
ctrip.com
携程旅行网
Ctrip.com International, Ltd.
Annual Report 2004

ctrip.com
携程旅行网

Our Service Philosophy

Convenient 便捷

Thorough 周全

Reliable 可靠

Intimate 亲切

Professional 专业

Sincere 真诚

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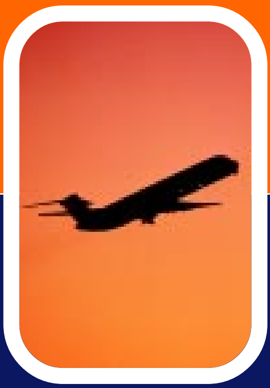
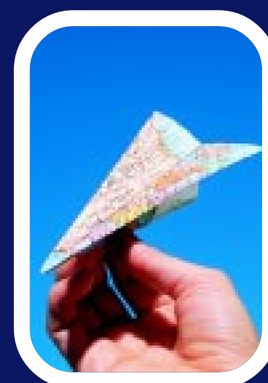


CORPORATE PROFILE



Ctrip.com International, Ltd. is a leading consolidator of hotel accommodations and airline tickets in China. Ctrip aggregates information on hotels and flights and enable customers to make informed and cost-effective hotel and flight bookings. Ctrip targets primarily business and leisure travelers in China who do not travel in group. These travelers form a traditionally under-served yet fast-growing segment of the China travel industry. 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 Hong Kong, Beijing, Guangzhou and Shenzhen. The company also maintains a network of sales offices in about 37 cities in China.

We strive to create long-term shareholder value by enhancing our unique industy position.

CEO'S STATEMENT

James Jianzhang Liang

Chairman and CEO
Ctrip.com International, Ltd.

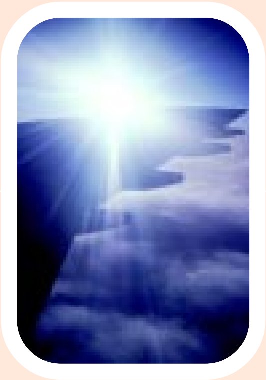
In 2004, business and leisure travel in China flourished, reflecting the Chinese economy's continued expansion. Ctrip's record results over the past year demonstrate our remarkable achievements in this vibrant environment. We have focused on our commitment to providing independent travelers in China with superb services, thereby providing shareholders with strong financial returns. Our net revenues nearly doubled, while our net income for 2004 more than doubled that of 2003, and financial results are only one aspect of our success story.

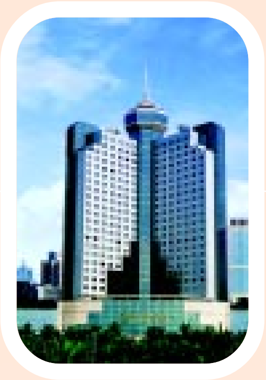
TURNING VISION INTO REALITY

Ctrip was founded to cater to the emerging independent travel market in China, one that has been significantly underserved in the past. Ctrip has come to dominate this market by providing customers with a user-friendly and dependable service that has prompted them to come back to Ctrip repeatedly.

This past year, we spent considerable time and effort in improving and fine-tuning Ctrip's systems and platforms to guarantee an outstanding user experience. We have strived to create a seamless flow of intuitive and

Our net revenues nearly doubled, while our net income for 2004 more than doubled that of 2003, and financial results are only one aspect of our success story.



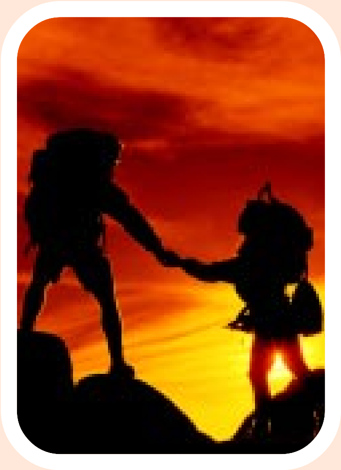


convenient travel services, including disseminating travel information, planning trips, booking and paying for hotels, airline tickets and packaged-tour products, as well as creating an online travel community. We continue to anticipate future travel trends and to introduce new destinations and new partnerships into our business. In addition, we have applied the Six-Sigma methodology for solving problems and developing creative, workable solutions on all three of our business platforms.

KEEPING THE MOMENTUM GOING

Ctrip's achievements this past year were boosted by our Nasdaq listing in December 2003, an event that has greatly raised Ctrip's public profile, both in China and abroad. Building on this increased public recognition, we have developed a series of efficient marketing campaigns designed to both retain existing customers and to attract new customers. The public's high level of awareness of the Ctrip brand has led to strong growth in "natural customers" – customers who are attracted to Ctrip by reputation or word-of-mouth. Strong repeat business demonstrates that we are enjoying a high level of customer loyalty.

We have expanded marketing alliances with leading consumer brands in China over the course of the past year. For example, in September 2004, Ctrip and China Merchants Bank jointly launched China's first dual-currency (RMB and USD) travel credit card. Designed as a tailor-made solution for business travelers, the card makes paying for travel services fast, easy and convenient. For Ctrip, this alliance with China Merchants Bank has become a highly effective channel for reaching new customers.



Going forward, we will be exploring new destinations, both domestic and overseas, that we believe will be popular with independent travalers.

Besides broadening our domestic supplier network and increasing our proportion of guaranteed inventory at many domestic hotels, we have also entered into alliances with prominent international players like Pegasus Solutions and CNG Travel Group. These alliances enable us to offer our fast-growing customer base wider global product choices, and have positioned us well for further growth in our outbound travel business. In the coming year, we will be exploring new destinations, both domestic and overseas, that we believe will be popular with independent travelers. In Hong Kong, we are establishing a distribution relationship with Hong Kong Disneyland, a much-awaited destination for many mainland China travelers. We will also start to offer a variety of European tour packages in the second half of 2005.

I would like to thank all of our customers, suppliers and partners for their continued support over the past year. I would also like to thank our board of directors for the guidance it has provided. Finally, special thanks are due to Ctrip's committed and hard-working staff, who contributed in large part to our success. With these high levels of continuing support, I am confident that Ctrip's achievements in the coming year will outstrip even the past year's excellent results.

James Jianzhang Liang
Chairman and CEO
Ctrip.com International, Ltd.

CFO'S STATEMENT

Neil Nanpeng Shen

President and CFO
Ctrip.com International, Ltd.

Ctrip enjoyed a particularly successful year in 2004, benefiting from immense demand for business and leisure travel across China. We experienced strong growth in all three main businesses – hotel reservations, air-ticketing and packaged tours – and we were able to outperform our competitors to a greater extent. We increased our market share significantly, building on the advantages offered by advanced technology, an extensive supplier network and infrastructure that provides nationwide coverage. Our scalable platform has also proved its effectiveness, enabling us to maximize profitability while never compromising on service quality.

Our net revenue for 2004 rose to US$40.3 million from US$20.9 million for 2003, a strong result even taking into account the effects of the 2003 SARS outbreak. Meanwhile, net income rose to US$16.1 million from US$6.5 million in 2003, demonstrating the scalabity of our business. While our gross margin remained stable at around 85%, our operating margin rose again year-on-year, reaching 41% from 34% in 2003. Ctrip's rise in business volume led to the generation of strong cash flow, with cash flow from operating activities amounting to US$19.5 million over the year and resulting in an end-of-year cash balance of US$74.4 million. As a result of this strong financial performance, the shareholders and directors have approved distribution of 30% of Ctrip's 2004 net income as dividends to shareholders.

HOTEL RESERVATION BUSINESS

Our hotel booking business continued to enjoy very strong growth throughout the year. Revenues from hotel reservations rose by 80% over 2003, to US$33.4 million, reflecting approximately 4.2 million hotel room nights booked through Ctrip.

Ctrip experienced strong growth in all its three main businesses, benefiting from immense demand for business and leisure travel across China.

AIR-TICKETING BUSINESS

We began investing in the air-ticketing business significantly in early 2002 and have since reaped strong returns – air-ticketing revenues as a percentage of Ctrip's total revenues increased from 11% in 2003 to 18% in 2004. The 2004 air-ticketing revenue of US$7.6 million represented a 210% increase over the 2003 revenue, and the actual number of air tickets sold nearly tripled from approximately 600,000 in 2003 to approximately 1.7 million in 2004.

PACKAGED-TOUR BUSINESS

Ctrip's packaged-tour business, our most recently launched business line, has become a key contributor to growth since beginning operation in 2003. Although there are many packaged-tour operators in China, almost all of them focus exclusively on traditional guided tours. Our packaged-tour business is one of the few in the country catering to independent travelers, especially middle- and high-end clientele. This business showed promising development in 2004, and it is now the fastest-growing segment amongst our businesses. Revenues from our packaged-tour business for 2004 amounted to US$1.3 million, a 119% increase over 2003, representing 3% of Ctrip's total 2004 revenues.

We are in a unique position to tap the potential of the dynamic and fast-growing independent travel industry in China.

PROSPECTS

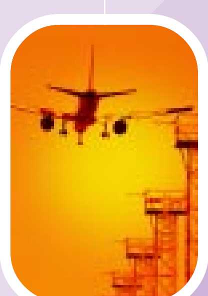
I am confident that the travel industry in China will continue to perform well in the coming year, and I believe that we are in a unique position to benefit from this trend by leveraging the Ctrip brand. To manage our expected growth in years to come and to further enhance our transaction platform and service infrastructure, we plan to build a new information and technology center in Shanghai's Hong Qiao Lin Kong Economic Development Park. We estimate that our total aggregate investment in this project will range between approximately US$19 million and US$20 million from 2005 until completion of construction around mid-2007.

We will also continue to run efficient sales and marketing campaigns to enhance our brand recognition and augment our customer base. These campaigns will benefit from our ongoing drive to expand our supply networks, especially for our fast-growing packaged-tour business. Ctrip is thus strategically positioning itself to tap the potential of the dynamic and fast-growing independent travel industry in China. By doing this, I am confident that Ctrip will continue to generate shareholder value, both next year and in years to come.

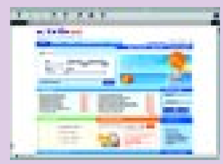
Neil Nanpeng Shen
President and CFO
Ctrip.com International, Ltd.

