

eLong, Inc.
Form 20-F
June 29, 2006
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2005

OR

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

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number: 000-50984

eLong, Inc.

(Exact name of Registrant as specified in its charter)

Cayman Islands

(Jurisdiction of incorporation or organization)

Block B, Xingke Plaza Building

10 Jiuxianqiao Zhonglu

Chaoyang District

Beijing 100016, People's Republic of China

(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
NONE	N/A

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

Ordinary shares, par value US\$0.01 per share.

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2005:

21,788,707 ordinary shares, par value US\$0.01 per share; 28,550,704 high-vote ordinary shares, par value US\$0.01 per share.

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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* Omitted because the Item is not applicable or the answer is negative.

** The Registrant has responded to Item 18 in lieu of this Item.

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

Unless the context otherwise requires, references in this annual report to shares or ordinary shares are to our ordinary shares, par value US\$0.01 per share. References to ADSs are to our American depositary shares, each of which represents two ordinary shares, and references to ADRs are

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to the American depositary receipts that evidence our ADSs. References to Nasdaq are to the Nasdaq Stock Market, Inc.

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

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

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

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This annual report contains certain forward-looking statements. These statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance, our ability to continue to control our costs and maintain the quality of our services, the expected growth of and change in the travel and online commerce industries in China, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include those listed under Item 3: Key Information on the Company Risk Factors. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, intend, plan, anticipate, estimate, predict, potential, continue or the negative of these terms or other comparable terminology. A variety of factors, some of which are outside of our control, may cause our operating results to fluctuate significantly. They include:

our ability to successfully grow our air ticketing services and other travel related services, such as vacation packages or corporate travel services;

market acceptance of our services;

changes in the level of the commissions we receive from travel suppliers;

our operating costs and capital expenditures could increase and prevent us from attaining profitability;

introduction by our competitors of new or enhanced products or services;

price competition in the travel and tourism market in China;

benefits we may derive from the controlling interest Expedia, Inc. (or Expedia) holds in us;

changes in our regulatory environment;

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outbreaks of SARS, the avian influenza A H5n1 virus (or the bird flu) or other contagious diseases that may adversely impact the travel industry;

changes in our management team and other key personnel;

fluctuations in general economic conditions; and

our air business reliance on our ability to use the TravelSky Global Distribution System (GDS) system.

One or more of these factors could materially and adversely affect our operating results and financial condition in future periods. Given our early stage of development, we cannot assure you that we will attain any estimates or become profitable or that the assumptions on which they are based are reliable.

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Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this annual report. All forward-looking statements contained in this annual report are qualified by reference to this cautionary statement.

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PART I

Item 1: Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2: Offer Statistics and Expected Timetable

Not applicable.

Item 3: Key Information

Selected Consolidated Financial and Statistical Data

You should read the following information with our consolidated financial statements and related notes and Item 5: Operating and Financial Review and Prospects, all of which appear elsewhere in this annual report.

The selected consolidated statements of operations and cash flow data for the years ended December 31, 2003, 2004 and 2005, and the selected consolidated balance sheet data as of December 31, 2004 and 2005, are derived from our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with, and are qualified in their entirety by reference to, these consolidated financial statements and related notes. The selected consolidated statements of operations and cash flow data for the period from April 4, 2001, the date of our inception, through December 31, 2001 and for the year ended December 31, 2002 and the selected consolidated balance sheet data as of December 31, 2001, 2002 and 2003 are derived from our audited consolidated balance sheet and related notes which are not included in this annual report. These consolidated financial statements are prepared in accordance with U.S. GAAP.

On April 23, 2001, we purchased all of the shares of eLong Information Technology (Beijing) Co., Ltd., our predecessor. This acquisition was accounted for as a business combination using the purchase method of accounting. Accordingly, the following table also presents selected consolidated financial data of our predecessor as of and for each of the periods indicated. From April 4, 2001 to April 22, 2001, we had no business operations. The selected historical financial data of our predecessor for the period from January 1, 2001 to April 22, 2001 have been derived from unaudited financial statements, containing all normal and recurring adjustments, which, in the opinion of our management, are necessary to present fairly the financial position of the predecessor for the period from January 1, 2001 to April 22, 2001 in accordance with U.S. GAAP.

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

Table of Contents**SELECTED CONSOLIDATED FINANCIAL DATA**

	Predecessor January 1, 2001 to April 22, 2001 RMB	eLong, Inc. Year ended December 31,					
		April 4, 2001 to December 31, 2001 (1) RMB	2002 (1) RMB	2003 (1) RMB	2004 (1) RMB	2005 RMB	2005 US\$
(in thousands, except for per share data)							
Selected Consolidated Statements of Operations Data							
Revenues							
Travel	3,390	18,734	48,401	66,230	123,995	191,505	23,730
Others	8,276	9,104	7,349	8,160	14,459	20,378	2,525
Total revenues	11,666	27,838	55,750	74,390	138,454	211,883	26,255
Cost of services	(5,391)	(9,528)	(10,079)	(9,370)	(17,978)	(40,890)	(5,067)
Gross profit	6,275	18,310	45,671	65,020	120,476	170,993	21,188
Operating expenses							
Service development	(716)	(1,174)	(1,528)	(2,022)	(8,437)	(40,765)	(5,051)
Sales and marketing	(10,430)	(21,130)	(35,142)	(44,903)	(88,875)	(105,071)	(13,020)
General and administrative	(2,859)	(9,065)	(15,013)	(11,866)	(35,859)	(60,110)	(7,448)
Amortization of goodwill and intangible assets	(699)	(583)		(20)	(302)	(1,190)	(147)
Impairment loss of goodwill and intangible assets						(17,545)	(2,174)
Business tax and surcharges	(596)	(1,360)	(2,816)	(4,109)	(7,220)	(11,636)	(1,442)
Total operating expenses	(15,300)	(33,312)	(54,499)	(62,920)	(140,693)	(236,317)	(29,282)
Profit (loss) from operations	(9,025)	(15,002)	(8,828)	2,100	(20,217)	(65,324)	(8,094)
Other income (expenses), net	(28)	(42)	(690)	(21)	2,118	4,170	517
Income (loss) before income tax expense and minority interest	(9,053)	(15,044)	(9,518)	2,079	(18,099)	(61,154)	(7,577)
Income tax expenses		71	580	463	298	1,901	236
Minority Interest in loss of consolidated subsidiaries					(44)	(832)	(103)
Net income (loss)	(9,053)	(15,115)	(10,098)	1,616	(18,353)	(62,223)	(7,710)
Less: Deemed dividends to preferred shareholder					414		
Net (loss)/income available to ordinary shareholders			(10,098)	1,616	(18,767)	(62,223)	(7,710)
Basic (loss)/income per share available to ordinary shareholders		(0.94)	(0.63)	0.09	(1.02)	(1.25)	(0.155)
Diluted (loss)/income per share available to ordinary shareholders		(0.94)	(0.63)	0.07	(1.02)	(1.25)	(0.155)
Basic (loss)/income per ADS available to ordinary shareholders ⁽²⁾		(1.88)	(1.26)	0.18	(2.04)	(2.50)	(0.310)
Diluted (loss)/income per ADS available to ordinary shareholders ⁽²⁾		(1.88)	(1.26)	0.14	(2.04)	(2.50)	(0.310)

