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Travel with ctrip

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ctrip.com International,Ltd.

Annual Report 2006

Our Service Commitment

We provide Comprehensive services

We treat our customers with Care

We are Committed to delivering our promises

Table of Contents

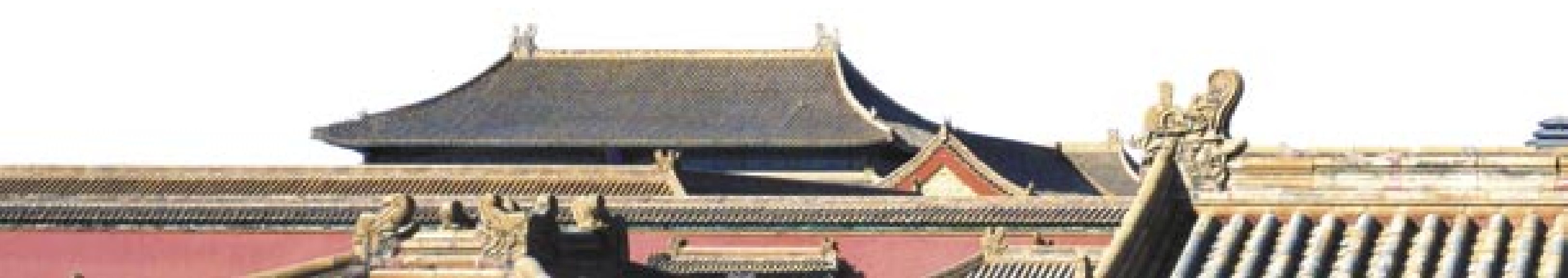
Ctrip.com International, Ltd. is a leading travel service provider that offers hotel reservations, airline ticketing and packaged tours to business and leisure travelers in China.

Ctrip aggregates information on hotels, flights and vacation packages, and enable the customers to make informed and cost-effective travel bookings.

Ctrip targets primarily frequent independent travelers in China who do not travel in group. These travelers form a traditionally under-served yet fast-growing segment of the China travel industry.

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

The company is incorporated in the Cayman Islands and conducts substantially all of its operations in China. With its operational headquarter in Shanghai, it has branch offices in 9 other major cites in China with approximately 5500 employees. The company also maintains a network of sales offices in over 45 cities in China.



Ctrip has become one of the best known travel brands in china.

Dear Shareholders,

As we approach the 8th anniversary of Ctrip, we are very excited to report the great achievements by our team in 2006 and to unfold our plans for another thriving year in 2007. During the past year, our commitment and hard work have enabled us to gain market share, achieve strong financial returns and enhance customer satisfaction. It was the year in which we strengthened Ctrip's position as the undisputed market leader in this rapidly growing travel industry in China. We continued to be committed to providing the best travel experience to our customers through high-quality service, sophisticated technology and streamlined process.

Marching into new fields

Every year, we are getting ready to advance into new fields. In 2006, we made tremendous progress in geographic expansion and new business development.

In early 2006, we set up four new offices in the tier-two cities of Qingdao, Shenyang, Wuhan, and Xiamen, all of which are high-traffic hubs for business and tourism in China. The establishment of these offices was timed to capture the burgeoning tier-two cities' travel demand. Additionally, we formed a strategic alliance with ezTravel Co. Ltd., a leading online travel service provider in Taiwan, by buying a minority stake in ezTravel. This alliance allowed both companies to leverage shared resources and provide expanded travel products to our customers. This partnership is an important step in preparing us for future business growth in the region.

During the same period, we officially launched our corporate travel business, offering professional travel management services to medium and large companies in China. These companies typically have high travel demand but are underserved. By leveraging our vast supplier network, advanced technology platform and 24-hour customer service, we are able to provide our customers with centralized booking services, transparent pricing, flexible payment and settlement options, and effective budget and expense control. The launch of the corporate travel business provides us a brand new opportunity in the managed travel arena, which is still in its early stage in China.

From left to right : Min Fan, CEO ,James Jianzhang Liang, Chairman & Jane Jie Sun, CFO

Building a winning team

While the opportunities presented to us are unprecedented, so are the challenges. Our young team needs the wisdom and resilience to take full advantage of Ctrip's tremendous potential. On our journey to build the best travel service company, our first and foremost priority is to build a stronger team every day.

In 2006, we enhanced employee training programs and expanded affinity groups and employee clubs to develop and retain the best employees. We also implemented a program that identifies the employees with highest potential and systematically tracks and develops these employees. We strongly believe that our grand objectives can only be achieved with the assistance of our talented and satisfied employees.

And the efforts paid off. 2006 was not a year without challenges, yet we proved again that we could weather all difficulties and come out even stronger than before. During the transition from paper tickets to e-tickets, we were among the first companies to offer flexible options for customers without any disruption of service-just one example of our employees' resourcefulness and pioneering attitude. Further more, to take advantage of e-ticketing, our creative team developed and implemented a "One-Hour Express Lane" to cater to last-minute travelers, effectively improving processing lead-time by 500%. This innovative service allows customers to be issued with tickets as short as one hour before flight time, if seats are available.

Strengthening the brand

Since the inception of our business, we have been focusing on providing our customers with service of unparalleled quality. In 2006, we spared no effort in this regard. During the past year, Ctrip took the leadership in the industry by declaring a set of measurable service standards. These standards not only demonstrate our service capabilities and customer-centered philosophy, they also offer specific commitments to our customers. Under these standards, we clearly defined the quality of recommended hotels, the distance from these hotels to local landmarks and the maximum travel time, etc., each of which largely differentiated our services from existing competitors.

Additionally, we announced our service commitment to our customers which entails the messages of 3Cs-comprehensiveness of our service offers, commitment to keeping our promises and care for our customers. By offering 3Cs, we have effectively won the minds and hearts of our customers.

Our effective co-marketing programs with our partners continued to yield significant results. For example, grateful recognition from consumers was reflected in the successful distribution of a joint travel credit card between Ctrip and China Merchants Bank (CMB). By February of 2007, 1.5 million Ctrip-CMB credit cards had been issued and the credit card was honored as the "Most Popular Credit Card in 2006" by VISA.

Giving back to the community

In June 2006, we announced our decision to establish a "Ctrip Sunshine College Aid Program" in seven major cities across China. This program provides financial assistance to disadvantaged yet academically outstanding students, so that they may complete their college programs. We strongly believe that it is our privilege to contribute to society through socially responsible initiatives. In the 21st century, the standards by which a successful company is measured go beyond simply generating financial profits. An exemplary company is also judged by its contribution to community.

Continuing solid financial performance

The numbers speak for themselves. We are very proud that 2006 was another year of financial success for Ctrip.

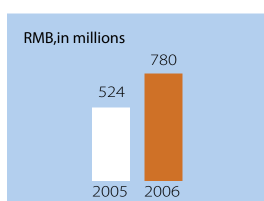
In 2006, our net revenues grew 49% year over year to US $100 million. Net income rose to US $31 million, representing a 7% increase from 2005. Excluding share-based compensation charges, net income in 2006 was US $38 million, representing a 31% increase from the previous year. Gross margin was as high as 80%, slightly down from 83% in the last year, primarily due to the increased contribution from air ticketing and packaged tour businesses. The operating margin was 33%, with share-based compensation charges accounting for about 7% of net revenue. Year-end cash balance was US $109 million, compared to US $92 million at the end of 2005. This continuous strong financial performance led our shareholders and directors to distribute 30% of Ctrip's 2006 net income in dividends to our shareholders.

Our hotel business continued its strong momentum in 2006. Revenues from hotel reservations reached US $61 million, increasing by 31% from the previous year. Approximately 6.8 million hotel room nights were booked through Ctrip in 2006, compared to approximately 5.5 million in 2005. Revenues from hotel business contributed to about 57% of total revenues in 2006.

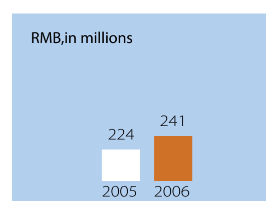
Our air ticketing business also grew at a rapid pace in 2006. Revenues from air ticketing reached US $39 million, representing an 83% growth over 2005. The total number of air tickets issued was approximately 6.4 million in 2006, compared to approximately 3.7 million in 2005. Revenues from air ticketing contributed to about 36% of the total revenues in 2006.

In 2006, we continued to witness increasing demand for leisure travel. In addition to Frequent Independent Traveler packages, we supplemented our product offerings with international group tours tailored to our high-end customers. The revenues from packaged tours reached US $5 million, an increase of 83% from 2005. By the end of 2006, packaged tours contributed to 5% of our total revenues.

NET REVENUES



NET INCOME



Looking ahead

Our past successes bring all of us at Ctrip great pride. Our future prospects keep us ever more focused and motivated. In light of upcoming major international events such as the 2008 Olympic Games and the 2010 World Expo, we are optimistic about overall market trends and internal development in 2007.

We will continue to develop tier-two markets in China. The government is endeavoring to close the gap between China's different economic regions and Ctrip is poised to take advantage of fast economic growth in tier-two cities. 2007 is the year we expect to benefit from the prior year's investment in these new markets.

The air ticketing business will continue to fuel the growth of our business, along with the rapid development in leisure travel and corporate travel businesses. We will see more contribution from air ticketing and packaged tours in 2007. With a solid start-up in 2006, corporate travel business will also become more sizable while we further develop the market and gain more market share from existing players. Our dedicated sales and service team are well prepared for this still untapped market.

Technology has always been one of our greatest strengths. In 2007, we will further strengthen our technology platform to enhance user experience. We have kicked off a number of projects that will significantly improve the overall user friendliness of our website while also improving the efficiency of our internal processes.

Closing

The name of CTRIP stands for five fundamental values: C-customer focus, T-teamwork, R-respect, I-integrity, and P-partnership. These values are being realized through our daily interactions with our customers, partners, suppliers, employees, and society. In closing, we want to again thank all of you who have shared our values and contributed to our success. With your support, there is no doubt that we are well on our way toward long-lasting success.

James Jianzhang Liang
Chairman of the Board

Min Fan
Chief Executive Officer

Jane Jie Sun
Chief Financial Officer

Business Milestones


June 1999

Company established


October 1999

Website launched and hotel reservation business started


February 2002

Officially launched air ticketing services


March 2002

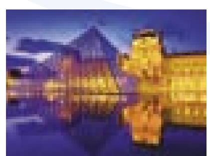
First profitable quarter


December 2003

IPO on NASDAQ


Sept 2004

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


October 2004

Officially launched package tour products and services


November 2004

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


December 2004

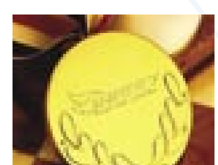
Cumulative effective customers exceeded 1 million


June 2005

Strategic alliance with ezTravel.com in Taiwan


March 2006

Officially launched corporate travel business


November 2006

Number of members of Ctrip and China Merchants Bank dual-currency travel credit card reached over 1 million

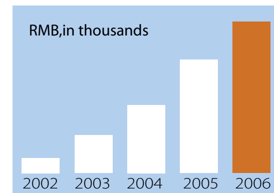
We are committed to providing the best travel experience to our customers.

The following table presents the selected consolidated financial information for our business. You should read the following information in conjunction with Management Discussion and Analysis section. The selected consolidated statement of operations data for the years ended December 31, 2004, 2005 and 2006 and the selected consolidated balance sheet data as of December 31, 2005 and 2006 have been derived from our audited consolidated financial statements and should be read in conjunction with those statements, which are included in this annual report beginning on page 34. The selected consolidated statement of operations data for the years ended December 31, 2002 and 2003 and the selected consolidated balance sheet data as of December 31, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements for these periods, which are not included in this annual report.