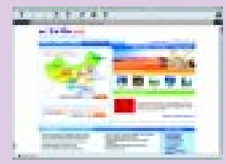
CORPORATE MILESTONES

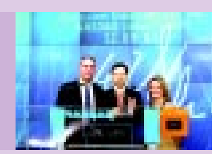
www.ctrip.com



YEAR	ACHIEVEMENTS
June 1999	Company founded with headquarter in Shanghai
October 1999	Official launch of Website: www.ctrip.com
October 2000	Acquired Beijing Modern Express Business Travel Services Co. Ltd.
February 2002	Acquired the air-ticketing business of Beijing Hai'an Air-ticketing Service Company Ltd.
March 2002	First profitable quarter Monthly room night bookings exceeded 100,000
August 2003	Spun off Home Inns & Hotel Management (Hong Kong) Limited, a former hotel management subsidiary of Ctrip
December 2003	IPO on NASDAQ Monthly air ticket bookings of nearly 100,000
June 2004	Rakuten, Inc., a leading Japanese e-commerce company listed on the JASDAQ market, purchased approximately 20% of Ctrip's outstanding shares on a fully diluted basis from existing ordinary shareholders in a private transaction
November 2004	Approved the first dividend as a public company (30% of annual earnings)
December 2004	Cumulative effective customers exceeded 1 million Monthly room night bookings of approximately 400,000 Monthly air ticket bookings of approximately 180,000



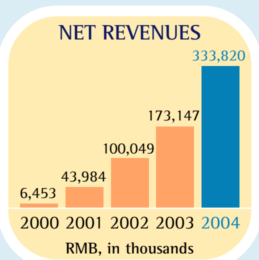


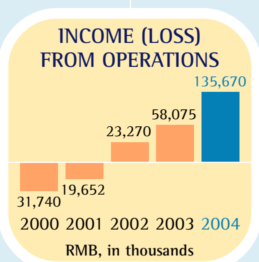


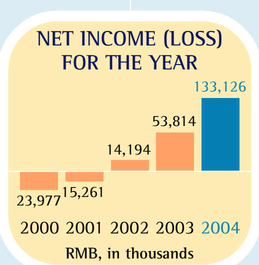
We target primarily business and leisure travelers in China who do not travel in group.

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" included in this report. The selected consolidated statement of operations data for the years ended December 31, 2002, 2003 and 2004 and the selected consolidated balance sheet data as of December 31, 2003 and 2004 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 year ended December 31, 2001 and the selected consolidated balance sheet data as of December 31, 2001 and 2002 have been derived from our audited consolidated financial statements, which are not included in this annual report. The selected consolidated statement of operations data for the year ended and the selected consolidated balance sheet data as of December 31, 2000 are derived from our unaudited consolidated financial statements. We have prepared the unaudited information on the same basis as the audited consolidated financial statements, and have included, in our opinion, all adjustments, consisting only of normal and recurring adjustments that we consider necessary for a fair presentation of the financial information set forth in those statements.







	For the Year Ended December 31,					
	2000	2001	2002	2003	2004	2004
	RMB (unaudited)	RMB	RMB	RMB	RMB	US$[2]
	(in thousands, except for per share and per ADS data)					
Consolidated Statement of Operation Data:						
Net revenues	6,453	43,984	100,049	173,147	333,820	40,333
Cost of services	(1,950)	(7,940)	(13,673)	(25,654)	(48,475)	(5,857)
Gross profit	4,503	36,044	86,376	147,492	285,345	34,477
Operating expenses						
Product development	(6,817)	(7,759)	(13,365)	(20,684)	(37,959)	(4,586)
Sales and marketing	(17,378)	(30,359)	(32,308)	(47,571)	(72,863)	(8,803)
General and administrative	(11,677)	(14,814)	(15,702)	(19,191)	(36,401)	(4,398)
Share-based compensation[1]	–	(22)	(462)	(1,583)	(1,958)	(237)
Amortization of goodwill and other intangible assets	(371)	(1,807)	(353)	(388)	(493)	(60)
Other expenses incurred for joint venture companies	–	(935)	(915)	–	–	–
Total operating expenses	(36,243)	(55,696)	(63,105)	(89,417)	(149,675)	(18,084)
Income (loss) from operations	(31,740)	(19,652)	23,270	58,075	135,670	16,392
Net interest income and other income	675	2,049	1,293	5,494	10,012	1,210
Income (loss) before income tax benefit (expense), minority interests and share of income (loss) of joint venture companies	(31,065)	(17,603)	24,563	63,569	145,682	17,602
Income tax benefit (expense)	7,088	2,342	(10,043)	(10,249)	(12,517)	(1,512)
Minority interests	–	–	71	(79)	(39)	(5)
Share of income (loss) of joint venture companies	–	–	(398)	573	–	–
Net income (loss) for the year	(23,977)	(15,261)	14,194	53,814	133,126	16,085
Earnings Per Share and Per ADS Data:						
Accretion for Series B preferred shares	(2,196)	(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)	–	–
Net income (loss) attributable to ordinary shareholders	(26,173)	(29,577)	(19,061)	3,283	133,126	16,085
Earnings (loss) per share, basic	(3.03)	(3.26)	(2.00)	0.13	4.33	0.52
Earnings (loss) per share, diluted	(3.03)	(3.26)	(2.00)	0.11	4.23	0.51
Earnings (loss) per ADS[4], basic	(6.06)	(6.52)	(4.00)	0.26	8.66	1.05
Earnings (loss) per ADS[4], diluted	(6.06)	(6.52)	(4.00)	0.22	8.46	1.02
Cash dividends per share[5]	–	–	1.11	–	–	–

	As of December 31,					
	2000	2001	2002	2003	2004	2004
	RMB (unaudited)	RMB	RMB	RMB	RMB	US$
			(in thousands)			
Consolidated Balance Sheet Data:						
Cash	88,908	42,464	38,931	471,969	615,875	74,413
Other current assets	3,343	45,932	20,580	37,223	54,991	6,644
Non-current assets	25,639	20,529	37,744	48,013	69,851	8,440
Total assets	117,890	108,925	97,255	557,205	740,718	89,496
Current liabilities	9,736	12,962	13,093	63,917	138,744	16,764
Minority interests	–	–	828	564	603	73
Series B preferred shares[6]	94,154	108,470	124,963	–	–	–
Total shareholders' equity (deficit)	14,000	(12,507)	(41,629)	492,724	601,371	72,660

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

	For the Year Ended December 31,					
	2000	*2001*	*2002*	*2003*	*2004*	*2004*
	RMB (unaudited)	*RMB*	*RMB*	*RMB*	*RMB*	*US$*
			(in thousands)			
Product development	–	5	131	411	550	67
Sales and marketing	–	1	27	136	188	23
General and administrative	–	16	304	1,036	1,220	147
	–	22	462	1,583	1,958	237

(2) Translation from RMB amounts into U.S. dollars was made at a rate of RMB8.2765 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 and 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 RMB1,782,559, RMB808,827 and RMB2,020,237, respectively.

(4) Each ADS represents two ordinary shares.

(5) The dividends recognized represent dividends totaling RMB27.3 million distributed out of our reserves in December 2002 to holders of ordinary shares, Series A preferred shares and Series B preferred shares on a pro rata as-converted basis. Dividends per share were calculated on the basis of 24,630,891 ordinary shares on an as-converted basis.

(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 2004 at US$1.00 : RMB8.2765, which was the noon buying rate in effect as of December 31, 2004. The prevailing rate at June 17, 2005 was US$1.00 : RMB8.2765. 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 Chinese 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.

Our business is primarily conducted in China in RMB.

	Noon Buying Rate			
Period	Period End	Average[1]	Low	High
	(RMB per US$1.00)			
2000	8.2774	8.2784	8.2799	8.2768
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
December	8.2765	8.2765	8.2767	8.2765
2005				
January	8.2765	8.2765	8.2765	8.2765
February	8.2765	8.2765	8.2765	8.2765
March	8.2765	8.2765	8.2765	8.2765
April	8.2765	8.2765	8.2765	8.2765
May	8.2765	8.2765	8.2765	8.2765
June (through June 17)	8.2765	8.2765	8.2765	8.2765

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 can be identified by terminology such as "will", "expects", "anticipates", "future", "intends", "plans", "believes", "estimates" and similar statements, statements that are not historical facts, including statement about Ctrip's beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties and the company's actual results could differ materially from those contained in any forward-looking statement. 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, and registration statements on Form F-1 and F-2, as amended. 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.

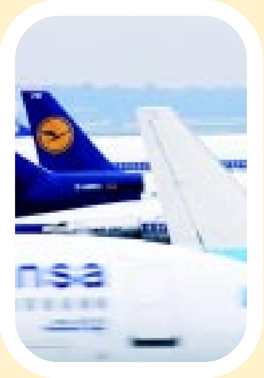
In 2004, we derived 78.0%, 17.8% and 3.0% of our revenues from our hotel reservation, air-ticketing and packaged-tour businesses, respectively.

Major Factors Affecting the Travel Industry

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

Growth in the Overall Economy and Demand for Travel Services in China. We expect that our financial results will continue to be affected by the overall growth of the economy and demand for travel services in China. According to the 2004 China Statistical Yearbook and the 2004 National Economic and Social Development Statistical Communiqué published by the National Bureau of Statistics, the gross domestic product, or GDP, of China grew from RMB8.9 trillion (US$1.1 trillion) in 2000 to RMB13.7 trillion (US$1.7 trillion) in 2004, representing a compound annual growth rate of 11.4%. GDP per capita in the same period rose from RMB7,086 (US$856) to RMB10,561 (US$1,276), representing a 10.5% compound annual growth rate. This growth led to a significant increase in the demand for travel services. According to the 2004 China Statistical Yearbook and the 2004 National Economic and Social Development Statistical Communiqué published by the National Bureau of Statistics, domestic tourism spending grew from RMB317.5 billion (US$38.4 billion) in 2000 to RMB471.1 billion (US$56.9 billion) in 2004, representing a compound annual growth of 10.4%. We anticipate that demand for travel services in China will continue to increase substantially in the foreseeable future as the economy in China continues to grow.

Seasonality in the Travel Service Industry. The travel service industry is characterized by seasonal fluctuations and accordingly our revenues may vary from quarter to quarter. To date, the third quarter of each year generally contributes the highest portion of our total



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.

revenues for the year, mainly because it coincides with the peak business and leisure travel season. The first quarter of each year generally contributes the smallest portion of our total revenues for the year due to reduced business activity during the Chinese New Year holiday. 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.

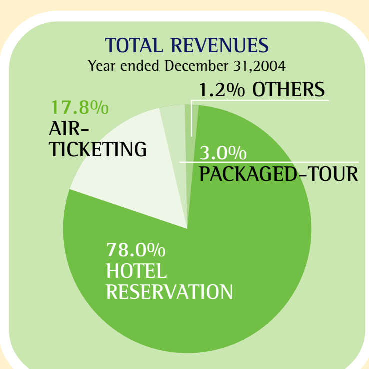
Major Factors Affecting Our Results of Operations

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 RMB354.0 million (US$42.8 million) in 2004, representing a compound annual growth rate of 167.6%.

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.

We generate our revenues primarily from the hotel reservation and air-ticketing businesses.



	Year Ended December 31, 2002	2003	2004
Revenues:			
Hotel reservation	91.9%	84.0%	**78.0%**
Air-ticketing	5.3	11.1	**17.8**
Packaged-tour*	0.4	2.6	**3.0**
Others	2.4	2.3	**1.2**
Total revenues	100.0%	100.0%	**100.0%**

* *Certain of our packaged-tour revenues in 2003 and 2004 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 " – Affiliated Chinese Entities" for a description of our relationship with these entities.

