

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(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, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

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

Commission file number: 001-33853

CTRIP.COM INTERNATIONAL, LTD.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

**968 Jin Zhong Road
Shanghai 200335
People's Republic of China**

(Address of principal executive offices)

**Jane Jie Sun, Chief Executive Officer
Telephone: +86 (21) 3406-4880
Facsimile: +86 (21) 5251-0000
968 Jin Zhong Road
Shanghai 200335
People's Republic of China**

(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
American depository shares, each representing 0.125 ordinary share, par value US\$0.01 per share	Nasdaq Stock Market LLC (Nasdaq Global Select Market)
Ordinary shares, par value US\$0.01 per share*	

* Not for trading, but only in connection with the listing of American depository shares on the Nasdaq Global Select Market.

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

None

(Title of Class)

[Table of Contents](#)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 69,122,824 ordinary shares, par value US\$0.01 per share, as of December 31, 2018.

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

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

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS.)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
PART I.	1
ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	1
ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE	2
ITEM 3. KEY INFORMATION	2
ITEM 4. INFORMATION ON THE COMPANY	33
ITEM 4.A. UNRESOLVED STAFF COMMENTS	49
ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS	49
ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	65
ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	74
ITEM 8. FINANCIAL INFORMATION	78
ITEM 9. THE OFFER AND LISTING	79
ITEM 10. ADDITIONAL INFORMATION	79
ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	86
ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	87
PART II.	88
ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	88
ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	88
ITEM 15. CONTROLS AND PROCEDURES	88
ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT	89
ITEM 16B. CODE OF ETHICS	89
ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES	90
ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES	90
ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	90
ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT	91
ITEM 16G. CORPORATE GOVERNANCE	91
ITEM 16H. MINE SAFETY DISCLOSURE	91
PART III.	92
ITEM 17. FINANCIAL STATEMENTS	92
ITEM 18. FINANCIAL STATEMENTS	92
ITEM 19. EXHIBITS	92

INTRODUCTION

In this annual report, unless otherwise indicated or unless the context otherwise requires:

- “ADSs” refers to our American depositary shares, each of which represents 0.125 ordinary share;
- “China” or “PRC” refers to the People’s Republic of China and, solely for the purpose of this annual report, excludes Taiwan, Hong Kong, and Macau, and “Greater China” refers to the People’s Republic of China, Taiwan, Hong Kong, and Macau;
- “Qunar” refers to Qunar Cayman Islands Limited, a Cayman Islands company, and unless the context requires otherwise, includes its predecessor entities and consolidated subsidiaries and consolidated affiliated Chinese entities;
- “RMB” or “Renminbi” refers to the legal currency of China; “U.S. dollars,” “dollars,” “US\$,” or “\$” refers to the legal currency of the United States; “£” refers to the legal currency of the United Kingdom; “€” refers to the legal currency of Eurozone;
- “shares” or “ordinary shares” refers to our ordinary shares, par value of US\$0.01 per share; and
- “we,” “us,” “our company,” or “Ctrip” refers to Ctrip.com International, Ltd., its predecessor entities and subsidiaries and, in the context of describing our operations and consolidated financial information, also include its consolidated affiliated Chinese entities, unless otherwise indicated herein. We consolidate the financial results of Qunar starting from December 31, 2015. In calculating the number of hotels with which we have room supply relationships, downloads of and transactions through our mobile channel, outbound travel business and other operational data, where applicable, as well as in describing our marketing, branding and intellectual properties, we have not taken into account the comparable operating data or other information of Qunar.

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

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2016, 2017 and 2018.

On December 1, 2015, we effected a change of the ratio of the ADSs to ordinary shares from four ADSs representing one ordinary share to eight ADSs representing one ordinary share. Unless otherwise indicated, ADSs and per ADS amount in this annual report have been retroactively adjusted to reflect the changes in ratio for all periods presented.

We have published our consolidated financial statements in Renminbi. Our business is primarily conducted in China in Renminbi. The conversion of Renminbi into U.S. dollars in this annual report is based on the certified exchange rate published by the Federal Reserve Board. For your convenience, this annual report contains translations of some Renminbi or U.S. dollar amounts for 2018 at a rate of RMB6.8755 to US\$1.00, which was the certified exchange rate in effect as of December 31, 2018. The certified exchange rate on March 8, 2019 was RMB6.7201 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. dollars or Renminbi, 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 Renminbi into foreign exchange.

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

A. *Selected Financial Data*

Selected Consolidated Financial Data

The following table presents the selected consolidated financial information for our business. You should read the following information in conjunction with “Item 5. Operating and Financial Review and Prospects” below. The selected consolidated statement of operations data for the years ended December 31, 2016, 2017 and 2018 and the selected consolidated balance sheet data as of December 31, 2017 and 2018 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 F-1. The selected consolidated statement of operations data for the years ended December 31, 2014 and 2015 and the selected consolidated balance sheet data as of December 31, 2014, 2015 and 2016 have been derived from our audited consolidated financial statements for these periods, which are not included in this annual report.

Our historical results do not necessarily indicate results expected for any future periods.

	For the Year Ended December 31,					
	2014	2015	2016 ⁽¹⁾⁽³⁾	2017 ⁽³⁾	2018 ⁽³⁾	2018 ⁽³⁾
	RMB	RMB	RMB	RMB	RMB	US\$ ⁽²⁾
	(in millions, except for share and per share data)					
Consolidated Statement of Operation Data						
Net revenues	7,347	10,897	19,245	26,796	30,965	4,504
Cost of revenues	(2,101)	(3,043)	(4,730)	(4,678)	(6,324)	(920)
Gross profit	5,246	7,854	14,515	22,118	24,641	3,584
Operating expenses						
—Product development ⁽⁴⁾	(2,321)	(3,297)	(7,687)	(8,259)	(9,620)	(1,399)
—Sales and marketing ⁽⁴⁾	(2,214)	(3,088)	(5,861)	(8,294)	(9,596)	(1,396)
—General and administrative ⁽⁴⁾	(862)	(1,088)	(2,519)	(2,622)	(2,820)	(410)
Total operating expenses	(5,397)	(7,473)	(16,067)	(19,175)	(22,036)	(3,205)
(Loss) / income from operations	(151)	381	(1,552)	2,943	2,605	379
Net interest income / (expense) and other income / (expense) ⁽⁵⁾	186	2,624	(192)	581	(684)	(99)
Income / (loss) before income tax expense, equity in income of affiliates and non-controlling interests	35	3,005	(1,744)	3,524	1,921	280
Income tax expense	(131)	(470)	(482)	(1,285)	(793)	(115)
Equity in income / (loss) of affiliates	187	(136)	602	(65)	(32)	(5)
Net income / (loss)	91	2,399	(1,624)	2,174	1,096	160
Less: Net loss / (income) attributable to non-controlling interests	151	108	206	(19)	16	2
Net income / (loss) attributable to Ctrip’s shareholders	242	2,507	(1,418)	2,155	1,112	162
Earnings / (loss) Per Ordinary Share Data:						
Net income / (loss) attributable to Ctrip’s shareholders	242	2,507	(1,418)	2,155	1,112	162
Earnings / (loss) per ordinary share ⁽⁶⁾ , basic	7.08	66.34	(23.97)	32.51	16.25	2.36
Earnings / (loss) per ordinary share ⁽⁶⁾ , diluted	6.35	56.85	(23.97)	30.75	15.67	2.28
Weighted average ordinary shares outstanding, basic	34,289,170	37,797,698	59,166,582	66,300,808	68,403,426	68,403,426
Weighted average ordinary shares outstanding, diluted	38,207,858	47,375,248	59,166,582	71,775,893	70,924,623	70,924,623

	As of December 31,					
	2014	2015 ⁽¹⁾	2016 ⁽²⁾	2017 ⁽³⁾	2018 ⁽³⁾	2018 ⁽³⁾
	RMB	RMB	RMB	RMB	RMB	US\$ ⁽²⁾
	(in millions)					
Consolidated Balance Sheet Data:						
Cash and cash equivalents	5,301	19,216	18,435	18,243	21,530	3,131
Restricted cash	836	2,287	1,744	1,749	4,244	617
Short-term investments	6,439	8,236	14,113	28,130	36,753	5,346
Accounts receivable, net	1,827	3,151	4,641	4,749	5,668	824
Prepayments and other current assets	2,480	7,712	6,995	6,547	11,199	1,629
Deferred tax assets, current	194	— ⁽⁷⁾	—	—	—	—
Non-current assets	14,133	78,242	98,502	102,822	106,436	15,481
Total assets	31,210	118,844	144,430	162,240	185,830	27,028
Current liabilities	12,714	33,666	30,295	42,162	68,784	10,005
Deferred tax liabilities, non-current	133	3,045	3,612	3,895	3,838	558
Long-term debt ⁽⁸⁾	7,985	18,355	34,651	29,220	24,146	3,512
Other long-term liabilities	—	93	340	348	329	48
Share capital	3	4	5	5	5	1
Total Ctrip's shareholders' equity	9,529	44,551	71,548	84,836	86,715	12,612
Non-controlling interests	849	19,134	3,984	1,779	2,018	293
Total shareholders' equity	10,378	63,685	75,532	86,615	88,733	12,905

(1) Our consolidated balance sheet data has reflected the effect of consolidation of Qunar's financial statements starting from December 31, 2015. Our consolidated statement of operation data has reflected the effect of consolidation of Qunar's financial statements starting from January 1, 2016.

(2) Translation from Renminbi amounts into U.S. dollar amounts was made at a rate of RMB6.8755 to US\$1.00.

(3) Effective from January 1, 2018, we adopted ASC Topic 606, a new accounting standard on the recognition of revenue issued by FASB in 2014, and have applied such accounting standard retrospectively to the years ended December 31, 2016 and 2017. The financial data for the year ended December 31, 2014 and 2015 and as of December 31, 2014 and 2015 have not been recast and as such are not comparable.

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

	For the Year Ended December 31,					
	2014	2015	2016 ⁽¹⁾	2017	2018	2018
	RMB	RMB	RMB	RMB	RMB	US\$ ⁽²⁾
	(in millions)					
Product development	185	292	2,080	1,013	934	136
Sales and marketing	54	66	393	186	156	23
General and administrative	258	285	1,087	635	617	90

(5) In 2015, a gain of RMB2.3 billion was recognized in the other income for the deconsolidation of Tujia, which was once a subsidiary of our company. In January 2018, we adopted new financial instruments accounting standard ASU No. 2016-01, which requires equity investments to be measured at fair value with subsequent changes recognized in net income, except for those accounted for under the equity method or requiring consideration. The new standard also changes the accounting for investments without a readily determinable fair value and that do not qualify for the practical expedient to estimate fair value. A policy election can be made for these investments whereby investment will be carried at cost and adjusted in subsequent periods for any impairment or changes in observable prices of identical or similar investments.

(6) Each ADS represents 0.125 ordinary share.

(7) In 2015, we determined and elected to early adopt ASU 2015-17 to our consolidated financial statements starting December 31, 2015, prospectively to present the deferred tax assets and liabilities as non-current items.

(8) In April 2015, the FASB issued new guidance which changes the presentation of debt issuance cost. Under the new guidance, debt issuance cost is presented as a reduction of the carrying amount of the related liability, rather than as an asset. This guidance has been adopted and applied retrospectively by us to the prior periods presented herein.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Company

Our business could suffer if we do not successfully manage current growth and potential future growth.

Our business has grown significantly as a result of both organic growth of existing operations and acquisitions, and we expect to continue to experience such growth in the future. We have significantly expanded our operations and anticipate further expansion of our operations and workforce, as a result of the continued growth of our service offerings, customer base and geographic coverage. For example, we have invested in, and plan to continue to invest in, organic growth by rolling out new business initiatives focusing on a diverse range of areas including cruise lines, car services, bus tickets and train tickets. Consequentially, in 2018, we invested US\$1.4 billion in product development. If such new business initiatives fail to perform as expected, our financial condition and results of operations could be adversely affected. Our growth to date has placed, and our anticipated future operations will continue to place, significant strain on our management, systems and resources. In addition to training and managing our workforce, we will need to continue to improve and develop our financial and managerial controls and our reporting systems and procedures. We cannot assure you that we will be able to efficiently or effectively manage the growth of our operations, and any failure to do so may limit our future growth and hamper our business strategy.

Strategic acquisition of complementary businesses and assets, and the subsequent integration of newly acquired business into our own, create significant challenges that may have a material adverse effect on our business, reputation, results of operations and financial condition.

We have made and intend to continue to make strategic acquisitions in the travel industry in Greater China and overseas. For example, in October 2015, we completed a share exchange transaction with Baidu Inc., or Baidu, whereby we obtained approximately 45% of the aggregate voting interest of Qunar in exchange for our newly issued ordinary shares. Subsequently, we issued ordinary shares represented by ADSs to certain special purpose vehicles holding shares solely for the benefit of certain Qunar employees and, in return, we received Class B ordinary shares of Qunar from these employees. We directly injected these shares to a third-party investment entity dedicated to investing in business in China. From an accounting perspective, we consolidated the financial statements of these non-U.S. investment entities and started to consolidate Qunar's financial statements from December 31, 2015. In October 2016, we participated as a member in the buying consortium in Qunar's going-private transaction and rolled our then existing equity stake into the entity that wholly owns Qunar upon the completion of the transaction in February 2017.

If we are presented with appropriate opportunities, we may continue to acquire complementary businesses and assets in the future. However, strategic acquisitions and the subsequent integration of new businesses and assets into our own would require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. In addition, acquisitions could result in potential dilutive issuances of equity securities, use of substantial amounts of cash, and exposure to potential ongoing financial obligations and unforeseen or hidden liabilities of the acquired business. The cost and duration of, and difficulties in, integrating newly acquired businesses and managing a larger overall business could also materially exceed our expectations. Moreover, we may not be able to achieve our intended strategic strategies and record substantial impairment charges to goodwill, if we fail to successfully integrate the newly acquired business or manage a larger business. Any such negative developments could have a material adverse effect on our business, reputation, results of operations and financial condition.

Our strategy to acquire or invest in complementary businesses and assets and establish strategic alliances involves significant risk and uncertainties that may have a material adverse effect on our business, reputation, results of operations and financial condition.

As part of our plan to expand our product and service offerings, we have made and intend to make strategic acquisitions or investments in the travel service industries in Greater China and overseas, such as the following, in addition to our transactions relating to Qunar described elsewhere in this annual report:

- In May 2015, we acquired approximately 38% share capital of eLong, Inc. In May 2016, eLong, Inc. completed its going-private transaction and merger with E-dragon Holdings Limited, or eLong. In December 2017, eLong and Tongcheng Network Technology Co., Ltd., or LY.com, announced an agreement to merge and form Tongcheng-Elong Holdings Limited (SEHK: 0780), which was consummated in March 2018. In exchange for our prior holdings in eLong, we received an equity method investment in the enlarged group.
- In January 2016, we invested US\$180 million in MakeMyTrip Limited, or MakeMyTrip, India's largest online travel company, via convertible notes, and subsequently appointed a director to MakeMyTrip's board of directors. In October 2016, we converted all of the outstanding principal amount of convertible notes into ordinary shares of MakeMyTrip. In May 2017, we further invested approximately US\$33 million in MakeMyTrip by subscribing for 916,666 of its ordinary shares.

[Table of Contents](#)

- In April 2016, we announced strategic collaboration with China Eastern Airlines Corporation Limited, or China Eastern Airlines, one of China's three major air transportation groups, on a broad range of products and services. In June 2016, we invested approximately RMB3.0 billion in approximately 466 million A shares of China Eastern Airlines in a private placement.
- In December 2016, we consummated an acquisition transaction whereby shares held by nearly all of the shareholders of Skyscanner, a leading global travel search site headquartered in Edinburgh, the United Kingdom, were acquired by Ctrip.
- In December 2016, in connection with our share exchange transaction with BTG Hotels (Group) Co., Ltd., or BTG, a PRC joint stock company that is listed on the Shanghai Stock Exchange and principally engaged in the management of hotels and tourism destinations, and Homeinns Hotel Group, or Homeinns, we exchanged our previously held equity interest in Homeinns for 22% equity interest of BTG.
- In May 2018, we acquired substantially all of the remaining equity interest of an offline travel agency company in which we previously held approximately 48% equity interest for the consideration of RMB198 million in cash and 1.9% non-controlling interest of one of our subsidiaries with the fair value of RMB399 million.

If the ADS or share prices of the public companies that we have invested in or may invest in the future which are classified as equity securities with readily determinable fair values investments decline and become lower than our share purchase prices, as have happened historically, we could record changes in fair value recorded in the income statement under U.S. GAAP, which in turn would adversely affect our financial results for the relevant periods. In addition, if any of our investees in which our investments are classified as equity method investments incur net losses in the future, we will share their net losses proportionate to our equity interest in them.

Our strategic investments could also subject us to other uncertainties and risks, and our failure to address any of these uncertainties and risks, among others, may have a material adverse effect on our financial condition and results of operations:

- diversion of our resources and management attention;
- high acquisition and financing costs;
- failure to achieve our intended objectives or benefits in making these investments or revenue-enhancing opportunities;
- potential claims or litigation regarding our board's exercise of its duty of care and other duties required under applicable law in connection with any of our significant investments approved by the board; and
- failure to be in full compliance with applicable laws, rules and regulations.

In particular, our strategy of acquiring or investing in a competing business could be adversely affected by uncertainties in the implementation and enforcement of the PRC Anti-Monopoly Law. Under the PRC Anti-Monopoly Law, companies undertaking acquisitions or investments in a business in China must notify the PRC Ministry of Commerce, or MOFCOM, in advance of any transaction where the parties' revenues in the China market and global market exceed certain thresholds and the buyer would obtain control of, or decisive influence over, the target. There are numerous factors MOFCOM considers in determining "control" or "decisive influence," and, depending on certain criteria, MOFCOM will conduct anti-monopoly review of transactions in respect of which it was notified. In light of the uncertainties relating to the interpretation, implementation and enforcement of the PRC Anti-Monopoly Law, we cannot assure you that MOFCOM will not deem our past and future acquisitions or investments, including the ones referenced herein or elsewhere in this annual report, to have met the filing criteria under the PRC Anti-Monopoly Law and therefore demand a filing for merger review. However, there have been limited cases of MOFCOM anti-monopoly review of filings involving companies with a "variable interest entity" structure, or VIE structure, similar to ours. If we are found to have violated the PRC Anti-Monopoly Law for failing to file the notification of concentration and request for review, we could be subject to a fine of up to RMB500,000, and the parts of the transaction causing the prohibited concentration could be ordered to be unwound. Such unwinding could affect our business and financial results, and harm our reputation. Further, if any of our business cooperation arrangements with Qunar are determined to have violated the PRC Anti-Monopoly Law, we could be subject to sanctions including an order to cease the relevant activities, confiscation of illegal gains and fines of 1% to 10% of our sales revenue from the previous year.

[Table of Contents](#)

In addition, we establish strategic alliances with various third parties to further our business purpose from time to time. Strategic alliances with third parties could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the counter-party, an increase in expenses incurred in establishing new strategic alliances, inefficiencies caused by failure to integrate strategic partners' businesses with our own, and unforeseen levels of diversion of our resources and management attention, any of which may materially and adversely affect our business.

As a result of any of the above factors, any actual or perceived failure to realize the benefits we expected from these investments may materially and adversely affect our business and financial results and cause the trading price of our ADSs to decline.

If Qunar fails to effectively implement and execute its strategies to maintain competitiveness and grow its business, or incur net loss in the future, our business, results of operations and financial condition may be materially and adversely affected.

As a result of the transactions described elsewhere in this annual report involving Qunar securities during 2015, we began to consolidate Qunar's financial results from December 31, 2015 from an accounting perspective under U.S. GAAP. Historically, Qunar enjoyed one of the market leading positions in China's travel industry with its unique business model as a search-based travel commerce platform, while it is currently transitioning into a mobile and online commerce travel platform that focuses on providing users with one-stop solutions. Certain risks and uncertainties associated with the business operations of Qunar are distinct from those we have faced historically:

- Failure to transition into a one-stop mobile and online commerce travel platform from a search-based platform;
- Failure to increase penetration into hotel business in lower-tier cities, and maintain and increase popularity among young users in China by offering attractive features and services to meet user requirements of those markets;
- Failure to maintain relationships with air ticket suppliers, such as major airlines and China's sole global distribution systems, from which Qunar retrieves ticket availability information in order to generate comprehensive and accurate flight information on its platform;
- Failure to maintain and strengthen relationships with online travel agents that are Qunar's existing customers, and establish new customer relationships with other online travel agents and travel service providers to ensure that it has access to a steady supply of travel product information on favorable commercial terms;
- Failure to adequately monitor and secure service quality of travel service providers on its platform, and address user dissatisfaction with travel service providers;
- Consolidation of the results of operations of Qunar. Qunar historically incurred net loss and our consolidation of Qunar's financial statements had negatively impacted our financial statements previously;
- Consolidation of the fragmented travel market in China, which may result in travel service providers becoming fewer but larger, comprehensive travel information more readily available to users, and a potential loss to the value of Qunar's business as a travel service platform; and
- Inability to maintain or increase awareness and preference of its brand "Qunar" as a result of failure to provide a compelling user experience of online travel searches, maintaining the quality of its services, and preserving Qunar's reputation and goodwill in the event of negative media publicity toward its services, internet security or other issues affecting Qunar or online travel businesses in China.

If Qunar is unable to successfully implement and execute its strategies to maintain competitiveness and grow its business, or effectively address risks and uncertainties associated with its business operations and transitioning efforts, our business, results of operations and financial condition may be materially and adversely affected.

Our transactions involving issuance of our shares as consideration and investment or financing arrangements with selected third-party investment entities may result in substantial dilution to our shareholders and may also reduce our existing cash balance and adversely affect our working capital.

In the long-term interest of our company, we make investments, in the form of limited partnership contributions, assets injection or other financing arrangements, into or with certain entities that are dedicated to investing businesses in China. We agreed to make certain investments, in the form of limited partnership contribution or other financing arrangements, in several non-U.S. investment entities, amounting to an aggregate fair value of approximately US\$2.9 billion and US\$0.4 billion in 2016 and 2017. These entities are managed or owned by parties unaffiliated with each other and unaffiliated with us and are dedicated to investing in businesses in China. These investment entities have spent the proceeds of our investments to acquire the equity interest in Qunar that were not held by us through privately negotiated transactions. Under U.S. GAAP, we consolidate the financial statements of these investment entities from an accounting perspective. These investments, capital contributions and financing arrangements together with the share exchange with Baidu and issuance of shares for the benefit of Qunar employees historically caused significant dilution to our existing shareholders and impacted our working capital. Transactions involving issuance of a substantial number of our ordinary shares such as the transactions contemplated hereunder may result in substantial dilution to our shareholders. In addition, future sale of our shares by these non-U.S. investment entities and/or our other significant shareholders such as Baidu may cause our share price to decline. Furthermore, if we obtain debt financings, we may be subject to restrictive covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. See “Item 4.B. Information on the Company—Business Overview—Strategic Investments and Acquisitions.”