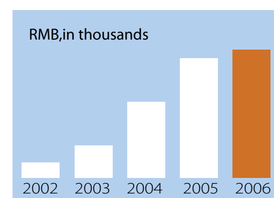
Certain prior year amounts have been reclassified with no effect on net income or retained earnings to conform to the 2006 financial statement presentation. Additionally, all ADS data have been retroactively adjusted to reflect the current ADS to ordinary share ratio for all periods presented.

	For the Year Ended December 31,					
	2002	2003	2004	2005	2006	2006
	RMB	RMB	RMB	RMB	RMB	US$[2]
	(in thousands, except for per share data)					
Consolidated Statement of Operation Data:						
Net revenues	100,049	173,147	335,042	524,183	779,952	99,941
Cost of revenues	(13,673)	(26,223)	(51,637)	(88,627)	(153,132)	(19,622)
Gross profit	86,376	146,924	283,405	435,556	626,820	80,319
Operating expenses						
Product development[1]	(13,496)	(21,095)	(38,510)	(57,913)	(105,938)	(13,575)
Sales and marketing[1]	(32,335)	(47,707)	(73,051)	(112,532)	(172,492)	(22,103)
General and administrative[1]	(16,359)	(20,615)	(38,114)	(42,651)	(93,174)	(11,939)
Other expenses incurred for joint-venture companies	(915)	—	—	—	—	—
Total operating expenses	(63,105)	(89,417)	(149,675)	(213,096)	(371,604)	(47,617)
Income from operations	23,271	57,507	133,730	222,460	255,216	32,702
Net interest income and other income	1,293	6,062	11,952	32,632	26,846	3,440
Income before income tax expense, minority interests and share of income (loss) of joint venture companies	24,564	63,569	145,682	255,092	282,062	36,142
Income tax expense	(10,043)	(10,249)	(12,517)	(30,577)	(41,277)	(5,289)
Minority interests	71	(79)	(39)	(269)	(221)	(28)
Share of income (loss) of joint venture companies	(398)	573	—	—	—	—
Net income	14,194	53,814	133,126	224,246	240,564	30,825
Earnings Per Share Data:						
Accretion for Series B preferred shares	(16,493)	(12,366)	—	—	—	—
Dividends to holders of preferred shares	(16,762)	—	—	—	—	—
Deemed dividends to holders of Series A and Series B preferred shares for spin-off of joint venture companies[3]	—	(2,829)	—	—	—	—
Deemed dividends upon repurchase of preferred shares	—	(35,336)	—	—	—	—
Amount allocated to participating preference shareholders	—	(1,910)	—	—	—	—
Net income (loss) attributable to ordinary shareholders	(19,061)	1,373	133,126	224,246	240,564	30,825
Earnings (loss) per share[4], basic	(2.00)	0.13	4.33	7.06	7.44	0.95
Earnings (loss) per share[4], diluted	(2.00)	0.11	4.23	6.91	7.23	0.93
Cash dividends per share paid[5]	1.11	—	—	1.26	2.04	0.255

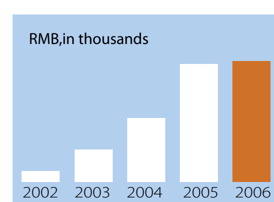
NET REVENUES



INCOME FROM OPERATIONS



NET INCOME



	As of December 31,					
	2002	2003	2004	2005	2006	2006
	RMB	RMB	RMB	RMB	RMB	US$[(2)]
	(in thousands)					
Consolidated Balance Sheet Data:						
Cash and cash equivalents	38,931	471,969	615,875	735,062	844,393	108,199
Accounts receivable, net	13,969	28,940	35,418	63,392	136,688	17,515
Other current assets	6,611	8,283	19,573	52,861	72,387	9,275
Non-current assets	37,744	48,013	69,852	184,586	398,385	51,048
Total assets	97,255	557,205	740,718	1,035,901	1,451,853	186,037
Current liabilities	13,093	63,917	138,744	270,314	421,045	53,952
Other long-term payables	—	—	—	—	2,438	312
Minority interests	828	564	603	871	673	86
Series B preferred shares[(6)]	124,963	—	—	—	—	—
Total shareholders' equity (deficit)	(41,629)	492,724	601,371	764,716	1,027,697	131,687

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

	For the Year Ended December 31,					
	2002	2003	2004	2005	2006	2006
	RMB	RMB	RMB	RMB	RMB	US$[(2)]
	(in thousands)					
Product development	131	411	550	403	13,694	1,755
Sales and marketing	27	136	188	258	8,558	1,097
General and administrative	304	1,036	1,220	1,116	32,430	4,155

(2) Translation from RMB amounts into U.S. dollars was made at a rate of RMB7.8041 to US$1.00. See "Exchange Rate Information."

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

(4) Each ADS represents one ordinary share.

(5) The dividends recognized represent dividends totaling RMB27 million distributed out of our reserves in December 2002 to holders of ordinary shares, and Series A preferred shares and Series B preferred shares on a pro rata as-converted basis at a dividend rate of RMB1.11, or US$0.1341, per ordinary share. On July 8, 2005, we distributed dividends in the aggregate amount of RMB40 million to our shareholders of record as of June 30, 2005, at a dividend rate of RMB1.26, or US$0.1525, per share. On July 14, 2006, we distributed dividends in the aggregate amount of RMB67 million to our shareholders of record as of June 30, 2006, at a dividend rate of RMB2.04, or US$0.255, per share.

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

Exchange Rate Information

We have published our financial statements in RMB. Our business is primarily conducted in China in RMB. The conversion of RMB into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. For your convenience, this annual report contains translations of some RMB or U.S. dollar amounts for 2006 at US$1.00 : RMB7.8041, which was the noon buying rate in effect as of December 29, 2006. The prevailing rate at April 11, 2007 was US$1.00 : RMB7.7317. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade.

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

	Noon Buying Rate			
Period	Period End	Average(1)	Low	High
	(RMB per US$1.00)			
2002	8.2800	8.2770	8.2800	8.2669
2003	8.2767	8.2772	8.2800	8.2765
2004	8.2765	8.2768	8.2771	8.2765
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007				
January	7.7714	7.7876	8.8127	7.7705
February	7.7410	7.7502	7.7632	7.7410
March	7.7232	7.7369	7.7454	7.7232
April (through April 11)	7.7317	7.7290	7.7345	7.7248

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

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this annual report. This report contains forward-looking statements. These forward-looking statements are made under the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as "may," "will," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate," "is/are likely to," the negative of these terms, and other similar expressions. The accuracy of these statements may be impacted by a number of risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. In evaluating our business, you should carefully consider the risks outlined in our filings with the U.S. Securities and Exchange Commission ("SEC"), including our annual report on Form 20-F. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties. We do not undertake any obligation to update any forward-looking statements, except as required under applicable law.

A. Overview

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

In 2006, we derived 57%, 36%, 5% and 2% of our revenues from our hotel reservation, air ticketing, packaged-tour and other businesses, respectively.

Major Factors Affecting the Travel Industry

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

Growth in the Overall Economy and Demand for Travel Services in China. We expect that our financial results will continue to be affected by the overall growth of the economy and demand for travel services in China. According to the statistical report published on the website of National Bureau of Statistics of China on February 28, 2007, the gross domestic product, or GDP, of China grew from RMB12.0 trillion (US$1.5 trillion) in 2002 to RMB20.9 trillion (US$2.7 trillion) in 2006, representing a compound annual growth rate of 15%. GDP per capita in the same period rose from RMB9,398 (US$1,135) to RMB15,973 (US$2,047), representing a 14% compound annual growth rate. This growth led to a significant increase in the demand for travel services. According to the statistical report published on the website of National Bureau of Statistics of China on February 28, 2007, domestic tourism spending grew from RMB387.8 billion (US$46.9 billion) in 2002 to RMB623.0 billion (US$79.8 billion) in 2006, representing a compound annual growth of 13%. We anticipate that demand for travel services in China will continue to increase in the foreseeable future as the economy in China continues to grow. However, any adverse changes in economic conditions of China, such as a slow-down of the Chinese economy, could have a material and adverse effect on the travel industry in China, which in turn would harm our business.

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

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

- the outbreak of serious epidemics;
- travel-related accidents;
- bad weather;
- natural disasters;
- threats of war or incidents of terrorism;
- general economic downturns; and
- increased prices in the hotel, airline or other travel-related industries.

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

Major Factors Affecting Our Results of Operations

Revenues

Revenue Composition and Sources of Revenue Growth. We have experienced significant revenue growth since we commenced operations in 1999. Our revenues grew from RMB105 million in 2002 to RMB834 million (US$107 million) in 2006, representing a compound annual growth rate of 68%.

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

	Year Ended December 31,		
	2004	2005	2006
Revenues:			
Hotel reservation	78%	65%	57%
Air-ticketing	18	30	36
Packaged-tour*	3	4	5
Others	1	1	2
Total revenues	100%	100%	100%

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

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

Since 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 "—Arrangements with Affiliated Chinese Entities" in Form 20-F 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 2004, 2005 and 2006, revenues from our hotel reservation business accounted for RMB276 million, RMB363 million and RMB476 million (US$61 million), respectively, or 78%, 65% and 57% respectively, of our revenues.

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

Air-Ticketing. Since early 2002, the air-ticketing business has been growing rapidly. In 2004, 2005 and 2006, revenues from our air ticketing business accounted for RMB64 million, RMB166 million and RMB303 million (US$39 million), respectively, or 18%, 30% and 36%, respectively, of our revenues.

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

Packaged-tour. Our packaged-tour business has grown rapidly in the past three years. In 2004, 2005 and 2006, revenues from our packaged tour business accounted for RMB10 million, RMB23 million and RMB42 million (US$5 million), respectively. We conduct our packaged-tour business mainly through Shanghai Ctrip Charming, Beijing Ctrip, Guangzhou Ctrip, Shenzhen Ctrip, and Shanghai Huacheng. Shanghai Ctrip Charming, Beijing Ctrip, Guangzhou Ctrip, Shenzhen Ctrip, and Shanghai Huacheng bundle the packaged-tour products and receive referral fees from different travel suppliers for different components and services of the packaged-tour sold through our transaction and service platform. Referral fees are recognized as net revenues after the packaged-tour services are rendered. Shanghai Ctrip Charming, Beijing Ctrip, Guangzhou Ctrip, Shenzhen Ctrip, and Shanghai Huacheng also, from time to time, act as principal in connection with the packaged-tour services provided by them. When they act as principal, they recognize gross amounts received from customers as revenues after the packaged-tour services are rendered.

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

Cost of Revenues

Cost of revenues are costs directly attributable to rendering our revenues, which consist primarily of payroll compensation, telecommunication expenses, credit card charges and other direct expenses incurred in connection with our transaction and service platform. Payroll compensation accounted for 60%, 62% and 63% of our cost of revenues in 2004, 2005 and 2006, respectively. Telecommunication expenses accounted for 19%, 14% and 14% of our cost of revenues in 2004, 2005 and 2006, respectively. Credit card charges accounted for 6%, 9% and 11% of our cost of revenues in 2004, 2005 and 2006, respectively.

Cost of revenues accounted for 15%, 17% and 20% of our net revenues in 2004, 2005 and 2006, respectively. We believe our relatively low ratio of cost of revenues to revenues is primarily due to competitive labor costs in China and high efficiency of our customer service system. Our cost efficiency was further enhanced by our website operations, which require significantly fewer service staff to operate and maintain. The increase of percentage of cost of revenues over net revenue was largely due to the relatively higher cost of revenues as a result of increased revenue contribution from air ticketing services and packaged tours.