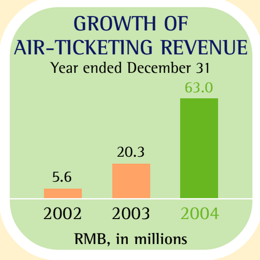
Hotel Reservation. Revenues from our hotel reservation business have been our primary source of revenue since our inception. In 2002, 2003 and 2004, revenues from our hotel reservation business accounted for RMB96.8 million, RMB153.4 million and RMB276.0 million (US$33.4 million), respectively, or 91.9%, 84.0% and 78.0%, 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 checked into the hotel. While we generally agree in advance on fixed commissions with a particular hotel, we also enter into a commission arrangement with many of our hotel suppliers that we refer to as the "ratchet system." Under the ratchet system, our commission per room night for a given hotel increases for the month if we sell in excess of a pre-agreed number of room nights with such hotel within the month.

Air-Ticketing. Since early 2002, the air-ticketing business has been growing rapidly. In 2002, 2003 and 2004, revenues from our air-ticketing business accounted for RMB5.6 million, RMB20.3 million and RMB63.0 million (US$7.6 million), respectively, or 5.3%, 11.1% and 17.8%, respectively, of our revenues.

We conduct our air-ticketing business through Beijing Ctrip, Shanghai Huacheng, Guangzhou Guangcheng and Shenzhen Shencheng, all of which are our affiliated entities, as well as a network of independent air-ticketing service companies. Currently, we recognize revenue when a ticket is issued and delivered by one of our affiliated entities. Prior to July 1, 2003, when we charged Beijing Ctrip and Shanghai Huacheng in accordance with our contractual arrangements with them, we recognized the amount of such charge as revenue from our air-ticketing business. We generally receive a higher commission rate per ticket as the total number of tickets we sell for an airline increases, subject to any applicable regulatory restrictions.

Packaged-tour. Our packaged-tour business has grown rapidly in the past three years. In 2002, 2003 and 2004, revenues from our packaged-tour business accounted for RMB0.4 million, RMB4.8 million and RMB10.5 million (US$1.3 million). We conduct our packaged-tour business mainly through Shanghai Huacheng and Shanghai Ctrip Charming, an entity we acquired in the fourth quarter of 2003. Currently, Shanghai Huacheng and Shanghai Ctrip Charming receive referral fees from travel suppliers for packaged-tour products and services 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. Prior to July 1, 2003, however, when we charged Shanghai Huacheng in accordance with our contractual arrangements with it, we recognized the amount of such charge as revenue from our packaged-tour business.

Other Businesses. Our other business lines primarily consist of advertising services 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 currently conduct the advertising business through Ctrip Commerce, and we recognize revenue when Ctrip Commerce renders advertising services. Prior to July 1, 2003, however, we recognized our advertising revenue when we charged Ctrip Commerce in accordance with our contractual arrangements with it. We recognize revenue from sales of our VIP membership cards when they are sold to customers.

We believe our relatively low ratio of cost of services to revenues is primarily due to competitive labor costs in China and relatively high efficiency of our customer service system.

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 57.0%, 61.1% and 63.4% of our cost of services in 2002, 2003 and 2004, respectively. Telecommunication expenses accounted for 30.5%, 26.5% and 19.8% of our cost of services in 2002, 2003 and 2004, respectively.

Cost of services accounted for 13.7%, 14.8% and 14.5% of our net revenues in 2002, 2003 and 2004, respectively. We believe our relatively low ratio of cost of services to revenues is primarily due to competitive labor costs in China and relatively 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.

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, 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 have declined over the past three years due to our more effective and focused marketing efforts.

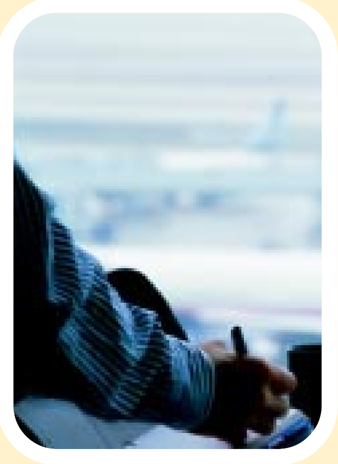
General and administrative expenses consist primarily of payroll compensation, benefits and travel expenses for our administrative staff, administrative office expenses, as well as professional service fees. General and administrative expenses as a percentage of net revenues have decreased over the past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

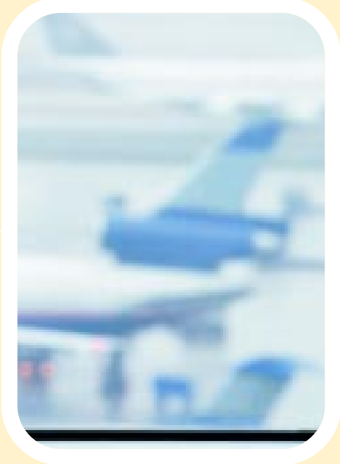
Share-based compensation is the difference, if any, between the estimated fair value of our ordinary shares and the amount an employee is required to pay to acquire the shares, as determined on the date the share option is granted. We amortize share-based compensation and charge it to expense over the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

Income Taxes and Financial Subsidies

Income Taxes. Pursuant to the applicable tax laws in China, companies established in China are generally subject to the state enterprise income tax, or EIT, at a statutory rate of 33%. 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. In addition, our subsidiary Ctrip Travel Information is currently entitled to a 15% EIT rate due to its registration in the Pudong Economic Development Zone, which rate is further reduced by 50% for each of the years from 2005 to 2007 because it has been classified as a “software enterprise.” Ctrip Travel Information’s qualification as a “software enterprise” is subject to annual re-assessment by relevant government authorities.

Financial Subsidies. In 2002, 2003 and 2004, our subsidiaries in China received business tax rebates in the form of financial subsidies from the government authorities in Shanghai in the amount of RMB783,900, RMB4,991,204 and RMB6,165,086 (US$744,890), respectively, which we recorded as other income. We cannot assure you, however, that our subsidiaries will continue to receive such business tax rebates or other financial subsidies in the future.

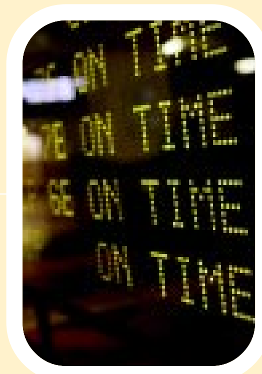




Critical Accounting Policies

We prepare financial statements in conformity with U.S. GAAP, which require 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 experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which 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 Note 21 to 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 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 2002, 2003 and 2004, we did not recognize any impairment charges for goodwill, intangible assets or long-lived assets. 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 have a customer reward program as described in Note 2k to our consolidated financial statements included elsewhere in this annual report. Provisions of the customer reward program allow 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, 2003 and 2004, our provisions for the customer reward program were RMB4,708,670 and RMB10,462,103 (US$1,264,073), 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 work with leading brands in China to reach new customers.

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 No. 25, the intrinsic value approach, with the required disclosures under the related accounting guidance described in Note 2p to our consolidated financial statements included elsewhere in this annual report. For 2002, 2003 and 2004, we recognized share-based compensation under the share option plans in the amounts of RMB462,140, RMB1,583,409 and RMB1,958,022 (US$236,576), respectively. While we believe that the share-based compensation we recognized for the plans under Accounting Principles Board Opinion 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. In December 2004, FASB issued FASB Statement No. 123(R), Share-Based Payment, which requires a public company to recognize, as an expense, the fair value of share options and other share-based compensation to employees at the beginning of the first annual period after June 15, 2005 based on the vesting terms of the share-based awards. Currently, we record 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 could have ongoing accounting charges significantly greater than those we would have recorded under our current method of accounting for share options.

Loans to Directors and Officers. We make certain long-term loans to a director and two senior executives of our company for the purpose of establishing and/or acquiring several affiliated Chinese entities, which are used to facilitate our air-ticketing, packaged-tour, Internet content provision and advertising services, where foreign ownership is restricted. To the extent losses are incurred by these affiliated entities, we accrue for such losses by recording valuation allowances against the long-term loans to the director and senior executives. For 2002, 2003 and 2004, we did not record any valuation allowances for losses incurred by our affiliated Chinese entities. To the extent that the Chinese regulations change or the business conditions of these affiliated entities deteriorate, valuation allowances may be required. For more information about these loans, see "Major Shareholders and Related Party Transactions."

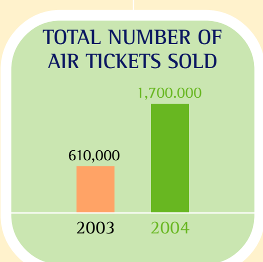
Deferred Tax Valuation Allowances. We have not recorded any valuation allowances to reduce our deferred tax assets, as we believe that our deferred tax asset amounts are more than likely to be realized based on our estimate of future taxable income and prudent and feasible tax planning strategies. As of December 31, 2003 and 2004, we recorded deferred tax assets of RMB541,300 and RMB1,009,403 (US$121,960), respectively. In 2002, we utilized deferred tax assets of RMB9,244,836, accumulated from our operations during prior years, primarily relating to net operating losses carry-forwards. 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 RMB and as a percentage of net revenues.