Our business is sensitive to global economic conditions. A severe or prolonged downturn in the global or Chinese economy may have a material and adverse effect on our business, and may materially and adversely affect our growth and profitability.

The global macroeconomic environment is facing challenges, including the escalation of the European sovereign debt crisis since 2011, the end of quantitative easing by the U.S. Federal Reserve, the economic slowdown in the Eurozone in 2014, and the slowdown of the Chinese economy since 2012. There have been concerns over unrest in the Middle East and Africa, which have resulted in volatility in oil and other markets, and over the expansion of terrorist activities into Europe and other regions. In June 2016, British citizens voted in a referendum to withdraw the membership of the United Kingdom from the European Union. The result of the vote caused instant and significant volatility in the global financial and securities markets. The various uncertainties in the political and economic situations of the United Kingdom and the European Union arising from the anticipated withdrawal may have a negative and prolonged impact on the global economy.

Economic conditions in China are sensitive to global economic conditions. Our business and operations are primarily based in China and the majority of our revenues are derived from our operations in China. Accordingly, our financial results have been, and are expected to continue to be, affected by the economy and travel industry in China. While the economy in China has grown significantly over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing. Recent changes in U.S. trade policies, including new tariffs on imports from China generally, and reactions by a number of markets including China in response to these U.S. actions, may have a material adverse effect on global economic conditions and the stability of global financial markets, and they may significantly reduce global trade and, in particular, trade between China and the United States. Since we derive the majority of our revenues from accommodation reservation, transportation ticketing, and packaged-tour services in China, any severe or prolonged slowdown in the global or Chinese economy or the recurrence of any financial disruptions could reduce expenditures for travel, which in turn may adversely affect our business operating results and financial condition in a number of ways. For example, the weakness in the economy could erode consumer confidence which, in turn, could result in changes to consumer spending patterns relating to travel products and services. If consumer demand for travel products and services we offer decreases, our revenues may decline. Furthermore, continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

General declines or disruptions in the travel industry may materially and adversely affect our business and results of operations.

Our business is significantly affected by the trends that occur in the travel industry in China, including the hotel, transportation ticketing and packaged-tour sectors. As the travel industry is highly sensitive to business and personal discretionary spending levels, it tends to decline during general economic downturns. The recent worldwide recession has led to a weakening in the demand for travel services. Other trends or events that tend to reduce travel and are likely to reduce our revenues include:

- terrorist attacks or threats of terrorist attacks or wars, particularly given the terrorist attacks in Paris and the worsening situation in Syria;
- an outbreak of H1N1 influenza, Ebola virus, avian flu, Middle East respiratory syndrome, or MERS, severe acute respiratory syndrome, or SARS, or any other serious contagious diseases;
- increasing prices in the hotel, transportation ticketing, or other travel-related sectors;
- increasing occurrence of travel-related accidents;
- political unrest;
- natural disasters or poor weather conditions; and
- any travel restrictions or other security procedures implemented in connection with any major events in China.

We could be severely and adversely affected by declines or disruptions in the travel industry and, in many cases, have little or no control over the occurrence of such events. Such events could result in a decrease in demand for our travel services. This decrease in demand, depending on the scope and duration, could significantly and adversely affect our business and financial performance over the short and long term.

We recorded a significant amount of goodwill and indefinite lived intangible assets in connection with our strategic acquisitions and investments, and we may incur material impairment charges to our goodwill and indefinite lived intangible assets if the recoverability of these assets become substantially reduced.

In connection with our strategic acquisitions over the recent years, we recorded a significant amount of goodwill and indefinite lived intangible assets booked in our financial statements. As of December 31, 2018, our goodwill was RMB58.0 billion (US\$8.4 billion) and our indefinite lived intangible assets were RMB11.8 billion (US\$1.7 billion). In 2015, our acquisition of Qunar securities resulted in a RMB43.0 billion increase in our goodwill. ASC 350 "Intangibles—Goodwill and Other" 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. ASC 350 also 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 2016, 2017 and 2018, we did not recognize any impairment charges for goodwill or intangible assets. If different judgments or estimates had been utilized, however, material differences could have resulted in the amount and timing of the impairment charge. We may potentially incur significant impairment charges if the recoverability of these assets become substantially reduced in the future. Any such impairment charges would adversely affect our results of operations and financial condition.

The trading price of our ADSs has been volatile historically and may continue to be volatile regardless of our operating performance.

The trading price of our ADSs has been and may continue to be subject to wide fluctuations. In 2018, the trading prices of our ADSs on the Nasdaq Global Select Market have ranged from US\$25.00 to US\$51.91 per ADS, and the last reported trading price on March 14, 2019 was US\$41.28 per ADS. The price of our ADSs may fluctuate in response to a number of events and factors, including the following:

[Table of Contents](#)

- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities analysts;
- conditions in the internet or travel industries;
- changes in the economic performance or market valuations of other internet or travel companies or other companies that primarily operate in China;
- changes in major business terms between our travel suppliers and us;
- announcements by us or our competitors of new products or services, significant acquisitions, strategic partnerships, joint ventures, or capital commitments;
- negative publicity in connection with our business operation;
- additions or departures of key personnel; and
- market and volume fluctuations in the stock market in general.

In addition, the stock market in general, and the market prices for internet-related companies and companies with operations in China in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. The securities of some China-based U.S.-listed companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial declines in the trading prices of their securities. The trading performance of the securities of these China-based U.S.-listed companies after their offerings and the surge in the number of China-based U.S.-listed companies that commenced going-private proceedings in recent years may affect the attitudes of investors toward China-based U.S.-listed companies, which consequently may impact the trading performance of the ADSs, regardless of our actual operating performance. Furthermore, some negative news and perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure including the use of VIE structures or other matters of other China-based U.S.-listed companies have negatively affected the attitudes of investors towards China-based U.S.-listed companies, including us, in general in the past, regardless of whether we have engaged in any inappropriate activities, and any news or perceptions with a similar nature may continue to negatively affect us in the future. In addition, the global financial crisis and the ensuing economic recessions in many countries have contributed and may continue to contribute to extreme volatility in the global stock markets, such as the large decline in share prices in the United States, China and other jurisdictions in recent years. These broad market and industry fluctuations may continue to adversely affect the trading price of the ADSs, regardless of our operating performance. Additionally, volatility or a lack of positive performance in our ADS price may adversely affect our ability to retain key employees, all of whom have been granted share-based awards.

If we are unable to maintain existing relationships with travel suppliers and strategic alliances, or unable to establish new arrangements with travel suppliers and strategic alliances at or on favorable terms or at terms similar to those we currently have, or at all, our business, market share and results of operations may be materially and adversely affected.

We rely on travel suppliers (including without limitation hotels and domestic and international airlines) to make their services available to consumers through us, and our business prospects depend on our ability to maintain and expand relationships with travel suppliers. If we are unable to maintain satisfactory relationships with our existing travel suppliers, or if our travel suppliers establish similar or more favorable relationships with our competitors, or if our travel suppliers increase their competition with us through their direct sales, or if any one or more of our travel suppliers significantly reduce participation in our services for a sustained period of time or completely withdraw participation in our services, our business, market share and results of operations may be materially and adversely affected. To the extent any of those major or popular travel suppliers ceased to participate in our services in favor of one of our competitors' systems or decided to require consumers to purchase services directly from them, our business, market share and results of operations may suffer.

[Table of Contents](#)

Our business depends significantly upon our ability to contract with hotels in advance for the guaranteed availability of certain hotel rooms. We rely on hotel suppliers to provide us with rooms at discounted prices. However, our contracts with our hotel suppliers are not exclusive and most of the contracts must be renewed semi-annually or annually. We cannot assure you that our hotel suppliers will renew our contracts in the future on favorable terms or terms similar to those we currently have agreed. The hotel suppliers may reduce the commission rates on bookings made through us. Furthermore, in order to maintain and grow our business and to effectively compete with many of our competitors in all potential markets, we will need to establish new arrangements with hotels and accommodations of all ratings and categories in our existing markets and in new markets. We cannot assure you that we will be able to identify appropriate hotels or enter into arrangements with those hotels on favorable terms, if at all. This failure could harm the growth of our business and adversely affect our operating results and financial condition, which consequently will impact the trading price of our ADSs.

We derive revenues and other significant benefits from our arrangements with major domestic airlines in China and international airlines. Our airline ticket suppliers allow us to book and sell tickets on their behalf and collect commissions on tickets booked and sold through us. Although we currently have supply relationships with these airlines, they also compete with us for ticket bookings and have entered into similar arrangements with many of our competitors and may continue to do so in the future. Such arrangements may be on better terms than we have. Starting in early 2016, some PRC airlines, including four of the largest airlines in China, announced suspension of their respective business cooperation with Qunar without indicating the length of such suspension and cited serious customer complaints in their respective announcements. Although most of these airlines have resumed cooperation with Qunar, if any airlines choose to take similar actions against us and additional airlines follow suit, our business, market share and results of operations may be materially and adversely affected. We cannot assure you that any of these airlines will continue to have supplier relationships with us or pay us commissions at the same or similar rates as what they paid us in the past. Further, on July 1, 2016, the four largest airlines in China announced that third-party ticketing agents are prohibited from selling tickets for domestic flights on third-party platforms, such as ours. Additionally, on July 1, 2016, most major domestic airlines also replaced their commissions and rebate incentives completely with a reduced, fixed “admin fee” per ticket. The loss of supplier relationships or further adverse changes in major business terms with our travel suppliers would materially impair our operating results and financial condition as we would lose an increasingly significant source of our revenues.

Part of the revenues that we derive from our hotel suppliers, airline ticket suppliers and other travel service providers are obtained through our strategic alliances with various third parties. We cannot assure you, however, that we will be able to successfully establish and maintain strategic alliances with third parties which are effective and beneficial for our business. Our inability to do so could have a material adverse effect on our market penetration, revenue growth and profitability.

If we fail to further increase our brand recognition, we may face difficulty in maintaining existing and acquiring new customers and business partners and our business may be harmed.

We believe that maintaining and enhancing the Ctrip brand depends in part on our ability to grow our customer base and obtain new business partners. Some of our potential competitors already have well-established brands in the travel industry. The successful promotion of our brand will depend largely on our ability to maintain a sizeable and active customer base, maintain relationships with our business partners, provide high-quality customer service, properly address customer needs and handle customer complaints and organize effective marketing and advertising programs. If our customer base significantly declines or grows more slowly than our key competitors, the quality of our customer services substantially deteriorates, or our business partners cease to do business with us, we may not be able to cost-effectively maintain and promote our brand, and our business may be harmed.

Negative publicity with respect to us or the travel industry in general could impair our reputation, which in turn could materially and adversely affect our business, results of operations and price of ADSs.

The reputation of our brands is critical to our business and competitiveness. Negative publicity with respect to us or the travel industry in general, from time to time, whether or not we are negligent or at fault, including but not limited to those relating to our business, products and services, customer experiences, employee relationships and welfare, compliance with law, financial conditions or prospects, whether with or without merit, could impair our reputation and adversely affect our business and operating results. Prospective customers may be prevented from engaging in transactions with us if there is any negative publicity in connection with the use of our services or products, the operation of our business and other aspects about us. In addition, the negative publicity of any of our brands may extend far beyond the brand involved, especially due to our comprehensive presences in the travel industry in general, to affect some or all of our other brands. Furthermore, negative publicity about other market players or isolated incidents, regardless of whether or not it is factually correct or whether we have engaged in any inappropriate activities, may result in negative perception of our industry as a whole and undermine the credibility we have established. Negative developments in the market may lead to tightened regulatory scrutiny and limit the scope of our permissible business activities. We could lose significant number of customers due to negative publicity with respect to us or the travel industry in general, which may materially and adversely affect our business, results of operations and price of ADSs. We may incur additional costs to recover from the impact caused by the negative publicity, which may divert management’s attention and other resources from our business and operations.

If we do not compete successfully against new and existing competitors, we may lose our market share, and our business may be materially and adversely affected.

We compete primarily with other consolidators of hotel accommodations and transportation reservation services based in China, including the platforms operated by other major internet companies. We also compete with traditional travel agencies and new internet travel search websites. In the future, we may also face competition from new players in the hotel consolidation market in China and abroad that may enter China.

We may face more competition from hotels and airlines as they enter the discount rate market directly or through alliances with other travel consolidators. In addition, international travelers have become an increasingly important customer base. Competitors that have formed stronger strategic alliances with overseas travel consolidators may have more effective channels to address the needs of customers in China to travel overseas. Furthermore, we do not have exclusive arrangements with our travel suppliers. The combination of these factors means that potential entrants to our industry face relatively low entry barriers.

[Table of Contents](#)

In the past, certain competitors launched aggressive advertising campaigns, special promotions and engaged in other marketing activities to promote their brands, acquire new customers or to increase their market shares. In response to such competitive pressure, we started to take and may continue to take similar measures and as a result will incur significant expenses, which in turn could negatively affect our operating margins in the quarters or years when such promotional activities are carried out. For example, we launched a promotion program in recent years to offer certain selected transportation tickets, hotel rooms and packaged tours as well as grant of e-coupons to our customers in response to promotion campaigns that our competitors have launched. Primarily as a result of the enhanced marketing efforts and additional investment in product developments in response to the intensified market competition, our operational margin was negatively affected. In addition, some of our existing and potential competitors may have competitive advantages, such as significantly larger active user base on mobile or other online platforms, greater financial, marketing and strategic relationships and alliances or other resources or name recognition, and may be able to imitate and adopt our business model. In particular, other major internet platforms may benefit from the existing user base of their other services. These platforms can utilize the traffic they already obtain and direct the users from their other services offerings to their travel services and further achieve synergies effects. We cannot assure you that we will be able to successfully compete against new or existing competitors. In the event we are not able to compete successfully, our business, results of operations and profit margins may be materially and adversely affected.

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

Our business experiences fluctuations, reflecting seasonal variations in demand for travel services. For example, the first quarter of each year generally contributes the lowest portion of our annual net revenues primarily due to a slowdown in business activity around and during the Chinese New Year holiday, which occurs during the period. Consequently, our results of operations may fluctuate from quarter to quarter.

Any failure to maintain satisfactory performance of our mobile platform, websites and systems, particularly those leading to disruptions in our services, could materially and adversely affect our business and reputation, and our business may be harmed if our infrastructure or technology is damaged or otherwise fails or becomes obsolete.

The satisfactory performance, reliability and availability of our infrastructure, including our mobile platform, websites and systems, are critical to the success of our business. Any system interruptions that result in the unavailability or slowdown of our mobile platform, websites or other systems and the disruption in our services could reduce the volume of our business and make us less attractive to customers. Most of our computer and communications systems are located at two of our customer service centers, one in Shanghai, China and the other one in Nantong, China. Our technology platform and computer and communication systems are vulnerable to damage or interruption from human error, computer viruses, fire, flood, power loss, telecommunications failure, physical or electronic break-ins, hacking or other attempts at system sabotage, vandalism, natural disasters and other similar events. For example, in May 2015, we experienced a network shut-down for a few hours, leading to temporary disruptions in the operations of our mobile platform and websites and interrupted customer services; later internal investigations revealed the cause to be employee human error. No data leakage occurred as part of the May 2015 incident, and we have since implemented extensive measures to ensure prompt responses to similar future incidents of network shutdown/service disruption and to continue to update our security mechanisms to protect our systems from any human error, third-party intrusions, viruses or hacker attacks, information or data theft or other similar activities; however, we cannot assure you that unexpected interruptions to our systems will not occur again in the future. We do not carry business interruption insurance to compensate us for losses that may occur as a result of such disruptions. In addition, any such future occurrences could reduce customer satisfaction levels, damage our reputation and materially and adversely affect our business.

We use an internally developed booking software system that supports nearly all aspects of our booking transactions. Our business may be harmed if we are unable to upgrade our systems and infrastructure quickly enough to accommodate future traffic levels, avoid obsolescence or successfully integrate any newly developed or purchased technology with our existing system. Capacity constraints could cause unanticipated system disruptions, slower response times, poor customer service, impaired quality and speed of reservations and confirmations and delays in reporting accurate financial and operating information. These factors could cause us to lose customers and suppliers, which would have a material adverse effect on our results of operations and financial condition.

In addition, our future success will depend on our ability to adapt our products and services to the changes in technologies and internet user behavior. For example, the number of people accessing the internet through mobile devices, including smart devices, mobile phones, tablets and other hand-held devices, has increased in recent years, and we expect this trend to continue while 4G and more advanced mobile communications technologies are broadly implemented. As we make our services available across a variety of mobile operating systems and devices, we are dependent on the interoperability of our services with popular mobile devices and mobile operating systems that we do not control, such as Android, iOS and Windows. Any changes in such mobile operating systems or devices that degrade the functionality of our services or give preferential treatment to competitive services could adversely affect usage of our services. Further, if the number of platforms for which we develop our services increases, which is typically seen in a dynamic and fragmented mobile services market such as China, it will result in an increase in our costs and expenses. In order to deliver high quality services, it is important that our services work well across a range of mobile operating systems, networks, mobile devices and standards that we do not control. If we fail to develop products and technologies that are compatible with all mobile devices and operating systems, or if the products and services we develop are not widely accepted and used by users of various mobile devices and operating systems, we may not be able to penetrate the mobile internet market. In addition, the widespread adoption of new internet technologies or other technological changes could require significant expenditures to modify or integrate our products or services. If we fail to keep up with these changes to remain competitive, our future success may be adversely affected.

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

Our future success depends heavily upon the continued services of our key executives. We rely on their expertise in business operations, finance and travel services and on their relationships with our suppliers, shareholders and business partners. We do not maintain key-man life insurance for any of our key executives. If one or more of our key executives are unable or unwilling to continue in their present positions, we may not be able to easily replace them. In that case, our business may be severely disrupted, we may incur additional expenses to recruit and train personnel and our financial condition and results of operations may be materially and adversely affected.

In addition, if any of these key executives joins a competitor or forms a competing company, we may lose customers and suppliers. Each of our executive officers has entered into an employment agreement with us that contains confidentiality and non-competition provisions. If any disputes arise between our executive officers and us, we cannot assure you of the extent to which any of these agreements would be enforced in China, where most of these executive officers reside and hold most of their assets, in light of the uncertainties with China's legal system. See "Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us."

If we are unable to attract, train and retain key individuals and highly skilled employees, our business may be adversely affected.

If our business continues to expand, we will need to hire additional employees, including travel supplier management personnel to maintain and expand our travel supplier network, information technology and engineering personnel to maintain and expand our mobile platform, websites, customer service centers and systems and customer service representatives to serve an increasing number of customers. If we are unable to identify, attract, hire, train and retain sufficient employees in these areas, users of our mobile platform, websites and customer service centers may not have satisfactory experiences and may turn to our competitors, which may adversely affect our business and results of operations.

The PRC government regulates the air-ticketing, travel agency, and internet industries. If we fail to obtain or maintain all pertinent permits and approvals or if the PRC government imposes more restrictions on these industries, our business may be adversely affected.

The PRC government regulates the air-ticketing, travel agency and internet industries. We are required to obtain applicable permits or approvals from different regulatory authorities to conduct our business, including separate licenses for value-added telecommunications, air-ticketing, travel agency and internet-related activities. If we fail to obtain or maintain any of the required permits or approvals in the future, we may be subject to various penalties, such as fines or suspension of operations in these regulated businesses, which could severely disrupt our business operations. As a result, our financial condition and results of operations may be adversely affected.

In particular, the Civil Aviation Administration of China, or CAAC, together with National Development and Reform Commission, or NDRC, regulates pricing of air tickets. CAAC also supervises commissions payable to air-ticketing agencies together with China Air Transport Association, or CATA. If restrictive policies are adopted by CAAC, NDRC, or CATA, or any of their regional branches, our air-ticketing revenues may be adversely affected.

Furthermore, we provide online consumer finance services incidental to our core businesses. Due to the relatively short history of China's online consumer finance industry, the PRC government is still in the process of establishing a comprehensive regulatory framework governing this industry. The relevant rules and regulations governing this industry are general in nature and yet to be further interpreted or supplemented. In addition, we may have to make significant changes to our operations from time to time in order to comply with changing laws, regulations and policies governing the online consumer finance industry, which may increase our cost of operation or limit our options of service offering, which in turn may adversely affect our results of operations.

We may not be able to prevent others from using our intellectual property, which may harm our business and expose us to litigation.

We regard our domain names, trade names, trademarks and similar intellectual property as critical to our success. We try to protect our intellectual property rights by relying on trademark protection and confidentiality laws and contracts. Trademark and confidentiality protection in China may not be as effective as that in the United States. Policing unauthorized use of proprietary technology is difficult and expensive.

The steps we have taken may be inadequate to prevent the misappropriation of our proprietary technology. Any misappropriation could have a negative effect on our business and operating results. Furthermore, we may need to go to court to enforce our intellectual property rights. Litigation relating to our intellectual property might result in substantial costs and diversion of resources and management attention. See "Item 3.D. Key Information — Risk Factors — Risks Related to Doing Business in China — Uncertainties with respect to the PRC legal system could adversely affect us."

We rely on services from third parties to carry out our business and to deliver our products to customers, and if there is any interruption or deterioration in the quality of these services, our customers may not continue using our services.

We rely on third-party computer systems to host our websites, as well as third-party licenses for some of the software underlying our technology platform. In addition, we rely on third-party transportation ticketing agencies to issue transportation tickets and travel insurance products, confirmations and deliveries in some cities in Greater China. We also rely on third-party local operators to deliver on-site services to our packaged-tour customers. Any interruption in our ability to obtain the products or services of these or other third parties or deterioration in their performance, such as server errors or interruptions, or dishonest business conduct, could impair the timing and quality of our own service. If our service providers fail to provide high quality services in a timely manner to our customers or violate any applicable rules and regulations, our services will not meet the expectations of our customers and our reputation and brand will be damaged. Furthermore, if our arrangement with any of these third parties is terminated, we may not find an alternative source of support on a timely basis or on favorable terms to us.

If our hotel suppliers or customers provide us with untrue information regarding our customers' stay, we may not be able to recognize and collect revenues to which we are entitled.

We generate majority of our accommodation reservation revenues through commissions from hotels, which depend on the room nights booked through us. To confirm whether a customer adheres to the booked itinerary, we routinely make inquiries with the hotel and, occasionally, with the customer. We rely on the hotel and the customer to provide us truthful information regarding the customer's check-in and check-out dates, which forms the basis for calculating the commission we are entitled to receive from the hotel. If our hotel suppliers or customers provide us with untrue information with respect to our customers' length of stay at the hotels, we would not be able to collect revenues to which we are entitled. In addition, using such untrue information may lead to inaccurate business projections and plans, which may adversely affect our business planning and strategy.