Operating Expenses

Operating expenses consist primarily of product development expenses, sales and marketing expenses, general and administrative expenses, all of which include share-based compensation expense. Effective January 1, 2006 we adopted SFAS No.123R and recorded share-based compensation expense under the fair value method. Prior to January 1, 2006, we accounted for share-based compensation under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and used the intrinsic value method. In the year ended December 31, 2006, we recorded RMB55 million (US$7 million) of share-based compensation expense compared to RMB2 million and RMB2 million for the years ended December 31, 2004 and 2005, respectively. Share-based compensation expense is included in the same income statement category as the cash compensation paid to the recipient of the share-based award.

Product development expenses primarily include expenses we incur to develop our travel suppliers network and expenses we incur to develop, maintain and monitor our transaction and service platform. Product development expenses as a percentage of net revenues remained stable at 11% for 2004 and 2005, and increased from 11% in 2005 to 14% in 2006, which was largely due to an increase of RMB13 million in share-based compensation expense from 2005 to 2006. The increase in share-based compensation expense was due to our adoption of SFAS No.123R.

Sales and marketing expenses primarily comprise payroll compensation and benefits for our sales and marketing personnel, advertising expenses, commissions for our marketing partners for referring customers to us, and production costs of marketing materials and membership cards. Our sales and marketing expenses as a percentage of net revenues had remained consistent at 22%, 21% and 22% for the year 2004, 2005 and 2006, respectively.

General and administrative expenses consist primarily of payroll compensation, benefits and travel expenses for our administrative staff, professional service fees, as well as administrative office expenses. General and administrative expenses as a percentage of net revenues have decreased from 11% in 2004 to 8% in 2005, and increased from 8% to 12% from 2005 to 2006, which was largely due to an increase of RMB31 million in share-based compensation expense from 2005 to 2006.

Income Taxes and Financial Subsidies

Income Taxes. Our effective income tax rate was 9%, 12% and 15% for 2004, 2005 and 2006, respectively. Pursuant to the applicable tax laws in China, companies established in China are generally subject to EIT at a statutory rate of 33%. The 33% EIT rate applies to our subsidiaries, affiliated Chinese entities and joint venture companies established in China, except for our subsidiaries, Ctrip Computer Technology and Ctrip Travel Information, and our affiliated Chinese entities, Shanghai Huacheng and Shenzhen Ctrip.

- Our subsidiary, Ctrip Computer Technology, is currently entitled to a 15% EIT rate because it has been classified as a "new and high technology enterprise." Ctrip Computer Technology's qualification as a "new and high technology enterprise" is subject to annual re-assessment by relevant government authorities.

- Our subsidiary, Ctrip Travel Information, is currently entitled to a 15% EIT rate due to its registration in the Pudong Economic Development Zone and such rate is further reduced by 50% for each of the years from 2005 to 2007 due to its classification as a "software enterprise." Ctrip Travel Information's qualification as a "software enterprise" is also subject to annual reassessment by relevant government authorities.

- Our affiliated Chinese entity, Shanghai Huacheng, is entitled to a 30% tax reduction for each of the years from 2004 to 2006 due to its classification as an entity that provides job opportunities for unemployed individuals. According to the preferential tax policy, Shanghai Huacheng will stop enjoying the 30% tax reduction from year 2007 and thereafter.

- Our affiliated Chinese entity, Shenzhen Ctrip, is entitled to a preferential tax rate of 15% as granted by the local tax bureau, because it is registered in the city of Shenzhen in China.

Our subsidiaries and affiliated Chinese entities either have received approvals from the relevant government authorities, or are in the process of being assessed by the relevant government authorities, with respect to their qualification assessment. Based on our past experience and information currently available, we expect that our subsidiaries and affiliated Chinese entities will pass the re-assessment and continue to be entitled to the preferential tax treatments in 2007.

Our future effective income tax rate depends on various factors, such as tax legislation, the geographic composition of our pre- tax income and non-tax deductible expenses incurred. On March 16, 2007, the National People's Congress, the Chinese legislature, passed a new enterprise income tax law, which is scheduled to take effect on January 1, 2008. The new law applies a uniform 25% enterprise income tax rate to both foreign invested enterprises and domestic enterprises. Existing companies are required to transition to the new enterprise income tax rate over a five year period starting January 1, 2008. Our management carefully monitors these legal developments and will timely adjust our effective income tax rate when necessary.

Financial Subsidies. In 2004, 2005 and 2006, our subsidiaries in China received business tax rebates in the form of financial subsidies from the government authorities in Shanghai in the amount of approximately RMB6 million, RMB18 million and RMB11 million (US$1 million), respectively, which we recorded as other income on a cash basis.

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

Critical Accounting Policies

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

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

Goodwill, Intangible Assets and Long-Lived Assets. In addition to the original cost of goodwill, intangible assets and long-lived assets, the recorded value of these assets is impacted by a number of policy elections, including estimated useful lives, residual values and impairment charges. Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," provides that intangible assets that have indefinite useful lives and goodwill will not be amortized but rather will be tested at least annually for impairment. Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets" requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from its undiscounted future cash flow. For each of 2004, 2005 and 2006, we did not recognize any impairment charges for goodwill, intangible assets or long-lived assets based on the expanding and prospective business of our subsidiaries and affiliated Chinese entities. Throughout the past year, there were no circumstances or events that indicated that the assets may be impaired. If different judgments or estimates had been utilized, material differences could have resulted in the amount and timing of the impairment charge.

Customer Reward Program. We offer a customer reward program that allows customers to receive travel awards and other gifts based on accumulated membership points that vary depending on the products and services purchased by the customers. Because we have an obligation to provide such travel awards and other gifts, we recognize a liability and corresponding expense for the related future obligations. As of December 31, 2005 and 2006, our provisions for the customer reward program were approximately RMB20 million and RMB30 million (US$4 million), respectively. We estimate our liabilities under our customer reward program based on accumulated membership points and our estimate of probability of redemption. If actual redemption differs significantly from our estimate, it will result in an adjustment to our liability and the corresponding expense.

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

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

Deferred Tax Valuation Allowances. We provide a valuation allowance on our deferred tax assets to the extent we consider it to be more likely than not that we will be unable to realize all or part of such assets. Our future realization of our deferred tax assets depends on many factors, including our ability to generate taxable income within the period during which temporary differences reverse or before our tax loss carryforwards expire, the outlook for the Chinese economy and overall outlook for our industry. We consider these factors at each balance sheet date and determine whether valuation allowances are necessary. As of December 31, 2005 and 2006, we recorded deferred tax assets of RMB2 million and RMB3 million (US$0.4 million), respectively. If, however, unexpected events occur in the future that would prevent us from realizing all or a portion of our net deferred tax assets, an adjustment would result in a charge to income in the period in which such determination was made. As of December 31, 2005 and 2006, we did not record any valuation allowances to reduce our deferred tax assets, as we believed that our deferred tax asset amounts were more likely than not to be realized based on our estimate of future taxable income.

Allowance for doubtful accounts. Accounts receivable are recorded at the invoiced amount and do not bear interest. We provide a general provision for doubtful accounts for the outstanding trade receivable balances based on historical experience and information available. Additionally, we make specific bad debt provisions based on (i) our specific assessment of the collectibility of all significant accounts; and (ii) any specific knowledge we have acquired that might indicate that an account is uncollectible. The facts and circumstances of each account may require us to use substantial judgment in assessing its collectibility. As of the end of December 31, 2005 and 2006, the allowance for doubtful accounts was nil and RMB8,469 respectively.

Results of Operations

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

	Year Ended December 31,						
	2004		2005		2006	2006	
	RMB		RMB		RMB	US$	
	(in thousands)	%	(in thousands)	%	(in thousands)	(in thousands)	%
Revenues:							
Hotel reservation	276,043	82	362,857	69	476,495	61,057	61
Air ticketing	64,228	19	165,603	32	302,988	38,824	39
Packaged- tour[1]	10,480	3	22,756	4	41,702	5,344	5
Others	4,500	1	7,957	2	12,842	1,645	2
Total revenues	355,251	106	559,173	107	834,027	106,870	107
Less: Business tax and related surcharges	(20,209)	(6)	(34,990)	(7)	(54,075)	(6,929)	(7)
Net revenues	335,042	100	524,183	100	779,952	99,941	100
Cost of revenues	(51,637)	(15)	(88,627)	(17)	(153,132)	(19,622)	(20)
Gross profit	283,405	85	435,556	83	626,820	80,319	80
Operating expenses:							
Product development[2]	(38,510)	(11)	(57,913)	(11)	(105,938)	(13,575)	(14)
Sales and marketing[2]	(73,051)	(22)	(112,532)	(21)	(172,492)	(22,103)	(22)
General and administrative[2]	(38,114)	(11)	(42,651)	(8)	(93,174)	(11,939)	(12)
Total operating expenses	(149,675)	(45)	(213,096)	(41)	(371,604)	(47,617)	(48)
Income from operations	133,730	40	222,460	42	255,216	32,702	33
Interest income	5,543	2	12,661	2	15,632	2,003	2
Other income	6,409	2	19,971	4	11,214	1,437	1
Income before income tax expense, minority interestsand share of loss in joint venture companies	145,682	43	255,092	49	282,062	36,142	36
Income tax expense	(12,517)	(4)	(30,577)	(6)	(41,277)	(5,289)	(5)
Minority interests	(39)	(0)	(269)	(0)	(221)	(28)	(0)
Net income	133,126	40	224,246	43	240,564	30,825	31

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

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

	Year Ended December 31,							
	2004		2005		2006	2006	
	RMB		RMB		RMB	US$	
	(in thousands)	%	(in thousands)	%	(in thousands)	(in thousands)	%
Product development	(550)	(0)	(403)	(0)	(13,694)	(1,755)	(2)
Sales and marketing	(188)	(0)	(258)	(0)	(8,558)	(1,097)	(1)
General and administrative	(1,220)	(0)	(1,116)	(0)	(32,430)	(4,155)	(4)

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

2006 compared to 2005

Revenues

Total revenues were RMB834 million (US$107 million) in 2006, an increase of 49% over RMB559 million in 2005. This revenue growth was principally driven by the substantial volume growth in hotel room nights booked and air tickets sold in 2006.

Hotel Reservation. Revenues from our hotel reservation business increased by 31% to RMB476 million (US$61 million) in 2006 from RMB363 million in 2005, primarily as a result of the continued rapid growth in our hotel room nights sales volume. The total number of hotel room nights booked in 2006 was approximately 6.8 million compared to over 5.5 million in 2005. In 2006, the average commission per room night was approximately RMB70 compared to approximately RMB66 in 2005.

Air Ticketing. Revenues from our air ticketing business increased by 83% to RMB303 million (US$39 million) in 2006 from RMB166 million in 2005, primarily due to strong growth of air tickets sales volume as we continued to expand our air ticketing capabilities significantly. The total number of air tickets sold in 2006 was approximately 6.4 million, compared to approximately 3.7 million in 2005. In 2006, the average commission per ticket sold increased to RMB46 from RMB44 in 2005.

Packaged-tour. Packaged-tour revenues increased by 83% from RMB23 million in 2005 to RMB42 million (US$5 million) in 2006, as we continued growing our packaged-tour business.

Other businesses. Revenues from other businesses increased by 61% from RMB8 million in 2005 to RMB13 million (US$2 million) in 2006, primarily due to increased sales of our advertising service.