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

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eLong, Inc.						
	2001 RMB	2002 RMB	As of December 31,		2005 RMB	2005 US\$
			2003 RMB	2004 RMB		
(in thousands)						
Consolidated Balance Sheet Data						
Cash and cash equivalents	5,434	5,344	73,132	610,047	988,560	122,495
Working capital ⁽³⁾	8,626	7,007	80,677	639,728	1,011,881	125,385
Equipment and software, net	9,597	6,288	8,108	15,428	33,306	4,127
Total assets	38,207	36,570	130,561	741,074	1,188,421	147,260
Long-term obligation	674					
Accumulated deficit	(15,115)	(25,213)	(24,223)	(42,990)	(105,764)	(13,106)
Shareholders' equity	25,312	19,685	100,608	679,518	1,088,908	134,930
	April 4, 2001 to December 31,		Year ended December 31,			
	2001 RMB	2002 RMB	2003 RMB	2004 RMB	2005 RMB	2005 US\$
(in thousands)						
Consolidated Cash Flow Data						
Net cash provided by (used in) operating activities	(7,910)	1,621	(7,429)	(5,339)	30,478	3,777
Net cash used in investing activities	(23,305)	(494)	(1,628)	(30,140)	(32,813)	(4,066)
Net cash provided by (used in) financing activities	36,649	(1,218)	76,856	572,460	404,058	50,068
Depreciation and amortization	4,345	5,920	3,006	3,183	9,965	1,235
Capital expenditures	810	2,994	5,180	7,148	19,887	2,464

(1) Stock-based compensation for 2003, 2004 and 2005 were RMB 1,352,935, RMB 9,668,971 and RMB 16,506,744, respectively.

(2) Each ADS represents two ordinary shares.

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

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We conduct our business primarily in China and our revenues and expenses are primarily denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollar amounts at specific rates solely for the convenience of the reader.

The translations of Renminbi amounts into U.S. dollar amounts in this annual report are based on the noon buying rate in the City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi amounts to U.S. dollar amounts and from U.S. dollar amounts to Renminbi amounts in this annual report were made at a rate of RMB8.0702 to US\$1.00, the noon buying rate in effect as of December 31, 2005. The noon buying rate as of May 31, 2006 was RMB 8.0215 to US\$1.00. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollar or Renminbi amounts, as the case may be, at any particular rate, the rates stated below, or at all. The Chinese government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign currencies.

See Item 3: Key Information on the Company Risk Factors Risks Related to Doing Business in the People's Republic of China Governmental control of currency conversion may affect the value of your investment and Item 3: Key Information on the Company Risk Factors Risks Related to Doing Business in the People's Republic of China Fluctuation of the Renminbi may materially and adversely affect the value of your investment for discussions of the effects of currency control and fluctuating exchange rates on the value of our shares and ADSs.

The following tables set forth information concerning exchange rates between Renminbi and U.S. dollars for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or in any other information to be provided to you. The source of these rates is the Federal Reserve Bank of New York.

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

Average exchange rates of Renminbi per U.S. Dollar

	Average
Year ended December 31, 2001	8.2772
Year ended December 31, 2002	8.2772
Year ended December 31, 2003	8.2771
Year ended December 31, 2004	8.2768
Year ended December 31, 2005	8.1826

The table below shows the high and low exchange rate of U.S. dollars per Renminbi for each of the six months from December 2005 to May 2006:

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

	High	Low
December 2005	8.0808	8.0702
January 2006	8.0702	8.0596
February 2006	8.0616	8.0415
March 2006	8.0505	8.0167
April 2006	8.0248	8.0040
May 2006	8.0300	8.0005

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Risk Factors

We operate in a dynamic and rapidly changing environment that involves numerous risks and uncertainties, many of which are beyond our control. An investment in our ADSs or ordinary shares involves a high degree of risk of which you should be aware. You should carefully consider the risks described below before purchasing our ordinary shares or ADSs. You should pay particular attention to the fact that we conduct our operations in China and are governed by a legal and regulatory environment that in some respects differs significantly from the environment that may prevail in other countries with which you may be familiar. The occurrence of any of the following events could harm us. If these events occur, the trading price of our ordinary shares or ADSs could decline, and you may lose all or part of your investment. Additional risks not currently known to us or that we currently deem immaterial may also harm us and affect your investment.

Risks Related to Our Business

Our limited operating history may not serve as an adequate basis to judge our future prospects and operating results.

We have only a limited operating history from which you can evaluate our business and our prospects. We have encountered and will continue to encounter risks and difficulties frequently experienced by early-stage companies in evolving industries such as the travel service industry in China. Some of the risks relate to our ability to:

attract and retain customers at financially attractive terms and encourage our customers to engage in repeat transactions;

retain our existing agreements with travel suppliers such as hotels and airlines and expand our service offerings on satisfactory terms with our travel suppliers;

operate, support, expand and develop our operations, our call center, our websites, and our communications and other systems;

diversify our sources of revenue;

maintain effective control of our expenses;

attract and retain qualified employees;

respond to changes in our regulatory environment; and

respond to competitive market conditions.

If we are not successful in addressing any or all of these risks, our business may be materially affected in an adverse manner.

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

We sustained net losses in 2001, 2002, 2004 and 2005. We cannot assure you that we will be profitable in future periods. A variety of factors may cause our operating results to fluctuate and financial condition to change, including:

changes in general economic conditions in China;

unforeseen disruptive events in the travel and tourism industry;

unanticipated rises in operating costs and capital expenditures;

changes in our regulatory environment;

changes in our management team and other key personnel; and

intensified competition from our competitors.

Our operating costs have increased significantly principally as a result of increases in our sales and marketing expenses starting in the third quarter of 2003 and we expect that due to our anticipated growth and our ongoing efforts to expand our customer base, our operating expenses will continue to increase. Any decrease or delay in achieving additional sales and revenues or failure to control our costs as our business grows could result in substantial operating losses. As a result, we cannot assure you that we will be profitable in the future.

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

We received significant proceeds from the sale of shares to Expedia Australia Pty. Ltd. an entity formerly known as IACT Asia Pacific Limited (or Expedia Australia), an entity which is now controlled by Expedia, in August 2004 and January 2005, and from the initial public offering of our ADSs completed in November 2004. Our failure to make effective use of our cash and cash equivalents could prevent us from improving our financial results and competitive position.