We may suffer losses if we are unable to predict the amount of inventory we will need to purchase during the peak holiday seasons.

During the peak holiday seasons in China, we establish limited merchant business relationships with selected travel service suppliers, in order to secure adequate supplies for our customers. In merchant business relationships, we buy hotel rooms and/or transportation tickets before selling them to our customers and thereby incur inventory risk. As we expanded our merchant business in 2018, partially attributable to our packaged-tour products, our demands also increased correspondingly. If we are unable to correctly predict demand for hotel rooms and transportation tickets that we are committed to purchase, we would be responsible for covering the cost of the hotel rooms and transportation tickets we are unable to sell, and our financial condition and results of operations would be adversely affected.

The recurrence of SARS or other similar outbreaks of contagious diseases as well as natural disasters may materially and adversely affect our business and operating results.

In early 2003, several regions in Asia, including Hong Kong and China, were affected by the outbreak of SARS. The travel industry in China, Hong Kong and some other parts of Asia suffered tremendously as a result of the outbreak of SARS. Furthermore, in early 2008, severe snowstorms hit many areas of China and particularly affected southern China. The travel industry was severely and adversely affected during and after the snowstorms. Additionally, in May 2008, a major earthquake struck China's populous Sichuan Province, causing great loss of life, numerous injuries, property loss and disruption to the local economy. The earthquake had an immediate impact on our business as a result of the sharp decrease in travel in the relevant earthquake-affected areas in Sichuan Province. In 2009, an outbreak of H1N1 influenza (swine flu) occurred in Mexico and the United States and human cases of the swine flu were discovered in China and Hong Kong. In March 2011, a powerful earthquake hit Japan, and the subsequent tsunami and nuclear accidents had far-reaching impact on the surrounding economies. Starting from March 2013, H7N9 bird flu, a new strain of animal influenza, has been spreading in China and has infected more than a hundred people. In October 2013, large scale political protests began in Thailand that lasted several months and caused disruption to tourism and travel. In November 2013, one of the largest typhoons ever recorded hit the Philippines, causing widespread devastation. In March 2014, the World Health Organization reported a major Ebola outbreak in Guinea, a western African nation. The disease then rapidly spread to the neighboring countries of Liberia and Sierra Leone. As of February 3, 2015, 22,560 suspected cases and 9,019 deaths had been reported; however, the World Health Organization has said that these numbers may be underestimated. In June 2015, an outbreak of Middle East respiratory syndrome, or MERS, affected South Korea, one of our popular overseas travel destinations.

Any future outbreak of contagious diseases, extreme unexpected bad weather or natural disasters would adversely affect our business and operating results. Ongoing concerns regarding contagious disease or natural disasters, particularly its effect on travel, could negatively impact our customers' desire to travel. If there is a recurrence of an outbreak of certain contagious diseases or natural disasters, travel to and from affected regions could be curtailed. Government advice regarding, or restrictions on, travel to and from these and other regions on account of an outbreak of any contagious disease or occurrence of natural disasters may have a material adverse effect on our business and operating results.

If tax benefits available to our subsidiaries in China are reduced or repealed, our results of operations could suffer.

Under the PRC Enterprise Income Tax Law and the relevant implementation rules, or the EIT Law, effective on January 1, 2008, foreign-invested enterprises, or FIEs, and domestic enterprises are subject to EIT at a uniform rate of 25%. Certain enterprises will benefit from a preferential tax rate of 15% under the EIT Law if they qualify as "high and new technology enterprises," or HNTes, or if they are located in applicable PRC regions as specified in the Catalogue of Encouraged Industries in Western Regions, or the Western Regions Catalogue, subject to certain general restrictions described in the EIT Law and the related regulations.

In December 2008 and 2009, some of our PRC subsidiaries, Ctrip Computer Technology, Ctrip Travel Information, Ctrip Travel Network and Qunar Software, and one of our consolidated affiliated Chinese entities, Qunar Beijing, were each designated by relevant local authorities as a HNTe under the EIT Law with an effective period of three years. Therefore, these entities were entitled to enjoy a preferential tax rate of 15%, as long as they maintained their qualifications for HNTes that are subject to verification by competent authorities and renewals every three years. The qualifications of these entities as HNTes have been renewed and will expire by the end of 2019 or 2020. We cannot assure you that our subsidiaries and the consolidated affiliated Chinese entity will continue to qualify as HNTes when they are subject to reevaluation in the future. In 2002, the PRC State Administration of Taxation, or SAT, started to implement preferential tax policy in China's western region, and companies located in applicable jurisdictions covered by the Western Regions Catalogue are eligible to apply for a preferential income tax rate of 15% if their businesses fall within the "encouraged" category of the policy and the revenue derived from such "encouraged" businesses accounts for more than 70% of the total revenue. Benefiting from this policy, Chengdu Ctrip and Chengdu Ctrip International obtained approval from local tax authorities to apply the 15% tax rate for their annual tax filing subject to periodic renewals over the years since 2012. After the initial effective period expired in 2014, the two entities were approved by the relevant government authority to renew this qualification, which will expire in 2020. In 2013, Chengdu Information Technology Co., Ltd., or Chengdu Information, obtained approval from local tax authorities to apply the 15% tax rate for its 2012 tax filing and for the years from 2013 to 2020. In the event that the preferential tax treatment for these entities is discontinued, these entities will become subject to the standard tax rate at 25%, which would materially increase our tax obligations.

We have sustained losses in the past and may experience earnings declines or net losses in the future.

We sustained net losses in certain past periods, and we cannot assure you that we can sustain profitability or avoid net losses in the future. We expect that our operating expenses will increase and the degree of increase in these expenses is largely based on anticipated growth, revenue trends and competitive pressure. As a result, any decrease or delay in generating additional sales volume and revenues and increase in our operating expenses may result in substantial operating losses. Moreover, consolidation of Qunar's financial statements starting from December 31, 2015 had negatively impacted our financial statements previously, which may happen again in the future. See "Item 3.D. Key Information—Risk Factors—Risks Relating to Our Company—Consolidation of the results of operations of Qunar with ours may negatively impact our financial performance and results of operations."

We have incurred substantial indebtedness and may incur additional indebtedness in the future. We may not be able to generate sufficient cash to satisfy our outstanding and future debt obligations.

As of December 31, 2018, our total short-term bank borrowings and long-term bank borrowings (current portions) were RMB25.1 billion (US\$3.6 billion), our total long-term borrowings (excluding current portions) were RMB8.0 billion (US\$1.2 billion), the aggregate principal amount of our outstanding convertible notes was US\$3.8 billion (RMB26.5 billion), and our securitization debt was RMB608 million (US\$88 million). To the extent that we were to settle or redeem our convertible notes in cash, our debt obligations would become more substantial.

Our substantial indebtedness could have important consequences to you. For example, it could:

- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes; and
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to conduct additional financing activities, or increase the cost of additional financing.

We may from time to time incur additional indebtedness and contingent liabilities. If we incur additional debt, the risks that we face as a result of our substantial indebtedness and leverage could intensify. For example, since 2018, we entered into asset backed securitization arrangements with third-party financial institution and set up a securitization vehicle which issued revolving debt securities to third party investors.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. As a result, we may not generate or obtain sufficient cash flow to meet our anticipated operating expenses and to service our debt obligation as they become due.

We may be subject to legal or administrative proceedings regarding information provided on our online portals or other aspects of our business operations, which may be time-consuming to defend.

Our online portals contain information about hotels, transportation, popular vacation destinations, and other travel-related topics. It is possible that if any information accessible on our online portals contains errors or false or misleading information, third parties could take action against us for losses incurred in connection with the use of such information. From time to time, we have become and may in the future become a party to various legal or administrative proceedings arising in the ordinary course of our business, including actions with respect to labor and employment claims, breach of contract claims, anti-competition claims, and other matters. Although such proceedings are inherently uncertain and their results cannot be predicted with certainty, we believe that the resolution of our current pending matters will not have a material adverse effect on our business, consolidated financial position, results of operations, or cash flow. Regardless of the outcome and merit of such proceedings, however, any legal action can have an adverse impact on us because of defense costs, negative publicity, diversion of management's attention, and other factors. In addition, it is possible that an unfavorable resolution of one or more legal or administrative proceedings, whether in China or in another jurisdiction, could materially and adversely affect our financial position, results of operations or cash flows in a particular period or damage our reputation.

We could be liable for breaches of internet security or fraudulent transactions by users of our mobile platform and our websites.

Internet industry is facing significant challenges regarding information security and privacy, including the storage, transmission and sharing of confidential information. In recent years, PRC government authorities have enacted legislation on internet use to protect personal information from any unauthorized disclosure. See “Item 4.B. Information on the Company—Business Overview—PRC Government Regulations—internet Privacy.” We conduct a significant portion of our transactions through the internet, including our mobile platform and websites. In such transactions, secured transmission of confidential information (such as customers’ itineraries, hotel and other reservation information, credit card information, personal information, and billing addresses) over public networks and ensuring the confidentiality, integrity, availability, and authenticity of the information of our users, customers, hotel suppliers, and airline partners are essential to maintaining their confidence in our online products and services. Our current security measures may not be adequate and may contain deficiencies that we fail to identify, and advances in technology, increased levels of expertise of hackers, new discoveries in the field of cryptography or others could increase our vulnerability. For example, a third-party website with focus on internet security information exchange released news in March 2014 that as a result of a temporary testing function performed by us, certain data files containing customers’ credit card information had been stored on local servers maintained by us, which may lead to potential exposure of these customers’ information to hackers. We removed the cause of the potential security concern within two hours of the release of the news report and then examined all other possible leaks and found that 93 customers’ credit card information might have been downloaded by the above-mentioned website for the purpose of confirming potential risks. Although to our knowledge, no customer has suffered financial loss or other damage from the incident as of the date of that report, our business, results of operations, user experience, and reputation may be materially and adversely affected if similar incidents related to internet security recur in the future. In August 2011, the PRC Supreme People’s Court and the PRC Supreme People’s Procuratorate issued judicial interpretations regarding hacking and other internet crimes. However, its effect on curbing hacking and other illegal online activities still remains to be seen.

Significant capital, managerial and human resources are required to enhance information security and to address any issues caused by security failures. If we are unable to protect our systems and the information stored in our systems from unauthorized access, use, disclosure, disruption, modification or destruction, such problems or security breaches may cause loss, expose us to litigation and possible liability to the owners of confidential information, disrupt our operations and may ham our reputation and ability to attract customers.

Our failure to comply with privacy and data protection laws and regulations in various jurisdictions could subject us to sanctions, damages, and litigation, and could harm our reputation and business.

We collect and process certain personal data of our users, including email addresses, usage data, identification information, user passwords and additional information. We also collect and process user billing information, such as credit card numbers, full names, billing addresses and phone numbers of our users.

We are subject to the privacy and data protection laws and regulations in various jurisdictions, including China, European Union and Korea. Privacy laws provide restrictions and guidance in connection with our storage, use, processing, disclosure, transfer and protection of personal information. We strive to comply with all applicable laws, regulations, policies relating to privacy and data protection. We are also subject to privacy and data security-related obligations deriving from our privacy policy and terms of use with our users, and we may be liable to third parties in the event we are deemed wrongfully processed personal data.

European Union traditionally takes a broader view as to what is considered personal information and has imposed greater obligations under their privacy and data protection laws. In particular, the European Union adopted a new General Data Protection Regulation in April 2016, which became effective in May 2018. The General Data Protection Regulation results in more stringent requirements for data processors and controllers, including more fulsome disclosures about the processing of personal information, data retention limits, and deletion requirements, mandatory notification in the case of a data breach, and elevated standards regarding valid consent in some specific cases of data processing. The General Data Protection Regulation also includes substantially higher penalties for failure to comply with the requirements. For example, in the event of violations, a fine up to €20 million or up to 4% of the annual worldwide turnover, whichever is greater, may be imposed. In addition to General Data Protection Regulation, when other future laws and regulations come into effect, the more stringent requirements on privacy user notifications and data handling will require us to adapt our business and incur additional costs.

[Table of Contents](#)

Privacy concerns are becoming more widely acknowledged and may cause our users to resist providing the personal data necessary to allow them to use our platform effectively. We have implemented multiple measures and security protocols to maintain and improve our privacy protection capability. However, measures we have implemented may not alleviate all potential privacy concerns and threats. In addition, a failure by us or a third-party contractor providing services to us to comply with applicable privacy and data security laws, regulations, obligations, or our terms of use with our users, may result in sanctions, statutory or contractual damages or litigation. These violations or proceedings may, among other things, force us to spend money in defense or settlement, result in the imposition of monetary liability or restrict access to our services from certain territory, which could adversely affect our reputation and business.

We may be the subject of detrimental conduct by third parties, including complaints to regulatory agencies, negative blog postings, and the public dissemination of malicious assessments of our business, which could have a negative impact on our reputation and cause us to lose market share, travel suppliers, customers and revenues, and adversely affect the price of our ADSs.

We may be the target of anti-competitive, harassing, or other detrimental conduct by third parties. Such conduct may include complaints, anonymous or otherwise, to regulatory agencies regarding our operations, accounting, revenues, business relationships, business prospects and business ethics. Additionally, allegations, directly or indirectly against us, may be posted in internet chat-rooms or on blogs or any websites by anyone, whether or not related to us, on an anonymous basis. We may be subject to government or regulatory investigation as a result of such third-party conduct and may be required to spend significant time and incur substantial costs to address such third-party conduct, and we cannot assure you that we will be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Our reputation may also be negatively affected as a result of the public dissemination of anonymous allegations or malicious statements about our business, which in turn may cause us to lose market share, travel suppliers and customers and revenues and adversely affect the price of our ADSs.

Our business is subject to the risks of international operations.

We had overseas expansion of our business over the years and operate our business in many foreign jurisdictions such as European and southeast Asian countries. Compliance with foreign laws and regulations that apply to our international operations increases our cost of doing business in foreign jurisdictions. These laws and regulations include data privacy requirements, labor relations laws, tax laws, foreign currency-related regulations, anti-competition regulations, prohibitions on payments to governmental officials, market access, import, export and general trade regulations, including but not limited to economic sanctions and embargos. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our officers or our employees, and prohibitions on the conduct of our business, including the loss of trade privileges. Any such violations could result in prohibitions on our ability to offer our products and services in one or more countries, could delay or prevent potential acquisitions and could also materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Compliance with these laws requires a significant amount of management attention and effort, which may divert management's attention from running our business operations and could harm our ability to grow our business, or may increase our expenses as we engage specialized or other additional resources to assist us with our compliance efforts. Our success depends, in part, on our ability to anticipate these risks and manage these difficulties. We monitor our operations and investigate allegations of improprieties relating to transactions and the way in which such transactions are recorded. Where circumstances warrant, we provide information and report our findings to government authorities, but no assurance can be given that action will not be taken by such authorities. In addition, as our business and operation expand in international markets, we could be exposed to increased foreign exchange risks for other currencies.

We have limited business insurance coverage in Greater China.

Insurance companies in Greater China offer limited business insurance products and generally do not, to our knowledge, offer business liability insurance. Business disruption insurance is available to a limited extent in Greater China, but we have determined that the risks of disruption, the cost of such insurance and the difficulties associated with acquiring such insurance make it impractical for us to have such insurance. We do not maintain insurance coverage for any kinds of business liabilities or disruptions and would have to bear the costs and expenses associated with any such events out of our own resources.

We hire celebrities to be our brand ambassadors to market our brands and products and this marketing initiative may not be effective.

From time to time, we hire celebrities to be our brand ambassadors to market our "Ctrip" brand or our products and services that are important to our business. However, we cannot assure you that the endorsement from our brand ambassadors or related advertisements will remain effective, that the brand ambassadors will remain popular or their images will remain positive and compatible with the messages that our brand and products aim to convey. Furthermore, we cannot assure you that we can successfully find suitable celebrities to replace any of our existing brand ambassadors if any of their popularities decline or if the existing brand ambassadors are no longer able or suitable to continue the engagement, and termination of such engagements may have a significant impact on our brand images and the promotion or sales of our products. If any of these situations occurs, our business, financial condition and results of operations could be materially and adversely affected.

We may face greater risk of doubtful accounts as our business increases in scale.

We provide credit terms to our merchant customers, and also extend credit to our users by making payments on behalf of them when they book travel products on our platform. Our accounts receivable and other receivable have increased as our business grows. We cannot assure you that we will be able to collect payment fully and in a timely manner on our outstanding receivables from our merchant customers and users. As a result, we may face a greater risk of non-payment of our receivables and, as our business grows in scale, we may need to make higher provisions for doubtful accounts. For the years ended December 31, 2016, 2017 and 2018, we recognized the provisions for accounts receivables of approximately RMB32 million, RMB98 million and RMB69 million (US\$10 million), respectively, while the provisions for other receivable were immaterial. Our operating results and financial condition may be materially and adversely affected if we are unable to successfully manage our receivables.

Our accounting treatment for share-based compensation could continue to significantly reduce our net income.

Since 2006, we have accounted for share-based compensation in accordance with ASC 718 “Compensation — Stock Compensation,” or ASC 718, which requires a public company to recognize, as an expense, the fair value of share options and other share-based compensation to employees based on the requisite service period of the share-based awards. We have granted share-based compensation awards, including share options and restricted share units, to employees, officers and directors to incentivize performance and align their interests with ours. See “Item 6.B. Directors, Senior Management and Employees — Compensation — Employees’ Share Incentive Plans.” As a result of the grants and potential future grants under our share incentive plans, we had incurred in the past and expect to continue to incur in future periods significant share-based compensation expenses. The amount of these expenses is based on the fair value of the share-based awards.

Our board of directors has the discretion to change terms of any previously issued share options and any such change may significantly increase the amount of our share-based compensation expenses for the period that the change takes effect as well as those for any future periods. In February 2009, our board of directors approved to reduce the exercise price of all outstanding unvested options that were granted by us in 2007 and 2008 under our 2007 Plan to the then fair market value of our ordinary shares underlying such options and, in December 2009, our board of directors approved to extend the expiration dates of all stock options granted in 2005 and 2006 to eight years after the respective original grant dates of these options. As a result of such changes, our share-based compensation expense of 2009 reduced our diluted earnings per ADS by US\$0.14. In February 2010, our compensation committee approved to extend the expiration dates of all stock options granted in and after 2007 to eight years after the respective original grant dates of these options. As a result of such changes and extensions, our share-based compensation expense of 2010 reduced our diluted earnings per ADS by US\$0.06. In addition, with such changes and extensions, the application of ASC 718 will continue to have a significant impact on our net income. Further, future changes to various assumptions used to determine the fair value of awards issued or the amount and type of equity awards granted may also create uncertainty as to the amount of future share-based compensation expense.

Changes in accounting standards may affect the results of our operations.

We are required to adopt new accounting standards under FASB from time to time. Certain new accounting standards may impose significant different accounting treatments on certain line items on our consolidated financial statements, which could result in unexpected changes to our results of operation.

For example, in May 2014, the FASB issued a new accounting standard on the recognition of revenue generated from contracts with customers that was designed to create greater comparability for financial statement users across industries and jurisdictions. The core principle of this new standard is that an “entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” We adopted this new standard, effective from January 1, 2018, and applied the full retrospective transition approach to all contracts, which means that the financial statements for the year ended and as of December 31, 2018 were reported under this new standard and the financial statements for the years ended and as of December 31, 2016 and 2017 were retrospectively adjusted. The new standard did not change the presentation of our revenues, which continues to be substantially reported on a net basis. However, the timing of revenue recognition for certain revenue streams is changed under the new standard. In particular, revenue for accommodation reservation services, which used to be recognized after end-users completed their stays, is now recognized when the reservation becomes non-cancellable. Revenue for packaged-tour services, which used to be recognized when packaged tours were completed, is now recognized on the departure date of the tours.

[Table of Contents](#)

On January 1, 2018, we adopted new financial instruments accounting standard ASU No. 2016-01, which requires equity investments to be measured at fair value with subsequent changes recognized in net income, except for those accounted for under the equity method or requiring consolidation. The new standard also changes the accounting for investments without a readily determinable fair value and that do not qualify for the practical expedient to estimate fair value. A policy election can be made for these investments whereby investment will be carried at cost and adjusted in subsequent periods for any impairment or changes in observable prices of identical or similar investments. With the adoption of the new standard, we recognized the changes in fair value for all equity investments measured at fair value through net income/(loss). For investments in equity securities lacking of readily determinable fair values, we elected to use the measurement alternative defined as cost, less impairments, adjusted by observable price changes. The new standard also requires us to reclassify the accumulated unrealized gain or loss of the equity investments measure at fair value that were previously recognized in other comprehensive income to retained earnings on the date of the adoption.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires that a lessee should recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expenses for such lease generally on a straight-line basis over the lease term. The new leases standard also provides lessees with a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease component. If a lessee makes that accounting policy election, it is required to account for the non-lease components together with the associated lease component as a single lease component and to provide certain disclosures. Entities were initially required to adopt the new leases standard using a modified retrospective transition method. Under that transition method, an entity initially applies the new leases standard (subject to specific transition requirements and optional practical expedients) at the beginning of the earliest period presented in the financial statements. In July 2018, the FASB issued ASU 2018-11, which provides another transition method in addition to the existing transition method by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption consistent with preparers' requests. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public entities. We will adopt this new guidance for the year ended December 31, 2019 and interim periods in the year ended December 31, 2019. We estimate approximately RMB800 million to RMB900 million would be recognized as total right-of-use assets and total lease liabilities on our consolidated balance sheet as of January 1, 2019. Other than disclosed, we do not expect the new standard to have a material impact on our remaining consolidated financial statements.

For further details, see "Item 5.A. Operating and Financial Review and Prospects — Operating Results — Critical Accounting Policy." As a result of changes in accounting standards, our results of operations may be adversely affected.

Failure to maintain effective internal control over financial reporting could result in errors in our published financial statements, which in turn could have a material adverse effect on the trading price of our ADSs.

We are subject to the reporting obligations under the U.S. securities laws. As required under Section 404 of the Sarbanes-Oxley Act of 2002, the SEC has adopted rules requiring public companies to include a report of management on the effectiveness of such companies' internal control over financial reporting in its annual report. In addition, an independent registered public accounting firm for a public company must issue an attestation report on the effectiveness of the company's internal control over financial reporting. Our management conducted an evaluation of the effectiveness of our internal control over financial reporting and concluded that our internal control over financial reporting was effective as of December 31, 2018. In addition, our independent registered public accounting firm attested the effectiveness of our internal control and reported that our internal control over financial reporting was effective as of December 31, 2018. If we fail to maintain the effectiveness of our internal control over financial reporting, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with the Sarbanes-Oxley Act. Moreover, effective internal control over financial reporting is necessary for us to produce reliable financial reports. As a result, any failure to maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could negatively impact the trading price of our ADSs. Furthermore, we may need to incur additional costs and use additional management and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act and other requirements going forward.