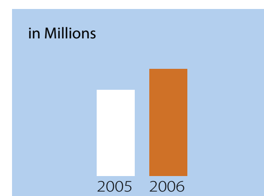
Business tax and related surcharges

Our business tax and related surcharges increased by 55% from RMB35 million in 2005 to RMB54 million (US$7 million) in 2006 as a result of our increased revenues in all of our business lines.

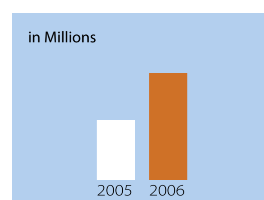
Cost of Revenues

Cost of revenues in 2006 increased by 73% to RMB153 million (US$20 million) from RMB89 million in 2005. This increase was primarily attributable to increased costs associated with our air-ticketing and packaged-tour businesses and, to a less extent, the expansion of our hotel reservation business.

TOTAL NUMBER OR HOTEL ROOM NIGHTS BOOKING



TOTAL NUMBER OR AIR TICKET SOLD



Operating Expenses

Operating expenses in 2006 increased by 74% to RMB372 million (US$48 million) from RMB213 million in 2005, primarily due to a significant increase in product development, sales and marketing, and general and administrative expenses, all of which included share-based compensation expenses, in order to support the increase in revenue. As a percentage of net revenue, operating expenses increased from 41% in 2005 to 48% in 2006, mainly due to the adoption of SFAS No. 123R. In the year ended December 31, 2006, we recorded RMB55 million (US$7 million) of share-based compensation expense compared to RMB2 million for the year ended December 31, 2005. The share-based compensation expenses accounted for 7% of net revenues in 2006 compared to close to zero percentage of net revenues in 2005.

Product Development. Product development expenses increased by 83% to RMB106 million (US$14 million) in 2006 from RMB58 million in 2005, primarily due to increase of product development personnel as we expanded our air ticketing and packaged-tour businesses and increase of RMB13 million (US$2 million) in share-based compensation expenses from 2005 to 2006.

Sales and Marketing. Sales and marketing expenses increased by 53% to RMB172 million (US$22 million) in 2006 from RMB113 million in 2005, primarily attributable to increased salary and benefit expenses for the increased number of sales and marketing staff, advertisements expenses, increased costs for promotional materials as well as the increase of RMB8 million (US$1 million) in share-based compensation expenses from 2005 to 2006.

General and Administrative. General and administrative expenses increased by 118% to RMB93 million (US$12 million) in 2006 from RMB43 million in 2005, primarily due to the increase of RMB31 million (US$4 million) in share-based compensation charges and the hiring of general and administrative personnel in 2006.

Interest Income. Interest income increased to RMB16 million (US$2million) in 2006 from RMB13 million in 2005 due to the increased cash generated from operations.

Other Income. Other income decreased by 44% to RMB11 million (US$1 million) in 2006 from RMB20 million in 2005, primarily because we received less financial subsidies in 2006 as compared to 2005.

Income Tax Expense. Income tax expense was RMB41 million (US$5 million) in 2006, an increase of 35% over RMB31 million in 2005, primarily due to the increase of our taxable income in 2006. Due to the non-tax deductible nature of the share-based compensation upon the adoption of SFAS No. 123R, our effective income tax rate in 2006 was 15%, as compared to 12% in 2005.

2005 compared to 2004

Revenues

Total revenues were RMB559 million in 2005, an increase of 57% over RMB355 million in 2004. This revenue growth was principally driven by the substantial volume growth in hotel room nights booked and air tickets sold in 2005.

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

Air Ticketing. Revenues from our air ticketing business increased substantially by 158% to RMB166 million in 2005 from RMB64 million in 2004, primarily due to strong growth of air tickets sales volume as we continued to expand our air ticketing capabilities significantly. The total number of air tickets sold in 2005 was approximately 3.7 million, compared to approximately 1.7 million in 2004. In 2005, the average commission per ticket sold increased to RMB44 form RMB37 in 2004.

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

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

Business tax and related surcharges

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

Cost of Revenues

Cost of revenues in 2005 increased by 72% to RMB89 million from RMB52 million in 2004. This increase was primarily attributable to increased costs associated with our air-ticketing and packaged-tour businesses and, to a less extent, the expansion of our hotel reservation business.

Operating Expenses

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

Product Development. Product development expenses increased by 50% to RMB58 million in 2005 fromRMB39 million in 2004, primarily due to increased staff hiring mainly for the air-ticketing and packaged-tour businesses.

Sales and Marketing. Sales and marketing expenses increased by 54% to RMB113 million in 2005 from RMB73 million in 2004, primarily attributable to increased advertisements expenses, as well as increased salary and benefit expenses for the increased number of sales and marketing staff and increased costs for promotional materials.

General and Administrative. General and administrative expenses increased by 12% to RMB43 million in 2005 from RMB38 million in 2004, primarily due to increased salary and benefits for the increased number of general and administrative staff.

Interest Income. Interest income increased to RMB13 million in 2005 from RMB6 million in 2004 due to the increased cash generated from operation.

Other Income. Other income increased by 212% to RMB20 million in 2005 from RMB6 million in 2004, primarily due to higher amount of financial subsidies we received in 2005.

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

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,		
	2004	2005	2006
	RMB	RMB	RMB
		(in thousands)	
Net cash provided by operating activities	162,731	231,364	347,892
Net cash used in investing activities	(14,320)	(72,816)	(206,973)
Net cash used in financing activities	(4,311)	(30,340)	(27,130)
Net increase in cash and cash equivalents	143,906	119,187	109,331
Cash and cash equivalents at beginning of year	471,969	615,875	735,062
Cash and cash equivalents at end of year	615,875	735,062	844,393

Net cash provided by operating activities was RMB348 million (US$45 million) in 2006, compared to RMB231 million in 2005 and RMB163 million in 2004, primarily due to the increase in our net income resulting from our increased transaction volume.

Net cash used in investing activities amounted to RMB207 million (US$27 million) in 2006, compared to net cash used in investing activities of RMB73 million in 2005. This increase in 2006 from 2005 was due to our investment in ezTravel, construction of our new facilities, purchase of the land use right for our new premises, and purchase of additional servers, workstations, computers, computer software and other items related to our network infrastructure. Net cash used in investing activities amounted to RMB73 million in 2005, compared to net cash used in investing activities of RMB14 million in 2004. This increase in 2005 from 2004 was due to our purchase of the land use right for our new premises, construction of our new facilities, and purchase of additional servers, workstations, computers, computer software and other items related to our network infrastructure.

Net cash used in financing activities amounted to RMB27 million (US$3 million) in 2006, compared to net cash used in financing activities of RMB30 million in 2005, and net cash used in financing activities of RMB4 million in 2004. This change in 2006 is primarily attributable to the fact that dividends paid to shareholders amounted to RMB67 million (US$9 million) in 2006, partially offset by the proceeds of RMB40 million (US$5 million) from the exercise of share options. The change in 2005 from 2004 was primarily attributable to the fact that dividends paid to shareholders amounted to RMB40 million in 2005, partially offset by the proceeds of RMB10 million from the exercise of share options.

Capital Resources.

As of December 31, 2006, our primary source of liquidity was RMB844 million (US$108 million) of cash. Except as disclosed in this annual report, we have no outstanding bank loans or financial guarantees or similar commitments to guarantee the payment obligations of third parties. We believe that our current cash and cash equivalents and cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for the foreseeable future. We may, however, require additional cash resources due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue.

C. Research and Development

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

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2004 to December 31, 2006 that are reasonably likely to have a material and adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Arrangements

In connection with our air-ticketing business, we, on behalf of our affiliated Chinese entities, are required by CAAC to provide guarantees for tickets obtained from various airlines. As of December 31, 2006, the amount under these guarantee arrangements was approximately RMB302 million. Based on historical experience and information currently available, we do not believe that it is probable that we will be required to pay any amount under these guarantee arrangements. Therefore, we have not recorded any liability beyond what is required in connection with these guarantee arrangements.

Operating lease obligations for the year 2007, 2008 and 2009 are RMB11 million, RMB5 million, and RMB1 million respectively. Rental expenses amounted to approximately RMB6 million, RMB9 million and RMB17 million for the years ended December 31, 2004, 2005 and 2006, respectively. Rental expense is charged to the statements of income when incurred.

F. Contractual Obligations

The following sets forth our contractual obligations as of December 31, 2006:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5Years
	(in RMB thousands)				
Operating lease obligations	17,194	11,426	5,768	_	_
Purchase obligations	106,441	104,441	2,000	_	_
Liabilities incurred for minority interest in a VIE	4,750	2,312	2,438	_	_
	128,385	118,179	10,206	_	_

We have outstanding purchase obligations totaling RMB106 million, most of which are related to the construction of the new information and technology center and purchase of additional customer service center equipment mentioned above. We accrue the amount once the services are rendered by our service providers. While the table above indicates our contractual obligations as of December 31, 2006, the actual amounts we are eventually required to pay may be different in the event that any agreements are renegotiated, cancelled or terminated.

G. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk. Our exposure to interest rate risk for changes in interest rates relates primarily to the interest income generated by excess cash deposited in banks. We have not used any derivative financial instruments to hedge interest rate risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates. Based on our cash balance, one percentage point decrease in interest rates would result in approximately RMB190,000 decrease in our interest income on an annual basis. Our future interest income may fluctuate in line with changes in interest rates. However, the risk associated with fluctuating interest rates is principally confined to our interest-bearing cash deposits, and, therefore, our exposure to interest rate risk is limited.

Foreign Exchange Risk. We are exposed to foreign exchange risk arising from various currency exposures. Some of our expenses are denominated in foreign currencies while almost all of our revenue is denominated in RMB. As we hold assets dominated in U.S. dollars, including our bank deposits, any changes against our functional currencies could potentially result in a charge to our income statement and a reduction in the value of our U.S. dollar denominated assets. We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency risk. See "Risk Factors — Risks Related to Doing Business in China — Future movements in exchange rates between the U.S. dollar and RMB may adversely affect the value of our ADSs" in Form 20-F.

H. Recent Accounting Pronouncements

In June 2006, the FASB ratified the provisions of the Emerging Issue Task Force Issue No. 06-3 "How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" ("EITF 06-3"), which requires the Company to disclose how it accounts for taxes imposed on and concurrent with a specific revenue-producing transaction. EITF 06-3 will be effective for the Company starting January 1, 2007. The Company does not believe that the application of EITF 06-03 will have a material effect on its financial position, cash flow and results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions. FIN 48 requires that the Company recognize in its financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for the Company on January 1, 2007, with the cumulative effect of the change in accounting principle, if any, recorded as an adjustment to opening retained earnings. We are evaluating the potential impact of the adoption of FIN 48 on our financial position, cash flows, and results of operations.

In September 2006, the SEC released Staff Accounting Bulletin No.108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB No. 108"). SAB No. 108 provides interpretive guidance on the SEC's views on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provision of SAB No. 108 is effective for the Company for the year ended December 31, 2006. The application of SAB No. 108 does not have a material effect on our financial position, cash flows or results of operations.

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

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

Report of Independent Registered Public Accounting Firm

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

We have completed an integrated audit of Ctrip.com International, Ltd.'s 2006 consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 and audits of its December 31, 2005 and 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Ctrip.com International, Ltd. and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 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 of financial statements 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.