We may not be able to compete successfully against our current or future competitors.

We face many sources of competition, including other consolidators of hotel and flight reservation services, such as Ctrip.com International, Ltd., and traditional travel agencies, such as China Travel Services, China International Travel Services and China Youth Travel Services. Because we do not have exclusive arrangements with our suppliers and our business involves relatively low fixed costs, new competitors face low entry barriers to our industry. We could face increasing competition from hotels and airlines if they decide to increase their efforts to sell directly to consumers or to engage in alliances with other travel service providers. Moreover, established international players may choose to enter into China in the future, either as sole entrants or in conjunction with our existing competitors. Our potential and existing competitors may have competitive advantages over us including longer operating histories, larger customer bases and greater financial, marketing and other expertise and resources. Therefore, we cannot assure you that we will be able to successfully compete against current or future competitors. If we do not successfully compete against our current or potential competitors, our operating results and financial condition may be adversely affected.

If we fail to attract and retain customers in a cost-effective manner, our ability to grow and attain and maintain profitability may be impaired.

Our business strategy is substantially dependent on our ability to increase the overall number of customer transactions with us in a cost-effective manner. In order to increase the number of transactions, we must attract new visitors to our call center and websites, convert these visitors into paying customers and capture repeat business from existing customers. Although we have spent significant financial and other resources on sales and marketing and plan to continue to do so, we cannot assure you that these efforts will be cost-effective in attracting new customers or increasing transaction volume. If we do not achieve our marketing objectives, our ability to grow our revenues and attain and maintain profitability may be impaired.

Our business may be harmed if we fail to strengthen our brand recognition among current and potential customers, suppliers and business partners.

We believe that we must be successful in the promotion of our eLong brand in order to continue to grow our business and secure new business relationships. We must introduce new consumers to our eLong brand and ensure that the eLong brand is associated with quality and value. We cannot assure you that we will be successful in our efforts to introduce the eLong brand to a wider group of consumers or that we will be successful in establishing our brand image among consumers or business partners. If we fail to strengthen our brand recognition among our current and potential customers, suppliers and business partners, our operating results and financial condition may be adversely affected.

Rapid growth may present significant challenges to our management and administrative systems and resources.

We have experienced rapid growth since our inception in 2001. Our continued expansion may present significant challenges to our management and administrative systems and resources. In order to be successful, we must:

maintain an effective management team;

adequately train our employees;

improve our information management, business processes, technology platform, administrative systems and internal controls; and

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address investor relations and required disclosure issues associated with being a company whose shares are publicly traded. If we fail to address any of the foregoing concerns, our operating results and financial condition could be adversely affected.

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

We are dependent on our continued relationships on favorable terms with our air, hotel and other travel service providers. In particular, the ability to contract in advance for the guaranteed availability of hotel rooms on a discounted basis is crucial to our business. However, we do not have exclusive contractual arrangements with our travel suppliers, and we must renew these contracts on an ongoing basis. We cannot assure you that we will be able to maintain satisfactory relationships and obtain favorable contractual terms with our travel suppliers. All of our relationships with travel suppliers are freely terminable by the supplier. None of these arrangements are exclusive, and our travel suppliers could enter into, and in many cases have already entered into similar agreements with our competitors. If we lose existing relationships or fail to establish new relationships with travel suppliers on terms satisfactory to us, our operating results and financial condition could be adversely affected.

Our commission income and revenues may decrease if our hotel suppliers fail to accurately report data concerning our customers' stay.

A substantial portion of our revenues is currently generated through commissions received from hotels for room nights booked through us. We do not receive direct payments for hotel bookings from our customers. Our revenues are dependent on the hotel supplier accurately reporting the customer's subsequent stay. In order to verify the hotel supplier's report, we make periodic inquiries with the hotel and the customer. We rely on the hotel and the customer to give us truthful information regarding the customer's check-in and checkout dates, which form the basis for calculating the commission we are entitled to receive from the hotel supplier. While we rank hotel suppliers and impose a ranking penalty on hotel suppliers who report inaccurate information, we cannot guarantee that all hotel supplier reports will be completely accurate. If our hotel suppliers provide us with untrue information with respect to our customers' length of stay, our revenues derived from hotel bookings may be materially and adversely affected.

Our business depends substantially on the continuing efforts of our senior executive and other key employees, and our business may be severely disrupted if we lose their services.

Our future success heavily depends on the performance and continued service of our Chief Executive Officer, Thomas SooHoo, our Vice President of Hotels, Frank Zheng, our Chief Technology Officer, Richard Chen, our Chief Financial Officer, Derek Palaschuk, and other members of our senior management. We rely on their expertise in business operations, finance, technology, sales and travel and air services and we depend on their relationships with our shareholders, suppliers and regulators. In addition, competition for highly skilled employees with technical, management, marketing, sales and other specialized training is intense, and we cannot assure you that we will be successful in attracting or retaining such personnel. Therefore, our business and results of operations may be materially and adversely affected, and we may incur additional expenses to recruit and train replacement personnel if one or more of our key employees is unwilling or unable to continue his or her employment with us.

In addition, if any of our key executives joins a competitor or forms a competing company, we may lose customers and suppliers. While all of our executive officers and senior management have entered into employment agreements that contain confidentiality and non-competition provisions, we cannot guarantee that we will be able to successfully enforce these employment agreements in court.

Our air business depends on our ability to use the Travelsky GDS system and our air business would be negatively impacted if Travelsky does not allow us to use its GDS system or does not provide us sufficient technical support.

Our air business is reliant on our ability to use the Travelsky Global Distribution System (GDS). Travelsky is currently the exclusive enterprise authorized in China to host airline ticket inventory, and is the sole system authorized to provide booking of domestic Chinese air tickets. If Travelsky does not allow us to use its GDS system or if it does not provide us with technical support we would be unable to sell air tickets and our revenue and financial performance would be negatively impacted. We cannot assure you that we will be able to maintain our ability to use the Travelsky GDS system. If we were unable to cooperate with Travelsky, we would not be able to find an alternate GDS system in China.

The PRC legal system embodies uncertainties which could limit the legal protections available to us and to you.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little value as precedent. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. Our subsidiaries in the PRC and our affiliated Chinese entities are subject to laws and regulations applicable to their operations in the PRC. However, these laws, regulations and legal requirements are relatively recent, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us and our foreign investors, including you. In addition, we cannot predict the effect of future developments in the PRC legal system, particularly with respect to the travel industry or the Internet, including the introduction of new laws, changes to existing laws or the interpretation or enforcement of current or future laws and

regulations, or the preemption of local regulations by national laws.