We may need additional capital and we may not be able to obtain it.

We believe that our current cash and cash equivalents, short-term investments, cash flow from operations and proceeds from our financing activities will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. In particular, the recent financial turmoil affecting the financial markets and banking system may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all.

Risks Related to Our Corporate Structure

PRC laws and regulations restrict foreign investment in the air-ticketing, travel agency and value-added telecommunications businesses, and substantial uncertainties exist with respect to the application and implementation of PRC laws and regulations.

We are a Cayman Islands incorporated company and a foreign person under PRC law. Due to foreign ownership restrictions in the air-ticketing, travel agency and value-added telecommunications industries, we conduct part of our business through contractual arrangements with our consolidated affiliated Chinese entities. These entities hold the licenses and approvals that are essential for our business operations.

In the opinion of our PRC counsel, Commerce & Finance Law Offices, our current ownership structure, the ownership structure of our subsidiaries and our consolidated affiliated Chinese entities, the contractual arrangements among us, our subsidiaries, our consolidated affiliated Chinese entities and their shareholders, as described in this annual report, are in compliance with existing PRC laws, rules and regulations. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. Accordingly, we cannot assure you that PRC government authorities will not ultimately take a view contrary to the opinion of our PRC legal counsel due to the lack of official interpretation and clear guidance.

If we and our consolidated 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 consolidated affiliated Chinese entities, revoking our business licenses or the business licenses of our consolidated affiliated Chinese entities, requiring us and our consolidated affiliated Chinese entities to restructure our ownership structure or operations and requiring us or our consolidated affiliated Chinese entities to discontinue any portion or all of our value-added telecommunications, air-ticketing or travel agency businesses. In particular, if the PRC government authorities impose penalties which cause us to lose our rights to direct the activities of and receive economic benefits from our consolidated affiliated Chinese entities, we may lose the ability to consolidate and reflect in our financial statements the operation results of our consolidated affiliated Chinese entities. Any of these actions could cause significant disruption to our business operations, and may materially and adversely affect our business, financial condition and results of operations.

According to the PRC Property Rights Law, effective as of October 1, 2007, and the Measures for the Registration of Equity Pledge with the PRC State Administration for Industry and Commerce (2016 Revision), effective as of April 29, 2016, the effectiveness of the pledges will be denied if the pledges are not registered with the PRC State Administration for Industry and Commerce, or SAIC, which was integrated into the State Administration for Market Regulation, or the SAMR. Our equity pledges have been duly registered with the relevant local branches of SAMR. Under the equity pledge agreements between our subsidiaries and the shareholders of our consolidated affiliated Chinese entities, the shareholders of our consolidated affiliated Chinese entities pledged their respective equity interests in these entities to our subsidiaries. The effectiveness of the pledges upon registration will be recognized by PRC courts if disputes arise on certain pledged equity interests and that our subsidiaries' interests as pledgees will prevail over those of third parties.

Furthermore, we were aware that a China-based U.S.-listed company announced in 2012 that it was subject to SEC's investigation, which it believed was related to the consolidation of its consolidated affiliated Chinese entities. Following the announcement, that issuer's stock price declined significantly. Although we are not aware of any actual or threatened investigation, inquiry or other action by SEC, Nasdaq or any other regulatory authority with respect to consolidation of our consolidated affiliated Chinese entities, we cannot assure you that we will not be subject to any such investigation or inquiry in the future. In the event we are subject to any regulatory investigation or inquiry relating to our consolidated affiliated Chinese entities, including the consolidation of such entities into our financial statements, or any other matters, we may need to spend significant amount of time and expenses in connection with the investigation or inquiry, our reputation may be harmed regardless of the outcome, and the trading price of our ADS may materially decline or fluctuate.

If our consolidated affiliated Chinese entities violate our contractual arrangements with them, our business could be disrupted, our reputation may be harmed and we may have to resort to litigation to enforce our rights, which may be time-consuming and expensive.

As the PRC government restricts foreign ownership of value-added telecommunications, air-ticketing and travel agency businesses in China, we depend on our consolidated affiliated Chinese entities, in which we have no ownership interest, to conduct part of our business activities through a series of contractual arrangements, which are intended to provide us with effective control over these entities and allow us to obtain economic benefits from them. Although we have been advised by our PRC counsel, Commerce & Finance Law Offices, that the contractual arrangements as described in this annual report are valid, binding and enforceable under current PRC laws, these arrangements are not as effective in providing control as direct ownership of these businesses. For example, our consolidated affiliated Chinese entities could violate our contractual arrangements with them by, among other things, failing to operate our air-ticketing or packaged-tour business in an acceptable manner or pay us for our consulting or other services. In any such event, we would have to rely on the PRC legal system for the enforcement of those agreements, which could have uncertain results. Any legal proceeding could result in the disruption of our business, damage to our reputation, diversion of our resources and incurrence of substantial costs. See "Item 3.D. Key Information — Risk Factors — Risks Related to Doing Business in China — Uncertainties with respect to the PRC legal system could adversely affect us."

The principal shareholders of our consolidated affiliated Chinese entities have potential conflict of interest with us, which may adversely affect our business.

Some of our directors and officers were also the principal shareholders of our consolidated affiliated Chinese entities as of the date of this annual report. Thus, conflict of interest between their duties to our company and their interests in our consolidated affiliated Chinese entities may arise. We cannot assure you that when conflict of interest arises, these persons will act entirely in our interests or that the conflict of interest will be resolved in our favor. In addition, these persons could violate their non-competition or employment agreements with us or their legal duties by diverting business opportunities from us to others, resulting in our loss of corporate opportunities. In any such event, we would have to rely on the PRC legal system for the enforcement of these agreements, which could have uncertain results. Any legal proceeding could result in the disruption of our business, diversion of our resources and incurrence of substantial costs. See "Item 3.D. Key Information — Risk Factors — Risks Related to Doing Business in China — Uncertainties with respect to the PRC legal system could adversely affect us."

Our business may be significantly affected by the New Foreign Investment Law.

In December 2018, the standing committee of the National People's Congress reviewed a draft Foreign Investment Law, and this draft was subsequently published for public comment. In March 2019, a new draft of Foreign Investment Law was submitted to the National People's Congress for review and was approved on March 15, 2019, which will come into effect from January 1, 2020. The approved Foreign Investment Law does not touch upon the relevant concepts and regulatory regimes that were historically suggested for the regulation of VIE structures, and thus this regulatory topic remains unclear under the Foreign Investment Law. Since the Foreign Investment Law is new, there are substantial uncertainties exist with respect to its implementation and interpretation and it is also possible that the VIE entities will be deemed as foreign invested enterprises and be subject to restrictions in the future. Such restrictions may cause interruptions to our operations, products and services and may incur additional compliance cost, which may in turn materially and adversely affect our business, financial condition and results of operations.

Our contractual arrangements with our consolidated affiliated Chinese entities may result in adverse tax consequences to us.

As a result of our corporate structure and the contractual arrangements between us and our consolidated affiliated Chinese entities, we are effectively subject to the 6% PRC value-added tax, or VAT, on both revenues generated by our consolidated affiliated Chinese entities' operations in China and revenues derived from our contractual arrangements with our consolidated affiliated Chinese entities. We might be subject to adverse tax consequences if the PRC tax authorities were to determine that the contracts between us and our consolidated affiliated Chinese entities were not made on an arm's-length basis and therefore constitute favorable transfer pricing arrangements. If this occurs, the PRC tax authorities could request that our consolidated affiliated Chinese entities adjust their taxable income upward for PRC tax purposes. Such an adjustment could adversely affect us by increasing our consolidated affiliated Chinese entities' tax expenses without reducing our tax expenses, which could subject our consolidated affiliated Chinese entities to late payment fees and other penalties for underpayment of taxes, and/or result in the loss of the tax benefits available to our subsidiaries in China. The EIT Law requires every enterprise in China to submit its annual enterprise income tax return together with a report on transactions with its affiliates to the relevant tax authorities. The tax authorities may impose reasonable adjustments on taxation if they have identified any related party transactions that are inconsistent with arm's-length principles. As a result, our contractual arrangements with our consolidated affiliated Chinese entities may result in adverse tax consequences to us.

Our subsidiaries and consolidated affiliated Chinese entities in China are subject to restrictions on paying dividends or making other payments to us, which may restrict our ability to satisfy our liquidity requirements.

We are a holding company incorporated in the Cayman Islands. We rely on dividends from our subsidiaries in China and consulting and other fees paid to us by our consolidated affiliated Chinese entities. Current PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, our subsidiaries and consolidated affiliated Chinese entities in China are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the subsidiaries and consolidated affiliated Chinese entities' registered capital. These reserves are not distributable as cash dividends. Furthermore, if our subsidiaries and consolidated affiliated Chinese entities in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us, which may restrict our ability to satisfy our liquidity requirements.

Pursuant to the EIT Law, its implementing rules and a circular of Taxation on Several Preferential Policies on Enterprise Income Tax issued by the PRC Ministry of Finance, or MOF, and SAT, in February 2008, the dividends declared out of the profits earned after January 1, 2008 by an FIE to its immediate offshore holding company are subject to a 10% withholding tax unless such offshore holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement, and certain supplementary requirements and procedures stipulated by SAT for such tax treaty are met and observed. Our subsidiaries in China are considered FIEs and are directly or indirectly held by our subsidiaries in Hong Kong. According to the currently effective tax treaty between China and Hong Kong, dividends payable by an FIE in China to a company in Hong Kong that directly holds at least 25% of the equity interests in the FIE will be subject to a withholding tax of 5%. In February 2009, SAT issued SAT Notice No. 81, pursuant to which an enterprise must be the "beneficial owner" of the relevant dividend income in order to enjoy the preferential withholding tax rates on dividend. If, however, such enterprise otherwise qualifies for such preferential withholding tax rates through any transaction or arrangement, whose main purpose is to qualify for such preferential withholding tax rates, the enterprise nevertheless cannot enjoy the preferential withholding tax rates and the competent tax authority has the power to adjust the applicable withholding tax rates if it so determines. In October 2009, SAT issued SAT Notice No. 601 to provide guidance on the criteria for determining whether an enterprise qualifies as the "beneficial owner" of the PRC sourced income for the purpose of obtaining preferential treatment under tax treaties. SAT Notice No. 601 was abolished by a SAT Notice No. 9 that took effect in April 2018, which indicated that "beneficial owner" refers to a person who has ownership and disposal rights to the income or any rights and assets arising from such income, and the tax authority has discretion to determine whether or not an enterprise is determined as a "beneficial owner." However, since the SAT Notice No. 9 is newly issued, it remains unclear how the PRC tax authorities will implement SAT Notice No. 9 in practice and to what extent they will affect the dividend withholding tax rates for dividends distributed by our PRC subsidiaries to our Hong Kong subsidiary. If the relevant tax authority determines that our Hong Kong subsidiary is a conduit company and does not qualify as the "beneficial owner" of the dividend income it receives from our PRC subsidiaries, the higher 10% withholding tax rate will apply to such dividends.

[Table of Contents](#)

Under the EIT Law, an enterprise established outside of China with its “de facto management body” within China is considered a PRC resident enterprise and will be subject to enterprise income tax at the rate of 25% on its worldwide income. The “de facto management body” is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. It remains unclear how the PRC tax authorities will interpret such a broad definition. If the PRC tax authorities determine that we should be classified as a PRC resident enterprise for PRC tax purposes, our global income will be subject to income tax at a uniform rate of 25%, which may have a material adverse effect on our financial condition and results of operations. Notwithstanding the foregoing provision, the EIT Law also provides that, if a PRC resident enterprise directly invests in another PRC resident enterprise, the dividends received by the investing PRC resident enterprise from the invested PRC resident enterprise are exempted from income tax, subject to certain conditions. However, it remains unclear how the PRC tax authorities will interpret the PRC tax resident treatment of an offshore company with indirect ownership interests in PRC resident enterprises through intermediary holding companies.

Moreover, under the EIT Law, foreign ADS holders that are non-PRC resident enterprises may be subject to a 10% withholding tax upon dividends payable by a PRC entity that is considered as a PRC resident enterprise and gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is considered as income derived from within China. Any such tax would reduce the returns on your investment in our ADSs.

If we exercise the option to acquire equity ownership in our consolidated affiliated Chinese entities, such ownership transfer requires approval from or filings with PRC governmental authorities and subject to taxation, which may result in substantial costs to us.

Pursuant to the relevant contractual arrangements, both of our PRC subsidiaries, Ctrip Travel Information and Ctrip Travel Network (or their respective designees), have their respective exclusive rights to purchase all or any part of the equity interests in the applicable consolidated affiliated Chinese entities of ours from the respective shareholders of these consolidated affiliated Chinese entities for a price that is the higher of (i) the amount of capital contribution to such consolidated affiliated Chinese entities, or the consideration paid in exchange for the equity interests in such consolidated affiliated Chinese entities, or (ii) another minimum price as permitted by the then applicable PRC laws. Such equity transfers may be subject to approvals from, or filings with, relevant PRC authorities. In addition, the relevant equity transfer prices may be subject to review and adjustment for tax determination by the relevant tax authorities. Moreover, the shareholders of our consolidated affiliated Chinese entities, under the circumstances of such equity transfers, will be subject to PRC individual income tax on the difference between the equity transfer prices and the then current registered capital of the relevant consolidated affiliated Chinese entities. The shareholders of such consolidated affiliated Chinese entities will pay, after deducting such taxes, the remaining amount to Ctrip Travel Information or Ctrip Travel Network, as appropriate, under the applicable contractual arrangements. The amount to be received by Ctrip Travel Information and Ctrip Travel Network may also be subject to enterprise income tax. Any of the aforementioned tax amounts could be substantial. Similar risk is faced by Qunar Software.

We face uncertainty with respect to indirect transfer of equity interests in PRC resident enterprises by their non-PRC holding companies.

We face uncertainties regarding the reporting on and consequences of previous private equity financing transactions involving the transfer and exchange of shares in our company by non-PRC resident investors. According to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises issued by SAT on December 10, 2009, or SAT Circular 698, where a non-PRC resident enterprise transfers the equity interests in a PRC resident enterprise indirectly through a disposition of equity interests in an offshore holding company (other than a purchase and sale of shares issued by a PRC resident enterprise in public securities market), or an Indirect Transfer, the non-PRC resident enterprise, as the seller, may be subject to PRC enterprise income tax of up to 10% of the gains derived from the Indirect Transfer in certain circumstances.

On February 3, 2015, SAT issued Announcement on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfers by Non-PRC Resident Enterprises, or SAT Notice No. 7, to supersede the existing tax rules in relation to the tax treatment of the Indirect Transfer, while the other provisions of SAT Circular 698 irrelevant to the Indirect Transfer remain in force. SAT Notice No. 7 introduces a new tax regime that is significantly different from that under a notice issued by SAT Circular 698. It extends SAT's tax jurisdiction to capture not only the Indirect Transfer as set forth under SAT Circular 698 but also transactions involving indirect transfer of (i) real properties in China and (ii) assets of an "establishment or place" situated in China, by a non-PRC resident enterprise through a disposition of equity interests in an offshore holding company. SAT Notice No. 7 also extends the interpretation with respect to the disposition of equity interests in an offshore holding company broadly. In addition, SAT Notice No. 7 further clarifies how to assess reasonable commercial purposes and introduces safe harbors applicable to internal group restructurings. However, it also brings challenges to both offshore transferor and transferee as they are required to make self-assessment on whether an Indirect Transfer or similar transaction should be subject to PRC tax and whether they should file or withhold any tax payment accordingly. On October 17, 2017, the SAT issued a Notice Concerning Withholding Income Tax of Non-Resident Enterprise, or SAT Notice No. 37, which abolishes SAT Circular 698 and certain provision of SAT Notice 7. SAT Notice No. 37 further reduces the burden of withholding obligator, such as revocation of contract filing requirements and tax liquidation procedures, strengthens the cooperation of tax authorities in different places, and clarifies the calculation of tax payable and mechanism of foreign exchange.

There is uncertainty as to the application of SAT Notice No. 7 and SAT Notice No. 37. In the event that non-PRC resident investors were involved in our private equity financing transactions and such transactions were determined by the competent tax authorities as lack of reasonable commercial purposes, we and our non-PRC resident investors may become at risk of being taxed under and SAT Notice No. 7 and SAT Notice No. 37 and may be required to expend costly resources to comply with and SAT Notice No. 7 and SAT Notice No. 37, or to establish a case to be tax exempt under SAT Notice No. 7 and SAT Notice No. 37, which may cause us to incur additional costs and may have a negative impact on the value of your investment in us.

The PRC tax authorities have discretion under SAT Notice No. 7 and SAT Notice No. 37 to adjust the taxable capital gains based on the difference between the fair value of the transferred equity interests and the investment cost. We may pursue acquisitions in the future that may involve complex corporate structures. If we are deemed as a non-PRC resident enterprise under the EIT Law and if the PRC tax authorities adjust the taxable income of the transactions under SAT Notice No. 7 and SAT Notice No. 37, our income tax expenses associated with such potential acquisitions will increase, which may have an adverse effect on our financial condition and results of operations.

Risks Related to Doing Business in China

Adverse changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could adversely affect our business.

The majority of our business operations are conducted in mainland China. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the Chinese economy has experienced significant growth in the past decades, that growth may not continue, as evidenced by the slowing of the growth of the Chinese economy since 2012. Any adverse changes in economic conditions in China, in the policies of the PRC government or in the laws and regulations in China could have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our business and operating results, lead to reduction in demand for our services and adversely affect our competitive position. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, future measures to control the pace of economic growth may cause a decrease in the level of economic activity in China, which in turn could adversely affect our results of operations and financial condition.

Inflation in China may disrupt our business and have an adverse effect on our financial condition and results of operations.

The Chinese economy has experienced rapid expansion together with rising rates of inflation. Inflation may erode disposable incomes and consumer spending, which may have an adverse effect on the Chinese economy and lead to a reduction in business and leisure travel as the travel industry is highly sensitive to business and personal discretionary spending levels. This in turn could adversely impact our business, financial condition and results of operations.

Future movements in exchange rates between U.S. dollars and Renminbi may adversely affect the value of our ADSs.

The value of Renminbi against U.S. dollars and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of Renminbi into foreign currencies, including U.S. dollars, has been based on rates set by the People's Bank of China. The PRC government allowed Renminbi to appreciate by more than 20% against U.S. dollars between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between Renminbi and U.S. dollars remained within a narrow band. As a consequence, Renminbi fluctuated significantly during that period against other freely traded currencies, in tandem with U.S. dollars. Since June 2010, Renminbi has fluctuated against U.S. dollars, at times significantly and unpredictably. On November 30, 2015, the Executive Board of the International Monetary Fund (IMF) completed the regular five-year review of the basket of currencies that make up the Special Drawing Right, or the SDR, and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the Renminbi has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. This depreciation halted in 2017, and the RMB appreciated approximately 7% against the U.S. dollar during this one-year period. With the development of the foreign exchange market and progress toward interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and U.S. dollars in the future.

The majority of our revenues and costs are denominated in Renminbi, while a portion of our financial assets and our dividend payments are denominated in U.S. dollars. We have used forward contracts and currency borrowings to help hedge our exposure to foreign currency risk. Any significant revaluation of Renminbi or U.S. dollars may adversely affect our cash flows, earnings and financial position, and the value of, and any dividends payable on, our ADSs. For example, an appreciation of Renminbi against U.S. dollars would make any new Renminbi-denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into Renminbi for such purposes. An appreciation of Renminbi against U.S. dollars would also result in foreign currency translation losses for financial reporting purposes when we translate our U.S. dollar-denominated financial assets into Renminbi, our reporting currency. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of U.S. dollars against Renminbi would have a negative effect on the U.S. dollar amount available to us.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.

Because the majority of our revenues are denominated in Renminbi, any restrictions on currency exchange may limit our ability to use Renminbi-denominated revenues to fund our business activities outside China or to make dividend payments in U.S. dollars. The principal PRC regulation governing foreign currency exchange is the Regulations on Administration of Foreign Exchange, as amended, or the Forex Regulations. Under the Forex Regulations, Renminbi is freely convertible for trade- and service-related foreign exchange transactions, but not for direct investment, loan or investment in securities outside China unless prior approval of the State Administration of Foreign Exchange, or SAFE, is obtained. Although the PRC regulations now allow greater convertibility of Renminbi for current account transactions, significant restrictions remain. For example, foreign exchange transactions under our subsidiaries' capital account, including principal payments in respect of foreign currency-denominated obligations, remain subject to significant foreign exchange controls and the approval of SAFE. These limitations could affect our ability to obtain foreign exchange for capital expenditures. We cannot be certain that the PRC regulatory authorities will not impose more stringent restrictions on the convertibility of Renminbi, especially with respect to foreign exchange transactions.

PRC regulations relating to the establishment of offshore special purpose vehicles by PRC residents and the grant of employee stock options by overseas-listed companies may subject our PRC resident shareholders to personal liability and limit our ability to inject capital into our PRC subsidiaries, limit our subsidiaries' ability to distribute profits to us, or otherwise adversely affect us.

SAFE issued a public notice, or SAFE Circular 75, in October 2005 requiring PRC residents to register with the local SAFE branches before establishing or controlling any company outside of China for the purpose of capital financing with assets or equity interests in any onshore enterprise located in China, referred to in the notice as a "special purpose vehicle." On July 4, 2014, SAFE issued the SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Outbound Investment and Financing and Inbound Investment via Special Purpose Vehicles, or SAFE Circular 37, which has superseded SAFE Circular 75. Under SAFE Circular 75, SAFE Circular 37 and other relevant foreign exchange regulations, PRC residents who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies will be required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is also required to file or update the registration with the local branches of SAFE, with respect to that offshore company for any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or the creation of any security interest. If any PRC shareholder fails to make the required registration or update the previously filed registration, the PRC subsidiary of that offshore parent company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company, and the offshore parent company may also be prohibited from injecting additional capital into its PRC subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

We have notified holders of our ordinary shares who we know are PRC residents to register with the local SAFE branches as required under the applicable foreign exchange regulations. The failure or inability of our PRC resident shareholders to comply with the registration procedures set forth therein may subject them to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to our company or otherwise adversely affect our business.