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

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the Report of Management on Internal Control Over Financial Reporting included in Item 15 of the accompanying Form 20-F, that Ctrip.com International, Ltd maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, the People's Republic of China
April 12, 2007

Consolidated Statements of Income and Comprehensive Income

for the years ended December 31, 2004, 2005 and 2006

	2004	2005	2006	2006
	RMB	RMB	RMB	US$
Revenues:				
Hotel reservation	276,042,944	362,856,812	476,494,606	61,056,958
Air-ticketing	64,227,728	165,603,501	302,987,649	38,824,163
Packaged-tour	10,479,780	22,755,626	41,702,488	5,343,664
Others	4,500,698	7,957,187	12,841,896	1,645,532
Total revenues	355,251,150	559,173,126	834,026,639	106,870,317
Less: business tax and related surcharges	(20,208,996)	(34,989,970)	(54,075,096)	(6,929,063)
Net revenues	335,042,154	524,183,156	779,951,543	99,941,254
Cost of revenues	(51,637,069)	(88,627,315)	(153,131,864)	(19,621,976)
Gross profit	283,405,085	435,555,841	626,819,679	80,319,278
Operating expenses:				
Product development	(38,509,781)	(57,912,533)	(105,938,184)	(13,574,683)
Sales and marketing	(73,051,175)	(112,532,026)	(172,491,625)	(22,102,693)
General and administrative	(38,113,960)	(42,650,522)	(93,173,911)	(11,939,097)
Total operating expenses	(149,674,916)	(213,095,081)	(371,603,720)	(47,616,473)
Income from operations	133,730,169	222,460,760	255,215,959	32,702,805
Interest income	5,542,520	12,660,661	15,632,481	2,003,111
Other income	6,409,683	19,970,593	11,213,801	1,436,912
Income before income tax expense and minority interests	145,682,372	255,092,014	282,062,241	36,142,828
Income tax expense	(12,517,121)	(30,577,400)	(41,277,020)	(5,289,146)
Minority interests	(38,961)	(268,790)	(221,374)	(28,366)
Net income	133,126,290	224,245,824	240,563,847	30,825,316

	2004	2005	2006	2006
	RMB	RMB	RMB	US$
Other comprehensive income:				
Foreign currency translation adjustments	193,673	(9,021,663)	(8,459,660)	(1,084,002)
Comprehensive income	133,319,963	215,224,161	232,104,187	29,741,314
Earnings per share				
— Basic	4.33	7.06	7.44	0.95
— Diluted	4.23	6.91	7.23	0.93
Weighted average shares outstanding				
— Basic shares	30,712,466	31,762,419	32,342,998	32,342,998
— Diluted shares	31,504,702	32,441,131	33,268,220	33,268,220
Share-based compensation included in operating expense above is as follows:				
Product development	(550,573)	(402,693)	(13,694,058)	(1,754,726)
Sales and marketing	(187,850)	(258,523)	(8,557,942)	(1,096,596)
General and administrative	(1,219,599)	(1,115,636)	(32,430,027)	(4,155,511)

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

Consolidated Balance Sheets

As of December 31, 2005 and 2006

	2005	2006	2006
	RMB	RMB	US$
ASSETS			
Current assets:			
Cash and cash equivalents	735,061,898	844,392,604	108,198,589
Restricted cash	6,600,000	6,600,000	845,709
Accounts receivable, net	63,392,009	136,688,354	17,514,942
Due from related parties	650,249	939,000	120,321
Prepayments and other current assets	43,475,298	61,931,154	7,935,720
Deferred tax assets, current	2,135,171	2,916,151	373,669
Total current assets	851,314,625	1,053,467,263	134,988,950
Long-term deposits	54,284,801	80,174,984	10,273,444
Land use rights	66,430,515	66,449,208	8,514,654
Property, equipment and software	53,552,243	153,690,484	19,693,556
Investment	—	80,416,250	10,304,359
Goodwill	9,515,849	14,595,849	1,870,280
Intangible assets	803,050	3,058,465	391,905
Total assets	1,035,901,083	1,451,852,503	186,037,148
LIABILITIES			
Current liabilities:			
Accounts payable	72,353,392	`151,408,198	19,401,109
Due to related parties	2,329,155	407,128	52,168
Salary and welfare payable	21,343,901	32,778,110	4,200,114
Taxes payable	16,050,032	34,913,392	4,473,724
Advances from customers	28,172,743	38,178,866	4,892,155
Accrued liability for customer reward program	19,776,193	29,566,712	3,788,613
Dividend payable	67,273,747	72,169,155	9,247,595
Other payables and accruals	43,014,910	61,623,712	7,896,326
Total current liabilities	270,314,073	421,045,273	53,951,804

	2005	2006	2006
	RMB	RMB	US$
Other long-term payables	—	2,437,500	312,336
Total liabilities	270,314,073	423,482,773	54,264,140
Minority interests	871,406	672,780	86,209
Commitments and contingencies			
Shareholders' equity			
Share capital (US$0.01 par value; 40,000,000 shares authorized, 32,037,609 and 32,649,753 shares issued and outstanding as of December 31, 2005 and 2006, respectively.)	2,652,142	2,700,889	346,086
Additional paid-in capital	524,928,856	627,461,168	80,401,477
Statutory reserves	41,769,481	53,787,911	6,892,263
Deferred share-based compensation	(465,255)	—	—
Cumulative foreign currency translation adjustments	(7,639,603)	(16,099,263)	(2,062,924)
Retained earnings	203,469,983	359,846,245	46,109,897
Total shareholders' equity	764,715,604	1,027,696,950	131,686,799
Total liabilities and shareholders' equity	1,035,901,083	1,451,852,503	186,037,148

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

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2004, 2005, and 2006

	Ordinary shares (US$0.01 par value)							
	Number of shares	Par value	Additional paid-in capital	Statutory reserves	Deferred share-based compensation	Cumulative foreign currency translation adjustments	Retained earnings (accumulated Deficit)	Total shareholders' equity
		RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as of December 31, 2003	30,174,891	2,498,484	498,566,368	5,531,309	(4,995,407)	1,575,733	(10,452,325)	492,724,162
Exercise of share option	1,390,149	115,058	13,579,396	—	—	—	—	13,694,454
Deferred share-based compensation	—	—	(778,477)	—	2,736,499	—	—	1,958,022
Appropriations to statutory reserves	—	—	—	13,725,553	—	—	(13,725,553)	—
Dividends	—	—	—	—	—	—	(39,937,887)	(39,937,887)
Foreign currency 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
Exercise of share option	472,569	38,600	13,578,370	—	—	—	—	13,616,970
Deferred share-based compensation	—	—	(16,801)	—	1,793,653	—	—	1,776,852
Appropriations to statutory reserves	—	—	—	22,512,619	—	—	(22,512,619)	—
Dividends	—	—	—	—	—	—	(67,273,747)	(67,273,747)
Foreign currency translation adjustments	—	—	—	—	—	(9,021,663)	—	(9,021,663)
Net income	—	—	—	—	—	—	224,245,824	224,245,824
Balance as of December 31, 2005	32,037,609	2,652,142	524,928,856	41,769,481	(465,255)	(7,639,603)	203,469,983	764,715,604
Exercise of share option	612,144	48,747	48,315,540	—	—	—	—	48,364,287
Adoption of SFAS No. 123R	—	—	(465,255)	—	465,255	—	—	—
Share-based compensation	—	—	54,682,027	—	—	—	—	54,682,027
Appropriations to statutory reserves	—	—	—	12,018,430	—	—	(12,018,430)	—
Dividends	—	—	—	—	—	—	(72,169,155)	(72,169,155)
Foreign currency translation adjustments	—	—	—	—	—	(8,459,660)	—	(8,459,660)
Net income	—	—	—	—	—	—	240,563,847	240,563,847
Balance as of December 31, 2006	32,649,753	2,700,889	627,461,168	53,787,911	—	(16,099,263)	359,846,245	1,027,696,950

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2004, 2005, and 2006

	2004	2005	2006	2006
	RMB	RMB	RMB	US$
Cash flows from operating activities:				
Net income	133,126,290	224,245,824	240,563,847	30,825,316
Adjustments to reconcile net income to cash provided by operating activities:				
Share-based compensation	1,958,022	1,776,852	54,682,027	7,006,833
Depreciation and amortization of property, equipment and software and intangible assets	7,450,585	8,833,010	14,214,262	1,821,384
Minority interests	38,961	268,790	221,374	28,366
Deferred tax benefits	(468,103)	(1,125,768)	(780,980)	(100,073)
Loss from disposal of property, equipment and software	553,942	95,717	680,494	87,197
Changes in current assets and liabilities:				
Increase in restricted cash	—	(6,600,000)	—	—
Increase in accounts receivable	(6,478,777)	(27,973,532)	(77,414,794)	(9,919,759)
(Increase) decrease in due from related parties	552,388	(590,997)	(288,751)	(37,000)
Increase in prepayments and other current assets	(5,676,788)	(20,570,031)	(14,526,301)	(1,861,368)
Increase in long-term deposits	(15,523,270)	(27,569,254)	(25,890,183)	(3,317,510)
Increase in accounts payable	15,456,246	42,203,089	79,054,806	10,129,907
Increase (decrease) in due to related parties	(639,304)	289,043	(683,344)	(87,562)
Increase in salary and welfare payable	4,311,020	7,233,171	11,434,209	1,465,154
Increase (decrease) in taxes payable	14,092,163	(7,371,225)	18,863,360	2,417,109
Increase in advances from customers	2,686,796	21,646,104	10,861,282	1,391,741
Increase in accrued liability for customer reward program	5,753,433	9,314,090	9,790,519	1,254,535
Increase in other payables and accruals	5,537,317	7,259,120	27,110,163	3,473,836
Net cash provided by operating activities	162,730,921	231,364,003	347,891,990	44,578,106

	2004	2005	2006	2006
	RMB	RMB	RMB	US$
Cash flows from investing activities:				
Purchase of property, equipment and software	(16,130,030)	(31,885,163)	(96,572,815)	(12,374,626)
Purchase of land use right	—	(41,430,515)	(26,839,219)	(3,439,118)
Cash paid for investments	—	—	(80,416,250)	(10,304,359)
Cash paid for minority interest in a VIE	—	—	(750,000)	(96,103)
Purchase of intangible assets	—	—	(2,395,071)	(306,899)
Decrease in long-term loans to related parties	1,810,000	500,000	—	—
Net cash used in investing activities	(14,320,030)	(72,815,678)	(206,973,355)	(26,521,105)
Cash flows from financing activities:				
Payment of issuance costs of initial public offering	(12,309,120)	—	—	—
Proceeds from exercise of share option	7,998,415	9,597,760	40,143,700	5,143,924
Dividends paid	—	(39,937,887)	(67,273,747)	(8,620,308)
Net cash used in financing activities	(4,310,705)	(30,340,127)	(27,130,047)	(3,476,384)
Effect of foreign exchange rate changes				
on cash and cash equivalents	(193,673)	(9,021,663)	(4,457,882)	(571,223)
Net increase in cash and cash equivalents	143,906,513	119,186,535	109,330,706	14,009,394
Cash and cash equivalents, beginning of year	471,968,850	615,875,363	735,061,898	94,189,195
Cash and cash equivalents, end of year	615,875,363	735,061,898	844,392,604	108,198,589
Supplemental disclosure of cash flow information				
Cash paid during the year for income taxes	12,757,167	26,754,036	33,822,731	4,333,969
Supplemental schedule of non-cash investing and financing activities:				
Accruals related to land use right	—	(25,000,000)	—	—
Accruals related to purchase of property,				
equipment and software	—	—	(17,470,657)	(2,238,651)
Liabilities incurred for minority interest in a VIE	—	—	(4,750,000)	(608,654)

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

1. ORGANIZATION AND NATURE OF OPERATIONS

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

Basis of presentation

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

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

Consolidation

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

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

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Consolidation *(Continued)*

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

Name of VIE	Date of establishment/acquisition
Beijing Ctrip International Travel Agency Co., Ltd. ("Beijing Ctrip")	Acquired on January 15, 2002
Shanghai Ctrip Commerce Co., Ltd. ("Shanghai Ctrip Commerce")	Established on July 18, 2000
Shanghai Huacheng Southwest Travel Agency Co., Ltd. ("Shanghai Huacheng")	Established on March 13, 2001
Guangzhou Ctrip Travel Agency Co., Ltd. ("Guangzhou Ctrip")	Established on April 28, 2003
Shanghai Ctrip Charming International Travel Agency Co., Ltd. ("Shanghai Ctrip Charming")	Acquired on September 23, 2003
Shenzhen Ctrip Travel Agency Co., Ltd. ("Shenzhen Ctrip" formerly Shenzhen Shencheng Information Consulting Service Co., Ltd.)	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 three senior executives of the Company. Such director and officers collectively own a 100% equity interest in all of the VIEs except for Shanghai Huacheng and Shanghai Ctrip Charming which are 1.67% and 1.8% owned by third parties, respectively. The Company obtained control of additional share equities in Shanghai Ctrip Charming in 2006, see the footnote "goodwill". The Company has consolidated the assets and liabilities of the above VIEs in accordance with transition guidance under FIN 46R.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Variable interest entities

As of December 31, 2006, the Company conducts a part of its operations through a series of agreements with certain VIEs as stated in above. These VIEs are used solely to facilitate the Group's participation in Internet content provision, advertising business, travel agency and air-ticketing services in the PRC where foreign ownership in these areas is restricted.