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The laws and regulations of the PRC restrict foreign investment in the air ticketing, travel agency and Internet content provision businesses and substantial uncertainties and restrictions exist with respect to the interpretation and application of PRC laws and regulations as they relate to our ownership structure.

We are a Cayman Islands corporation, and are therefore treated as a foreign person under applicable PRC laws and regulations. The PRC government regulates Internet access, the distribution of online information, the conduct of online commerce, advertising, and the provision of travel agency services through strict business licensing requirements and other regulations. These regulations include limiting foreign ownership in PRC companies providing Internet information and other online Internet services, air ticket booking services and travel agency services. As a result, we conduct our business through contractual arrangements between our subsidiaries, eLongNet Information Technology (Beijing) Co., Ltd. (or eLong Information) and Bravado Investments Limited (or Bravado) and our affiliated Chinese entities, Beijing eLong Information Technology Co., Ltd. (or Beijing Information), Beijing Asia Media Interactive Advertising Co., Ltd. (or Beijing Media), Beijing eLong Air Service Co., Ltd. (or Beijing Airline), Beijing eLong International Travel Co., Ltd. (or Beijing Travel), and Hangzhou eLong Airline Service Co., Ltd. (or eLong Airline Service). Beijing Information holds a license for Internet content provision services, a license for call center services, and a license for wireless services; Beijing Airline and eLong Airline Service hold the air ticketing licenses; and Beijing Travel holds a domestic travel agency license, all of which licenses and approvals are essential for our business operations.

There are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations as they relate to our ownership structure. Accordingly, we cannot assure you that the relevant government authorities will not determine that our current ownership structure and these contractual arrangements are not in compliance with the relevant laws and regulations.

If we and our affiliated Chinese entities are found to be in violation of any existing or future PRC laws or regulations, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

levying fines, confiscating our income, or the income of our affiliated Chinese entities;

revoking our business licenses, or the business licenses of our affiliated Chinese entities;

requiring us and our affiliated Chinese entities to restructure our ownership structure or operations; and

requiring that we discontinue any or all portions of our Internet content provision, air ticketing, travel agency or advertising businesses.

Any of the above could cause significant disruptions to our operations and may materially and adversely affect our business, operating results and financial condition.

Justin Tang, a member of our Board of Directors, is the direct majority legal shareholder of our affiliated Chinese entities Beijing Information and Beijing Media, which may pose potential conflicts of interests, and if these affiliated Chinese entities violate their contractual agreements with us, our business could be harmed, our reputation could be damaged and we might have to resort to litigation to enforce our rights, which could be time-consuming and expensive.

We depend substantially on our affiliated Chinese entities to conduct our operations. While we have no direct ownership interest in these entities, we have established effective economic control through a series of contracts. These agreements may not be as effective in providing control as direct ownership of these businesses.

Under our current structure, Justin Tang, a member of our Board of Directors, directly or indirectly owns a controlling legal equity interest in Beijing Information and Beijing Media, two of our affiliated Chinese entities. The potential exists for conflicts of interests between Mr. Tang's duties to us and his legal ownership interests in our affiliated Chinese entities. In particular, Mr. Tang may be able to cause our agreements with our affiliated Chinese entities to be performed or amended in a manner adverse to us by, among other things, failing to remit payments to us on a timely basis or operating the affiliated Chinese entities so as to cause harm to our business. We can provide no assurance that if potential conflicts of interests arise, these conflicts will not result in a significant loss in corporate opportunities for us or a diversion of our resources to the affiliated Chinese entities, which may not be in the best interest of our company or of our other shareholders.

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Our agreements with our affiliated Chinese entities are for limited terms and generally provide that the compensation we receive for the services that we provide to them will be based on market rates. Certain provisions of these agreements, such as price and payment terms, are subject to adjustment and may also be subject to differing interpretations. In particular, the term market rates is not clearly defined in the agreements and there may not be a clearly defined market for the services we provide.

In the event that there is a dispute with respect to our agreements with our affiliated Chinese entities, we would have to rely on the PRC legal system for remedies, which might not be as effective as in the United States or other more developed countries. Because we rely on our affiliated Chinese entities for our business operations, the realization of any of these risks could result in a material disruption of our business, damage to our reputation, diversion of our resources and the incurrence of substantial costs, any of which could materially and adversely affect our operating results and financial condition.

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If our affiliated Chinese entities do not extend their contractual agreements with us, our business could be harmed, our reputation could be damaged and we could spend time and resources in establishing alternative arrangements.

We depend substantially on our affiliated Chinese entities to conduct our operations, and our business could therefore be disrupted if our affiliated Chinese entities do not extend contractual arrangements with us. Our possible need to search for alternative arrangements could require time and resources that would divert our attention from our business. As a result, our operating results and financial condition could be materially and adversely impacted.

Our business operations may be materially and adversely affected if we or our affiliated Chinese entities fail to obtain or maintain all pertinent permits and approvals in the heavily regulated air ticketing, travel agency, and Internet industries.

The Chinese government extensively regulates the air ticketing and travel agency industries, as well as most Internet related activities. In order to conduct our business, we or our affiliated Chinese entities must possess and maintain valid permits or approvals from different regulatory authorities. Any failure to obtain or maintain any of the required permits or approvals may subject us to various penalties, such as fines or suspension of operations in these regulated businesses, which could severely disrupt our business operations and materially and adversely affect our operating results and financial condition.

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

We depend on our systems and information infrastructure to facilitate transactions between our consumers and suppliers, to develop new customers, to deliver service improvements and to perform other operational functions. As our operations grow both in size and scope, we will need to upgrade and expand the capacity of our call center and online systems. If we are unable to upgrade our system to keep pace with our business growth, we may experience system outages, capacity constraints, system obsolescence or other unintended system disruptions which may result in slower response times, impaired customer service, delays in fulfilling customer orders and inaccurate reporting of travel information. Any of these factors may cause us to lose customers or suppliers and our operating results and financial condition may be materially and adversely affected.

Our online business is dependent on the continued use and growth of the Internet, a medium that has not yet been proven as an effective means of commerce in China.

A significant portion of our services is targeted toward businesses and consumers who use the Internet. The development and growth of the Internet are subject to a high level of uncertainty and have been characterized by rapid changes, evolving industry standards and continuous new product and service introductions. China has only recently begun to develop the Internet as a commercial medium and has a lower Internet penetration rate compared to most developed countries. Our future operating results from our online distribution channel will depend substantially upon a rising Internet penetration rate and the increased use and acceptance of the Internet for distribution of products and services and for the facilitation of commerce in China. The Internet may not become a viable medium for commercial transactions in China. Major impediments to developing the Internet as a commercial medium in China include:

limited use of credit card and other electronic commerce infrastructure;

a recently imposed limit of Rmb1,000 for processing credit card transactions online;

lack of consumer familiarity with the Internet as a sales and distribution channel;

inadequate infrastructure, such as the limited access to personal computers, local access points and server capacity to facilitate online commerce;

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

the degree to which the PRC government seeks to regulate the dissemination of information over the Internet.