	Year Ended December 31, 2002		2003		2004	
	RMB (in thousands)	%	RMB (in thousands)	%	RMB (in thousands)	%
Revenues:						
Hotel reservation	96,763	96.7	153,389	88.6	276,043	82.7
Airline ticketing	5,600	5.6	20,323	11.7	63,006	18.9
Packaged-tour*	432	0.4	4,789	2.8	10,480	3.1
Others	2,517	2.5	4,178	2.4	4,501	1.3
Less: Business tax and related surcharges	(5,264)	(5.2)	(9,532)	(5.5)	(20,209)	(6.1)
Net revenues	100,049	100.0	173,147	100.0	333,820	100.0
Cost of services	(13,673)	(13.7)	(25,654)	(14.8)	(48,475)	(14.5)
Gross profit	86,376	86.3	147,492	85.2	285,345	85.5
Operating expenses:						
Product development	(13,365)	(13.4)	(20,684)	(11.9)	(37,959)	(11.4)
Sales and marketing	(32,308)	(32.2)	(47,571)	(27.5)	(72,863)	(21.8)
General and administrative	(15,702)	(15.7)	(19,191)	(11.1)	(36,401)	(10.9)
Share-based compensation	(462)	(0.5)	(1,583)	(0.9)	(1,958)	(0.6)
Amortization of goodwill and other intangible assets	(353)	(0.3)	(388)	(0.2)	(493)	(0.1)
Other expenses incurred for joint venture companies	(915)	(0.9)	–	–	–	–
Total operating expenses	(63,105)	(63.0)	(89,417)	(51.6)	(149,675)	(44.8)
Income (Loss) from operations	23,270	23.3	58,075	33.5	135,670	40.6
Interest income	319	0.3	401	0.2	5,543	1.7
Interest expense on short-term bank loan	(41)	(0.0)	–	–	–	–
Other income (expense)	1,015	1.0	5,093	2.9	4,470	1.3
Income (Loss) before income tax benefit (expense), minority interests and share of loss in joint venture companies	24,563	24.6	63,569	36.7	145,682	43.6
Income tax benefit (expense)	(10,043)	(10.0)	(10,249)	(5.9)	(12,517)	(3.7)
Minority interests	71	0.0	(79)	(0.0)	(39)	(0.0)
Share of income (loss) of joint venture companies	(398)	(0.4)	573	0.3	–	–
Net income (loss) for the period	14,194	14.2	53,814	31.1	133,126	39.9

* *Certain of our packaged-tour revenues in 2003 and 2004 were booked on a gross basis. See "—Major Factors Affecting Our Results of Operations – Revenues – Packaged-tour."*



2004 compared to 2003

Revenues

We had revenues of 354.0 million (US$42.8 million) in 2004, an increase of 93.8% over RMB182.7 million. 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 79.9% to RMB276.0 million (US$33.4 million) in 2004 from RMB153.4 million in 2003, primarily as a result of the continued rapid growth in our hotel room nights sales volume, and to a lesser extent, 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 above 4.2 million compared to above 2.4 million in 2003.

Air Ticketing. Revenues from our air ticketing business increased substantially by 210.3% to 63.0 million (US$7.6 million) in 2004 from RMB20.3 million (US$2.5 million) in 2003, primarily due to strong growth of air tickets sales volume as we continued to expand our air ticketing capabilities significantly, and to a lesser extent, 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 about 1.7 million, compared to about 610,000 in 2003.

Packaged-tour. Packaged-tour revenues increased substantially from RMB4.8 million in 2003 to RMB 10.5 million (US$1.3 million) in 2004, an increase of 118.8% as we continued growing our packaged-tour business. See " – Recognition of Packaged-tour Revenues."

Other businesses. Revenues from other businesses increased by 7.7% from RMB4.2 million in 2003 to RMB4.5 million (US$543,792) in 2004, primarily due to increased sales of our advertising service and special marketing alliance projects in 2004.

Net Revenues

Our net revenues increased by 92.8% from RMB173.1 million in 2003 to RMB333.8 million (US$40.3 million) in 2004 as a result of our increased revenues in all of our businesses, partially offset by the resulting increase in business tax and related surcharges.

Cost of Services

Cost of services in 2004 increased by 88.8% to RMB48.5 million (US$5.9 million) from RMB25.7 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 67.4% to RMB149.7 million (US$18.1 million) from RMB89.4 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 51.6% in 2003 to 44.8% in 2004 as a result of our scalable and profitable business platform.

Product Development. Product development expenses increased by 83.6% to RMB38.0 million (US$4.6 million) in 2004 from RMB20.7 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 departments.

Sales and Marketing. Sales and marketing expenses increased by 53.2% to RMB72.9 million (US$8.8 million) in 2004 from RMB47.6 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 89.6% to RMB36.4 million (US$4.4 million) in 2004 from RMB19.2 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 25.0% to RMB2.0 million (US$236,576) 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.

Amortization of Goodwill and Other Intangible Assets. Amortization expenses increased by 27.0% to RMB0.49 million (US$59,554) in 2004 from RMB0.39 million in 2003, primarily due to amortization expenses related to our acquisition of Shanghai Ctrip Charming in September 2003.

Our VIP membership cards allow card holders to enjoy certain priority in obtaining our services and receive discounts from various restaurants and shops.

Interest Income. Interest income increased tremendously to RMB5.5 million (US$669,670) in 2004 from RMB400,557 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 decreased by 11.8% to RMB4.5 million (US$540,080) in 2004 from RMB5.1 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 RMB12.5 million (US$1.5 million) in 2004, an increase of 22.5% over RMB10.2 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.

Net Income

Net income increased by 147.4% to RMB133.1 million (US$16.0 million) in 2004 from RMB53.8 million in 2003, as a result of the factors discussed above.

2003 compared to 2002

Revenues

We had revenues of RMB182.7 million in 2003, an increase of 73.5% over RMB105.3 million in 2002. This revenue growth was principally driven by the substantial volume growth in hotel room nights booked and air tickets sold in 2003.

Hotel Reservation. Revenues from our hotel reservation business increased by 58.5% to RMB153.4 million in 2003 from RMB96.8 million in 2002, 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 2003 was above 2.4 million, compared to above 1.6 million in 2002.

Air Ticketing. Revenues from our air ticketing business increased substantially by 262.9% to RMB20.3 million in 2003 from RMB5.6 million in 2002, primarily due to strong growth of air tickets sales volume as we expand our air ticketing capabilities significantly and an increase in the average commission per air ticket sold between these two years. The total number of air tickets sold in 2003 was about 610,000, compared to about 80,000 in 2002.

Packaged-tour. Packaged-tour revenues increased substantially from RMB0.4 million in 2002 to RMB4.8 million in 2003 as we started to make inroads into the packaged-tour business and some of the packaged-tour revenues in 2003 in the amount of RMB 3.9 million were booked on a gross basis as a result of our packaged-tour services provided by Shanghai Ctrip Charming and Shanghai Huacheng in 2003. See " – Major Factors Affecting Our Results of Operations – Revenues – Packaged-tour."

Other businesses. Revenues from other businesses increased by 66.0% from RMB2.5 million in 2002 to RMB4.2 million in 2003, primarily due to the increased sales of our advertising services and VIP membership cards in 2003.

Net Revenues

Our net revenues increased from RMB100.0 million in 2002 to RMB173.1 million in 2003 as a result of our increased revenues in all of our business lines, partially offset by the resulting increase in business tax and related surcharges.

Cost of Services

Cost of services in 2003 increased by 87.6% to RMB25.7 million from RMB13.7 million in 2002. 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 2003 increased by 41.7% to RMB89.4 million from RMB63.1 million in 2002, primarily due to a significant increase in product development expenses as well as sales and marketing expenses. However, operating expenses as a percentage of net revenues decreased from 63.0% in 2002 to 51.6% in 2003 as a result of our scalable and profitable business platform. This business platform provides us with a high degree of operational leverage, which enhances our profitability and makes us more resilient in managing industry downturns. Even during the SARS period in the second quarter of 2003, despite revenues being down by 42% from the first quarter of 2003, we still managed to have almost breakeven operating income.

Product Development. Product development expenses increased by 54.8% to RMB20.7 million in 2003 from RMB13.4 million in 2002, primarily due to the hiring of additional staff to expand our travel supplier network.

Sales and Marketing. Sales and marketing expenses increased by 47.2% to RMB47.6 million in 2003 from RMB32.3 million in 2002, primarily because of increased expenses in connection with our increased salary and benefit expenses for sales and marketing staff, our customer reward program, production of marketing material, as well as commission expenses paid to our business partners.

General and Administrative. General and administrative expenses increased by 22.2% to RMB19.2 million in 2003 from RMB15.7 million in 2002, primarily due to increased salary and benefits associated with hiring of additional general and administrative staff.

Share-based Compensation. Share-based compensation increased substantially to RMB1.6 million in 2003 from RMB0.5 million in 2002, due to the issuance of additional share options in 2003.

Amortization of Goodwill and Other Intangible Assets. Amortization expenses increased by 9.9% to RMB388,156 in 2003 from RMB353,241 in 2002. This increase was mainly due to amortization expenses of intangible assets in connection with our acquisition of Shanghai Ctrip Charming in September 2003.

Interest Income and Expenses. Interest income increased to RMB400,557 in 2003 from RMB319,230 in 2002 because of the increase in our bank deposits. We incurred no interest expenses in 2003 as we did not have any bank loan in 2003.

Other Income. Other income increased substantially to RMB5.1 million in 2003 from RMB1.0 million in 2002, because we received more financial subsidies including certain special subsidies granted for entities impacted by SARS from the government authorities in Shanghai in 2003.

Income Tax Expense. Income tax expense was RMB10.2 million in 2003, which was nearly unchanged from 2002, primarily because Ctrip Computer Technology received approval from the relevant government authorities in Shanghai to enjoy a preferential EIT rate of 15% for 2003. Ctrip Travel Information, which was established in early 2003, is also entitled to a preferential EIT rate of 15%.

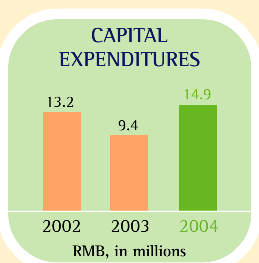
Net Income

Net income increased by 279.1% to RMB53.8 million in 2003 from RMB14.2 million in 2002, primarily due to an increase in income from operations, supplemented by a more favorable EIT rate in 2003.

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, 2002	2003	2004	2004
	RMB	RMB	RMB	US$
		(in thousands)		
Net cash provided by (used in) operating activities	23,427	74,143	161,500	19,513
Net cash provided by (used in) investing activities	3,427	(12,188)	(13,089)	(1,582)
Net cash provided by (used in) financing activities	(30,425)	369,609	(4,311)	(521)
Net increase (decrease) in cash and cash equivalents	(3,532)	433,038	143,907	17,387
Cash and cash equivalents at beginning of year	42,464	38,931	471,969	57,025
Cash and cash equivalents at end of year	38,931	471,969	615,875	74,413



Net cash provided by operating activities was RMB161.5 million (US$19.5 million) in 2004 compared to RMB74.1 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 RMB13.1 million (US$1.6 million) in 2004, compared to net cash used in investing activities of RMB12.2 million in 2003. This change was due to our purchase of additional servers, workstations, computers, computer software and other items related to our network infrastructure in 2004.

Net cash used in financing activities amounted to RMB4.3 million (US$0.5 million) in 2004, compared to net cash provided by financing activities of RMB 369.6 million in 2003. This change is primarily attributable to the facts that we received RMB368.7 million net proceeds from our initial public offering in 2003 and paid the expenses related thereto in 2004, partly offset by the proceeds we received in connection with employee share option exercises 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 2002, 2003 and 2004 consisted of purchases of servers, workstations, computers, computer software, and other items related to our network infrastructure for a total of approximately RMB13.2 million, RMB9.4 million and RMB14.9million (US$1.8 million), respectively. Our capital expenditures in 2002 included RMB7.2 million we spent to purchase part of our premises in Shanghai.

Our capital expenditure plans for 2005 have not yet been fixed, but we expect to spend approximately RMB66.2 million (US$8.0 million), primarily for purchases of additional information technology-related equipment and software and also in connection with our February 2005 acquisition of land use rights for approximately 16,670 square meters of land in the Shanghai Hong Qiao Lin Kong Economic Development Park. 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 range from approximately US$19 million to US$20 million to be paid over the period from 2005 until the completion of the construction of the new premises, which is expected to be around mid-2007. Capital expenditures in 2005 have been, and are expected to continue to be, funded through operating cash flows and through our existing capital resources.