Shanghai Ctrip Commerce is a domestic company incorporated in Shanghai, the PRC. Shanghai Ctrip Commerce holds an Internet content provider ("ICP") license and 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, 2006 was RMB10,000,000.

Shanghai Huacheng is a domestic company incorporated in Shanghai, the PRC. Shanghai Huacheng holds a domestic travel agency license and an air transport sales agency license and mainly provides domestic tour services and air-ticketing services. Shanghai Ctrip Commerce and a director of the Company collectively hold 98.33% of the equity interest in Shanghai Huacheng. The registered capital of Shanghai Huacheng as of December 31, 2006 was RMB3,000,000.

Beijing Ctrip is a domestic company incorporated in Beijing, the PRC. Beijing Ctrip holds an air transport sales agency license, domestic and cross-border travel agency license and is mainly engaged in the provision of air-ticketing services and packaged tour services. A director of the Company and Shanghai Ctrip Commerce collectively hold 100% of the equity interest in Beijing Ctrip. The registered capital of Beijing Ctrip as of December 31, 2006 was RMB4,500,000.

Guangzhou Ctrip is a domestic company incorporated in Guangzhou, the PRC. Guangzhou Ctrip holds air transport sales agency license and domestic travel agency license and is mainly engaged in the provision of air-ticketing services and packaged tour services. Two senior executives of the Company collectively hold 100% of the equity interest in Guangzhou Ctrip. The registered capital of Guangzhou Ctrip as of December 31, 2006 was RMB3,000,000.

Shanghai Ctrip Charming is a domestic company incorporated in Shanghai, the PRC. Shanghai Ctrip Charming holds domestic and cross-border travel agency licenses, air transport sales agency license and mainly provides domestic and cross-border tour services. Two senior executives of the Company collectively control 98.2 % of the equity interest in Shanghai Ctrip Charming. The registered capital of Shanghai Ctrip Charming as of December 31, 2006 was RMB5,000,000.

Shenzhen Ctrip is a domestic company incorporated in Shenzhen, the PRC. Shenzhen Ctrip holds air transport sales agency license and domestic travel agency license and is engaged in the provision of air-ticketing service. Two senior executives of the Company collectively hold 100% of the equity interest in Shenzhen Ctrip. The registered capital of Shenzhen Ctrip as of December 31, 2006 was RMB2,500,000.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Variable interest entities *(Continued)*

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

As of December 31, 2006, the Company has various agreements with its consolidated VIEs, including loan agreements, exclusive technical consulting and services agreements, share pledge agreements, exclusive option agreements and other operating agreements.

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

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

Transactions denominated in currencies other than functional currencies are translated at the exchange rates quoted by the People's Bank of China (the "PBOC") or The Hong Kong and Shanghai Banking Corporation Limited (the "HSBC") prevailing at the dates of the transactions for PRC and Hong Kong subsidiaries respectively. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of income. Monetary assets and liabilities denominated in foreign currencies are translated using the applicable exchange rates quoted by the PBOC or HSBC at the balance sheet dates. All such exchange gains and losses are included in the statements of income. The exchange differences for the translation of group companies balances are included in foreign currency translation adjustments, which is a separate component of shareholders' equity on the consolidated financial statements.

Translations of amounts from RMB into US$ are solely for the convenience of the reader and were calculated at the rate of US$1.00 = RMB7.8041, on December 31, 2006, representing the noon buying rate in the City of New York for cable transfers of RMB, as certified for customs purposes by the Federal Reserve Bank of New York. No representation is intended to imply that the RMB amounts could have been, or could be, converted, realized or settled into US$ at that rate on December 31, 2006, or at any other rate.

Stock Split

On March 31, 2006, the Company announced a change in the ratio of its ADSs to ordinary shares from one ADS representing two ordinary shares to one ADS representing one ordinary share, effective on April 11, 2006. For Ctrip's ADS holders, this ratio change had the same effect as a two-for-one ADS split. All shares and per share amount in this consolidated financial statements and related notes have been retroactively adjusted to reflect the change in ratio for all periods presented.

Cash and cash equivalents

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Restricted cash

Restricted cash represents cash that cannot be withdrawn without the permission of a third party. The Group's restricted cash is substantially cash balance on deposit required by one of its business partners, which is not allowed to be withdrawn until the cooperation agreement expires in June 2007.

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	0-30 years
Leasehold improvements	Lesser of the term of the lease or the estimated useful lives of the assets
Website-related equipment	5 years
Computer equipment	5 years
Furniture and fixtures	3-5 years
Software	5 years

Construction in progress is stated at cost. In 2005, the Company started the construction of a new information and technology center in Shanghai, which when completed will house our principal executive offices, 24-hour customer service center, product development center and administrative and support facilities. All direct costs of constructing the center are capitalized as construction in progress until the new building is substantially completed and available for use.

Investment

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Goodwill and other intangible assets

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

Separately identifiable intangible assets that have determinable lives continued to be amortized, and consisted primarily of a cross-border travel agency license as of December 31, 2006. As required under SFAS No. 142, the Company amortizes intangible assets on a straight-line basis over their estimated useful lives, which is eight years. The Company has prospectively ceased the amortization of goodwill upon the adoption of SFAS No. 142. Other intangible assets that have indefinite useful life include a golf membership certificate and a domain name as of December 31, 2006. The Company evaluates the remaining useful life of an intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, the asset is tested for impairment.

The Company reviews goodwill and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable, and also reviews goodwill and intangibles with indefinite lives annually for impairment. No impairment on goodwill and other intangible assets was recognized for the years ended December 31, 2004, 2005 and 2006 in accordance with SFAS No. 142.

Impairment of long-lived assets

Since January 1, 2002, the Group applies provisions of SFAS No. 144, - *"Accounting for the Impairment or Disposal of Long-Lived Assets,"* which addresses the financial accounting and reporting for the recognition and measurement of impairment losses for long-lived assets. In accordance with these standards, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Group recognizes impairment of long-lived assets in the event that the carrying amount of such assets exceeds the fair value.

No impairment of long-lived assets was recognized for the years ended December 31, 2004, 2005 and 2006.

Financial instruments

Financial instruments of the Group primarily comprise of cash and cash equivalents, restricted cash, accounts receivable, due from related parties, accounts payable, due to related parties, advances from customers and other payables. As of December 31, 2005 and 2006, their carrying value approximated their fair value.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Accrued liability for customer reward program

The Group's customers participate in a reward program, which provides travel awards and other gifts to members based on accumulated membership points that vary depending on the services rendered and fees paid. The estimated incremental costs to provide free travel and other gifts are recognized as sales and marketing expense in the statements of income and accrued for as a current liability as members accumulate points. As members redeem awards or their entitlements expire, the accrued liability is reduced correspondingly. As of December 31, 2005 and 2006, the Group made accrued liability of RMB19,776,193 and RMB29,566,712, respectively, based on the estimated liabilities under the customer reward program.

Revenue recognition

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

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

Hotel reservation services

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

Air-ticketing services

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Packaged-tour

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

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

Other businesses

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

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

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

Allowance for doubtful accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. We provide a general provision for doubtful accounts for the outstanding trade receivable balances based on historical experience and information available. Additionally, we make specific bad debt provisions based on (i) our specific assessment of the collectibility of all significant accounts; and (ii) any specific knowledge we have acquired that might indicate that an account is uncollectible. The facts and circumstances of each account may require us to use substantial judgment in assessing its collectibility. As of the end of December 31, 2005 and 2006, the allowance for doubtful accounts was nil and RMB8,469 respectively.

Cost of revenues

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Product development

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

Sales and marketing

Sales and marketing expenses consist primarily of costs of payroll and related compensation for the Company's sales and marketing personnel, advertising expenses, commission fees, and production costs of marketing materials. Advertising expenses, amounting to RMB10,648,334, RMB16,750,270 and RMB25,230,545 for the years ended December 31, 2004, 2005 and 2006, respectively, are charged to the statements of income when incurred.

Share-based compensation

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Share-based compensation *(Continued)*

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

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

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

Share option plans

On April 15, 2000, the Company adopted a share option plan that provides for the issuance of up to 144,000 ordinary shares in effect for a term of 10 years unless terminated earlier by shareholders and Board of Directors ("2000 Option Plan"). Under the 2000 Option Plan, the directors may, at their discretion, grant any employees, officers and directors of the Company and/or its subsidiaries to take up share options to subscribe for shares. These share options are vested over a period of 3 years and can be exercised within 5 years from the date of grant. On June 6, 2000, the Company increased its number of ordinary shares from 2,000,000 shares to 20,000,000 shares by decreasing the par value from US$0.10 each to US$0.01 each. The total number of ordinary shares reserved for the 2000 Option Plan increased from 144,000 to 1,440,000 accordingly. On July 1, 2001, the total number of ordinary shares reserved for the 2000 Option Plan was further increased to 1,728,000 shares. All share options granted under the 2000 Option Plan have an exercise price of US$0.7716. As of December 31, 2006, 14,157 options were outstanding under the 2000 Option Plan.

On April 15, 2003, the Company adopted a 2003 share option plan that provides for the issuance of up to 1,187,510 ordinary shares ("2003 Option Plan"). Under this share option plan, the directors may, at their discretion, grant any employees, officers and directors of the Company and/or its subsidiaries to take up share options to subscribe for shares. These share options are vested over a period of 3 years and can be exercised within 5 years from the date of grant. As of December 31, 2006, 225,563 options were outstanding under the 2003 Option Plan.

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Share-based compensation *(Continued)*

On November 5, 2004, the Company's board of directors adopted a 2005 Employee's Stock Option Plan ("2005 Option Plan"). The 2005 Option Plan was approved by the shareholders of the Company in October 2005. The Company has reserved 3,000,000 ordinary shares for future issuances of options under the 2005 Option Plan. The terms of the 2005 Option Plan are substantially similar to the Company's 2003 Option Plan. As of December 31, 2006, 1,720,230 options were outstanding under the 2005 Option Plan.

