became effective in the quarter ended June 30, 2004. EITF No. 03-06 requires prior period earnings per share amounts to be restated to conform to the consensus to ensure comparability on a period-over-period basis. Accordingly, the Group has applied EITF No. 03-06 to all years presented in the consolidated financial statements and adjusted the earnings per ordinary share as previously stated. Basic earnings per ordinary share and diluted earning per ordinary share reported in the Company 2003 annual report for year 2003 were 0.31 and 0.23 respectively. Earnings per ordinary share for year 2004 and 2005 are in compliance with EITF No. 03-06.

18. 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. Future minimum lease payments for non-cancelable operating leases at December 31 are as follows:

	Office premises
	RMB
2006	8,685,251
2007	2,553,315
2008	426,806
2009	284,538
	11,949,910

Rental expense amounted to RMB3,505,259, RMB6,269,028 and RMB9,498,348 for the years ended December 31, 2003, 2004 and 2005, respectively. Rental expense is charged to the statements of income when incurred.

18. COMMITMENTS AND CONTINGENCIES *(Continued)*

Capital commitments

As of December 31, 2005, the Company had outstanding purchase commitments totaling RMB122,343,922, most of which is related to the construction of the aforementioned new information and technology center and purchase of call center equipment.

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, 2005, the amount under these guarantee arrangements was approximately RMB180 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 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.

19. SUBSEQUENT EVENTS

On March 12, 2006, our wholly-owned subsidiary C-Travel International, Ltd., a Cayman Island company ("C-Travel"), formed a strategic alliance with ezTravel Co., Ltd., a leading online travel service provider in Taiwan that offers both individual and group tours in addition to hotel and airline tickets reservation services ("ezTravel"), by taking a minority interest in ezTravel. The transaction has been approved by the Boards of Directors of both C-Travel and ezTravel. Closing of the transaction is subject to the customary closing conditions. This transaction has not had, and is not expected to have, a material effect on the Company's financial condition or results of operations.

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. ADSs and per ADS amount in this annual report have been retroactively adjusted to reflect the change in ratio for all periods presented.

Corporate Information

CORPORATE OFFICERS

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

DIRECTORS

Mr. JP Gan	Chief Financial Officer Kong Zhong Corporation
Mr. Qi Ji	Chief Executive Officer Powerhill Holdings Ltd.
Mr. Gabriel Li	Managing Director Orchid Asia Group Management Co., LLC.
Mr. James Jianzhang Liang	Chairman of the Board Ctrip.com International Ltd.
Mr. Neil Nanpeng Shen	Managing Director Sequoia Capital China Advisors (Hong Kong) Ltd.
Mr. Robert Stein	A Member of the Managing Board WestLB AG
Mr. Yoshihisa Yamada	Senior Executive Officer and Director Rakuten Inc.
Mr. Suyang Zhang	Vice President IDG Technology Venture Investment Inc.

CORPORATE HEADQUARTER

3F, Building 63-64, No. 421 Hong Cao Road
Shanghai 200233, People's Republic of China
Tel.: (86 21) 3406 4880

THE DEPOSITARY OF ADS

The Bank of New York

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

3F, Building 63-64, No. 421 Hong Cao Road
Shanghai 200233, People's Republic of China
Tel.: (86 21) 3406 4880 X 12216
http://ir.ctrip.com

Shanghai

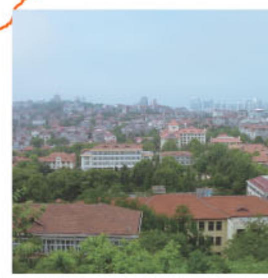
Beijing

Chengdu

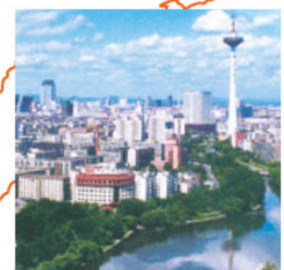
Guangzhou

ctrip.com
携程旅行网

Hong Kong



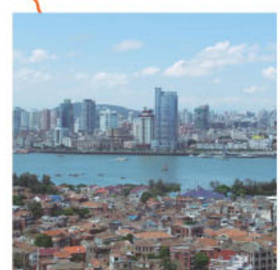
Qingdao



Shenyang

Shenzhen

Wuhan



Xiamen

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 · Bangkok · Boston · Frankfurt · London · Melbourne
Now 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 · Nanning · Zhengzhou · Haikou · Guilin
Kunming · Shijiazhuang · Huhehaote · Taiyuan · Guiyang...

ctrip.com
携程旅行网

http://english.ctrip.com
http://www.ctrip.com

CORPORATE HEADQUARTER
3F, Building 63-64, No. 421 Hong Cao Road, Shanghai 200233,
People's Republic of China

BRANCH OFFICES

- Hong Kong
  Unit 2001, The Centrium, 60 Wyndham Street, Central,
  Hong Kong
- Beijing
  6F-G, Office Tower A, East Gate Plaza, No. 9 Dongzhong Street,
  Dongcheng District, Beijing 100027, People's Republic of China
- Guangzhou
  24F, West Tower, Fortune Plaza, No. 116-118 East Tiyu Road,
  Guangzhou 510620, People's Republic of China
- Shenzhen
  30AH, Building A, World Finance Center, No. 4003 East Shennan Road,
  Shenzhen 518003, People's Republic of China
- Chengdu
  Room B6, 20/F, Times Digital Building, No. 1, South Renmin Road Section 4,
  Chengdu 600041, People's Republic of China
- Xiamen
  14C, International Trade Building, No. 388 South Hubin Road,
  Xiamen 361006, People's Republic of China
- Qingdao
  Room 603, Building G3, Software Park, No. 288 Ningxia Road,
  Qingdao 266071, People's Republic of China
- Wuhan
  Room 305, Zhaoyin Mansion, No. 518 Jianshe Ave,
  Wuhan 430023, People's Republic of China
- Shenyang
  Room 1402, Sino-Korea Center, No. 124 Huigong Street,
  Shenhe District, Shenyang 110013, People's Republic of China