As of December 31, 2004, our primary source of liquidity was RMB615.9 million (US$74.4 million) of cash. 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

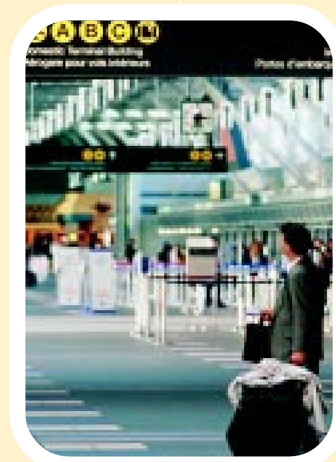
Our research and development efforts consist of continuing to develop our proprietary technology as well as incorporating new technologies from third parties. We intend to continue to upgrade our proprietary booking, customer relationship management and yield management software to keep up with the continued 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, 2002 to December 31, 2004 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. OFF-BALANCE SHEET ARRANGEMENTS

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



Capital expenditures in 2005 have been, and are expected to continue to be, funded through operating cash flows and through our existing capital resources.

F. CONTRACTUAL OBLIGATIONS

We have entered into leasing arrangements relating to office premises, equipment and others that are classified as operating leases. The following sets forth our commitments under operating leases as of December 31, 2004:

	Office Premises	Equipment and Others	Total
	(in RMB thousands)		
Less than 1 year	4,306	9,418	13,724
1 – 3 years	3,624	1,553	5,177
3 – 5 years	–	676	676
More than 5 years	–	–	–

Other than the leasing obligations set forth above, we do not have any long-term commitments.

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. 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, including rent for our Hong Kong office and salaries of employees located in Hong Kong, 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 appreciation of the RMB against the U.S. dollar could 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 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 shares that entitle the holder to participate in dividends and earnings of the company. In addition, EITF No. 03-06 provides further 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 is effective for the quarter ending June 30, 2004. The Company has adopted EITF No. 03-06 for the year ended December 31, 2004 and has retroactively applied the consensus in determining the earnings per share for year ended December 31, 2002 and 2003 (see Note 18).

In March 2004, the EITF reached a consensus on Issue No. 03-01 "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF No. 03-01"). EITF No. 03-01 provides recognition and measurement guidance on the meaning of other-than-temporary impairment and its application to certain investments carried at cost, including investments in marketable securities accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Additionally, EITF No. 03-01 provides disclosure requirements of the investor when determining if an investment is impaired. The recognition and measurement guidance in EITF No. 03-01 has been postponed but the disclosure requirement under the EITF are effective for financial statements for 2004. The adoption of the recognition and measurement requirements of EITF No. 03-01 will not have a material effect on the Company's financial position or results of operations.

In June 2004, the EITF reached a consensus on Issue No. 02-14 "Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means" ("EITF No. 02-14"). EITF No. 02-14 provides guidance that an investor should only apply the equity method of accounting when it has investments in either common stock or in-substance common stock of a corporation, provided that the investor has the ability to exercise significant influence over the operating and financial policies of the investee. The EITF defined in-substance common stock as an investment that has risk and reward characteristics that are substantially similar to common stock. EITF No. 02-14 is effective for reporting periods beginning after September 15, 2004. The adoption of EITF No. 02-14 will not have a material effect on the Company's historical financial position or results of operations.

In September 2004, the EITF reached a consensus on Issue No. 04-01 "Accounting for Pre-existing Relationships between the Parties to a Business Combination" ("EITF No. 04-01") and states that the consummation of a business combination between two parties that have a pre-existing contractual relationship should be evaluated to determine if a settlement of the pre-existing contractual relationship occurred. Additionally, the EITF provides guidance on the measurement and recognition of the pre-existing relationship. The provisions of EITF No. 04-01 are applicable to business combinations completed in reporting periods after October 13, 2004. The adoption of EITF No. 04-01 did not have a material effect on the Company's financial position or results of operations.

On December 15, 2004, the FASB issued Statement No. 153, "Exchanges of Non monetary Assets, an amendment of APB Opinion No. 29" (SFAS No. 153). SFAS No. 153 requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. SFAS No. 153 is effective for non monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of SFAS No. 153 to have a material impact on the Company's financial position or results of operation.

In December 2004, the FASB issued its final standard on "Accounting for Share-Based Compensation", FASB Statement No. 123R (revised 2004), Share-Based Compensation ("SFAS 123R"), which requires public companies to expense the value of employee share options and similar awards. This Statement supersedes APB No. 25. Under SFAS123R, share-based compensation will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest.

SFAS 123R is effective for public companies for annual periods beginning after June 15, 2005 and applies to all outstanding and unvested share-based payment awards at a company's adoption date. Under SFAS 123R, the Company could select from three transition methods: (1) The modified prospective method, where the expenses related to unvested but still outstanding options as calculated under the original SFAS 123 be charged to expense without any change in measurement (2) A variation of the modified prospective method, where in addition to (1), it allow restatement for prior interim periods using its prior SFAS 123 pro forma disclosure amounts; and (3) The modified retrospective method, where all prior period financial statements are retroactively restated based on pro forma disclosures as calculated under the original SFAS 123R. All options issued after adoption of SFAS 123R should be accounted for under that standard. The Company plans to adopt SFAS 123R beginning January 1, 2006, with no restatement of interim periods or annual periods prior to the effective date. Upon adoption, the Company will recognize share-based compensation relating to the unvested portion of the outstanding grants based on the fair value of the options as determined under SFAS No. 123 as disclosed in Note 2(19). New options to be issued after the effective date will be recognized based on the provisions of SFAS 123R.

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, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 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, People's Republic of China
February 21, 2005

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the years ended December 31, 2002, 2003 and 2004

	Note	2002	2003	2004	2004
		RMB	RMB	RMB	US$ (Note 2d)
Revenues:					
Hotel reservation		96,762,837	153,388,686	276,042,944	33,352,618
Air-ticketing		5,600,241	20,322,986	63,005,651	7,612,596
Packaged tour		432,295	4,788,727	10,479,780	1,266,209
Others		2,517,316	4,178,419	4,500,698	543,792
Total revenues		105,312,689	182,678,818	354,029,073	42,775,215
Less: business tax and related surcharges		(5,264,035)	(9,532,290)	(20,208,996)	(2,441,732)
Net revenues		100,048,654	173,146,528	333,820,077	40,333,483
Cost of services		(13,673,013)	(25,654,057)	(48,475,283)	(5,856,979)
Gross profit		86,375,641	147,492,471	285,344,794	34,476,504
Operating expenses:					
Product development		(13,364,920)	(20,683,821)	(37,959,208)	(4,586,384)
Sales and marketing		(32,308,004)	(47,571,050)	(72,863,325)	(8,803,640)
General and administrative		(15,702,137)	(19,190,803)	(36,401,461)	(4,398,171)
Share-based compensation*	11	(462,140)	(1,583,409)	(1,958,022)	(236,576)
Amortization of other intangible assets		(353,241)	(388,156)	(492,900)	(59,554)
Other expenses incurred for joint venture companies		(915,056)	–	–	–
Total operating expenses		(63,105,498)	(89,417,239)	(149,674,916)	(18,084,325)
Income from operations		23,270,143	58,075,232	135,669,878	16,392,179
Interest income		319,230	400,557	5,542,520	669,670
Interest expense		(41,261)	–	–	–
Other income		1,014,872	5,093,203	4,469,974	540,080
Income before income tax expense, minority interests and share of income (loss) of joint venture companies		24,562,984	63,568,992	145,682,372	17,601,929
Income tax expense	7	(10,042,624)	(10,249,404)	(12,517,121)	(1,512,369)
Minority interests		70,997	(79,496)	(38,961)	(4,707)
Share of income (loss) of joint venture companies		(397,824)	573,423	–	–
Net income for the year		14,193,533	53,813,515	133,126,290	16,084,853

	Note	2002	2003	2004	2004
		RMB	RMB	RMB	US$ (Note 2d)
Accretion for Series B Redeemable Convertible Preferred Shares		(16,492,526)	(12,365,534)	–	–
Dividends to holders of Series A and Series B Preferred Shares		(16,762,322)	–	–	–
Deemed dividends to holders of Series A and Series B Preferred Shares for spin-off of joint venture companies	2u	–	(2,829,064)	–	–
Deemed dividends upon repurchase of Preferred Shares	10	–	(35,336,150)	–	–
Amount allocated to participating preference shareholders		–	(1,909,600)	–	–
Net income (loss) attributable to ordinary shareholders	15	(19,061,315)	1,373,167	**133,126,290**	**16,084,853**
Other comprehensive income:					
Translation adjustments		38,904	1,474,545	**193,673**	**23,400**
Comprehensive income		14,232,437	55,288,060	**133,319,963**	**16,108,253**
Earnings (loss) per share	15				
– Basic		(2.00)	0.13	**4.33**	**0.52**
– Diluted		(2.00)	0.11	**4.23**	**0.51**
Earnings (loss) per ADS					
– Basic		(4.00)	0.26	**8.66**	**1.05**
– Diluted		(4.00)	0.22	**8.46**	**1.02**
Weighted average ordinary shares outstanding	15				
– Basic		9,520,698	10,605,957	**30,712,466**	**30,712,466**
– Diluted		9,520,698	12,312,207	**31,504,702**	**31,504,702**
* Share-based compensation was related to the associated operating expense categories as follows:					
Product development		(131,163)	(411,359)	**(550,573)**	**(66,522)**
Sales and marketing		(27,109)	(136,189)	**(187,850)**	**(22,697)**
General and administrative		(303,868)	(1,035,861)	**(1,219,599)**	**(147,357)**
		(462,140)	(1,583,409)	**(1,958,022)**	**(236,576)**