A summary of option activity under the share option plans

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

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2004	2,367,320	1.8007		
Granted	257,600	13.1436		
Exercised	(1,390,149)	1.1894		
Forfeited	(106,694)	4.8748		
Outstanding at December 31, 2004	1,128,077	4.8666		
Granted	1,813,580	22.3577		
Exercised	(472,569)	3.5551		
Forfeited	(66,924)	17.3684		
Outstanding at December 31, 2005	2,402,164	17.9795		
Granted	220,300	41.0321		
Exercised	(612,144)	9.9778		
Forfeited	(50,370)	27.4659		
Outstanding at December 31, 2006	1,959,950	22.8259	3.4088	77,504,396
Vested and expected to vest at December 31, 2006	1,846,382	22.7121	3.3991	73,223,692
Exercisable at December 31, 2006	540,344	17.9620	2.9951	23,995,604

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

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

The aggregate intrinsic value in the table above represents the total intrinsic value (the aggregate difference between the closing stock price of the Company's closing stock price of US$62.37 as of December 31, 2006 and the exercise price for in-the-money options) that would have been received by the option holders if all in-the-money options had been exercised on December 31, 2006.

The total intrinsic value of options exercised during the year ended December 31, 2004, 2005 and 2006 were US$28 million, US$10 million and US$24 million, respectively.

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Share-based compensation *(Continued)*

The following table summarized information related to outstanding and exercisable options as of December 31, 2006 (in US$, except shares):

	Outstanding			Exercisable		
Range of Exercise Prices	Number of shares	Weighted-Average Exercise Price	Weighted-average Remaining Contractual Life (Years)	Number of shares	Weighted-Average Exercise Price	Weighted-average Remaining Contractual Life (Years)
$0-$4.99	72,983	1.8504	1.2257	72,983	1.8504	1.2257
$5.00-$7.49	40,617	6.4067	1.8279	40,617	6.4067	1.8279
$7.50-$9.99	13,899	7.6500	1.8694	13,899	7.6500	1.8694
$10.00-$16.99	112,221	13.5009	2.4895	38,013	14.0069	2.5324
$17.00-$22.99	822,880	19.5779	3.1105	172,015	19.4911	3.1018
$23.00-$34.99	732,550	26.4613	3.9487	202,817	26.2250	3.9389
$35.00-$44.99	164,800	43.8500	4.6111	—	—	—
	1,959,950			540,344		

The weighted average fair value of options granted during the years ended December 31, 2004, 2005 and 2006 was US$8.0110, US$10.5409, and US$12.9369 per share, respectively.

As of December 31, 2006, there was US$11 million of total unrecognized compensation cost, net of estimated forfeitures, related to unvested share options which is expected to be recognized over a weighted average period of 1.7 year. Total unrecognized compensation cost may be adjusted for future changes in estimated forfeitures. During the year ended December 31, 2006, total cash received from the exercise of share options amounted to RMB40,143,700 (US$5 million).

The Company calculated the estimated fair value of share options on the date of grant using the Black-Scholes pricing model with the following assumptions for the year ended 2004, 2005 and 2006:

	2004	2005	2006
Risk-free interest rate	2.65%	3.65%-4.44%	4.66% - 4.93%
Expected life (years)	5	4	2.5
Expected dividend yield	0	0.66%	0.89%
Volatility	65% ~ 76%	55% ~ 64%	45% - 54%
Fair value of options at grant date per share	from US$7.5838 to US$9.4613	from US$8.7288 to US$11.7557	from US$10.8156 to US$13.5044

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Share-based compensation *(Continued)*

Pro Forma Information under SFAS No. 123 for Prior Periods

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

	2004 RMB	2005 RMB
Net income as reported	133,126,290	224,245,824
Add: Compensation expense under APB No. 25	1,958,022	1,776,852
Less: Compensation expense under SFAS No. 123	(5,720,437)	(33,429,286)
Pro forma net income	129,363,875	192,593,390
Basic earnings per share		
— As reported	4.33	7.06
— Pro forma	4.21	6.06
Diluted earnings per share		
— As reported	4.23	6.91
— Pro forma	4.11	5.94

Operating leases

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

Taxation

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Other income

Other income primarily consists of financial subsidies. During the year ended December 31, 2004, 2005 and 2006, the Group received financial subsidies amounting to RMB6,165,086, RMB17,917,051 and RMB10,700,687, respectively, from local PRC government authority. Such amounts were recorded as other income in the consolidated statements of income. There are no defined rules and regulations to govern the criteria necessary for companies to enjoy such benefits and the amount of financial subsidy are determined at the discretion of the relevant government authority. Financial subsidies are recognized as other income when received.

Statutory reserves

The Company's PRC subsidiaries and the VIEs are required to allocate at least 10% of their after-tax profit to the general reserve in accordance with the PRC accounting standards and regulations. The allocation to the general reserve can be stopped if such reserve has reached 50% of the registered capital of each company. Appropriations to the enterprise expansion fund, staff welfare and bonus fund are at the discretion of the board of directors of Ctrip Computer Technology, Ctrip Travel Information and Ctrip Travel Network, the subsidiaries of the Company. 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, 2004, 2005 and 2006, appropriations to statutory reserves have been made of RMB13,725,553, RMB22,512,619 and RMB12,018,430, respectively.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Dividends

Dividends are recognized when declared.

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

As a result of the aforementioned PRC regulation and the Company's organizational structure, accumulated profits of the subsidiaries in PRC distributable in the form of dividends to the parent as of December 31, 2004, 2005 and 2006 were RMB170 million, RMB285 million and RMB552 million, respectively. The Company's PRC subsidiaries and VIEs are able to enter into royalty and trademark license agreements or certain other contractual arrangements at the discretion of the Company without third party consent, for which the compensatory element of the arrangement is excluded from the accumulated profits.

On 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 determined in accordance with the US General Accepted Accounting Principle and reported in the audited consolidated financial statements of the Company for the year ended December 31, 2004) to the shareholders as dividend provided that the Company's net income for 2004 exceeds US$10 million. The Company's Board of Directors had also approved such proposed dividend distribution. The Company accrued RMB39,937,887 dividend payable for the year ended December 31, 2004. On July 8, 2005, we distributed the dividend to our shareholders of record as of June 30, 2005, at a dividend rate of RMB1.26 (US$0.1525) per share.

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

On October 17, 2006, the Company announced that the shareholders have adopted a resolution to approve the Company's proposed distribution of 30% of its net income for 2006 (as determined in accordance with the US GAAP and reported in the audited consolidated financial statements of the Company for the year ended December 31, 2006) to the shareholders of the Company as dividends, subject to determination of the record date by the Company's Board of Directors. The Board of Directors had also approved such proposed dividend distribution. The Company accrued dividend payable of RMB72,169,155 (US$9,247,595) for the year ended December 31, 2006.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Earnings per share

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

Segment reporting

The Company operates and manages its business as a single segment. In accordance with SFAS No. 131, *"Disclosures about Segment of an Enterprise and Related Information"* ("SFAS No. 131"), the Company's chief operating decision-maker has been identified as the CEO, who reviews operating results to make decisions about allocating resources and assessing performance for the entire company. All material operating segments qualify for aggregation under SFAS No. 131 due to similarities in the following: customer base; economic characteristics; nature of products and services; nature of production processes, distribution method and regulatory environment. Since the Company operates in one reportable segment and in one group of similar products and services, all financial segment and product information required by SFAS No. 131 can be found in the Consolidated Statements.

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Recent accounting pronouncements

In June 2006, the FASB ratified the provisions of the Emerging Issue Task Force Issue No. 06-3 "How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" ("EITF 06-3"), which requires the Company to disclose how it accounts for taxes imposed on and concurrent with a specific revenue-producing transaction. EITF 06-3 will be effective for the Company starting January 1, 2007. The Company does not believe that the application of EITF 06-03 will have a material effect on its financial position, cash flow and results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions. FIN 48 requires that the Company recognize in its financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for the Company on January 1, 2007, with the cumulative effect of the change in accounting principle, if any, recorded as an adjustment to opening retained earnings. We are evaluating the potential impact of the adoption of FIN 48 on our financial position, cash flows, and results of operations.

In September 2006, the SEC released Staff Accounting Bulletin No.108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB No. 108"). SAB No. 108 provides interpretive guidance on the SEC's views on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provision of SAB No. 108 is effective for the Company for the year ended December 31, 2006. The application of SAB No. 108 did not have a material effect on our financial position, cash flows or results of operations.

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Certain risks and concentration

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

No individual customer accounted for more than 10% of net revenues for the years ended December 31, 2004, 2005 and 2006. No individual customer accounted for more than 10% of accounts receivable as of December 31, 2005 and 2006.

Reclassifications

Certain prior year amounts have been reclassified with no effect on net income or retained earnings to conform to the 2006 financial statement presentation.

(Amounts expressed in RMB unless otherwise stated)

3. PREPAYMENTS AND OTHER CURRENT ASSETS

Components of prepayments and other current assets as of December 31, 2005 and 2006 were as follows:

	2005 RMB	2006 RMB
Prepayments and deposits to vendors	29,374,325	35,928,972
Receivables from financial institution	8,363,523	15,345,427
Prepayments for acquisition of property, equipment and software	2,027,506	4,065,660
Interest receivable	999,538	2,293,605
Employee advances	448,497	549,294
Others	2,261,909	3,748,196
Total	43,475,298	61,931,154

4. LONG-TERM DEPOSITS

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

Components of long-term deposit as of December 31, 2005 and 2006 were as follows:

	2005 RMB	2006 RMB
Deposits paid to airline suppliers	48,167,800	69,987,550
Deposit paid to travel bureau	2,400,000	4,200,000
Others	3,717,001	5,987,434
Total	54,284,801	80,174,984

5. LAND USE RIGHTS

Land use rights are related to the payment to acquire land use rights of total cost RMB68,269,734 for approximately 17,000 square meters of land in Shanghai, on which the Group have been building the aforementioned new information and technology center. According to land use right policy in the PRC, the Company has a 50-year use right over the land, which is used as the basis for amortization. As of December 31, 2006, accumulated amortization and current year amortization was RMB1,820,526, and the net book value was RMB66,449,208.

(Amounts expressed in RMB unless otherwise stated)

6. PROPERTY, EQUIPMENT AND SOFTWARE

Property, equipment and software and its related accumulated depreciation and amortization as of December 31, 2005 and 2006 were as follows:

	2005	2006
	RMB	RMB
Building	7,947,600	7,702,800
Leasehold improvements	3,780,782	5,900,705
Website-related equipment	11,421,158	18,901,414
Computer equipment	27,908,100	42,473,879
Furniture and fixtures	13,082,293	23,751,502
Software	5,152,363	5,163,163
Construction in progress	5,097,318	82,082,977
Less: accumulated depreciation and amortization	(20,837,371)	(32,285,956)
Total net book value	53,552,243	153,690,484

Construction in progress is related to cost of the aforementioned new information and technology center, which when completed will house our principal executive offices, 24-hour customer service center, product development center and administrative and support facilities.

Depreciation expense for the years ended December 31, 2004, 2005 and 2006 was approximately RMB6,957,685, RMB8,413,707 and RMB12,254,080, respectively.

7. INVESTMENT

On March 12, 2006, our wholly-owned subsidiary C-Travel, a Cayman Island company, made a minority investment in ezTravel Co., Ltd. ("ezTravel"), an online travel service provider in Taiwan that offers both individual and group tours in addition to hotel and airline tickets reservation services. The Company accounted for the investment in ezTravel using the cost method of accounting as the Company did not exercise significant influence over ezTravel. Total amount paid for this acquisition as of December 31, 2006 was approximately US$10 million in cash, equivalent to approximately RMB80 million. Pursuant to the purchase agreement, C-Travel may be subject to contingent payment in 2007 to the selling shareholders based on 2006 earnings of ezTravel.