On February 15, 2012, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Administration for Domestic Individuals Participating in an Employees Share Incentive Plan of an Overseas-Listed Company (replacing the prior circular in 2007, Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in an Employee Stock Holding Plan or Stock Option Plan of an Overseas-Listed Company), or the Share Incentive Rules. Under the Share Incentive Rules, PRC resident individuals who participate in a share incentive plan of an overseas publicly listed company are required to register with SAFE and complete certain other procedures. All such participants need to retain a PRC agent through PRC subsidiaries to register with SAFE and handle foreign exchange matters such as opening accounts, transferring and settlement of the relevant proceeds. The Share Incentive Rules further require an offshore agent to be designated to handle matters in connection with the exercise of share options and sale of proceeds for the participants of share incentive plans. We and our PRC employees who have been granted stock options are subject to the Share Incentive Rules. If we or our PRC optionees fail to comply with these regulations, we or our PRC optionees may be subject to fines and legal sanctions.

Uncertainties with respect to the PRC legal system could adversely affect us.

We conduct our business primarily through our wholly-owned subsidiaries incorporated in China. Our subsidiaries are generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to wholly foreign-owned enterprises, or WFOEs. In addition, we depend on several consolidated affiliated Chinese entities in China to honor their service agreements with us. Almost all of these agreements are governed by PRC law and disputes arising out of these agreements are expected to be decided by arbitration in China. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the foreign investments in China. However, since the PRC legal system is still evolving, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit remedies available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. If we and our consolidated affiliated Chinese entities are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations, including restructuring. See “Item 3.D. Key Information — Risk Factors — Risks Related to Our Corporate Structure — PRC laws and regulations restrict foreign investment in the air-ticketing, travel agency and value-added telecommunications businesses, and substantial uncertainties exist with respect to the application and implementation of PRC laws and regulations.” and “Item 3.D. Key Information — Risk Factors — Risks Related to Our Corporate Structure — Our business may be significantly affected by the New Foreign Investment Law.”

Implementation of laws and regulations relating to data privacy in China could adversely affect our business.

Certain data and services collected, provided or used by us or provided to and used by us or our users are currently subject to regulations in certain jurisdictions, including China. The PRC Constitution states that PRC laws protect the freedom and privacy of communications of citizens and prohibit infringement of such basic rights, and the PRC Contract Law prohibits contracting parties from disclosing or misusing the trade secrets of the other party. Further, companies or their employees who illegally trade or disclose customer data may face criminal charges. Although the definition and scope of “privacy” and “trade secret” remain relatively ambiguous under PRC law, growing concerns about individual privacy and the collection, distribution and use of information about individuals have led to national and local regulations that could increase our expenses.

In December 2012, the Standing Committee of the National People’s Congress enacted the Decision to Enhance the Protection of Network Information, or the Information Protection Decision, to further enhance the protection of users’ personal information in electronic form. The Information Protection Decision provides that internet information service providers must expressly inform their users of the purpose, manner and scope of the collection and use of users’ personal information by internet information service providers, publish the internet information service providers’ standards for their collection and use of users’ personal information, and collect and use users’ personal information only with the consent of the users and only within the scope of such consent. The Information Protection Decision also mandates that internet information service providers and their employees keep users’ personal information that they collect strictly confidential, and that they must take such technical and other measures as are necessary to safeguard the information against disclosure, damages and loss. Pursuant to the Order for the Protection of Telecommunication and internet User Personal Information issued in July 2013 by the PRC Ministry of Industry and Information Technology (formerly known as the Ministry of Information Industry), or MIIT, any collection and use of users’ personal information must be subject to the consent of the users, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scopes. Compliance with current regulations and regulations that may come into effect in these areas may increase our expenses related to regulatory compliance, which could have an adverse effect on our financial condition and operating results.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds from the offerings of any securities to make loans or additional capital contributions to our PRC operating subsidiaries.

In September 2012, we completed an offering of US\$180 million in aggregate principal amount of convertible senior notes due 2017, or the 2017 Notes. In October 2013, we completed another offering of US\$800 million in aggregate principal amount of 1.25% convertible senior notes due 2018, or the 2018 Notes. In June 2015, we completed an offering of US\$700 million in aggregate principal amount of 1.00% convertible senior notes due 2020, or the 2020 Notes, and US\$400 million in aggregate principal amount of 1.99% convertible senior notes due 2025, or the 2025 Notes. In September 2016, we concurrently completed an offering of 32,775,000 ADSs at US\$45.96 per ADS (taking into account of the fully exercised over-allotment option) and an offering of US\$975 million in aggregate principal amount of 1.25% convertible senior notes due 2022 (taking into account of the fully exercised over-allotment option), or the 2022 Notes. In August 2014, May 2015, December 2015 and September 2016, we issued US\$500 million in aggregate principal amount of 1.00% convertible notes due 2019, or the 2019 Booking Notes, US\$250 million in aggregate principal amount of 1.00% convertible notes due 2020, or the 2020 Booking Notes, US\$500 million in aggregate principal amount of 2.00% convertible notes due 2025, or the 2025 Booking Notes, and US\$25 million in aggregate principal amount of 1.25% convertible notes due 2022, or the 2022 Booking Notes, respectively, to a subsidiary of Booking Holdings Inc. (formerly known as The Priceline Group Inc.), or Booking. In December 2015, we issued US\$500 million in aggregate principal amount of 2.00% convertible notes due 2025, or the 2025 Hillhouse Notes, to Gaoling Fund, L.P. and YHG Investment, L.P., or collectively Hillhouse, in addition to the aforementioned issuance to Booking. In September 2016, we closed private placements of our ordinary shares with the respective subsidiaries of Baidu and Booking at an aggregate amount of US\$100 million and US\$25 million, respectively. As an offshore holding company, our ability to make loans or additional capital contributions to our PRC operating subsidiaries is subject to PRC regulations and approvals and there are restrictions for us to make loans to our consolidated affiliated Chinese entities. These regulations and approvals may delay or prevent us from using the proceeds we received in the past or will receive in the future from the offerings of securities to make loans or additional capital contributions to our PRC operating subsidiaries and our consolidated affiliated Chinese entities, and impair our ability to fund and expand our business which may adversely affect our business, financial condition and result of operations.

For example, on March 3, 2015, SAFE promulgated a Circular on the Reforming of Administrative Methods Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Companies, or SAFE Circular 19, which became effective on June 1, 2015 and replaced SAFE Circular 142. Previously, pursuant to SAFE Circular 142, the registered capital of an FIE settled in Renminbi converted from foreign currencies may only be used within the business scope approved by the applicable government authority and may not be used for equity investments in China, and the FIE may not change how it uses such capital without SAFE's approval, and may not in any case use such capital to repay Renminbi loans if they have not used the proceeds of such loans. Although SAFE Circular 19 restates certain restrictions on the use of investment capital denominated in foreign currency by FIEs, it specifies that the registered capital of an FIE, denominated in foreign currency, can be converted into Renminbi at the discretion of such FIE and can be used for equity investment in China subject to the invested company's filing of a reinvestment registration with the relevant local SAFE. On June 9, 2016, SAFE issued the Circular on Reforming and Regulating the Administrative Policy of the Settlement under Capital Accounts, or SAFE Circular 16, which became effective on the same date. Although SAFE Circular 16 further extends the reform to cover foreign currency income under capital account, including capital, foreign debt and proceeds from offshore offering and listing, an FIE's foreign currency income and such income settled in Renminbi under the capital account cannot be used directly and indirectly for any purposes out of the FIE's business scope or in areas prohibited by laws and regulations. However, the interpretation and enforcement of SAFE Circular 19 and SAFE Circular 16 remained to be subject to uncertainty.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our PRC subsidiaries or with respect to future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we received from our various offerings and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We have attempted to comply with the PRC regulations regarding licensing requirements by entering into a series of agreements with our consolidated affiliated Chinese entities. If the PRC laws and regulations change, our business in China may be adversely affected.

To comply with the PRC regulations regarding licensing requirements, we have entered into a series of agreements with our consolidated affiliated Chinese entities to maintain our operational control over them and secure consulting fees and other payments from them. Although we have been advised by our PRC counsel, Commerce & Finance Law Offices, that our contractual arrangements with our consolidated affiliated Chinese entities, as described in this annual report, are valid under current PRC laws and regulations, as there is substantial uncertainty regarding the interpretation and application of PRC laws and regulations, we cannot assure you that the PRC government would agree with our counsel's position or that we will not be required to restructure our organizational structure and operations in China to comply with changing and new PRC laws and regulations. Restructuring of our operations may result in disruption of our business, diversion of management attention and the incurrence of substantial costs. See "Item 3.D. Key Information — Risk Factors — Risks Related to Our Corporate Structure — Our business may be significantly affected by the New Foreign Investment Law."

The continued growth of the Chinese internet market depends on the development of telecommunications infrastructure.

Although private sector internet service providers currently exist in China, almost all access to the internet is maintained through state-owned telecommunication operations under MIIT's administrative control and regulatory supervision. In addition, the national networks in China connect to the internet through government-controlled international gateways. These international gateways are the only channels through which a domestic PRC user can connect to the international internet network. We rely on this infrastructure, primarily China Telecom and China Unicom, to provide data communications capacity. Although the PRC government has announced plans to aggressively develop the national information infrastructure, we cannot assure you that this infrastructure will be developed, or that it will be sufficiently upgraded to meet the specifications of the existing or future technological advancement, such as 5G internet. 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.

In addition, we have no control over the costs of the services provided by telecommunication service providers. If the prices we pay for telecommunications and internet services rise significantly, our results of operations may be materially and adversely affected. Furthermore, if internet access fees or other charges to internet users increase, some users may be prevented from accessing the mobile internet and thus cause the growth of mobile internet users to decelerate. Such deceleration may adversely affect our ability to continue to expand our user base and maintain our user experience.

Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the applicable professional standards. Because our auditor is located in China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by PCAOB. On December 7, 2018, SEC and PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. The joint statement reflects a heightened interest in an issue that has vexed U.S. regulators in recent years. However, it remains unclear what further actions SEC and PCAOB will take to address the problem.

Inspections of other firms that PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to regularly evaluate the effectiveness of our auditor's audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

Proceedings instituted by SEC against the PRC affiliates of the Big Four accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934, as amended.

Starting in 2011, the PRC affiliates of the Big Four accounting firms, including our independent registered public accounting firm, were affected by a conflict between U.S. and PRC law. Specifically, for certain U.S.-listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the PRC firms access to their audit work paper and other related documents. The firms were, however, advised and directed that under PRC law, they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through China Securities Regulatory Commission, or CSRC.

[Table of Contents](#)

In December 2012, SEC brought administrative proceedings against the Big Four accounting firms, including our independent registered public accounting firm in China, alleging that they had refused to produce audit work papers and other documents related to certain other China-based companies under SEC's investigation for potential accounting fraud. On January 22, 2014, an initial administrative law decision, or Initial Decision, was issued, censuring these accounting firms and suspending four of the five firms from practicing before SEC for a period of six months. The accounting firms filed a Petition for Review of the Initial Decision to SEC. On February 6, 2015, the Big Four China-based accounting firms each agreed to a censure and to pay a fine to SEC to settle the dispute and avoid suspension of their ability to practice before SEC and audit U.S.-listed companies. The settlement required the firms to follow detailed procedures and to seek to provide SEC with access to PRC firms' audit documents via the China Securities Regulatory Commission, or CSRC. If future document productions fail to meet specified criteria, during a period of four years starting from the settlement date, the SEC retained authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure.

While we cannot predict if SEC will further review the four China-based accounting firms' compliance with specified criteria or if the results of such a review would result in SEC imposing penalties such as suspensions or restarting the administrative proceedings, if the accounting firms are subject to additional remedial measures, our ability to file our financial statements in compliance with SEC requirements could be impacted. A determination that we have not timely filed financial statements in compliance with SEC requirements could ultimately lead to the delisting of our ADSs from Nasdaq or the termination of the registration of our ADSs under the Securities Exchange Act of 1934, as amended, or the Exchange Act, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

Risks Related to Our Ordinary Shares and ADSs

The future sales of a substantial number of ADSs in the public market could adversely affect the price of the ADSs.

In the future, we may sell additional ADSs to raise capital, and our existing shareholders could sell substantial amounts of the ADSs, including those issued upon the exercise of outstanding options, in the public market. We cannot predict the size of such future issuance or the effect, if any, that they may have on the market price of the ADSs. Any future sales of a substantial number of the ADSs in the public market, or the perception that such issuance and sale may occur, could adversely affect the price of the ADSs and impair our ability to raise capital through the sale of additional equity securities.

Provisions of our convertible notes could discourage an acquisition of us by a third party.

As of December 31, 2018, the aggregate principal amount of our outstanding convertible notes was US\$3.8 billion. Certain provisions of our convertible notes could make it more difficult or more expensive for a third party to acquire us. The indentures for these convertible notes define a "fundamental change" to include, among other things: (1) any person or group gaining control of our company; (2) our company merging with or into another company or disposing of substantially all of its assets; (3) any recapitalization, reclassification or change of our ordinary shares or the ADSs as a result of which these securities would be converted into, or exchanged for, stock, other securities, other property or assets; (4) the adoption of any plan relating to the dissolution or liquidation of our company; or (5) our ADSs ceasing to be listed on a major U.S. national securities exchange in certain circumstances, subject to certain exceptions where the applicable consideration comprises U.S.-listed common equity or ADSs. Upon the occurrence of a fundamental change, holders of these notes will have the right, at their option, to require us to repurchase all of their notes or any portion of the principal amount of such notes in integral multiples of US\$1,000. In the event of a fundamental change, we may also be required to issue additional ADSs upon conversion of our convertible notes.

As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the Nasdaq corporate governance listing standards.

As a Cayman Islands company listed on the Nasdaq, we are subject to the Nasdaq corporate governance listing standards. However, Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq corporate governance listing standards. As we have chosen, or may from time to time choose, to follow home country practice exemptions with respect to certain corporate matters such as the requirement of majority independent directors on our board of directors, our shareholders may be afforded less protection than they otherwise would under the Nasdaq corporate governance listing standards applicable to U.S. domestic issuers. See "Item 16G. Corporate Governance."

[Table of Contents](#)

You may face difficulties in protecting your interests, and our ability to protect our rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law.

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law (2016 Revision) of the Cayman Islands, or the Companies Law, and the common law of the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents 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. Therefore, our public shareholders may have more difficulties in protecting their interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

Your ability to bring an action against us or against our directors and officers, or to enforce a judgment against us or them, may be limited because we are incorporated in the Cayman Islands, and because we conduct the majority of our operations in China and because the majority of our directors and officers reside outside of the United States.

We are incorporated in the Cayman Islands, and we conduct the majority of our operations in China through our wholly-owned subsidiaries and several consolidated affiliated Chinese entities in China. Most of our directors and officers reside outside of the United States and most of the assets of those persons are located outside of the United States. As a result, it may be difficult for you to bring an action in the United States upon these persons. It may also be difficult for you to enforce in United States courts judgments obtained in United States courts based on the civil liability provisions of the United States federal securities laws against us and our officers and directors, most of whom are not residents in the United States and the substantial majority of whose assets are located outside of the United States. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands or China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to direct how the ordinary shares represented by your ADSs are voted.

As a holder of ADSs, you will not have any right to attend general meetings of our shareholders or to cast any votes directly at such meetings. You will only be able to exercise the voting rights that attach to the underlying ordinary shares represented by your ADSs indirectly by giving voting instructions to the depository in accordance with the provisions of the deposit agreement. Under the deposit agreement, you may vote only by giving voting instructions to the depository, as the registered holder of the underlying ordinary shares which are represented by your ADSs. Upon receipt of your voting instructions, the depository will endeavor to vote the underlying ordinary shares in accordance with your instructions. You will not be able to directly exercise any right to vote with respect to the underlying shares unless you withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting. Under our memorandum and articles of association, the minimum notice period required to be given by our company to our registered shareholders for convening a general meeting is seven days. When a general meeting is convened, you may not receive sufficient advance notice to enable you to withdraw the underlying shares represented by your ADSs and become the registered holder of such shares prior to the record date for the general meeting to allow you to attend the general meeting and to vote directly with respect to any specific matter or resolution that is to be considered and voted upon at the general meeting. In addition, under our memorandum and articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and/or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the underlying shares which are represented by your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. Where any matter is to be put to a vote at a general meeting, the depository will endeavor to notify you of the upcoming vote and 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 the underlying shares that are represented by your ADSs. 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 direct the voting of the underlying shares that are represented by your ADSs and there may be nothing you can do if the shares underlying your ADSs are not voted as you requested.

Under our deposit agreement, the depository will give us a discretionary proxy to vote the ordinary shares underlying your ADSs at shareholders' meetings if you do not vote, unless we have instructed the depository that we do not wish a discretionary proxy to be given or any of the other situations specified under the deposit agreement takes place. The effect of this discretionary proxy is that you cannot prevent ordinary shares underlying your ADSs from being voted, absent the situations described above, and it may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

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. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act of 1933, as amended, or the Securities Act, or an exemption from the registration requirements is available. Also, under the deposit agreement, the depository bank will not make these rights available to you 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 receive distributions on ordinary shares or any value for them if it is illegal or impractical to make them available to you.

The depository 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 ADSs, ordinary shares, rights or other securities under U.S. securities laws. 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 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 deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository 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.

Provisions of our shareholder rights plan could delay or prevent an acquisition of our company, even if the acquisition would be beneficial to our shareholders.

In November 2007, we adopted a shareholder rights plan, which was subsequently amended. Although the rights plan will not prevent a takeover, it is intended to encourage anyone seeking to acquire our company to negotiate with our board of directors prior to attempting a takeover by potentially significantly diluting an acquirer's ownership interest in our outstanding shares. The existence of the rights plan may also discourage transactions that otherwise could involve payment of a premium over prevailing market prices for the ADSs.

There can be no assurance that we will not be classified as a passive foreign investment company, which may result in adverse United States federal income tax consequences for United States investors in the ADSs or ordinary shares.

A non-U.S. corporation will be considered a passive foreign investment company, or PFIC, for any taxable year if either (i) at least 75% of its gross income is passive income or (ii) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce, or are held for the production of, passive income, or the Asset Test.

Although we do not believe that we should be treated as a PFIC for United States federal income tax purposes for our taxable year ended December 31, 2018, there can be no assurance in this regard. Considering the value of our assets and the amount of our active goodwill will generally be determined by reference to the market price of our ADSs and ordinary shares for purposes of the Asset Test, recent fluctuations in the market price of our ADSs or ordinary shares put us at risk of being classified as a PFIC for our taxable year ended December 31, 2018. The market price of the ADSs and ordinary shares may continue to fluctuate considerably; consequently, we cannot assure you of our PFIC status for our current taxable year ending December 31, 2019, or for any future taxable year.

[Table of Contents](#)

If we were treated as a PFIC for any taxable year during which a U.S. Holder (as defined in Item 10.E. Additional Information — Taxation — United States Federal Income Tax Considerations) held an ADS or an ordinary share, certain adverse United States federal income tax consequences could apply to the U.S. Holder. For a more detailed discussion of United States federal income tax consequences to U.S. Holders that would result from our classification as a PFIC, see “Item 10.E. Additional Information — Taxation — United States Federal Income Tax Considerations.” Further, if we are a PFIC for any year during which a U.S. Holder holds our ADSs or our ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or our ordinary shares. For more information see “Item 10.E. Additional Information — Taxation — United States Federal Income Tax Considerations—Passive Foreign Investment Company Rules.”

ITEM 4 INFORMATION ON THE COMPANY

A History and Development of the Company

We commenced our business in June 1999. In March 2000, we established an exempted company with limited liability under the Companies Law in the Cayman Islands, Ctrip.com International, Ltd., as our new holding company. Since our inception, we have conducted the majority of our operations in China and expanded our operations overseas in 2009. As of December 31, 2018, we mainly operated our business through the following significant subsidiaries:

- C-Travel International Limited;
- Ctrip.com (Hong Kong) Limited;
- Ctrip Computer Technology (Shanghai) Co., Ltd., or Ctrip Computer Technology;
- Ctrip Travel Information Technology (Shanghai) Co., Ltd., or Ctrip Travel Information;
- Ctrip Travel Network Technology (Shanghai) Co., Ltd., or Ctrip Travel Network;
- Wancheng (Shanghai) Travel Agency Co., Ltd., or Wancheng;
- Shanghai Hecheng International Travel Agency Co., Ltd., or Hecheng;
- Skyscanner Holdings Limited, or Skyscanner;
- Shanghai Ctrip International Travel Agency Co., Ltd. (formerly known as Shanghai Ctrip Charming International Travel Agency Co., Ltd.), or Shanghai Ctrip;
- Chengdu Ctrip International Travel Agency Co., Ltd., or Chengdu Ctrip International; and
- Chengdu Information Technology Co., Ltd., or Chengdu Information.

After our share exchange transaction with Baidu in October 2015, we obtained approximately 45% of the aggregate voting interest of Qunar. In December 2015, we issued ordinary shares represented by ADSs to certain special purpose vehicles holding shares solely for the benefit of certain Qunar employees and, as consideration, we received class B ordinary shares of Qunar and directly injected these shares to a third-party investment entity dedicated to investing in business in China. From accounting perspective, we started to consolidate Qunar’s financial statements from December 31, 2015. Therefore, Qunar Cayman Islands Limited, the Cayman Islands holding company of Qunar, and its wholly-owned subsidiary, Beijing Qunar Software Technology Co., Ltd., or Qunar Software, may also be deemed as our significant subsidiaries from accounting perspective, although Qunar continues to operate its businesses independently.

[Table of Contents](#)

We also conduct part of our business in China primarily through the following significant consolidated affiliated Chinese entities and certain of their subsidiaries:

- Shanghai Ctrip Commerce Co., Ltd., or Ctrip Commerce, which holds a value-added telecommunications business license;
- Chengdu Ctrip Travel Agency Co., Ltd, or Chengdu Ctrip, which holds an air transport sales agency license and a domestic travel agency license; and
- Shanghai Huacheng Southwest International Travel Agency Co., Ltd. (formerly known as Shanghai Huacheng Southwest Travel Agency Co., Ltd.), or Shanghai Huacheng, which holds domestic travel agency and air transport sales agency licenses.

In addition, after we started to consolidate the financial statements of Qunar from December 31, 2015, Beijing Qu Na Information Technology Co., Ltd., or Qunar Beijing, which holds the licenses, approvals and key assets such as mobile application and website that are essential to the business operations of Qunar, may be deemed as our significant consolidated affiliated Chinese entity from accounting perspective, although Qunar continues to operate its businesses independently.

From time to time, we have selectively acquired or invested in businesses that complement our existing business, and will continue to do so in the future to expand and develop our business. See “Item 4.B. Information on the Company — Business Overview — Strategic Investments and Acquisitions” for material strategic investments and acquisitions over the past two years. Other than the material acquisitions or investments disclosed under “Item 4.B. Information on the Company — Business Overview — Strategic Investments and Acquisitions” or elsewhere in this annual report on Form 20-F, no acquisitions or investments was material to our businesses or financial results at the time we made the acquisition or investment.