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

CONSOLIDATED BALANCE SHEETS

As of December 31, 2003 and 2004

	Note	2003	2004	2004
		RMB	RMB	US$ (Note 2d)
ASSETS				
Current assets:				
Cash	2e	471,968,850	615,875,363	74,412,537
Accounts receivable		28,939,700	35,418,477	4,279,403
Due from related parties	13	611,640	59,252	7,159
Prepayments and other current assets	4	7,130,947	18,503,778	2,235,701
Deferred tax assets, current	7	541,300	1,009,403	121,960
Total current assets		509,192,437	670,866,273	81,056,760
Long-term loans to related parties	13	2,310,000	500,000	60,412
Long-term deposits		11,192,277	26,715,547	3,227,880
Property, equipment and software	5	23,279,247	31,897,651	3,854,002
Goodwill	6	9,515,849	9,515,849	1,149,743
Other intangible assets	6	1,715,253	1,222,353	147,690
Total assets		557,205,063	740,717,673	89,496,487
LIABILITIES				
Current liabilities:				
Accounts payable		14,694,057	30,150,303	3,642,881
Due to a related party	13	4,018,284	3,378,980	408,262
Salary and welfare payable		9,799,711	14,110,730	1,704,915
Taxes payable		9,270,024	23,421,257	2,829,850
Advances from customers		3,839,843	6,526,639	788,575
Provisions for customer reward program	2k	4,708,670	10,462,103	1,264,073
Dividend payable	2u	–	39,937,887	4,825,456
Other payables and accruals	14	17,586,657	10,755,790	1,299,559
Total current liabilities		63,917,246	138,743,689	16,763,571
Minority interests		563,655	602,616	72,810
Commitments and contingencies	16	–	–	–
Shareholders' equity				
Share capital (US$0.01 par value; 40,000,000 shares authorized, 30,174,891 shares issued and outstanding as of December 31, 2003; 31,565,040 shares issued and outstanding as of December 31, 2004)		2,498,484	2,613,542	315,779
Additional paid-in capital		498,566,368	511,367,287	61,785,451
Statutory reserves	2t	5,531,309	19,256,862	2,326,691
Deferred share-based compensation	11	(4,995,407)	(2,258,908)	(272,930)
Cumulative translation adjustments		1,575,733	1,382,060	166,986
Retained earnings (accumulated deficit)		(10,452,325)	69,010,525	8,338,129
Total shareholders' equity		492,724,162	601,371,368	72,660,106
Total liabilities and shareholders' equity		557,205,063	740,717,673	89,496,487

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 2002, 2003 and 2004

	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 January 1, 2002	9,520,698	788,314	4,320,000	357,696	–	–	–	–	26,621,353	–	(96,263)	62,284	(40,240,574)	(12,507,190)
Accretion for Series B Redeemable Convertible Preferred Shares	–	–	–	–	–	–	–	–	(16,492,526)	–	–	–	–	(16,492,526)
Deferred share-based compensation	–	–	–	–	–	–	–	–	1,443,337	–	(981,197)	–	–	462,140
Dividends to shareholders	–	–	–	–	–	–	–	–	(11,572,164)	–	–	–	(15,751,832)	(27,323,996)
Translation adjustments	–	–	–	–	–	–	–	–	–	–	–	38,904	–	38,904
Net income	–	–	–	–	–	–	–	–	–	–	–	–	14,193,533	14,193,533
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

	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	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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2002, 2003 and 2004

	2002	2003	2004	2004
	RMB	RMB	RMB	US$ (Note 2d)
Cash flows from operating activities:				
Net income for the year	14,193,533	53,813,515	133,126,290	16,084,853
Adjustments for:				
Share-based compensation costs	462,140	1,583,409	1,958,022	236,576
Depreciation and amortization of property, equipment and software	3,233,381	5,132,258	6,280,931	758,887
Minority interests	(70,997)	79,496	38,961	4,707
Amortization of other intangible assets	353,241	388,156	492,900	59,554
Share of loss of joint venture companies	397,824	(573,423)	–	–
Appropriations to statutory reserves	–	41,499	–	–
Increase in accounts receivable	(6,600,241)	(14,970,300)	(6,478,777)	(782,792)
(Increase) decrease in due from related parties	(2,610,807)	3,612,838	552,388	66,742
(Increase) decrease in prepayments and other current assets	489,415	(3,460,993)	(5,676,788)	(685,893)
(Increase) decrease in long-term deposits	(630,929)	(9,859,821)	(15,523,270)	(1,875,584)
(Increase) decrease in deferred tax assets	9,244,836	51,843	(468,103)	(56,558)
Increase in accounts payable	1,245,705	13,692,698	15,456,246	1,867,487
Increase (decrease) in due to related parties	(556,705)	2,767,422	(639,304)	(77,243)
Increase (decrease) in salary and welfare payable	(397,500)	7,417,997	4,311,020	520,875
Increase in taxes payable	1,231,439	7,332,438	14,092,163	1,702,672
Increase in advances from customers	1,633,100	1,948,349	2,686,796	324,629
Increase in provisions for customer reward program	1,385,877	2,411,267	5,753,433	695,153
Increase in other payables and accruals	423,510	2,734,001	5,537,317	669,041
Net cash provided by operating activities	23,426,822	74,142,649	161,500,225	19,513,106
Cash flows from investing activities:				
Proceeds from disposal of equity interest in a former subsidiary	–	199,962	–	–
Purchase of property, equipment and software	(13,202,907)	(9,378,182)	(14,899,334)	(1,800,198)
Purchase of intangible assets	–	(1,010,638)	–	–
(Increase) Decrease in long-term loans to related parties	(100,000)	(210,000)	1,810,000	218,692
(Increase) decrease in restricted short-term investment	24,829,800	–	–	–
Decrease in cash arising from deconsolidation of a former subsidiary	–	(1,789,594)	–	–
Purchase of a business	(2,600,000)	–	–	–
Investments in joint venture companies	(5,500,000)	–	–	–
Net cash provided by (used in) investing activities	3,426,893	(12,188,452)	(13,089,334)	(1,581,506)

	2002	2003	2004	2004
	RMB	RMB	RMB	US$ (Note 2d)
Cash flows from financing activities:				
Repayment of short-term bank loan	(4,000,000)	–	–	–
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	966,401
Repurchase of ordinary and Series A and B Convertible Preferred Shares	–	(82,800,000)	–	(1,487,238)
Cash received by a subsidiary on issuance of ordinary shares from minority shareholders	898,958	–	–	–
Dividends paid	(27,323,996)	–	–	–
Net cash provided by (used in) financing activities	(30,425,038)	369,608,990	(4,310,705)	(520,837)
Effect of foreign exchange rate changes on cash	38,904	1,474,545	193,673	23,400
Net (decrease) increase in cash	(3,532,419)	433,037,732	143,906,513	17,387,363
Cash, beginning of year	42,463,537	38,931,118	471,968,850	57,025,174
Cash, end of year	38,931,118	471,968,850	615,875,363	74,412,537
Supplemental disclosure of cash flow information				
Cash paid during the year for income taxes	–	5,903,981	12,757,167	1,541,372
Cash paid during the year for interest expense	41,261	–	–	–
Supplemental schedule of non-cash investing and financing activities:	–	(12,309,120)	–	–

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 2u).

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 represents 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

a. 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.

b. 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. Investments in joint venture companies are accounted for by the equity method. The Company's share of income (loss) of the joint venture companies is included in the consolidated statements of income and comprehensive income.

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)*

b. Consolidation *(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 Chenhao Xingye Air Ticketing Service Co., Ltd. ("Beijing Chenhao")	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 Guangcheng Commercial Service Co., Ltd. ("Guangzhou Guangcheng")	Established on April 28, 2003
Shanghai Ctrip Charming International Travel Service 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 (Note 2c). 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. Upon consolidation, there were no material differences between the carrying value (as defined in FIN 46) added to the balance sheet and the previously recognized long-term loan balances.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

c. Variable interest entities

As of December 31, 2004, the Company conducts a part of its operations through a series of agreements with certain VIEs as stated in Note 2b 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 are 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, 2004 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, 2004 is RMB3,000,000.

Beijing Chenhao is a domestic company incorporated in Beijing, the PRC. Beijing Chenhao holds an air transport sales 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 Chenhao. The registered capital of Beijing Chenhao as of December 31, 2004 is RMB2,000,000.

Guangzhou Guangcheng is a domestic company incorporated in Guangzhou, the PRC. Guangzhou Guangcheng holds air transport sales 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 Guangcheng. The registered capital of Guangzhou Guangcheng as of December 31, 2004 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, 2004 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, 2004 is RMB1,500,000.

The capital injected by the director or senior executives are funded by the Company and were recorded as long-term 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, 2004, 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)*

c. 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. Those service fees are recognized as revenues prior to adoption of FIN 46. Upon adoption of FIN 46, the service fees are eliminated upon consolidation.

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 Loan Agreements will be cancelled.

d. Foreign currencies

The Company's functional currency is Renminbi ("RMB"). Transactions denominated in currencies other than RMB are translated into RMB 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 and comprehensive income. Monetary assets and liabilities denominated in foreign currencies are translated into RMB 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 and comprehensive income. The exchange differences for the translation of group companies balances where RMB is not their functional currency 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$1.00 = RMB8.2765, on December 31, 2004, representing the noon buying rate in the City of New York for cable transfers of RMB, as certified for customs purposes by the Federal Reserve Bank of New York. No representation is intended to imply that the RMB amounts could have been, or could be, converted, realized or settled into US$ at that rate on December 31, 2004, or at any other rate.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

e. Cash

Cash represents cash on hand and demand deposits placed with banks or other financial institutions. Included in the cash balance as of December 31, 2003 and 2004 are amounts denominated in US$ amounted to US$46,165,668 and US$47,011,358, respectively (equivalent to approximately RMB382, 099,384 and RMB389,089,504, respectively).

f. 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

g. Goodwill and other intangible assets

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 141 – "*Business Combination*" ("SFAS No. 141") and SFAS No. 142 – "*Goodwill and Other Intangible Assets*" ("SFAS No. 142"). 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. 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.

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, 2002, 2003 and 2004.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

h. Impairment of long-lived assets

Prior to January 1, 2002, the Group evaluated the recoverability of long-lived assets in accordance with SFAS No. 121 – "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of*". As of 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, 2002, 2003 and 2004.

i. Long-term loans to related parties

Long-term loans to related parties were made to a director and 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 loans to related parties. Upon adoption of FIN 46, the VIEs are consolidated and our long-term loans to the related parties are eliminated upon consolidation.

j. Financial instruments

Financial instruments of the Group primarily comprise of cash, 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, 2003 and 2004, their carrying value approximated their fair value.

k. Provisions for customer reward program

The Group invites its customers to 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 comprehensive 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, 2003 and 2004, the Group made provisions of RMB4,708,670 and RMB10,462,103, respectively, based on the estimated liabilities under the customer reward program.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

l. Revenue recognition

The Group conducts its principal businesses primarily through Ctrip Computer Technology and Ctrip Travel Information. Some of the operations of Ctrip Computer Technology are conducted through a series of services and other agreements with the VIEs.

Ctrip Computer Technology, Ctrip Travel Information and the VIEs are subject to business tax and related surcharges on the services provided in the PRC. Such tax is levied based on gross revenues at the applicable rate of approximately 5.5%. In the statements of income and comprehensive income, business tax and related surcharges are deducted from gross revenues to arrive at net revenues.