If the Internet does not become a widely accepted medium for commerce in China, our business development and growth may be significantly impeded. Our operating results and financial condition may thus be materially and adversely affected.

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We may have to register our encryption software with Chinese regulatory authorities, and if they request that we change our encryption software, our business operations will be disrupted as we develop or license replacement software.

Under the PRC's Regulations for the Administration of Commercial Encryption promulgated in 1999, foreign and domestic companies operating in China are required to register and disclose to PRC regulatory authorities the commercial encryption products they use. Because these regulations do not specify what constitutes encryption products, we are unsure whether or how they apply to us and the encryption software we utilize. We have not registered with or disclosed to any PRC regulatory authority our encryption software and we may be required to register or apply for permits with the relevant PRC regulatory authorities for our current or future encryption software. If PRC regulatory authorities request that we change our encryption software, we may have to develop or license replacement software, which would require additional capital expenditures and could disrupt our business operations. In addition, we may be subject to potential liability for using software that is subsequently deemed to be illegal by the relevant PRC regulatory authorities. These potential liabilities include fines, product confiscation and criminal sanctions. We cannot assure you that our business, financial condition and results of operations will not be materially and adversely affected by the application of these regulations.

Our business depends on the technology infrastructure of third parties.

We rely on third-party computer systems and other service providers, including the computerized reservation systems of hotels, airlines and car rental agencies to make reservations and confirmations. Other third parties provide, for instance, our back-up data center, telecommunications access lines, significant computer systems and software licensing, support and maintenance service and air ticket delivery. Any interruption in these or other third-party services or a deterioration in their performance could impair the quality of our service.

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

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

We may become involved in costly and time-consuming intellectual property litigation in order to enforce our intellectual property rights, or to prevent third parties from successfully alleging our infringement of their intellectual property rights.

From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources. In addition, third parties may initiate litigation against us for alleged infringement of their proprietary rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or to obtain a license for the infringed or similar technology on a timely basis, our business could suffer. Moreover, even if we are able to obtain a license for the infringed or similar technology, license fees payable to licensors could be substantial or commercially unviable.

The content on our websites may subject us to litigation, which may be time-consuming and costly to defend.

The content on our Internet websites contains information about hotels, flights and popular vacation destinations, as well as customer feedback about certain travel-related services. Third parties could take legal action against us for false or misleading information accessible on our websites. Any claims could be time consuming to defend, result in litigation and divert management's attention and resources, any of which could have a material and adverse impact on our operating results and financial condition.

We could be liable for breaches of security with respect to confidential information and fraudulent transactions in connection with our websites and business.

Currently, our customer transactions are conducted through our websites or through access to our database of customer information. In such transactions, secured transmission of confidential information (such as customers' itineraries, hotel and other reservation information, personal information and billing addresses) over public networks is essential to maintain consumer and supplier confidence. Our current security measures may not be adequate. Security breaches, whether through our actions or inaction, or through third party actions, could expose us to loss of customers, litigation and possible liability for failing to secure confidential customer or supplier information and could harm our reputation.

and ability to attract customers.

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We have limited business insurance coverage in China.

Insurance companies in China offer limited business insurance products. As a result, we carry limited business liability or disruption insurance coverage for our operations in China. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources which may harm our business.

We are controlled by Expedia, Inc., which may have strategic interests that differ from those of our other shareholders.

Expedia, through its indirect ownership of Expedia Australia, controls a majority of our voting power, and for so long as it continues to do so, it will have the right to designate members comprising the majority of our board. Expedia beneficially owns, in the aggregate, approximately 52% of our outstanding shares on a fully-diluted basis, representing 28,550,704 high-vote ordinary shares, with each share being entitled to 15 votes. As a result, Expedia controls approximately 95% of the voting power of all shares of voting stock.

As a result, Expedia is generally able to exercise control over all matters requiring approval by the board of directors or our shareholders. In addition, certain of our significant shareholders are parties to an investors agreement with us and Expedia Australia, pursuant to which they have agreed to vote their ordinary shares in the election of directors and certain other matters in the manner provided in the investors agreement, including for the election of directors designated by Expedia. As a result, Expedia has the ability to:

control the composition of our board of directors, including the right to select six of the thirteen members of our board and the ability to nominate the remaining directors and vote their shares to elect them;

control our management and policies; and

determine the outcome of significant corporate transactions, including changes in control that may not be beneficial to our other shareholders.

Expedia may have strategic interests that are different from ours. Expedia's control could keep us from pursuing relationships with other strategic partners and from raising additional capital, which could impede our ability to expand our business and strengthen our competitive position. Expedia's control also gives it a significant ability to influence the business strategy and direction of our company. Expedia may choose to cause us to pursue business opportunities that are different from our current core travel business. In addition, Expedia's control could prevent a sale of our company, which could be beneficial to our other shareholders.

Conflicts of interest may arise between Expedia and us, which may not be resolved in a manner favorable to us.

Conflicts of interest may arise between Expedia and us relating to past, ongoing and future relationships, including corporate opportunities, and potential acquisitions and financing transactions. Under our agreements with Expedia, it is prohibited from competing with us in China only so long as it holds directly or indirectly at least 15% of the economic interest in our outstanding shares. We cannot assure you that such conflicts will not adversely affect our business, financial condition or results of operations.

Potential conflicts of interest may exist because our directors may have interests in Expedia or its subsidiaries.

Under the terms of the investors agreement governing Expedia Australia's investment in us, Expedia has the right to appoint up to six directors to our board of directors and the ability to nominate the remaining directors and vote their shares to elect them. As a result some of our directors may have interests in both us and in Expedia. We cannot assure you that these directors will take actions that will benefit us should potential conflicts of interests arise.

We may not realize any benefits as a result of Expedia's control of us.

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

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

A component of our business strategy is to acquire complementary businesses in areas that provide incremental revenue and earnings growth. This may require a significant commitment of management time, capital investment and other management resources. We cannot assure you that we will be successful in identifying and negotiating acquisitions on terms favorable to us. In addition, we cannot assure you that our recent acquisition of Shanghai Xinwang Computer Technology Co., Ltd. (or Fortune Trip) (which is not currently engaged in any business activity) and Bravado or any other acquisition we complete or have completed, will be successfully integrated into our existing operations. If we are unable to execute our acquisition strategy effectively, our growth, our operating results and financial conditions may be materially and adversely affected.

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Anti-takeover provisions in our articles of association could make an acquisition of our company, which may be beneficial to our shareholders, more difficult and may prevent attempts by our shareholders to replace or remove our current board of directors.