Prior to 2016, Booking made several strategic investment in convertible notes issued by us. Assuming full conversion of the convertible notes issued to Booking according to their terms, Booking would have beneficially owned securities representing approximately 8.89% of our outstanding shares based on the amendment to Schedule 13D filed by the subsidiary of Booking on September 19, 2016. We have also extended permission to Booking to increase its ownership in our company through the acquisition of ADSs in the open market so that, when combined with the shares issuable upon conversion of all of the Booking notes, Booking continues to be entitled to hold up to 15% of our outstanding shares (excluding shares that are beneficially owned by Booking or its subsidiary due to any such entities’ ownership or conversion of the 2025 Booking Notes).

In September 2016, we concurrently completed an offering of 32,775,000 ADSs at US\$45.96 per ADS (taking into account of the fully exercised over-allotment option) and an offering of US\$975 million in aggregate principal amount of the 2022 Notes (taking into account of the fully exercised over-allotment option). The 2022 Notes were offered to qualified institutional buyers pursuant to Rule 144A under the Securities Act, and certain non-U.S. persons in compliance with Regulation S under the Securities Act. The 2022 Notes will be convertible into ADSs based on an initial conversion rate of 15.2688 ADSs per US\$1,000 principal amount of notes (which is equivalent to an initial conversion price of approximately US\$65.49 per ADS and represents an approximately 42.5% conversion premium over the closing trading price of the Company’s ADSs on September 6, 2016 of US\$45.96 per ADS). The conversion rate for the 2022 Notes is subject to adjustment upon the occurrence of certain events. The 2022 Notes will mature on September 15, 2022, unless previously repurchased or converted in accordance with their terms prior to such date. Concurrently with our ADS offering, we closed private placements of our ordinary shares with the respective subsidiaries of Baidu and Booking at an aggregate investment amount of US\$100 million and US\$25 million, respectively, pursuant to exemptions from registration with SEC under Regulation S and Section 4(a)(2) of the Securities Act, respectively. In addition, concurrently with the closing of the 2022 Notes offering, we also closed a private placement of US\$25 million aggregate principal amount of convertible notes due 2022 with a subsidiary of Booking pursuant to an exemption from registration with SEC under Section 4(a)(2) of the Securities Act, in substantially the same terms as those of the 2022 Notes.

[Table of Contents](#)

We offered inducements to the holders of the 2017 Notes and the 2018 Notes for early conversion. As a result, for the years ended December 31, 2016 and 2017, approximately US\$26 million and US\$352 million aggregate principal amount of the 2017 Notes and the 2018 Notes were early converted to approximately 2.6 million and 10.8 million ADSs, respectively, at the respective initial conversion rates of the 2017 Notes and the 2018 Notes. Such early conversion also resulted in an early termination of the 2012 Purchased Call Option and the 2013 Purchased Call Option, from which we received approximately US\$12 million and US\$100 million in 2016 and 2017, respectively. In June 2017, we also entered into privately negotiated exchange transactions with a limited number of holders of the 2018 Notes to exchange approximately US\$327 million aggregate principal amount of then outstanding 2018 Notes for a combination of our ADSs and cash.

Effective December 1, 2015, we changed our ADS to ordinary share ratio from four ADS representing one ordinary share to eight ADSs representing one ordinary share. Unless otherwise indicated, ADSs and per ADS amount in this annual report have been retroactively adjusted to reflect the changes in ratio for all periods presented.

Our principal executive offices are located at 968 Jin Zhong Road, Shanghai 200335, People's Republic of China, and our telephone number is +86 (21) 3406-4880. Our agent for service of process in the United States is CT Corporation System. Our principal website address is www.ctrip.com. The information on our websites should not be deemed to be part of this annual report. SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with SEC using its EDGAR system.

B. Business Overview

We are a leading travel service provider for accommodation reservation, transportation ticketing, packaged tours and corporate travel management. We aggregate hotel and transportation information to enable business and leisure travelers to make informed and cost-effective bookings. We help leisure travelers book tour packages and guided tours, and help corporate clients effectively manage their travel requirements. In addition, we offer a variety of other travel-related services, including but not limited to travelers' reviews, attraction tickets, travel-related financing and car services, and travel insurance and visa services to meet the various booking and travelling needs of both leisure and business travelers. Since inception in 1999, we have become one of the best-known travel brands in China capable of providing truly one-stop travel services. Our leading market position has been further strengthened since our investment in Qunar, one of the leading mobile and online commerce platforms for travel in China. Qunar has been operating independently as a travel service provider after our investment.

We pioneered the development of a reservation and fulfillment infrastructure that enables our customers to:

- choose and reserve hotel rooms in cities throughout China and abroad;
- book and purchase transportation tickets for domestic and international flights and/or trains;
- choose and reserve packaged tours that include transportation and accommodations, as well as guided tours and other value-added services in some instances; and
- book and purchase other travel-related services for their leisure and business travels.

Meanwhile, Qunar continued its independent innovation of technology capabilities, leveraging its proprietary mobile applications, the complementary SaaS system and its search services, to provide more efficient and comprehensive services and accelerate its network effect.

We target our services primarily at business and leisure travelers in China who do not travel in groups, catering for their increasing needs for both domestic and international travel with an emphasis on the latter to enable us to quickly adjust to the changing market environment. These types of travelers, who are referred to in the travel industry as frequent independent travelers, or FITs, and whom we refer to as independent travelers in this annual report, form a traditionally under-served yet fast-growing segment of the China travel market, and we saw opportunities of growth from this segment's need for international travel. We present substantially all of our revenues on a net basis as the travel supplier is primarily responsible for providing the underlying travel services and we do not control the service provided by the travel supplier to the traveler. Revenues are recognized at gross amounts where we undertake substantive inventory risks by pre-purchasing inventories, the amounts which were not significant these years. We derive our accommodation reservation, transportation ticketing and packaged-tour revenues mainly through commissions from our travel suppliers, primarily based on the transaction value of the rooms, transportation tickets and packaged-tour products, respectively, booked through our services.

[Table of Contents](#)

We believe that we are the largest consolidator of hotel accommodations in China in terms of the number of room nights booked. As of December 31, 2018, we had secured room supply relationships with approximately 1.4 million hotels in China and abroad, which covered a broad range of hotels in terms of prices and geographical locations. Through strategic cooperation arrangements with other leading online accommodation reservation service providers in recent years, we expanded our overseas hotel network by gaining access to more international hotels on these platforms through our accommodation reservation services. The quality and depth of our hotel supplier network enable us to offer our customers a wide selection of hotel accommodations. We believe our ability to offer reservations at highly rated hotels is particularly appealing to our customers. The hotel business of Qunar, which covers a wide range of hotels from upscale hotels to mass-market hotels to family-run and small boutique hotels, has begun to benefit from our hotel accommodation capabilities by accessing our high-end hotel supplies.

We believe that we are the largest consolidator of airline tickets and the top air tickets distribution agency in China in terms of the total number of airline tickets booked and sold through us. Our airline ticket suppliers include all major PRC airlines and over 300 international airlines that operate flights originating in cities at home and abroad, and offer over 3 million flight routes, connecting over 5,000 cities in approximately 200 countries. Partnering with over 1,000 third-party travel service providers, we are among the few airline ticket consolidators in China that maintain a centralized reservation system and ticket fulfillment infrastructure covering substantially all of the economically prosperous regions of China. Our customers can make flight reservations on their chosen routes through mobile platform, internet websites and customer service centers and arrange electronic payment. In addition, we provide the same levels of centralization and convenience to customers seeking to make reservations on their chosen train and bus routes. We believe that we have realized a notable innovation in our transportation ticketing services, namely, our integrated product offering of air, train and bus tickets. International airline tickets sales volume through our platform grew significantly in 2018.

Our continuing development of an advanced and centralized system further strengthens our cross-selling strategy. When users search for any of the three transportation products on our database, our system can automatically provide the recommendations to the other two transportation modes with the same dates, origins and destinations. This capability significantly helps our customers to streamline their decision-making process in searching for the most convenient, cost-efficient transportation. Moreover, Qunar's proprietary technology systems and its own cross-selling capabilities provide alternatives to customers with diverse needs and preferences.

We also offer independent leisure travelers bundled packaged-tour products, including group tours, semi-group tours, customized tours and packaged tours with different transportation arrangements, such as flights, cruises, buses or car rental. We are the top packaged-tour operator in China in terms of online market share and most recognized brand in China's outbound travel services. We also have offline stores to provide local service support and reach out to users who are otherwise difficult to be converted to customers through online channel, especially in the lower-tier cities in China. We provide integrated transportation and accommodation services through cooperation with over 18,000 platform partners, and offer a variety of value-added services including transportation at destinations, as well as attraction tickets, local activities, insurance, visa services and tour guides. We offer customers one-stop services to meet their needs before, during and after their trips. We also provide high quality customer services, supplier management and customer relationship management services. Our packaged-tour products cover a variety of domestic and international destinations.

We have been building up a multifaceted ecosystem within the travel section, and offer our services to customers through an advanced transaction and service platform consisting of our mobile platform, multi-lingual websites and our centralized, 24-hour customer service centers. We have built up an industry-leading mobile platform which enhances user experience and user engagement. We have had billions of cumulative downloads for our mobile application by the end of 2018. In addition, our 24-hour service centers, which provide responsive and high quality customer services, further differentiate us from other online travel service providers. In 2018, transactions effected through our mobile channel accounted for over 80% of our transaction orders.

[Table of Contents](#)

We operate an open platform to further bridge the gap between travelers and travel suppliers with a diverse range of products and services. Travel suppliers ranging from airlines and third-party travel agencies to e-commerce websites offering travel products and services can list their inventories on our open platform to expand their business opportunities. We also offer high quality supplier management services and technology and financial support to enhance supplier experience and encourage supplier participation on the open platform. In addition, we offer high quality customer service to travelers for all the products and services they purchase through our open platform. We believe that our open platform helps us expand the number and types of products and services available to travelers and enhance our price competitiveness, and further build and strengthen the vibrant travel ecosystem on our open platform.

Our revenues are primarily generated from the accommodation reservation, transportation ticketing, packaged-tour services and corporate travel. For information on revenues attributable to our different products and services, see “Item 5.A. Operating and Financial Review and Prospects — Operating Results.”

Products and Services

We began offering accommodation reservation and transportation ticketing in October 1999. In 2018, we derived approximately 37% of our revenues from the accommodation reservation business and 42% of our revenues from the transportation ticketing business. In addition, we offer other products and services including packaged tours, mostly bundled by us, that cover hotel, ticketing and transportation as well as corporate travel management services.

Accommodation Reservations. We act as an agent in substantially all of our hotel-related transactions. Most of our customers make prepayments to us, while others receive confirmed bookings first and pay hotels directly upon completion of their stays. For some of our hotel suppliers, we earn pre-negotiated fixed commissions on hotel rooms we sell. For other hotels, we have commission arrangements that we refer to as the “ratchet system,” whereby our commission rate per room night is adjusted upward with the increase in the volume of room nights we sell for such hotel during such month.

We contract with hotels for rooms under two agency models, the “guaranteed allotment” model and the “on-request” model. Under our agreements with our hotel suppliers, hotels are generally required to offer us prices that are equal to or lower than their published prices, and notify us in advance if they have promotional sales, so that we can lower our prices accordingly.

In addition to the agreements that we enter into with all of our hotel suppliers, we enter into a supplemental agreement with each of the hotel suppliers with which we have a guaranteed allotment arrangement. Pursuant to this agreement, a hotel guarantees us a specified number of available rooms every day, allowing us to provide instant confirmations on such rooms to our customers before notifying the hotel. The hotel is required to notify us in advance if it will not be able to make the guaranteed rooms available to our customers due to reasons beyond its control.

As of December 31, 2018, a significant number of our partnered hotels in China had guaranteed room allotments, allowing us to confirm orders instantly and reserve rooms for our users even during peak seasons. Rooms booked in hotels with which we have a guaranteed allotment arrangement currently account for a significant part of our total hotel room transaction volume. With the remaining hotel suppliers, we book rooms on an “on-request” basis, meaning our ability to secure hotel rooms for our customers is subject to room availability at the time of booking.

In April 2018, we entered into a memorandum of understanding with AccorHotels, a travel & lifestyle group and digital innovator, allowing our users access to AccorHotels’ global brand portfolio, including approximately 4,300 hotels and 10,000 private homes in 100 countries.

Transportation Ticketing. Transportation Ticketing revenues mainly represent revenues from reservation of air tickets, railway-tickets and other related services. We sell air tickets as an agent for all major domestic PRC airlines, such as Air China, China Eastern Airlines, China Southern Airlines and Hainan Airlines and many international airlines operating flights that originate from cities at home and abroad, such as Cathay Pacific, Singapore Airlines, American Airlines, Lufthansa, Emirates Airlines, Qantas Airways, Air France-KLM and Delta Air Lines. We also provide other related service to our customers, such as sales of aviation and train insurance, air-ticket delivery services, online check-in, and other value-added services, such as online seat selection, express security check, and real-time flight status. In 2017, we became the first and only travel provider allowing users to directly book with Big Bus Tours, the world’s largest operator of open-top sightseeing tours, which ensures users enjoy a one-stop booking experience that is not only hassle-free and efficient but is also a solution to local transportation difficulties.

[Table of Contents](#)

Our customers can book tickets through our mobile platform, internet websites and customer service centers and make payment electronically. The airline industry, including airline ticket pricing, is regulated by CAAC.

Packaged-Tours. We also offer independent leisure travelers bundled packaged-tour products, including group tours, semi-group tours, customized tours and packaged tours with different transportation arrangements, such as flights, cruises, buses and car rental. We provide integrated transportation and accommodations services and offer a variety of value-added services including transportation at destinations, as well as attraction tickets, local activities, insurance, visa services and tour guides. We offer customers one-stop services to meet their needs before, during and after their trips. We also provide high quality customer services, supplier management and customer relationship management services. Our packaged-tour products cover a variety of domestic and international destinations.

Corporate Travel. We provide transportation ticket booking, accommodation reservation, packaged-tour services and other value-added services to our corporate clients to help them plan business travels in a cost-efficient way. In addition, we also provide our corporate clients with travel data collection and analysis, industry benchmark, cost saving analysis and travel management solutions. We have independently developed the Corporate Travel Management Systems, which is a comprehensive online platform integrating information maintenance, online booking, online authorization, online enquiry and travel report system.

Other Businesses. Our other businesses primarily include online advertising services.

We recently started a new partnership in December 2017 with Tennis Australia, the governing body for tennis in Australia, which will allow Chinese fans to purchase Australian Open tickets directly through our online platform. In addition, in January 2018, we formed a partnership with the Booking's OpenTable, which will allow our mobile application users to book tens of thousands of restaurants across North America. Other products and services accounted for a small portion of our total revenues in 2018.

Seasonality

Our business experiences fluctuations, reflecting seasonal variations in demand for travel services. See “Item 5.A. Operating and Financial Review and Prospects — Operating Results” for a discussion of seasonality in the travel industry.

Transaction and Service Platform

Our customers can reach us for their travel-related needs through either our mobile platform, our multi-lingual websites or our customer service centers. In 2018, transactions executed through our mobile channel accounted for over 80% of our transaction orders. To improve the efficiency of our service platform and expand our business opportunities, we have made some technology improvements, such as enhanced international flight search capability, expanded payment methods and virtual desktop technology, which is deployed and in operation for our customer service centers.

Mobile Platform. Our mobile booking application and other mobile access channels provide a one-stop travel platform to our customers who search for hotels, flights, trains, car rental, tickets and other travel products, and completes bookings within minutes. Mobile applications enable our customers to make bookings more efficiently and have fueled our business growth in new direction. Our customers can also search for travel-related editorial content about destinations and travel tips through the mobile platform. Moreover, travelers can share their travel experience and micro-blogs with others through the Ctrip community. We first introduced mobile applications in 2010. Since then we have upgraded mobile applications, added new functions into it on a regular basis and engaged celebrities to promote our brands and mobile platform. We have had billions of cumulative downloads for Ctrip mobile application by the end of 2018 with a significant portion of our hotel and air ticket transactions executed on it on a daily basis. Users can also enjoy similar convenient services by accessing our mobile platform via other mobile access channels, such as HTML5.

In 2013, we developed a corporate travel mobile application, which was the first of its kind in China and provides efficiency to corporate travelers. The application has extensive booking capabilities that match the personal preference of the traveler with their companies' travel policies. It also features “smart itinerary” and “travel update” functions to ensure users are informed immediately of any changes to their journey. Users of this application may also enjoy our call center support 24 hours a day, seven days a week. In 2017, we introduced mobile application for Trip.com, with which users can book hotels, air tickets and train tickets in 22 different currencies.

[Table of Contents](#)

Internet Websites. Through our internet websites, we continue improving shopping experience in hotel accommodations, flight tickets, vacation packages, train tickets, and other travel products to our customers.

We have been constantly upgrading our open platform, so that our suppliers and partners are connected to Ctrip more efficiently. We have opened up our system to international partners, search engines, e-commerce websites and affiliated websites to expand business opportunities. We have made great efforts to enhance our price competitiveness by improving the efficiency of our IT system and by working closely with major airlines, numerous air ticketing agencies and accommodation suppliers, and thousands of destination business partners through the open platform.

We maintain our main website in Chinese at www.ctrip.com and our global website in English at www.trip.com. Over time, we also established localized websites specifically targeting Hong Kong, Taiwan, United States, Singapore, Japan, Korea, France, Germany, Spain, Russia, Indonesia, Thailand, Australia, Italia, Malaysia, United Kingdom, Vietnam, Netherlands, Poland, Greece, Turkey, and Brazil markets.

We consolidate and organize travel-related information for our consumers, including user behavior data, hotel reviews, travel blogs and community forums. Destination guides and community users actively search for travel information on our websites. Our customers refer to editorial content for destination research and travel tips.

Customer Service Centers. We have customer service centers located in China and abroad, such as Shanghai, Nantong, Tokyo, and Edinburgh. They operate 24 hours a day, seven days a week. Unlike some companies in the United States that outsource their customer service to third-party call centers, our customer service representatives are in-house travel specialists. All of our customer service representatives participated in a formal training program before commencing work.

Marketing and Brand Awareness

Through mobile and online marketing, brand promotion, cross-marketing, and customer rewards program, we have created a strong Ctrip brand that is commonly associated in China with value travel products and services and superior customer service. We will continue to use our focused marketing strategy to further enhance awareness of our brand and acquire new customers.

Mobile Marketing. We have worked with major internet portals and leading mobile applications in their respective sectors to advertise locally and also have worked with top smart phone manufacturers to increase the number of our app downloads and promote more activations and transactions. In addition, we are actively testing all kinds of innovative and rapid-growing mobile channels that are appealing to consumers.

Online Marketing. We have contracted with majority of the leading online marketing channels, such as search engines, browsers and navigation websites, to prominently feature our websites and have cooperated with online companies to promote our services, as well as conducting public relations activities. We have purchased related keywords or directory links to direct potential customers to our websites.

Brand Promotion. We conduct our brand campaigns through advertising on video streaming websites, targeted LCD displays in public space, and billboards at airport, railway station and bus station. We also work with celebrities and embed our brand and travel products into TV live shows, movies and other entertainment marketing channels. Based on our experience, we believe these are effective ways to enhance brand awareness and attract new generation of customers.

Cross-Marketing. We have entered into cross-marketing arrangements with major PRC domestic airlines, financial institutions, telecommunications service providers and other corporations. Our airline partners and financial institution partners recommend our products and services to members of their mileage programs or bank card holders. Customers can accumulate miles by booking air tickets through us, or earn Ctrip's points by paying through co-branded credit cards.

Customer Rewards Program. To secure our customers' loyalty and further promote our Ctrip brand, we provide our customers with a customer rewards program. This program allows our customers to accumulate membership points calculated according to the services purchased by the customers. Our membership points have a fixed validity term and our customers may redeem these points for travel awards and other gifts.

Supplier Relationship Management

We have cultivated and maintained good relationships with our travel suppliers since our inception. We have a team of employees dedicated to enhance our relationship with existing travel suppliers and develop relationships with prospective travel suppliers.

Furthermore, we have developed an electronic confirmation system that enables participating hotel suppliers to receive our customer's reservation information and confirm such reservation through our online interface with the hotel suppliers. We believe that the electronic confirmation system is a cost-effective and convenient way for hotels to interface with us. We have not had any material disputes with our travel suppliers with respect to the amount of commissions to which we were entitled.

Technology and Infrastructure

Since our inception, we have been able to support substantial growth in our offline and online traffic and transactions with our technology and infrastructure.

We provide customer services and support through our mobile applications, websites, and telephone or e-mail, 24 hours a day, seven days a week. We maintain in-house call centers to ensure high quality of our services. Our call centers are located in both China and abroad, such as Shanghai, Nantong, Tokyo, and Edinburgh. We have invested significantly in our call center technologies over years and provide top-notch services globally.

Both our ctrip.com and trip.com platforms are comprised of thousands of applications which are hosted in a hybrid cloud infrastructure with both private cloud and public cloud to ensure high reliability, high scalability, and high speed of access. These infrastructure and applications are monitored and supported 24 hours a day, seven days a week. The hybrid cloud infrastructure is equipped with back-up capabilities and perform real-time mirror back-up and additional back-up for off-site storage on a daily basis.

We continuously upgrade our infrastructure and applications and procure security services to protect our system against unauthorized access to data, or unauthorized alteration or destruction of data.

We believe the cutting-edge technology used throughout our quality services distinguishes us from our competitors in China. Our goal has been to build a reliable, scalable, and secure infrastructure to fully support our customer service centers, mobile and website operations and one-stop travel platform.

Competition

In the hotel consolidation market, we compete primarily with domestic and foreign invested consolidators of hotel accommodations. We also compete with new online travel search and service provider platforms, including the ones operated by other major internet companies, as well as traditional travel agencies. We believe we are a leading online accommodation booking platform in China in terms of the volume of hotel room booking by FITs. However, as the travel business in China continues to grow, we may face competition from new players in the hotel consolidation market in China and foreign travel consolidators that may enter the China market.

In the transportation ticketing market, we compete primarily with other consolidators of air tickets with a multi-province airline ticket sales and fulfillment infrastructure in China. We also compete with new online travel search and service provider platforms, including the ones operated by other major internet companies. In the markets where we face local competition, our competitors generally conduct ticketing transactions in person, and not over the internet or through customer service centers. Many local air-ticketing agencies are primarily involved in the wholesale business and do not directly serve individual travelers, who are our targeted customers. However, as the airline ticket distribution business continues to grow in China, we believe that more companies involved in the travel services industry may develop their services that compete with our transportation ticketing business.