Hotel reservation services

The Group receives commissions from travel suppliers for hotel room reservations through the Group's transaction and service platform. Commissions from hotel reservation services rendered are recognized after hotel customers have completed their stay at the applicable hotel and upon confirmation of pending payment of the commissions by the hotel. Contracts with certain travel suppliers contain incentive commissions typically subject to achieving specific performance targets and such incentive commissions are recognized when it is reasonably assured that the Group is entitled to such incentive commissions. The Group generally receives incentive commissions from monthly arrangements with hotels based on the number of hotel room reservations where customers have completed their stay. The Group presents revenues from such transactions on a net basis in the statements of income and comprehensive 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 and delivered to customers. The Group presents revenues from such transactions on a net basis in the statements of income and comprehensive 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 at net commission after the packaged-tour products and services are sold and rendered.

Shanghai Huacheng and Shanghai Ctrip Charming conduct domestic and cross-border travel tour services. Revenues, mainly referral fees, are recognized at net commission 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 receive from customers after the services are rendered.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

l. 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.

m. Cost of services

Cost of services consists primarily of payroll compensation, telecommunication expenses, 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.

n. 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. Since the inception of the Group, the amount of costs qualifying for capitalization has been immaterial and as a result, all website and software development costs have been expensed as incurred.

o. 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 RMB4,949,206, RMB5,245,937 and RMB10,648,334 for the years ended December 31, 2002, 2003 and 2004, respectively, are charged to the statements of income and comprehensive income when incurred.

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

p. 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 (loss) attributable to ordinary shareholders and earnings (loss) per share would have resulted in the pro forma amounts disclosed below:

	2002	2003	2004
	RMB	RMB	RMB
Net income (loss) attributable to ordinary shareholders as reported	(19,061,315)	1,373,167	**133,126,290**
Add: Compensation expense under APB No. 25	462,140	1,583,409	**1,958,022**
Less: Compensation expense under SFAS No. 123	(528,074)	(2,172,399)	**(5,720,437)**
Pro forma net income (loss) attributable to ordinary shareholders	(19,127,249)	784,177	**129,363,875**
Basic earnings (loss) per share			
– As reported	(2.00)	0.13	**4.33**
– Pro forma	(2.01)	0.07	**4.21**
Diluted earnings (loss) per share			
– As reported	(2.00)	0.11	**4.23**
– Pro forma	(2.01)	0.06	**4.11**

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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

q. 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 and comprehensive income on a straight-line basis over the lease periods.

r. 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.

s. Other income

Other income primarily consists of financial subsidies insurance sales income and credit card processing fee. During the year ended December 31, 2002, 2003 and 2004, the Group received financial subsidies amounted to RMB783,900, RMB4,991,204 and RMB6,165,086, respective, from local PRC government authority. Such amounts were recorded as other income in the statement of income and comprehensive 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.

t. Statutory reserves

The Company's PRC subsidiaries and the VIEs are required to allocate at least 10% of their after-tax profit according 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 and staff welfare and bonus fund are at the discretion of the board of directors of Ctrip Computer Technology and Ctrip Travel Information, 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, 2002, 2003 and 2004, appropriations to statutory reserves have been made of nil, RMB5,531,309 and RMB13,725,553, respectively.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

u. 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 and the VIE subsidiaries can only distribute dividends after they have met the PRC requirements for appropriation to statutory reserves (Note 2(t)). Additionally, as the Company does not have any direct ownership in the VIE subsidiaries, the VIE subsidiaries cannot directly distribute dividend to the Company.

Aggregate net assets of all of the Group's PRC subsidiaries and VIE subsidiaries not distributable in the form of dividends to the parent as a result of the aforesaid PRC regulation and the Company's organizational structure were RMB128 million and 261 million as of December 31, 2003 and 2004, respectively. However, the Group's PRC subsidiaries or VIE subsidiaries may transfer such net assets to the Company or its shareholders by other means, including through royalty and trademark license agreements or certain other contractual arrangements, at the discretion of the Company without third party consent.

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 of record as of December 31, 2004 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.

v. Earnings (loss) 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 (loss) per share is computed by dividing net income (loss) 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 8 – 10) are participating securities. Diluted earnings (loss) per share is calculated by dividing net income (loss) 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).

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

w. Segment reporting

The Company follows SFAS No. 131 – "*Disclosures about Segment of an Enterprise and Related Information*".

The Company operates and manages its business as a single segment. The Company primarily generates its revenues from customers in China. Accordingly, no geographical segments are presented.

x. Recent accounting pronouncements

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 shares that entitle the holder to participate in dividends and earnings of the company. In addition, EITF No. 03-06 provides further 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 is effective for the quarter ending June 30, 2004. The Company has adopted EITF No. 03-06 for the year ended December 31, 2004 and has retroactively applied the consensus in determining the earnings per share for years ended December 31, 2002 and 2003 (see Note 15).

In March 2004, the EITF reached a consensus on Issue No. 03-01 "*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*" ("EITF No. 03-01"). EITF No. 03-01 provides recognition and measurement guidance on the meaning of other-than-temporary impairment and its application to certain investments carried at cost, including investments in marketable securities accounted for under SFAS No. 115, "*Accounting for Certain Investments in Debt and Equity Securities*". Additionally, EITF No. 03-01 provides disclosure requirements of the investor when determining if an investment is impaired. The recognition and measurement guidance in EITF No. 03-01 has been postponed but the disclosure requirement under the EITF are effective for financial statements for 2004. The adoption of the recognition and measurement requirements of EITF No. 03-01 will not have a material effect on the Company's financial position or results of operations.

In June 2004, the EITF reached a consensus on Issue No. 02-14 "*Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means*" ("EITF No. 02-14"). EITF No. 02-14 provides guidance that an investor should only apply the equity method of accounting when it has investments in either common stock or in-substance common stock of a corporation, provided that the investor has the ability to exercise significant influence over the operating and financial policies of the investee. The EITF defined in-substance common stock as an investment that has risk and reward characteristics that are substantially similar to common stock. EITF No. 02-14 is effective for reporting periods beginning after September 15, 2004. The adoption of EITF No. 02-14 will not have a material effect on the Company's historical financial position or results of operations.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

x. Recent accounting pronouncements *(Continued)*

In September 2004, the EITF reached a consensus on Issue No. 04-01 "*Accounting for Pre-existing Relationships between the Parties to a Business Combination*" ("EITF No. 04-01") and states that the consummation of a business combination between two parties that have a pre-existing contractual relationship should be evaluated to determine if a settlement of the pre-existing contractual relationship occurred. Additionally, the EITF provides guidance on the measurement and recognition of the pre-existing relationship. The provisions of EITF No. 04-01 are applicable to business combinations completed in reporting periods after October 13, 2004. The adoption of EITF No. 04-01 did not have a material effect on the Company's financial position or results of operations.

On December 15, 2004, the FASB issued Statement No. 153, "*Exchanges of Non monetary Assets, an amendment of APB Opinion No. 29*" (SFAS No. 153). SFAS No. 153 requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. SFAS No. 153 is effective for non monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of SFAS No. 153 to have a material impact on the Company's financial position or results of operation.

In December 2004, the FASB issued its final standard on "*Accounting for Share-Based Compensation*", FASB Statement No. 123R (revised 2004), Share-Based Compensation ("SFAS 123R"), that requires companies to expense the value of employee stock options and similar awards. This Statement supersedes APB No. 25. Under SFAS 123R, share-based compensation will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. SFAS 123R is effective for public companies for annual periods beginning after June 15, 2005 and applies to all outstanding and unvested share-based payment awards at a company's adoption date. Under SFAS 123R, the Company could select from three transition methods: (1) The modified prospective method, where the expenses related to unvested but still outstanding options as calculated under the original SFAS 123 be charged to expense without any change in measurement (2) A variation of the modified prospective method, where in addition to (1), it allow restatement for prior interim periods using its prior SFAS 123 pro forma disclosure amounts; and (3) The modified retrospective method, where all prior period financial statements are retroactively restated based on pro forma disclosures as calculated under the original SFAS 123R. All options issued after adoption of SFAS 123R should be accounted for under that standard.

The Company plans to adopt SFAS 123R beginning January 1, 2006 and select the modified prospective transitional method of application of SFAS 123R, with no restatement of interim periods or annual periods prior to the effective date. Upon adoption, the Company will recognize share-based compensation relating to the unvested portion of the outstanding grants based on the fair value of the options as determined under SFAS No. 123 as disclosed in Note 2(P). New options to be issued after the effective date will be recognized based on the provisions of SFAS 123R.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

y. Certain risks and concentration

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash, accounts receivable, due from related parties and prepayments and other current assets. As of December 31, 2003 and 2004, substantially all of the Company's cash 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 typically 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, 2002, 2003 and 2004. No individual customer accounted for more than 10% of accounts receivable as of December 31, 2003 and 2004.

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.

The operations of the joint venture companies have not been included in the consolidated financial statements as the Group does 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 years 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:

	2003	2004
	RMB	RMB
Prepayments for hotel, air-ticketing reservation and packaged tour business	2,065,640	5,445,810
Employee advances	200,904	295,181
Inventory for resale	80,825	675,629
Rental and other deposits	1,417,783	1,152,178
Prepayments for acquisition of property, equipment and software	1,401,810	291,359
Prepayments for rental and advertisement	1,083,020	2,970,890
Receivables from financial institution	–	5,696,045
Interest receivable	76,950	449,970
Others	804,015	1,526,716
Total	7,130,947	18,503,778

5. PROPERTY, EQUIPMENT AND SOFTWARE

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

	2003	2004
	RMB	RMB
Building	7,189,803	7,569,600
Leasehold improvements	3,786,031	6,424,504
Website-related equipment	4,883,843	8,870,806
Computer equipment	11,400,715	14,988,961
Furniture and fixtures	5,621,811	9,542,627
Software	621,363	621,363
Less: accumulated depreciation and amortization	(10,224,319)	(16,120,210)
Net book value	23,279,247	31,897,651

(Amounts expressed in RMB unless otherwise stated)

6. OTHER INTANGIBLE ASSETS

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

	2003	2004
	RMB	RMB
Other intangible assets –		
Customer list	1,766,206	**1,766,206**
Travel supplier agreement	800,000	**800,000**
Cross-border travel agency license	1,117,277	**1,117,277**
	3,683,483	**3,683,483**
Less: accumulated amortization –		
Customer list	(1,133,315)	**(1,486,555)**
Travel supplier agreement	(800,000)	**(800,000)**
Cross-border travel agency license	(34,915)	**(174,575)**
	(1,968,230)	**(2,461,130)**
Net book value	1,715,253	**1,222,353**

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

	Amortization
	RMB
2005	419,310
2006	139,660
2007	139,660
2008	139,660
2009 and thereafter	384,063
	1,222,353

7. 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, 2002, 2003 and 2004. 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 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 fulfillment of the qualification for the preferential EIT rate will be reassessed on an annual basis. Ctrip Computer Technology has passed the reassessment for the year ended December 31, 2004.

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 fulfillment of the qualification for the preferential EIT rate will be reassessed on an annual basis. Ctrip Travel Information has passed the reassessment for the year ended December 31, 2004.

Shenzhen Shencheng which is registered in Shenzhen City, the PRC, is entitled to a preferential tax rate of 15% granted by the local PRC tax bureau.