Our company's articles of association include provisions which could make an acquisition of our company, which is a Cayman Islands company, more difficult and may prevent attempts by our shareholders to replace or remove our current board of directors. In addition, our memorandum and articles of association provide for high-vote ordinary shares that are entitled to 15 votes for each share on all matters upon which ordinary shares are entitled to vote, compared to ordinary shares that are entitled to one vote for each share. Expedia and its affiliates hold 28,550,704 high-vote ordinary shares, which constitute all of our outstanding high-vote ordinary shares and have the ability to control our company and prevent an acquisition of our company that may be beneficial to other shareholders. As a result, holders of our high-vote ordinary shares will have the ability to control our company and prevent an acquisition of our company that may be beneficial to other shareholders.

The discontinuation of any of the preferential tax treatments currently available to us in the PRC could materially and adversely affect our business, financial condition and results of operations.

One of our affiliated Chinese entities, Beijing eLong Information Technology Co. Ltd., currently benefits from a 7.5% preferential income tax rate, which tax treatment is expected to continue until 2006. Thereafter, it will enjoy a preferential income tax rate of 15%. This affiliated Chinese entity must continue to meet a number of financial and non-financial criteria to qualify for its current and future tax treatment. We cannot assure you that we will continue to enjoy these or other preferential tax treatments. The discontinuation of these preferential tax treatments could materially and adversely affect our business, operating results and financial condition.

Risks Related to the Travel Industry

Declines or disruptions in the travel industry generally could reduce our revenues.

Our business is affected by the health of the travel industry in China. Because travel expenditures are highly sensitive to the general business climate and personal discretionary spending levels, economic downturns and catastrophic events tend to have an adverse impact on the travel industry. Adverse trends or events that tend to reduce travel and are likely to reduce our revenues include:

increases in prices in the hotel, airline or other travel-related sectors;

increases in the occurrence of travel-related accidents;

outbreak of war or conflict across the Taiwan Strait or elsewhere in the Asia-Pacific region;

increases in terrorism or the occurrence of a terrorist attack in the Asia-Pacific region or elsewhere;

poor weather conditions or changes in climate throughout a particular region; and

man-made or natural disasters that occur in any particular region.

As a result of any of these events, over which we have no control, our operating results and financial conditions could be materially and adversely affected.

The recurrence of a severe acute respiratory syndrome outbreak could materially and adversely affect our operating results and financial conditions

From March to July 2003, China and certain other areas in Asia experienced an outbreak of a new and contagious form of atypical pneumonia now known as severe acute respiratory syndrome, or SARS. According to the World Health Organization, over 8,400 cases of SARS and over

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900 deaths were reported in 29 countries from November 2002 to August 2003. In addition, in the spring of 2004, China had several reported cases of deaths caused by SARS. Possible risks associated with SARS include a reduction in travel services used because consumers may elect to reduce their travel and avoid public places such as airports and hotels. Any adverse changes to the travel industry resulting from a recurrence of SARS or similar contagious diseases could severely disrupt our business.

In addition, because our call center contains a large number of employees in a closed environment, we may experience severe disruptions in our business operations if we are required to temporarily close our call center pursuant to health or other government directives due to SARS or other epidemics. We cannot provide you any assurance that there will not be a reoccurrence of SARS or any other epidemics, which may materially and adversely affect our operating results and financial condition.

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

Our business experiences seasonal fluctuations, reflecting seasonal variations in demand for travel services. During the first calendar quarter, demand for our travel services generally declines and the number of bookings flattens or decreases, in part due to a slowdown in business activity during the Chinese New Year holiday. Demand for travel services generally peaks during the second half of the calendar year and there may be seasonal fluctuations in allocations of travel services made available to us by travel suppliers. Consequently, our revenues may fluctuate from quarter to quarter.

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

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

Our financial results have been, and are expected to continue to be, affected by the growth in the economy and travel industry in China. Although the economy in China has grown significantly in the past decade, we cannot assure you that growth will continue or that any slow-down will not have a negative effect on our business. Recently, the PRC government has indicated that it intends to introduce measures to control or slow-down the growth of the economy in China. Any slow-down of economic growth in China would reduce expenditures for travel, which in turn will adversely affect our operating results and financial condition.

Any changes in Chinese laws and regulations may have a material and adverse impact on our business.

Although we believe that our current operations are compliant with applicable PRC laws and regulations, there may be substantial uncertainties regarding the interpretation of existing and new PRC laws and regulations that apply to electronic commerce. It is possible that new laws and regulations will affect our existing and future business and that the new laws and regulations may be applied retroactively. The PRC authorities retain broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business licenses and requiring actions necessary for compliance. Any such action could have a material adverse effect on our business, results of operations and financial condition.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us, our management or the members of our board of directors.

We conduct our operations in China and substantially all of our assets are located in China. In addition, a majority of our directors and our executive officers reside in jurisdictions outside of the United States, including China, and some of the assets of these persons are located within China and other foreign jurisdictions. You should note that it is difficult to effect service of process within the United States or elsewhere outside China upon our directors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our PRC legal counsel has advised us that China does not have treaties with the United States or most other western countries providing for the reciprocal recognition and enforcement of judgment of courts. As a result, court judgments obtained in jurisdictions with which the PRC does not have treaties on reciprocal recognition of judgment and in relation to any matter not subject to a binding arbitration provision may be difficult or impossible to be enforced in the PRC. Furthermore, an original action may be brought in the PRC against our directors or executive officers only if the actions are not required to be arbitrated by PRC law, and only if the facts alleged in the complaint give rise to a cause of action under PRC law. In connection with any such original action, a PRC court may find us liable, and may award monetary damages.

Governmental control of currency conversion may affect the value of your investment.

We receive substantially all of our revenues in Renminbi, which is currently not a fully convertible currency. Under the current plan, our income will primarily be derived from dividend payments and any other distributions by our subsidiaries in China. Under China's existing foreign exchange regulations, payments of current account items, including profit distributions and interest payments, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange by complying with certain procedural requirements. The Chinese government, however, may, at its discretion, restrict access in the future to foreign currencies for current account transactions. If this were to occur, we might not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs, which could adversely affect the value of your investment in our ADSs.

Fluctuation of the Renminbi may materially and adversely affect the value of your investment.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the China's political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including U.S. dollars, has been

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based on rates set by the People's Bank of China, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets. Since 1994, the official exchange rate generally has been stable against U.S. dollars, as it generally floats with the U.S. dollar. However, as of July, 2005, the Renminbi floats against a basket of currencies including the U.S. dollar. However, the government may in the future relinquish the dollar peg, or the government may increase the current trading range of the Renminbi to the U.S. dollar. Any changes in the value of the Renminbi may materially and adversely affect the value in foreign currency terms of our ADSs and any dividends payable by us. Substantially all of our revenue-generating operations are transacted in Renminbi, which is not fully convertible into foreign currencies. During the year ended December 31, 2005 we recorded Rmb25,888,143 (US\$3,207,869) in unrealized exchange losses due to the appreciation of the Renminbi to the United States dollar. If the Renminbi continues to appreciate we will continue to record unrealized exchange losses on United States dollar-denominated assets and these losses could be material to our business.