Intellectual Property

Our intellectual property rights include trademarks and domain names associated with the name "Ctrip" and copyright and other rights associated with our websites, technology platform, booking software and other aspects of our business. We regard our intellectual property as a factor contributing to our success, although we are not dependent on any patents, intellectual property related contracts or licenses other than some commercial software licenses available to the general public. We rely on trademark and copyright law, trade secret protection, non-competition and confidentiality agreements with our employees to protect our intellectual property rights. We require our employees to enter into agreements to keep confidential all information relating to our customers, methods, business and trade secrets during and after their employment with us. Our employees are required to acknowledge and recognize that all inventions, trade secrets, works of authorship, developments and other processes made by them during their employment are our property.

[Table of Contents](#)

Our major domain names are *ctrip.com*, *ctrip.com.cn*, and *trip.com*, all of which have been registered with www.markmonitor.com, and we have full legal rights over these domain names. We conduct our business under the Ctrip brand name and logo. We have registered our major trademarks “Ctrip” and “携程” (Chinese characters for Ctrip) with the Trademark Office of the PRC National Intellectual Property Administration, with the Registrar of Trademarks in Hong Kong and also with the United States Patent and Trademark Office. In 2009, we registered the trademark “携程Ctrip” (a combination of the Chinese and English characters for Ctrip) with the Taiwan Intellectual Property Office and with Direcção dos Serviços de Economia of Macau. We have also registered the trademark “Ctrip” and “携程” (Chinese characters for Ctrip) in Korea, European Union, Singapore, Switzerland, Australia, New Zealand, Japan, Turkey, Vietnam, the United Arab Emirates, Malaysia, India, South Africa, Brazil and the Kingdom of Cambodia. We have also registered the trademark “Trip.com” in European Union, Japan and the United States.

In 2015, we were recognized as “the Best Online Travel Agency in China” by Travel Weekly China. In 2016, we were awarded the “Most Valuable App” at the China App Development Forum and 2016 Most Popular App Awards Ceremony held in Beijing, China. Our customer service was recognized as the “2016 Best Call Center” at the 2016 internet + China E-Commerce Summit Forum & China Call Center Development.” We were ranked in the “China’s top 10 most innovative companies” and the “10 most innovative companies in travel” lists of 2017 by Fast Company, a major financial business magazine in the United States. In 2017, we were recognized as “the Best Online Travel Agency in China” by Travel Weekly China and the “Most Honored Company” in the *Technology, Media & internet* category by Institutional Investor in the 2017 All-Asia Executive Team Rankings. In 2018, we were recognized as “the Best Employer in Customer Contact Industry in China.” “Top 50 Global Enterprises” by Center for China and Globalization and “Top 20 Tourism Groups of China” by China Tourism Research Institute and China Tourism Association.

Strategic Investments and Acquisitions

To maintain and strengthen our leading market position in China and to become a major travel service provider in the Greater China market, we constantly evaluate opportunities for strategic investments in, and acquisitions of, complementary businesses, assets and technologies and have made such investments and acquisitions from time to time. We have made the following material strategic investments and acquisitions over the past two years.

In May 2015, we acquired approximately 38% share capital of eLong, Inc.. In May 2016, eLong, Inc. completed its “going-private” transaction and merger with eLong. In December 2017, eLong announced a merger with LY.com and the merger was consummated in March 2018 and we received an equity method investment in the enlarged group.

As part of our ongoing strategy to invest in complementary business and further expand our product offerings, in October 2015, we completed a share exchange transaction with Baidu, pursuant to which Baidu exchanged approximately 179 million Class A ordinary shares and approximately 11 million Class B ordinary shares of Qunar, beneficially owned by Baidu prior to the consummation of the transaction for our approximately 11 million newly-issued ordinary shares. Immediately after the closing of the transaction, Baidu owned our ordinary shares representing approximately 25% of our aggregate voting interest, and we owned Class B ordinary shares of Qunar representing approximately 45% of Qunar’s aggregate voting interest. Robin Yanhong Li, Baidu’s chairman and chief executive officer, and Tony Yip, vice president of Baidu, have been appointed to our board of directors. In October 2017, Tony Yip resigned as our director and Herman Yu, chief financial officer of Baidu, was later appointed by Baidu as a successor director. As a result of the share exchange transaction with Baidu, we became a significant shareholder of Qunar. Following our investment in Qunar, Qunar continues to operate its business independently. We have certain business cooperation arrangements with Qunar.

We believe that it would be in the interest of our shareholders and us to provide equity incentives to Qunar employees to align their interests with those of Qunar and its shareholders, including us. In connection with our transaction with Baidu, we agreed to issue approximately 5 million ordinary shares to certain special purpose vehicles holding shares solely for the benefit of Qunar employees. The issuance of such Ctrip shares to Qunar employees is conditional upon the surrender by such employees of any Qunar securities held by or granted to them. As consideration, we received Class B ordinary shares of Qunar and directly injected these shares to a third-party investment entity dedicated to investing in business in China. Under U.S. GAAP, as a result of our share exchange with Baidu in October 2015 and share issuance for the benefit of Qunar employees in December 2015, we began to consolidate Qunar’s financial statements from December 31, 2015 from an accounting perspective. In June 2016, the board of directors of Qunar received a non-binding going-private proposal, dated June 23, 2016, from Ocean Management Limited to acquire all outstanding ordinary shares of Qunar not beneficially owned by Qunar’s shareholders accounting for a majority in voting power of Qunar for US\$30.39 per ADS, or US\$10.13 per ordinary share, of Qunar in cash. The board of directors of Qunar formed a special committee to consider the going-private proposal and the transaction contemplated by such proposal. In October 2016, Qunar announced that it had entered into definitive merger agreement for the going-private transaction. Qunar announced that its going-private transaction was approved by its shareholders and later completed in February 2017.

[Table of Contents](#)

We agreed to make certain investments, in the form of limited partnership contribution or other financing arrangements respectively, in several non-U.S. investment entities, with an aggregate fair value of approximately US\$2.9 billion and US\$0.4 billion in 2016 and 2017. These entities are managed or owned by parties unaffiliated with each other and unaffiliated with us and are dedicated to investing in businesses in China. These investment entities have spent the investments to acquire the equity interest of Qunar that were not held by us through privately negotiated transactions. Under U.S. GAAP, we consolidate the financial statements of these investment entities from an accounting perspective.

In January 2016, we invested US\$180 million to purchase the convertible bonds of MakeMyTrip, India's largest online travel company, which were subsequently converted to approximately 10% equity interest in MakeMyTrip in October 2016. In May 2017, we further invested approximately US\$33 million in MakeMyTrip by subscribing for 916,666 of its ordinary shares. As of December 31, 2018, based on the market price, we re-measured the investment at a fair value of RMB1.8 billion.

In April 2016, we announced strategic collaboration with China Eastern Airlines (SSE: 600115, SEHK: 00670, NYSE: CEA), one of China's three major air transportation groups, on a broad range of products and services. In June 2016, we invested approximately RMB3.0 billion in approximately 466 million A shares of China Eastern Airlines in a private placement.

In December 2016, we consummated an acquisition transaction whereby shares held by nearly all the shareholders of Skyscanner, a leading global travel search site headquartered in Edinburgh, the United Kingdom, were acquired by Ctrip. The total purchase consideration for the acquisition of Skyscanner was approximately £1.4 billion, which consists of £1.2 billion in cash and the remainder in our ordinary shares. After the acquisition, the then incumbent management team of Skyscanner continues to manage its operations independently as part of the Ctrip group.

In May 2018, we acquired substantially all of the remaining equity interest of an offline travel agency company in which we previously held approximately 48% equity interest for the consideration of RMB198 million in cash and 1.9% non-controlling interest of one of our subsidiaries with the fair value of RMB399 million. The financial results of the acquired company have been included in our consolidated financial statements since the date we obtained control and were not significant to us for the year ended December 31, 2018.

PRC Government Regulations

Current PRC laws and regulations impose substantial restrictions on foreign ownership of the air-ticketing, travel agency and value-added telecommunications businesses in China. As a result, we conduct these businesses in China through contractual arrangements with our consolidated affiliated Chinese entities as well as certain independent air-ticketing agencies and travel agencies. Some of our directors and officers, all of whom are PRC citizens, directly or indirectly own all or most of the equity interests in our consolidated affiliated Chinese entities as of the date of this annual report.

According to our PRC counsel, Commerce & Finance Law Offices, the ownership structures, as described in this annual report, comply with all existing PRC laws, rules and regulations.

Restrictions on Foreign Ownership

Air-ticketing. According to the Administrative Measure of Foreign Investment in Civil Aviation, Air Transportation Sales Agent Qualification Accreditation Measures (2006) and relevant foreign investment regulations regarding air transportation business, a foreign investor currently cannot own 100% of an air-ticketing agency in China, except for Hong Kong, Macau, and Taiwan air transportation sales agents. In addition, foreign-invested air-ticketing agencies are not permitted to sell passenger air tickets for domestic flights in China, except for Hong Kong, Macau and Taiwan air transportation sales agents. Subsequently, the Air Transportation Sales Agent Qualification Accreditation Measures was revised in 2015, which does not prohibit explicitly foreign-invested air-ticketing agencies from selling passenger air tickets for domestic flights and a supplement regulation to Administrative Measure of Foreign Investment in Civil Aviation was promulgated in 2017, which further allows the foreign investor to establish an entity in free trade zone area as air-ticketing agency.

[Table of Contents](#)

Travel Agency. Currently, foreign investors are permitted to establish or own a travel agency upon PRC government approval, subject to considerable restrictions on its scope of business. For examples, under the Travel Agency Regulations, which became effective on May 1, 2009 as amended subsequently, foreign-invested travel agencies cannot arrange for PRC residents to travel overseas or to Hong Kong, Macau or Taiwan, unless otherwise decided by the State Council or allowed under any applicable free trade agreement executed by the PRC government or according to the Closer Economic Partnership Arrangement between mainland China and Hong Kong or Macau, or CEPA. According to the CEPAs, starting from January 1, 2013, travel agencies in which qualified Hong Kong or Macau investors hold an interest are permitted to arrange group tours for PRC residents from mainland China to Hong Kong and Macau. Moreover, on a trial basis, one qualified Sino-foreign joint venture, in which qualified Hong Kong investors hold an interest, and one qualified Sino-foreign joint venture, in which qualified Macau investors hold an interest, were permitted to arrange group tours for PRC residents to travel overseas (excluding Hong Kong, Macau and Taiwan). On August 29, 2010, the PRC National Tourism Administration, or NTA, and MOFCOM further promulgated the Interim Measures for Supervising Pilot Operation of Overseas Travel Business by Sino-Foreign Joint Venture Travel Agencies, according to which NTA may choose and approve certain qualified Sino-foreign joint venture travel agencies to operate business of arranging PRC residents travelling to overseas destinations, Hong Kong and Macau (excluding Taiwan), on a trial basis. In 2017, China (Shanghai) Pilot Free Trade Zone has implemented a pilot project that allows the wholly foreign-owned travel agencies registered in China (Shanghai) Pilot Free Trade Zone and satisfied with required conditions to operate outbound tourism business. One of our subsidiaries, Wancheng, has obtained the approval in 2017 to operate outbound tourism business from National Tourism Administration with the pilot period of three years.

Online Advertising. The principal regulation governing foreign-invested advertising agencies in China are the Administrative Measures for Foreign Invested Advertising Enterprise, which was abolished due to the issuance of Foreign Investment Industrial Guidance Catalogue (2015 Revision), or the Catalogue, which came into effect on April 10, 2015. Under the Catalogue, foreign investors are allowed to own 100% of an advertising agency in China subject to certain qualification requirements. However, foreign investment in advertising agencies that provide online advertising services is still subject to restrictions of foreign investment in the value-added telecommunications business.

Value-added Telecommunications Business License. The principal regulations governing foreign investment in the value-added telecommunications service provision business in China include:

- Foreign Investment Industrial Guidance Catalogue;
- Telecommunications Regulations; and
- Administrative Provisions on Foreign Invested Telecommunications Enterprises.

Under these regulations, a foreign entity is prohibited from owning more than 50% of a PRC entity that provides value-added telecommunications services except for commercial e-commerce business, which allows 100% foreign investment.

In July 2006, MIIT issued the Circular on Strengthening the Administration of Foreign Investment in Value-added Telecommunication Business, which stipulates that a domestic company that holds a value-added telecommunications business license is prohibited from leasing, transferring or selling the license to foreign investors in any form, and prohibited from providing any assistance in forms of resources, sites or facilities to foreign investors that conduct value-added telecommunications business illegally in China. Furthermore, the relevant trademarks and domain names used in the value-added telecommunications business must be owned by the domestic value-added telecommunications license holders. Due to lack of further interpretation by MIIT, it remains unclear what impact the above circular will have on us or other PRC internet companies that have adopted the same or similar corporate and contractual structures as ours.

General Regulation of Businesses

Tourism Law. On April 25, 2013, the Standing Committee of the National People’s Congress issued the PRC Tourism Law, or the Tourism Law, which took effect on October 1, 2013 and was amended in 2016 and 2018. The Tourism Law aims to protect tourists’ legal rights, regulate travel market and promote the development of travel industry, and sets forth specific requirements for the operation of travel agencies. Travel agencies are prohibited from (i) leasing, lending or illegally transferring travel agency operation licenses or otherwise disseminating untrue or inaccurate information when soliciting customers and organizing tours, (ii) conducting any false publicity to mislead customers, (iii) arranging visits to or participation in any project or activity in violation of PRC laws and regulations or social morality, (iv) organizing tours at unreasonably low price to induce or cheat tourists, or obtaining unlawful profits such as kickbacks, and (v) changing or ceasing scheduled itineraries without reasons and forcing the tourists to participate in other activities against the will of tourists. In addition, travel agencies must enter into contracts with customers for travel services; and before a tour starts, a customer may assign his personal rights and obligations in a packaged-tour contract to any third person, whom the travel agency cannot refuse without cause, as long as any fee increase will be borne by the customer and the relevant third person. Accordingly, travel agencies may be subject to civil liabilities for failing to fulfill the obligations discussed above, which include rectification, issuance of a warning, confiscation of any illegal income, imposition of a fine, an order to cease business operation, or revocation of its travel agency permit.

Air-ticketing. The air-ticketing business is subject to the supervision of CATA and its regional branches. Currently, the principal regulation governing air-ticketing in China is the Air Transportation Sales Agent Qualification Accreditation Measures, which became effective on March 31, 2006 and was amended in 2015, and its implementation rule promulgated in 2018. Furthermore, CATA has also promulgated the Administrative Measure for Online Air-ticketing Transaction, pursuant to which the online travel agency and third-party air-ticketing transaction platform are requested to file with CATA and establish the rules and security system of online transaction and customer’s rights and personal data protection mechanism, and are prohibited from (i) taking virtual occupation of seats, (ii) increasing price of air-ticket, (iii) revising unilaterally standard, price, use term and services criteria upon cancellation and change of air-ticket, (iv) refusing to provide of travel itinerary, (v) selling the air-ticket of airline without agency agreement, and (vi) leaking the customer’s personal information with any reason in any way.

Under this regulation, any entity that intends to conduct air-ticketing business in China must apply for an air-ticketing license from CATA.

Travel Agency. The travel industry is subject to the supervision of Ministry of Culture and Tourism of People’s Republic of China, or MOCT, formerly known as the NTA and local tourism administrations. The principal regulations governing travel agencies in China include:

- Travel Agency Regulations; and
- Implementing Rules of Travel Agency Regulations.

Under these regulations, a travel agency must obtain a license from NTA to conduct cross-border travel business, and a license from the provincial-level tourism administration to conduct domestic travel agency business.

Advertising. SAMR is responsible for regulating advertising activities in China. The principal regulations governing advertising (including online advertising) in China include:

- Advertising Law;
- Advertising Administrative Regulations; and
- Interim Measures of the Administration of Online Advertisement.

Under these regulations, any entity conducting advertising activities must file with the local branch of SAMR. The Advertising Law was amended in 2015 and 2018, which was a major overhaul of an advertising law enacted in 1994, increases the potential legal liability of providers of advertising services, and includes provisions intended to strengthen identification of false advertising and the power of regulatory authorities.

[Table of Contents](#)

Value-added Telecommunications Business and Online Commerce. Our provision of travel-related content on our websites is subject to PRC laws and regulations relating to the telecommunications industry and internet, and regulated by various government authorities, including MIIT and SAMR. The principal regulations governing the telecommunications industry and internet include:

- Telecommunications Regulations;
- The Administrative Measures for Telecommunications Business Operating Licenses; and
- The internet Information Services Administrative Measures.

Under these regulations, internet content provision services are classified as value-added telecommunications businesses, and a commercial operator of such services must obtain a value-added telecommunications business license from the appropriate telecommunications authorities to conduct any commercial value-added telecommunications operations in China.

With respect to online commerce, the SAIC (currently known as SAMR) promulgated the Administrative Measures for Online Trading, which became effective on March 15, 2014 and the MOFCOM promulgated the Provisions on the Procedures for Formulating Transaction Rules of Third Party Online Retail Platforms (Trial), which became effective on April 1, 2015, to regulate the formulation, revision and enforcement of transaction rules by online retail third-party platforms. These measures impose more stringent requirements and obligations on third-party platform operators. For example, third-party platform operators are obligated to make public and file their transaction rules with MOFCOM or their respective provincial counterparts, examine and register the legal status of each third-party merchant selling products or services on their platforms and display on a prominent location on a merchant's web page the information stated in the merchant's business license or a link to its business license. Where third-party platform operators also act as online distributors, these third-party platform operators must make a clear distinction between their online direct sales and sales of third-party merchant products on their third-party platforms. Furthermore, in August 2018, the Standing Committee of the National People's Congress promulgated the E-Commerce Law, which took effect on January 1, 2019, aiming to regulate the e-commerce activities conducted within China. According to the E-Commerce Law, e-commerce operators must comply with the principles of voluntariness, equality, fairness, and good faith, abide by laws, observe business ethics, and equally participate in market competition. It further enhanced burdens of e-commerce operators to protect consumers' rights and interests, environment, intellectual property protection, cyberspace safety and personal information, and also emphasized the commitment by e-commerce operators over the quality of products and services.

Internet Privacy

In recent years, PRC government authorities have legislated on the use of the internet to protect personal information from any abuse or unauthorized disclosure. For example, the internet Information Services Administrative Measures prohibits an internet information services provider from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. internet information services providers are subject to legal liability if unauthorized disclosure results in damages or losses to users. In addition, the PRC regulations authorize the relevant telecommunications authorities to demand rectification of unauthorized disclosure by internet information services providers.

The PRC laws do not prohibit internet information services providers from collecting and analyzing person information of their users. The PRC government, however, has the power and authority to order internet information services providers to submit personal information of an internet user if such user posts any prohibited content or engages in illegal activities on the internet. Since 2012, the MIIT and the Standing Committee of the National Peoples' Congress enacted several regulations to stipulates the obligation and requirements imposed to the internet information services providers, including but not limited to which the internet information services providers may only collect user personal information necessary to provide their services and must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information, and must keep strictly confidential users' personal information that they collect, and take technical and other measures as are necessary to safeguard the information against disclosure, damages and loss. Moreover, the PRC criminal laws and regulations prohibit companies and their employees from illegally trading or disclosing customer data obtained through the course of their business operations and any internet service provider that fails to comply with obligations related to internet information security administration as required by applicable laws and refuses to rectify upon order is subject to criminal penalty.

In June 2017, the PRC Cyber Security Law promulgated by the Standing Committee of the National People's Congress took effect, which is formulated to maintain the network security, safeguard the cyberspace sovereignty, national security, and public interests, protect the lawful rights and interests of citizens, legal persons, and other organizations, and requires that a network operator, which includes, among others, internet information services providers, take technical measures, and other necessary measures to safeguard the safe and stable operation of the networks, effectively respond to the network security incidents, prevent illegal and criminal activities, and maintain the integrity, confidentiality, and availability of network data. The PRC Cyber Security Law reaffirms the basic principles and requirements set forth in other existing laws and regulations on personal information protections and strengthens the obligations and requirements of internet service providers, which include but are not limited to: (i) keeping all user information collected strictly confidential and setting up a comprehensive user information protection system; (ii) abiding by the principles of legality, rationality and necessity in the collection and use of user information and disclosure of the rules, purposes, methods and scopes of collection and use of user information; and (iii) protecting users' personal information from being leaked, tampered with, destroyed, or provided to third parties. Any violation of the provisions and requirements under the PRC Cyber Security Law and other related regulations and rules may result in administrative liabilities such as warnings, fines, confiscation of illegal gains, revocation of licenses, suspension of business, and shutting down of websites, or, in severe cases, criminal liabilities.

Regulation of Foreign Currency Exchange and Dividend Distribution

Foreign Currency Exchange. The principal regulation governing foreign currency exchange in China is the Forex Regulations. Under the Forex Regulations, Renminbi is freely convertible for trade- and service-related foreign exchange transactions, but not for direct investment, loan or securities investment outside China unless prior approval of SAFE is obtained.

Pursuant to the Forex Regulations, FIEs in China may purchase foreign currency without SAFE's approval for trade- and service-related foreign exchange transactions by providing commercial documents evidencing these transactions. They may also retain foreign exchange (subject to a cap approved by SAFE) to satisfy foreign exchange liabilities or to pay dividends. In addition, if a foreign company acquires a company in China, the acquired company will also become an FIE. However, the relevant PRC government authorities may limit or eliminate the ability of FIEs to purchase and retain foreign exchange in the future. In addition, foreign exchange transactions for direct investment, loan and securities investment outside China are still subject to limitations and require approvals from SAFE.

Under the current PRC regulations, loans, either from us or from third-party sources outside of China, incurred by our subsidiaries as FIEs in China to finance their activities cannot exceed statutory limits, which equal the difference between the respective approved total investment amount and the registered capital of such PRC subsidiaries, and must be registered with SAFE or its local branches. In the past, our subsidiaries have mainly funded their operations and cash needs from our initial capital injections and cash generated from such subsidiaries' operations. Other than these discussed above, none of the Company's PRC subsidiaries had any outstanding loans as of December 31, 2018. Based on the capital needs and cash generated from operations of our PRC subsidiaries, we do not believe that our PRC subsidiaries would need to incur substantial debts to fund their respective operations in China in the near future, and even if they need to incur debts, they could manage to obtain short-term loans from PRC banks and financial institutions, which are not subject to the statutory limits referenced above. We currently do not believe, based on the above, that the statutory debt limits on our subsidiaries in China are material to our operations in China, and we do not believe it to be reasonably likely that our PRC subsidiaries would need to incur debts exceeding their respective statutory debt limit.