(Amounts expressed in RMB unless otherwise stated)

7. TAXATION *(Continued)*

Composition of income tax expense

The current and deferred portion of income tax expense included in the consolidated statements of income and comprehensive income for the years ended December 31 are as follows:

	2002	2003	2004
	RMB	RMB	RMB
Current income tax expense	(797,788)	(10,197,561)	**(12,985,224)**
Recognition (utilization) of deferred tax assets	(9,244,836)	(51,843)	**468,103**
Income tax expense	(10,042,624)	(10,249,404)	**(12,517,121)**

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:

	2002	2003	2004
Statutory EIT rate	33%	33%	**33%**
Tax differential from statutory rate applicable to subsidiaries in the PRC	–	(20)%	**(25)%**
Non-deductible expenses incurred outside the PRC	7%	3%	**1%**
Other non-deductible expenses	1%	–	**–**
Effective EIT rate	41%	16%	**9%**

Significant components of deferred tax assets

	2003	2004
	RMB	RMB
Temporary differences	541,300	**1,009,403**
Less: valuation allowance	–	**–**
Deferred tax assets	541,300	**1,009,403**

8. 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 was 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 is 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 is less than the conversion price on the date of issuance.

Each Series A Preferred Share is 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.

9. 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 is 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 is less than the conversion price on the date of issuance.

Each Series B Preferred Share is 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.

10. 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 is 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 is less than the conversion price on the date of issuance.

Each Series C Preferred Share is 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.

11. 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 this share option plan, the directors may, at their discretion, grant any senior executives (including directors) and employees 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 share option plan increased from 144,000 to 1,440,000 accordingly. On July 1, 2001, the total number of ordinary shares reserved for the share 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, 2004, 190,956 options were outstanding under the 2000 Option Plan.

(Amounts expressed in RMB unless otherwise stated)

11. 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:

	2002	2003	2004
Outstanding at beginning of year	1,330,100	1,448,720	**1,389,880**
Granted	253,440	113,200	**–**
Exercised	–	(144,000)	**(1,160,044)**
Forfeited	(134,820)	(28,040)	**(38,880)**
Outstanding at end of year	1,448,720	1,389,880	**190,956**
Vested and exercisable at end of year	803,425	1,114,680	**66,529**

Subsequent to December 31, 2004, 2,320 options under the 2000 Option Plan were exercised as at February 21, 2005.

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 senior executives (including directors) and employees 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, 2004, 933,047 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
Outstanding at beginning of year	–	**977,440**
Granted	980,640	**257,600**
Exercised	–	**(234,177)**
Forfeited	(3,200)	**(67,816)**
Outstanding at end of year	977,440	**933,047**
Vested and exercisable at end of year	–	**90,303**

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. The 2005 Option Plan is subject to shareholders' approval within 12 months after November 2004.

(Amounts expressed in RMB unless otherwise stated)

11. SHARE OPTION PLAN *(Continued)*

The following is additional information relating to options outstanding as of December 31, 2004:

	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	724,201	1.7571	3.0706	132,182	1.4364	1.4387
$5.00-$7.49	138,858	6.4059	3.9167	22,653	6.2679	3.9167
$7.50-$9.99	25,330	7.6500	3.9583	1,997	7.6500	3.9583
$10.00-$16.99	235,614	13.2177	4.5538	–	–	–
	1,124,003			156,832		

In connection with the share options granted during the years ended December 31, 2002, 2003 and 2004, the Company recognized deferred share-based compensation amounted to RMB981,197, RMB3,917,947 and nil, respectively, which is being amortized over the vesting period of three years. Share-based compensation expense recognized during the years ended December 31, 2002, 2003 and 2004, amounted to RMB462,140, RMB1,583,409 and RMB1,958,022, respectively.

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:

	2002	2003	2004
Risk-free interest rate	2.65%	2.65%	**2.65%**
Expected life (years)	5	5	**5**
Expected dividend yield	0	0	**0**
Volatility	0	0	**65% ~ 76%**
Fair value of options at grant date	from US$0.8628 To US$1.1311	from US$0.6701 to US$2.8505	**from US$7.5838 to US$9.4613**

If compensation cost for the Company's share-based compensation plan 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 (loss) attributable to ordinary shareholders during the years ended December 31, 2002, 2003 and 2004 will be RMB(19,127,249), RMB784,177 and RMB129,363,875, respectively (Note 2p).

(Amounts expressed in RMB unless otherwise stated)

12. EMPLOYEE BENEFITS

The full-time employees of Ctrip Computer Technology, Ctrip Travel Information 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 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 RMB3,458,859, RMB4,973,561 and RMB11,818,432 for the years ended December 31, 2002, 2003 and 2004, respectively. The PRC government is responsible for the medical benefits and ultimate pension liability to these employees.

13. RELATED PARTY TRANSACTIONS

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

	2002	2003	2004
	RMB	RMB	RMB
Air-ticketing service fees from Beijing Chenhao (Note a)	1,208,673	1,358,612	–
Packaged tour service fees from Shanghai Huacheng (Note a)	217,530	140,000	–
Advertising service fees from Shanghai Ctrip Commerce (Note a)	684,675	678,502	–
Commission income from joint venture companies of Home Inns Hong Kong	163,548	622,452	489,432
Sales and marketing expense to joint venture companies of Home Inns Hong Kong	–	160,000	–
Rental expense to a related party	–	500,000	500,000

(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.

(Amounts expressed in RMB unless otherwise stated)

13. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2003	2004
	RMB	RMB
Due from related parties:		
Due from joint venture companies of Home Inns Hong Kong	611,640	**59,252**
Long-term loans to related parties:		
– Senior executives	2,310,000	**500,000**
Due to related parties:		
Advance from a director for stock option	4,018,284	**2,677,668**
Due to other related parties	–	**701,312**
	4,018,284	**3,378,980**

The amounts due from and due to related parties as of December 31, 2003 and 2004, mainly arose 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, 2003 represented loan granted to a senior executive for the purpose of making further capital contribution into Shanghai Ctrip Charming. However, the additional capital contribution to Shanghai Ctrip Charming was delayed due to certain administrative reasons and accordingly the full amount was subsequently repaid to the Group. 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 deregistered 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 and such ordinary shares are not considered issued.

(Amounts expressed in RMB unless otherwise stated)

14. OTHER PAYABLES AND ACCRUALS

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

	2003	2004
	RMB	RMB
Deposits received from suppliers	647,456	1,349,962
Accrued operating expenses	3,495,541	8,376,133
Accrued share issuance costs	12,519,542	–
Others	924,118	1,029,695
Total	17,586,657	10,755,790

15. EARNINGS (LOSS) PER SHARE

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

	2002	2003	2004
	RMB	RMB	RMB
Numerator:			
Net income for the year	14,193,533	53,813,515	133,126,290
Accretion for Series B Redeemable Convertible Preferred Shares	(16,492,526)	(12,365,534)	–
Dividends to holders of Series A and Series B Preferred Shares	(16,762,322)	–	–
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 (loss) per share	(19,061,315)	1,373,167	133,126,290
Effect of dilutive securities	–	–	–
Numerator for diluted earnings (loss) per share	(19,061,315)	1,373,167	133,126,290
Denominator:			
Denominator for basic earnings (loss) per share – weighted average ordinary shares outstanding	9,520,698	10,605,957	30,712,466
Dilutive effect of share options	–	1,706,250	792,236
Denominator for diluted earnings (loss) per share	9,520,698	12,312,207	31,504,702
Basic earnings (loss) per share	(2.00)	0.13	4.33
Diluted earnings (loss) per share	(2.00)	0.11	4.23

(Amounts expressed in RMB unless otherwise stated)

15. EARNINGS (LOSS) PER SHARE *(Continued)*

Potentially dilutive securities that were not included in the computation of diluted loss per share because of their anti-dilutive effects include the Series A Preferred Shares, the Series B Preferred Shares and share options granted to employees for the year ended December 31, 2002. Potentially dilutive securities that were not included in the computation of diluted earnings per share because of their anti-dilutive effects include the Series A, Series B and Series C Preferred Shares for the year ended December 31, 2003. There were no potentially dilutive securities that were not included in the computation of diluted earnings per share because of their anti-dilutive effects for the year ended December 31, 2004.

In March 2004, the Emerging Issues Task Force 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 (loss) per share by companies that have issued securities other than common share that entitle the holder to participate in dividends and earnings (loss) 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 (loss) per share. EITF No. 03-06 is effective for the quarter ended June 30, 2004. EITF No. 03-06 requires prior period earnings (loss) 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 (loss) per share as previously stated. Basic earnings (loss) per share reported in the Company 2003 annual report were (2.00) and 0.31 for 2002 and 2003 respectively. Diluted earnings (loss) per share reported in the Company 2003 annual report were (2.00) and 0.23 for 2002 and 2003 respectively.

16. 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	Equipment and others	Total
	RMB	RMB	RMB
2005	4,306,369	9,418,340	13,724,709
2006	2,955,553	1,084,490	4,040,043
2007	668,783	468,806	1,137,589
2008	–	426,806	426,806
2009	–	248,970	248,970
	7,930,705	11,647,412	19,578,117

Rental expense amounted to RMB4,687,822, RMB3,505,259 and RMB6,269,028 during the years ended December 31, 2002, 2003 and 2004, respectively, and is charged to the statements of income and comprehensive income when incurred.

16. COMMITMENTS AND CONTINGENCIES *(Continued)*

Capital commitments

As of December 31, 2004, capital commitments for office decoration and call center equipment amounted to RMB1,356,806.

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.

17. SUBSEQUENT EVENTS

On February 4, 2005, the Company signed an agreement to acquire land use rights for approximately 16,670 square meters of land in the Shanghai Hong Qiao Lin Kong Economic Development Park for a total consideration of approximately RMB62.5 million (equivalent to approximately US$7.6 million). The agreement is subject to the approval of relevant municipal government authorities of Shanghai. The Company plans to build a new information and technology center and move its 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 range from approximately RMB157 million to RMB166 million (equivalently to approximately US$19 million to US$20 million) over the period from 2005 until the completion of the construction of the new premises, which is expected to be around mid-2007.

CORPORATE INFORMATION

CORPORATE OFFICERS

- Mr. James Jianzhang Liang, Co-founder, Chairman and CEO
- Mr. Neil Nanpeng Shen, Co-founder, President and CFO
- Mr. Min Fan, Co-founder and COO

DIRECTORS

- Mr. JP Gan
- Mr. Qi Ji
- Mr. Gabriel Li
- Mr. James Jianzhang Liang
- Mr. Neil Nanpeng Shen
- Mr. Robert Stein
- Mr. Yoshihisa Yamada
- Mr. Suyang Zhang

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Latham & Watkins LLP – Hong Kong

CAYMAN ISLANDS LEGAL COUNSEL

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INDEPENDENT ACCOUNTANT

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携程旅行网

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