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

Our potential inability to comply in a timely manner with Section 404 of the Sarbanes-Oxley Act may adversely affect the value of our ADSs and Ordinary Shares.

Beginning with our Annual Report on Form 20-F for our fiscal year ending December 31, 2006, our management will be required by Section 404 of the Sarbanes-Oxley Act of 2002 to provide an assessment of the effectiveness of our internal control structure and procedures for financial reporting as of the end of the fiscal year, and to include in the Annual Report our independent registered public accounting firm's attestation to, and report on, our management's assessment. While we are in the process of performing the system and process documentation, evaluation and testing necessary for our management to make its assessment and for our independent accounting firm to provide its attestation report, we have not yet completed this process, and may not be able to do so by our December 31, 2006 fiscal year-end. As a result, it is possible that we may not be able to include in our Annual Report on Form 20-F for the year ending December 31, 2006 the management report and independent accounting firm attestation required by Section 404 of the Sarbanes-Oxley Act. In addition, in the process of preparing for Section 404 of the Sarbanes-Oxley Act, we may identify a material weakness in our internal controls over financial reporting which we are unable to correct to our management's or our independent accounting firm's satisfaction by December 31, 2006.

If we are unable to comply timely with the assessment and attestation requirements of Section 404 of the Sarbanes-Oxley Act or if such a material weakness is identified, there could be an adverse impact on the way in which the market perceives our ability to operate our company and report and record our financial results, and the market prices for our ADSs could decline significantly.

The market price for our ADSs may be volatile.

Since our initial public offering, the market price of our ADSs has been volatile and is likely to continue to be so. The initial public offering price of our ADSs in October 2004 was \$13.50 per ADS. Since our initial public offering, the trading price of our ADSs has ranged from a low of US\$7.50 per ADS to a high of \$25.99 per ADS. On May 31, 2006, the closing price of our ADSs was US\$14.89 per ADS. Our trading price may continue to be subject to wide fluctuations in response to various factors including the following:

actual or anticipated fluctuations in our quarterly operating results;

announcements of new services by us or our competitors;

changes in financial estimates by securities analysts;

conditions in the travel, Internet and online commerce industries;

changes in the economic performance or market valuations of other travel, Internet or online commerce companies;

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

additions or departures of key personnel;

release of lock-up or other transfer restrictions on our outstanding ADSs or sales of additional ordinary shares or ADSs; and

potential or actual litigation or regulatory investigations.
Any of these factors may materially and adversely affect the market price of our ADSs.

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

The future sales by our existing shareholders of a substantial number of our ordinary shares or ADSs in the public market could adversely affect the price of our ADSs

If our shareholders sell in the public market substantial amounts of our ordinary shares or ADSs, including those issued upon the exercise of outstanding options and warrants and the settlement of Performance Units, the market price of our ADSs could fall. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. As of May 31, 2006, there were 21,823,671 ordinary shares (which figure does not include the 28,550,704 high-vote ordinary shares held by Expedia, which are not convertible into ordinary shares) options and warrants to purchase an additional 5,841,890 ordinary shares as well as settlement of 160,316 Performance Units outstanding. Of the ordinary shares outstanding, (i) 10,585,860 ordinary shares, represented by 5,292,930 ADSs, are held by investors who purchased the ADSs in our initial public offering and are freely tradable without restriction, and (ii) 11,237,811 ordinary shares are held by our pre-initial public offering shareholders and currently may be sold or were sold in the public market, subject to the restrictions contained in Rule 144 under the U.S. Securities Act of 1933, or the Securities Act. If any existing shareholder or shareholders sell a substantial amount of ADSs or ordinary shares, the market price for our ADSs could be adversely affected.

A number of our shareholders are parties to an agreement with us that provides these shareholders with the right to require us to register the sale of shares owned by them. Registration of these ordinary shares would permit the sale of these shares without regard to the restrictions of Rule 144.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement, the depository of our ADSs will not offer you those rights unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

You may not be able to exercise your right to vote your ordinary shares.

As a holder of ADSs, you may instruct the depository of our ADSs to vote the ordinary shares underlying your ADSs but only if we ask the depository to ask for your instructions. Otherwise, you will not be able to exercise your right to vote unless you withdraw the ordinary shares deposited with the depository. However, you may not know about an upcoming shareholders' meeting sufficiently in advance to withdraw the ordinary shares. If we ask for your instructions, the depository will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote your ordinary shares. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and there may be nothing you can do if the ordinary shares underlying your ADSs are not voted as you requested.

You may not receive distributions on ordinary shares or any value for them if it is illegal or impractical to make them available to you.

The depository of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depository is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive the distribution we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may have a material adverse effect on the value of your ADSs.

You may be subject to limitations on transfer of your ADSs.

Your ADSs represented by the ADRs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depository may refuse to

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deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary thinks it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

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If our subsidiaries were restricted from paying dividends and other distributions to us, our primary internal source of funds would decrease.

We are primarily a holding company and do not conduct any business operations other than our holding of the equity interests in China. As a result, we rely on dividends, consulting and other fees paid to us by our subsidiaries and affiliated entities in China. If our subsidiaries incur debts on their own behalf in the future, the instruments governing the debts may restrict their ability to pay dividends or make other distributions to us, which in turn would limit our ability to pay dividends on our ordinary shares. Chinese regulations permit payment of dividends only out of accumulated profits as determined in accordance with Chinese accounting standards and regulations. Our subsidiaries in China are also required to set aside at least 10% of their after-tax profits, if any, each year according to Chinese accounting standards and regulations to fund certain reserve funds, unless such reserve funds have reached 50% of their respective registered capital. These reserves are not distributable as cash dividends. In addition, our subsidiaries are required to allocate portions of their respective after-tax profits to their enterprise expansion funds and staff welfare and bonus funds at the discretion of their boards of directors. Our affiliated Chinese entities are required to allocate at least 5% of their respective after-tax profits to their respective statutory welfare funds. Allocations to these statutory reserves are not transferable to us in the forms of loans, advances, or cash dividends.

You may have fewer rights, and may not, as a result, have the same level of protection for your interests as a shareholder as you would if you were a shareholder of a U.S. company.

We are a Cayman Islands company and substantially all of our assets are located outside the United States. In addition, a majority of our directors and officers are nationals or residents of jurisdictions other than the United States and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon our directors or officers, or enforce judgments obtained in the United States courts against our directors or officers.

Our corporate affairs are governed by our memorandum and articles of association, the Cayman Islands Companies Law and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, and some states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law.