8. GOODWILL

The changes in the carrying amount of goodwill for the year ended December 31, 2005 and 2006 were as follows:

	2005	2006
	RMB	RMB
Balance at beginning of year	9,515,849	9,515,849
Acquisitions	—	5,080,000
Balance at ending of year	9,515,849	14,595,849

(Amounts expressed in RMB unless otherwise stated)

8. GOODWILL *(Continued)*

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

Total purchase price for this transaction amounted to RMB5.5 million, of which RMB750,000 was paid in July 2006. The remaining amount were recorded as liabilities, RMB 2,312,500 in Other Payables and Accruals and RMB 2,437,500 in Long-term Payables in the accompanying balance sheet, and is payable in varying amounts through 2010. Goodwill in the amount of RMB5,080,000 was recorded in connection with this transaction.

Goodwill is not amortized but is reviewed annually for impairment according to SFAS No. 142. The Company performed goodwill impairment tests in year 2005 and 2006, and the results of these tests indicated that the Company's goodwill assets were not impaired.

9. INTANGIBLE ASSETS

Intangible assets as of December 31, 2005 and 2006 were as follows:

	2005 RMB	2006 RMB
Intangible assets —		
Cross-border travel agency license	1,117,277	1,117,277
Golf membership certificate	—	2,000,000
Domain name	—	395,071
	1,117,277	3,512,348
Less: accumulated amortization —		
Cross-border travel agency license	(314,227)	(453,883)
Golf membership certificate	—	—
Domain name	—	—
	(314,227)	(453,883)
Net book value	803,050	3,058,465

Amortization expense for the years ended December 31, 2004, 2005 and 2006 was approximately RMB492,900, RMB419,303 and RMB139,656, respectively.

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

	Amortization RMB
2007	139,656
2008	139,656
2009	139,656
2010	139,656
2011 and thereafter	104,770
	663,394

10. TAXATION

Cayman Islands

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

Hong Kong

The Company's subsidiaries did not have assessable profits that were earned in or derived from Hong Kong during the years ended December 31, 2004, 2005 and 2006. Accordingly, no Hong Kong profit tax has been provided for.

China

The Company's subsidiaries and VIEs registered in the PRC are subject to PRC Enterprise Income Tax ("EIT") on the taxable income as reported in their respective statutory financial statements adjusted in accordance with relevant PRC income tax laws. Normally, in accordance with "Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises," the applicable EIT rates are 30% plus a local income tax of 3%, except for Ctrip Computer Technology, Ctrip Travel Information, Shanghai Huacheng and Shenzhen Ctrip.

Ctrip Computer Technology is currently entitled to a 15% EIT rate as it has been classified as a "High New Technology Development Enterprise" by relevant PRC government authorities. Ctrip Computer Technology's qualification for the above preferential EIT rate is subject to annual re-assessment by the relevant government authorities.

Ctrip Travel Information historically enjoyed a preferential income tax rate of 15% as it is registered in Pudong New District, Shanghai. During the fourth quarter of 2004, Ctrip Travel Information obtained approval from the relevant tax bureau for full exemption of income tax for 2004 and a 50% reduction of the income tax statutory rate for the period from 2005 to 2007 as it obtained the status of "software development company". Ctrip Travel Information's qualification for the above preferential EIT rate is also subject to annual re-assessment by the relevant government authorities.

Shanghai Huacheng is entitled to a 30% tax reduction for each of the years from 2004 to 2006 since it is classified as an entity that provides job opportunities for unemployed individuals. According to the preferential tax policy, Shanghai Huacheng will stop enjoying the 30% tax reduction from year 2007 and thereafter.

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

(Amounts expressed in RMB unless otherwise stated)

10. TAXATION *(Continued)*

Composition of income tax expense

The current and deferred portion of income tax expense included in the consolidated statements of income for the years ended December 31, 2004, 2005 and 2006 were as follows:

	2004 RMB	2005 RMB	2006 RMB
Current income tax expense	(12,985,224)	(31,703,168)	(42,058,000)
Deferred tax benefits	468,103	1,125,768	780,980
Income tax expense	(12,517,121)	(30,577,400)	(41,277,020)

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, 2004, 2005 and 2006 was as follows:

	2004	2005	2006
Statutory EIT rate	33%	33%	33%
Tax differential from statutory rate applicable to subsidiaries in the PRC	(25)%	(21)%	(25)%
Non-deductible expenses incurred	1%	0%	7%
Effective EIT rate	9%	12%	15 %

Significant components of deferred tax assets

	2005 RMB	2006 RMB
Accrued liability for customer reward program and e-coupons	2,456,633	3,321,519
Deferred tax liabilities	(321,462)	(405,368)
Total deferred tax assets	2,135,171	2,916,151

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

11. EMPLOYEE BENEFITS

The full-time employees of Ctrip Computer Technology, Ctrip Travel Information, Ctrip Travel Network and the VIEs, which were established in the PRC, are entitled to staff welfare benefits including medical care, welfare subsidies, unemployment insurance and pension benefits. Ctrip Computer Technology, Ctrip Travel Information, Ctrip Travel Network and the VIEs are required to accrue for these benefits based on certain percentages of the employees' salaries in accordance with the relevant PRC regulations and make contributions to the state-sponsored pension and medical plans out of the amounts accrued for medical and pension benefits. The total provision accrued for such employee benefits amounted to RMB11,818,432, RMB19,204,326 and RMB41,332,075 for the years ended December 31, 2004, 2005 and 2006, respectively. The PRC government is responsible for the medical benefits and ultimate pension liability to these employees.

(Amounts expressed in RMB unless otherwise stated)

12. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2004, 2005 and 2006 significant related party transactions were as follows:

	2004 RMB	2005 RMB	2006 RMB
Commissions from Home Inns & Hotel management Inc. and its affiliates (collectively, "Home Inns")	489,432	512,724	6,272,966
Commissions from Hanting Hotels Inc. and its affiliates (collectively, "Hanting")	34,636	287,734	1,427,512
Advertising expenses to Focus Media Holding Ltd.	361,369	2,131,501	1,543,900
Marketing expenses to Alibaba-Yahoo! China	276,766	718,874	800,000
Rental expense to a family member of a director	500,000	550,000	550,000

Two of our hotel suppliers, Home Inns and Hanting, have some of directors in common with our company. Home Inns and Hanting have entered into agreements with us, respectively, to provide hotel rooms for our customers. Commissions from Home Inns and Hanting for the year ended December 31, 2004, 2005 and 2006 are then presented as above.

Two of our advertising suppliers, Focus Media Holding Ltd. and Alibaba -Yahoo! China have entered into agreements with us to provide certain advertising services for us. Focus Media Holding Ltd. has a director in common with our company. Alibaba -Yahoo! China is affiliated with a family member of one of our officers. Total advertising expenses to Focus Media Holding Ltd. and Alibaba -Yahoo! China for the year ended December 31, 2004, 2005 and 2006 are then presented as above.

We lease approximately 1,223 square meters of our office premises in Shanghai from a company controlled by a family member of one of our directors. Rental expense for the year ended December 31, 2004, 2005 and 2006 are presented as above.

As of December 31, 2005 and 2006, significant balances with related parties were as follows:

	2005 RMB	2006 RMB
Due from related parties:		
Due from Home Inns	602,043	666,026
Due from Hanting	48,206	272,974
	650,249	939,000
Due to related parties:		
Advance from a director for stock option	1,238,683	—
Due to Home Inns	—	18,000
Due to related parties of a VIE	1,090,472	389,128
	2,329,155	407,128

The amounts due from and due to related parties as of December 31, 2005 and 2006 primarily resulted from the transactions disclosed above and revenue received and expenses paid on behalf on each other. They are not collateralized, interest-free and have no fixed repayment terms.

(Amounts expressed in RMB unless otherwise stated)

13. OTHER PAYABLES AND ACCRUALS

Components of other payables and accruals as of December 31, 2005 and 2006 were as follows:

	2005 RMB	2006 RMB
Due to employees for stock option proceeds received on their behalf	—	20,795,861
Accrued for outstanding construction payment	—	17,470,657
Accrued operating expenses	12,727,320	14,571,411
Liability incurred for minority interest in a VIE	—	2,312,500
Deposits received from suppliers	3,576,335	1,862,824
Accrued for outstanding land use right fees	25,000,000	—
Deferred revenue	160,000	—
Others	1,551,255	4,610,459
Total	43,014,910	61,623,712

14. EARNINGS PER SHARE

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

	2004 RMB	2005 RMB	2006 RMB
Numerator:			
Net income	133,126,290	224,245,824	240,563,847
Denominator:			
Denominator for basic earnings per share			
- weighted average shares outstanding	30,712,466	31,762,419	32,342,998
Dilutive effect of share options	792,236	678,712	925,222
Denominator for diluted earnings per share	31,504,702	32,441,131	33,268,220
Basic earnings per share	4.33	7.06	7.44
Diluted earnings per share	4.23	6.91	7.23

(Amounts expressed in RMB unless otherwise stated)

15. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Company has entered into leasing arrangements relating to office premises, equipment and others that are classified as operating leases for the year from 2007 to 2009. Future minimum lease payments for non-cancelable operating leases are as follows:

	Office premises RMB
2007	11,425,682
2008	4,973,504
2009	795,025
	17,194,211

Rental expense amounted to RMB6,269,028, RMB9,498,348 and RMB16,813,230 for the years ended December 31, 2004, 2005 and 2006, respectively. Rental expense is charged to the statements of income when incurred.

Capital commitments

As of December 31, 2006, the Company had outstanding purchase commitments totaling RMB89 million, most of which is related to the construction of the aforementioned new information and technology center and purchase of office equipments. The contracted purchase commitment for the new information and technology center and for the office equipments will be paid from 2007 to 2008.

Guarantee

In connection with our air-ticketing business, the Company, on behalf of its VIEs, are required by the Civil Aviation Administration of China to provide guarantees for tickets obtained from various airlines. As of December 31, 2006, the amount under these guarantee arrangements was approximately RMB302 million. Based on historical experience and information currently available, we do not believe that it is probable that we will be required to pay any amount under these guarantee arrangements. Therefore, we have not recorded any liability beyond what is required in connection with these guarantee arrangements.

Contingencies

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

Corporate Information

Corporate Officers

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

Directors

Mr. James Jianzhang Liang	Chairman of the Board Ctrip.com International, Ltd.
Mr. Min Fan	Chief Executive officer Ctrip.com International, Ltd.
Mr. JP Gan	Managing Director Qiming Venture Partners
Mr. Qi Ji	Chief Executive Officer Powerhill Holdings Ltd.
Mr. Gabriel Li	Managing Director Orchid Asia Group Management Co., LLC.
Mr. Neil Nanpeng Shen	Founding Managing Partner Sequoia Capital China Advisors (Hong Kong) Ltd.
Mr. Robert Stein(1)	A Member of the Managing Board WestLB AG
Mr. Yoshihisa Yamada(2)	Senior Executive Officer and Director Rakuten Inc.
Mr. Hideaki Yokomizo	Deputy General Manager Rakuten Inc.
Mr. Suyang Zhang	Vice President IDG Technology Venture Investment Inc.

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U.S. Legal Counsel

Latham & Watkins LLP - Hong Kong

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(1) Mr. Robert Stein resigned as of January 10, 2007
(2) Mr. Yoshihisa Yamada resigned as of March 29, 2007

EXTENSIVE HOTEL SUPPLIER NETWORK

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

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

BROAD AIR TICKETING FULFILLMENT COVERAGE

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

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