The Cayman Islands courts are also unlikely:

to recognize or enforce against us judgments of courts of the United States based on certain civil liability provisions of U.S. securities laws; and

to impose liabilities against us, in original actions brought in the Cayman Islands, based on certain civil liability provisions of U.S. securities laws that are penal in nature.

There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will generally recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a company incorporated in the United States.

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

We are a Cayman Islands corporation. Shareholder rights under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in the United States because the Cayman Islands has a less developed body of securities laws as compared to the United States. Shareholders in Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States. As a result, the ability of shareholders to protect their interests if they are harmed in a manner that would enable them to sue in a United States federal court may be limited.

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Item 4: Information on the Company

Corporate History

eLong.com, Inc. was incorporated in the State of Delaware in May 1999 with an initial investment of approximately US\$1.0 million. In March 2000, Mail.com Corporation (now Easylink Services), a Nasdaq listed company, acquired eLong.com, Inc. for a total consideration of US\$68 million, consisting of a cash payment and shares of Mail.com's stock, and changed its name from eLong.com to Asia.com, Inc. Mail.com and several other individuals subsequently invested an additional US\$22 million in Asia.com, Inc. to fund further expansion. On April 4, 2001, a group of investors, led by Justin Tang, a member of our Board of Directors, formed eLong, Inc. in the British Virgin Islands and purchased Asia.com's travel and Internet business in China for US\$1.5 million. On May 19, 2004, eLong, Inc. was re-incorporated in the Cayman Islands as an exempt company with limited liability under the Cayman Islands Companies Law (2004 Revision).

On August 4, 2004, we sold 11,188,570 Series B preferred shares to Expedia Australia, which is now an indirectly wholly-owned subsidiary of Expedia, for US\$58.7 million. We used approximately one-half of the proceeds from Expedia Australia, or US\$29.3 million, to repurchase 1,581,874 Series A preferred shares and 4,012,411 ordinary shares from certain of our then-existing shareholders. On December 17, 2004, Expedia Australia's Series B preferred shares automatically converted into high-vote ordinary shares. In conjunction with the sale of Series B Preferred Shares to Expedia Australia, we also granted to Expedia Australia a warrant to purchase that number of our high-vote ordinary shares as would result in Expedia Australia's holding approximately 52% of our outstanding shares on a fully-diluted basis and approximately 95% of our voting power. On August 4, 2004, we also granted to Expedia Australia options to purchase 711,429 ordinary shares and, in October 2004, we granted Expedia Australia options to purchase up to an additional 260,204 ordinary shares. See Item 6: Directors, Senior Management and Employees - Share Ownership - Options Granted to Expedia Australia for a more detailed description. On January 7, 2005, Expedia Australia purchased 17,362,134 of our high-vote ordinary shares pursuant to the exercise of Expedia Australia's warrant for an aggregate cash purchase price of \$107.8 million, or US\$6.21 per share (the equivalent of \$12.42 per ADS), giving Expedia Australia beneficial ownership of approximately 52% of our outstanding shares on a fully-diluted basis and approximately 95% of our voting power. We used approximately one-half of the proceeds from Expedia Australia's warrant exercise, or US\$53,909,426.07, or US\$6.21 per share, to purchase 8,681,067 ordinary shares from certain of our existing shareholders. Such warrant exercise price and share repurchase price were subject to a post-closing adjustment based upon the actual indebtedness of the company as of December 15, 2004. In April 2006, a post-closing adjustment was made such that the warrant exercise price and share repurchase price was adjusted to \$6.20434 per share (the equivalent of \$12.40868 per ADS). The warrant exercise price and share repurchase price are no longer subject to any adjustments. See Item 7: Major Shareholders and Related Party Transactions - Related Party Transactions - Investment by Expedia Australia for a more detailed description of Expedia Australia's investment in us.

On November 2, 2004, we completed the initial public offering of our ADSs, each of which represents two of our ordinary shares. The net proceeds to us from the offering were approximately US\$42 million. For further information concerning our initial public offering and the market for our ADSs, see Item 9: The Offer and Listing.

Our principal executive office is located at Block B, Xingke Plaza Building, 10 Jiuxianqiao Zhonglu, Chaoyang District, Beijing, 100016 in the People's Republic of China. Our telephone number is: +86 (10) 5860-2288. Our agent for service of process in the United States is CT Corporation System located at 111 Eighth Avenue, New York, NY 10011. The Internet addresses of our websites are <http://www.eLong.com> and <http://www.eLong.net>. None of the information on our websites is incorporated by reference into this annual report.

Business

We are a leading online travel service provider in China. We utilize a centralized modern call center and web-based distribution technologies to provide our services. We seek to serve China's emerging class of frequent independent travelers, or FITs, who engage in business and leisure travel. We believe FITs to be a fast-growing, yet relatively underserved, segment of the domestic travel market in China. Through our nationwide 24-hour toll-free call center, our user-friendly Chinese and English language websites and our extensive reseller network, we provide our customers with consolidated travel information and the ability to book rooms at discounted rates at over 3000 hotels in 278 cities across China and air tickets in over 50 cities across China. The majority of our hotel suppliers are three-, four- or five-star hotels, as rated by the China National Tourism Bureau, catering to higher-end travelers. Our air suppliers include all of the major airlines in China and where we do not have air ticketing licenses we use third party agents to issue tickets on our behalf. We also offer vacation packages.

Since our inception in April 2001, we believe we have built one of the largest travel service distribution networks in China. We offer our customers a wide selection of hotel rooms in all major cities in China, usually at significant discounts to published rates, and guaranteed year-round room availability at many hotels. Our hotel booking volume has increased from approximately 389,000 room nights in 2001 to approximately 2.54 million room nights in 2005. We offer our travel suppliers access to aggregated consumer demand, giving them the ability to promote their hotels and other travel related services to a large and growing base of customers at low incremental cost.

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We also sell air tickets for all major airlines in China and many international airlines that operate flights originating from China. We issue and deliver air tickets using a network of local agents throughout major cities in China. In 2005, we sold approximately 651,000 air tickets, compared to approximately 247,000 air tickets in 2004.

We have experienced significant growth since we began operations in 2001. For the year ended December 31, 2005, we generated revenues of RMB211.9 million (US\$26.3 million), an increase of 53% from 2004. We generated revenues of RMB138.5 million (US\$16.7million) for the year ended December 31, 2004, an increase of 86% from 2003. We generated revenues of RMB74.4 million (US\$9.0 million) for the year ended December 31, 2003, an increase of 33% from 2002. Approximately 72% of our total revenues in 2005, 81% of our total revenues in 2004 and 81% of our total revenues in 2003 were derived from our hotel reservation business with the remainder of our revenues being largely derived from sales of air tickets, other travel revenue and non travel revenue, which includes wirel