On March 3, 2015, SAFE promulgated a Circular on the Reforming of Administrative Methods Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Companies, or SAFE Circular 19, which became effective on June 1, 2015 and replaced SAFE Circular 142, pursuant to which the registered capital of an FIE settled in Renminbi converted from foreign currencies may only be used within the business scope approved by the applicable government authority and may not be used for equity investments in China, and the FIE may not change how it uses such capital without SAFE's approval, and may not extend the loans directly or indirectly except as permitted within business scope, may not in any case use such capital to repay Renminbi loans if they have not used the proceeds of such loans. Although SAFE Circular 19 restates certain restrictions on the use of investment capital denominated in foreign currency by FIEs, it specifies that the registered capital of an FIE, denominated in foreign currency, can be converted into Renminbi at the discretion of such FIE and can be used for equity investment in China subject to the invested company's filing of a reinvestment registration with the relevant local SAFE. On June 9, 2016, SAFE issued the Circular on Reforming and Regulating the Administrative Policy of the Settlement under Capital Accounts, or SAFE Circular 16, which became effective on the same date. Although SAFE Circular 16 further extends the reform to cover foreign currency income under capital account, including capital, foreign debt and proceeds from offshore offering and listing, an FIE's foreign currency income and such income settled in Renminbi under the capital account cannot be used directly and indirectly for any purposes out of the FIE's business scope or in areas prohibited by laws and regulations. However, the interpretation and enforcement of SAFE Circular 19 and SAFE Circular 16 remained to be subject to uncertainty, which may limit our ability to transfer the net proceeds from offerings of our securities to our PRC subsidiaries and convert the net proceeds into Renminbi and adversely affect our liquidity and our ability to fund and expand our business in China.

[Table of Contents](#)

Dividend Distribution. The principal regulations governing distribution of dividends of FIEs include:

- The Foreign-Invested Enterprise Law;
- Implementing Rules for the Foreign-Invested Enterprise Law;
- Company Law; and
- EIT Law and its Implementation Rules.

Under these regulations, FIEs in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, FIEs in China are required to set aside at least 10% of their respective accumulated profits each year, if any, 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.

Under the EIT Law, dividends, interests, rent, royalties and gains on transfers of property payable by an FIE in China to its foreign investor that is a non-PRC resident enterprise will be subject to a 10% withholding tax, unless such non-PRC resident enterprise's jurisdiction of incorporation has a tax treaty with China that provides for a reduced rate of withholding tax. According to mainland China and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income agreed between China and Hong Kong in August 2006, dividends payable by an FIE in China to a company in Hong Kong which directly holds at least 25% of the equity interests in the FIE will be subject to a reduced withholding tax rate of 5%.

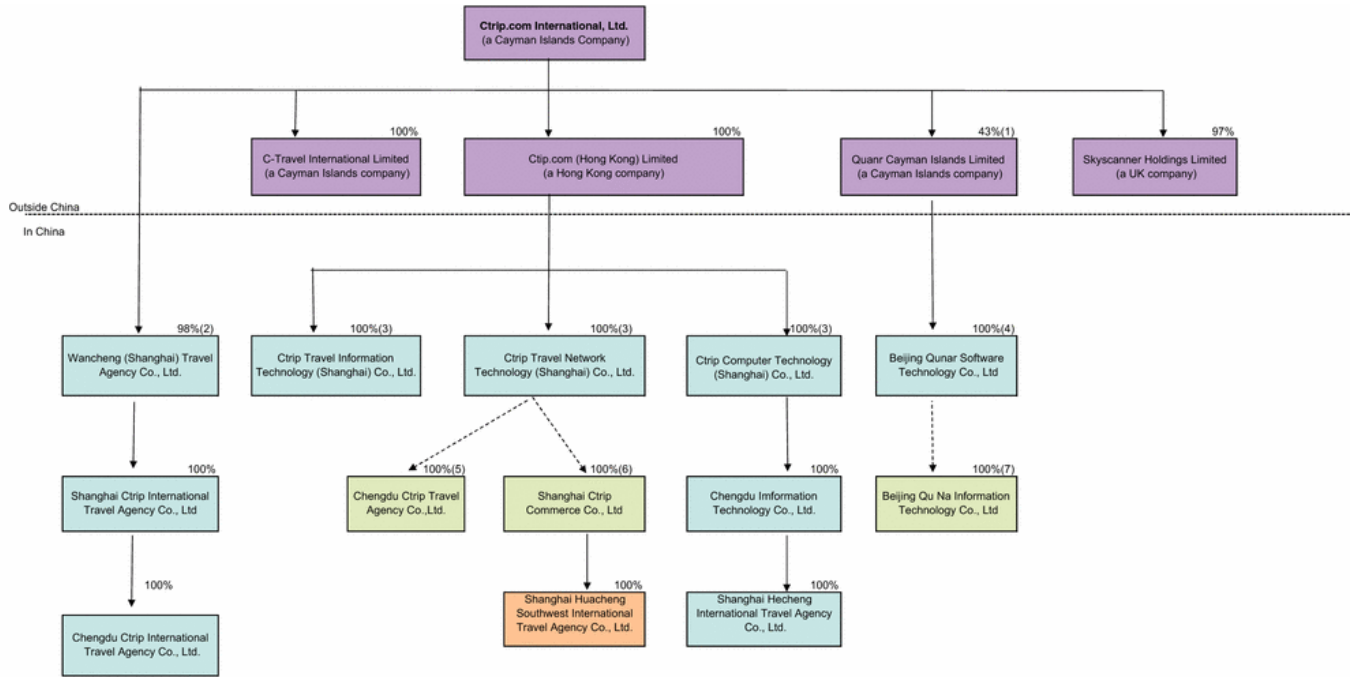
Under the EIT Law, an enterprise established outside China with its "de facto management body" within China is considered a PRC resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its worldwide income. The "de facto management body" is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. It remains unclear how the PRC tax authorities will interpret such a broad definition. Notwithstanding the foregoing provision, the EIT Law also provides that, if a PRC resident enterprise directly invests in another PRC resident enterprise, the dividends received by the investing PRC resident enterprise from the invested PRC resident enterprise are exempted from income tax, subject to certain conditions. However, it remains unclear how the PRC tax authorities will interpret the PRC tax resident treatment of an offshore company, like us, having indirect ownership interests in PRC enterprises through intermediary holding companies.

Moreover, under the EIT Law, foreign ADS holders that is non-PRC resident enterprise may be subject to a 10% withholding tax upon dividends payable by a PRC entity and gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is considered as income deriving from within China and if we are classified as a PRC resident enterprise.

Regulation of Income Taxes and Financial Subsidies. See "Item 5.A. Operating and Financial Review and Prospects — Operating Results — Major Factors Affecting Our Results of Operations — Income Taxes and Financial Subsidies."

C. Organizational Structure

The following diagram illustrates our corporate structure, including our significant subsidiaries and consolidated affiliated Chinese entities as of December 31, 2018.



- Represents the entities in the Company's offshore structure.
- Represents the the Company's wholly owned PRC domestic subsidiaries.
- Represents the Company's significant affiliated Chinese entities.
- Represents the wholly owned subsidiaries of one of the Company's significant affiliated Chinese entities.

- (1) For further details about the indirect ownership of Qunar Cayman Islands Limited, see “Item 4.A. Information on the Company — History and Development of the Company.”
- (2) Indirectly owned through Ctrip Travel Holding, a Cayman Islands company, and its Hong Kong subsidiary, Ctrip Travel Holding (Hong Kong) Limited. We are in the process of registering the remaining approximately 2% equity interest held by unrelated third parties with the local branch of the State Administration for Market Regulation.
- (3) Indirectly owned through Ctrip Investment (Shanghai) Co., Ltd., a PRC company.
- (4) Indirectly owned through Queen’s Road Travel Information Limited, a Hong Kong company.
- (5) Min Fan and Qi Shi hold 99.5% and 0.5% of the equity interest in Chengdu Ctrip Travel Agency Co., Ltd., respectively.
- (6) Min Fan and Maohua Sun hold 89.8% and 10.2% of the equity interest in Shanghai Ctrip Commerce Co., Ltd., respectively.
- (7) Hui Cao and Hui Wang hold 60% and 40% of the equity interest in Beijing Qu Na Information Technology Co., Ltd., respectively.

We are a holding company incorporated in the Cayman Islands and rely on dividends from our subsidiaries in China and consulting and other fees paid to our subsidiaries by our consolidated affiliated Chinese entities. We conduct a majority of our business through our wholly-owned subsidiaries in China. Due to the current restrictions on foreign ownership of air-ticketing, travel agency and value-added telecommunications businesses in China, we have conducted part of our operations in these businesses through a series of contractual arrangements between our PRC subsidiaries and our consolidated affiliated Chinese entities. Our significant consolidated affiliated Chinese entities included Ctrip Commerce, Shanghai Huacheng, Chengdu Ctrip and Qunar Beijing as of December 31, 2018. From time to time, we amended and restated the contractual arrangements that we had entered into with our consolidated affiliated Chinese entities in order to further strengthen our ability to control these entities and receive substantially all of the economic benefits from them. We have entered into additional contractual arrangements based on substantially the same series of amended and restated forms with our other consolidated affiliated Chinese entities subsequent to our adoption of these forms, and plan to enter into substantially the same series of agreements with all of our future consolidated affiliated Chinese entities. From 2015 to 2018, we further optimized the functions of our various consolidated affiliated Chinese entities to avoid duplicative operations among these consolidated affiliated Chinese entities.

As of the date of this report, some of our directors and officers are principal record owners of our consolidated affiliated Chinese entities. Each of them has signed an irrevocable power of attorney to appoint Ctrip Travel Information, Ctrip Travel Network and Qunar or its designated person, as attorney-in-fact to vote, by itself or any other person to be designated at its discretion, on all matters of our consolidated affiliated Chinese entities. Each power of attorney will remain effective during the existence of the applicable consolidated affiliated Chinese entity.

D. Property, Plants and Equipment

Our first customer service center and principal sales, marketing and development facilities and administrative offices are located on owned premises comprising approximately 39,000 square meters in an economic development park in Shanghai, China. In 2015, our Shanghai headquarters relocated to Sky SOHO, our owned premises in Shanghai, China, comprising 100,167 square meters. Our second customer service center, which began operations in May 2010, is located in our owned premises in Nantong, China, comprising approximately 80,000 square meters. In addition to our offices in Greater China in more than 40 cities, we also have overseas offices in Japan, Korea, America, Singapore, Thailand, the United Kingdom, Australia, Malaysia, Vietnam, Cambodia, the Philippines and Indonesia. We believe that we will be able to obtain adequate facilities, principally through the leasing of appropriate properties, to accommodate our expansion plans in the near future.

As of February 28, 2019, we owned an aggregate of approximately 327,000 square meters of premises for office space and call centers and leased an aggregate of over 130,000 square meters of premises for office space.

ITEM 4.A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this annual report on Form 20-F. We adopted a new accounting standard on revenue recognition issued by FASB in 2014 and effective January 1, 2018, and apply such accounting standard retrospectively to the years ended December 31, 2016 and 2017. This annual report contains forward-looking statements. See “Item 5.G. Operating and Financial Review and Prospects — Safe Harbor.” In evaluating our business, you should carefully consider the information provided under the caption “Item 3.D. Key Information — Risk Factors” in this annual report. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. Operating Results

We are a leading consolidator of hotel accommodations and airline tickets. 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 2018, we derived approximately 37%, 42%, 12%, 3% and 6% of our total revenues from our accommodation reservation, transportation ticketing, packaged tours, corporate travel, and other products and services, respectively.

In 2018, while we continued to strengthen our PRC domestic travel businesses, we further enhanced our outbound travel businesses as part of the execution of our international strategy. As of the date of this annual report, our outbound travel businesses focus primarily on outbound accommodation reservation, outbound air ticketing and outbound packaged tours. For the year ended December 31, 2018, the aggregate volume of our outbound travel businesses accounted for approximately 18% of the total volume of combined outbound and PRC domestic accommodation reservation, air ticketing and packaged-tour businesses, and the aggregate revenue of our outbound travel businesses accounted for approximately 34% of the total revenue of combined outbound and PRC domestic accommodation reservation, air ticketing and packaged-tour businesses. Also as part of our international strategy, we consummated the acquisition transaction of the United Kingdom-based Skyscanner in December 2016 and maintained its independent management of operations as part of the Ctrip group to complement our positioning at a global scale.

Major Factors Affecting the Travel Industry

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

Growth in the Overall Economy and Demand for Travel Services in China. We expect that our financial results will continue to be affected by the overall growth of the economy and demand for travel services in China and the rest of the world. According to the statistical report published on the website of PRC National Bureau of Statistics, or NBS, on February 28, 2019, China's domestic gross product, or GDP, grew from RMB82.7 trillion in 2017 to RMB90.0 trillion in 2018, representing an annual growth rate of 6.6%.

Despite that the growth rate of the Chinese economy is slowing, we anticipate that demand for travel services in China will continue to increase in the foreseeable future. According to the statistical report published on the website of NBS on February 28, 2019, China's domestic travel spending grew from RMB4,566.1 billion in 2017 to RMB5,127.8 billion in 2018, representing an annual growth rate of 12.3%. However, any adverse changes in economic conditions of China and the rest of the world, such as the current global financial crisis and economic downturn, could have a material adverse effect on the travel industry in China, which in turn would harm our business. See "Item 3.D. Key Information — Risk Factors — Our business is sensitive to global economic conditions. A severe or prolonged downturn in the global or Chinese economy may have a material and adverse effect on our business, and may materially and adversely affect our growth and profitability."

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 Ebola virus, H1N1 influenza, avian flu, SARS or any other serious contagious diseases;
- increased prices in the hotel, airline or other travel-related industries;
- increased occurrence of travel-related accidents;
- political unrest;
- natural disasters or poor weather conditions;
- terrorist attacks or threats of terrorist attacks or war;
- any travel restrictions or security procedures implemented in connection with major events in China; and
- general economic downturns.

See also "Item 3.D. Key Information — Risk Factors — The recurrence of SARS or other similar outbreaks of contagious diseases as well as natural disasters may materially and adversely affect our business and operating results."

[Table of Contents](#)

Any future outbreak of contagious diseases or similar adverse public health developments, extreme unexpected bad weather or severe natural disasters would affect our business and operating results. Ongoing concerns regarding contagious disease or natural disasters, particularly its effect on travel, could negatively impact our China-based customers' desire to travel. If there is a recurrence of an outbreak of certain contagious diseases or natural disasters, travel to and from affected regions could be curtailed. Public policy regarding, or governmental restrictions, on travel to and from these and other regions on account of an outbreak of any contagious disease or occurrence of natural disasters could have a material adverse effect on our business and operating results.

Major Factors Affecting Our Results of Operations

Revenues

Revenues Composition and Sources of Revenue Growth. We have experienced significant revenue growth since we commenced operations in 1999. Our total revenues grew from RMB7.8 billion in 2014 to RMB31.1 billion (US\$4.5 billion) in 2018, representing a compound annual growth rate of 41.4%.

We generate our revenues primarily from the accommodation reservation and transportation 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,		
	2016	2017	2018
Revenues:			
Accommodation reservation	37%	35%	37%
Transportation ticketing	45%	45%	42%
Packaged-tour	12%	11%	12%
Corporate travel	3%	3%	3%
Others	3%	6%	6%
Total revenues	100%	100%	100%

As we generally do not take ownership of the products and services being sold and act as an 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 and value-added telecommunications businesses in China, we conduct part of our transportation ticketing and packaged-tour businesses through our consolidated affiliated Chinese entities. Historically, we generated a portion of our revenues from fees charged to these entities. See "Item 7.B. Major Shareholders and Related Party Transactions — Related Party Transactions — Arrangements with Consolidated Affiliated Chinese Entities" for a description of our relationship with these entities.

Accommodation Reservation. Revenues from our accommodation reservation business have been a significant source of revenues since our inception. In 2016, 2017 and 2018, revenues from our accommodation reservation business accounted for RMB7.3 billion, RMB9.5 billion and RMB11.6 billion (US\$1.7 billion) respectively, or 37%, 35% and 37%, respectively, of our total revenues.

We generate substantially all of our accommodation reservation revenues through commissions from travel suppliers for hotel room reservations through our transaction and service platform. We recognize revenues when the reservation becomes non-cancellable which is the point considered when we complete our performance obligation in accommodation reservation services. 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 rate per room night is adjusted upward in line with the increase in the volume of room nights we sell for such hotels during such months.

Transportation Ticketing. Since early 2002, our transportation ticketing business has been growing rapidly. In 2016, 2017 and 2018, revenues from our transportation ticketing business accounted for RMB8.8 billion, RMB12.2 billion and RMB12.9 billion (US\$1.9 billion), respectively, or 45%, 45% and 42%, respectively, of our total revenues.

[Table of Contents](#)

We conduct our transportation ticketing business through our consolidated affiliated Chinese entities, as well as a network of independent transportation ticketing service companies. Commissions from transportation ticketing rendered are recognized after tickets are issued as this is when our performance obligation is satisfied.

Packaged-tour. Our packaged-tour business has grown rapidly in the past three years. In 2016, 2017 and 2018, revenues from our packaged-tour business accounted for RMB2.3 billion, RMB3.0 billion and RMB3.8 billion (US\$549 million), respectively. We conduct our packaged-tour business mainly through our consolidated affiliated Chinese entities, which bundle the packaged-tour products and receive referral fees from travel product providers for packaged-tour products and services through our transaction and service platform. Referral fees are recognized on the departure date of the tours as this is when our performance obligation is satisfied.

Corporate Travel. Corporate travel revenues primarily include commissions from transportation ticket booking, accommodation reservation and packaged-tour services rendered to corporate clients. In 2016, 2017 and 2018, revenues from our corporate travel services accounted for RMB608 million, RMB753 million and RMB981 million (US\$143 million), respectively. We contract with corporate clients based on service fee model. Travel reservations are made via on-line and off-line services for transportation ticket booking, accommodation reservation and package-tour services. Revenue is recognized on a net basis after the services are rendered and collections are reasonably assured.

Other Businesses. Our other businesses primarily consist of online advertising services. We conduct the advertising business through Ctrip Commerce, and we recognize revenues ratably over the fixed terms of agreements as services are provided.

Cost of Revenues

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

Cost of revenues accounted for 25%, 17% and 20% of our net revenues in 2016, 2017 and 2018, respectively. We believe our relatively low ratio of cost of revenues to revenues is primarily due to competitive labor costs in China, high efficiency of our customer service system and efficiency of our enhanced website operations. The increase in percentage of cost of revenues to net revenues in 2018 was primarily due to the increase in credit card service fee, customer service related expenses and payments to travel suppliers for the service we had control.

Operating Expenses

Operating expenses consist primarily of product development expenses, sales and marketing expenses and general and administrative expenses, all of which include share-based compensation expense. In 2018, we recorded RMB1.7 billion (US\$249 million) of share-based compensation expense, compared to RMB3.6 billion and RMB1.8 billion for 2016 and 2017, 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 maintain, monitor and manage our transaction and service platform. Product development expenses accounted for 40%, 31% and 31% of our net revenues in 2016, 2017 and 2018, respectively. The product development expenses as a percentage of net revenues in 2018 remained consistent with that in 2017.

Sales and marketing expenses primarily comprise payroll compensation and benefits for our sales and marketing personnel, advertising expenses, and other related marketing and promotion expenses. Our sales and marketing expenses accounted for 30%, 31%, and 31% of our net revenues in 2016, 2017 and 2018, respectively. The sales and market expenses as a percentage of net revenues in 2018 remained consistent with that in 2017.

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. Our general and administrative expenses accounted for 13%, 10% and 9% of our net revenues in 2016, 2017 and 2018, respectively. The general and administrative expenses as a percentage of net revenues in 2018 decreased primarily due to the deduction in personnel expenses of general and administrative employees as a percentage of revenue.

Foreign Exchange Risk

We are exposed to foreign exchange risk arising from various currency exposures. See “Item 11. Quantitative and Qualitative Disclosure About Market Risk.”

Income Taxes and Financial Subsidies

Income Taxes. Our effective income tax rate was -28%, 36% and 41% for 2016, 2017 and 2018, respectively. The change in our effective income tax rate from 2017 to 2018 was mainly due to the combined impacts from change in profitability, changes in the profits of our subsidiaries with different tax rates and decrease of non-deductible share-based compensation expenses. The significant change in our effective income tax rate from 2016 to 2017 was primarily due to profitability changes in our subsidiaries with different tax rates and certain non-tax deductible losses including the share-based compensation.

Pursuant to the EIT Law, companies established in China were generally subject to EIT at a statutory rate of 25%. The 25% EIT rate applies to most of our subsidiaries and consolidated affiliated Chinese entities established in China. Some of our PRC subsidiaries, Ctrip Computer Technology, Ctrip Travel Information, Ctrip Travel Network, Qunar Software, one of our consolidated affiliated Chinese entities, Qunar Beijing, Chengdu Ctrip, Chengdu Ctrip International and Chengdu Information benefit from a preferential tax rate of 15% by either qualifying as HNTes or qualifying under the Western Regions Catalogue under the EIT Law as follows.

- In 2017, Ctrip Computer Technology, Ctrip Travel Information and Ctrip Travel Network reapplied for their qualification as HNTe, which were approved by the relevant government authority. Thus, these subsidiaries are entitled to a preferential EIT rate of 15% from 2017 to 2019. Qunar Software and Qunar Beijing are also entitled a preferential EIT rate of 15% from 2018 to 2020.
- In 2002, SAT started to implement preferential tax policy in China’s western regions, and companies located in applicable jurisdictions covered by the Western Regions Catalogue are eligible to apply for a preferential income tax rate of 15% if their businesses fall within the “encouraged” category of the policy. Over the years since 2012, Chengdu Ctrip and Chengdu Ctrip International obtained approval from local tax authorities to apply the 15% tax rate for their annual tax filing subject to periodic renewals. After the initial effective period expired in 2014, the two entities were approved by the relevant government authority to renew this qualification, which will expire in 2020. In 2013, Chengdu Information obtained approval from local tax authorities to apply the 15% tax rate for its 2012 tax filing and for the years from 2013 to 2020.

In November 2011, MOF released Circular Caishui (2011) No. 111 mandating Shanghai to be the first city to carry out a pilot program of tax reform. Effective January 1, 2012, any entity in Shanghai that falls in the category of “selected modern service industries” was required to switch from being a business tax payer to become a VAT payer, who is permitted to offset expenses incurred in providing the relevant services it provides from the taxable income. In May 2013, MOF released Circular Caishui (2013) No. 37 to extend the tax reform nationwide. Effective August 1, 2013, entities within transportation service and selected modern service industries switched from a business tax payer to a VAT payer. Ctrip Travel Network and Shanghai Commerce have been subject to VAT at a rate of 6% and stopped paying the 5% business tax from January 1, 2012 onwards. In May 2016, we completed the transformation of business taxes to VAT in China.

Financial Subsidies. In 2016, 2017 and 2018, our subsidiaries in China received financial subsidies from the government authorities in the amount of approximately RMB221 million, RMB264 million and RMB469 million (US\$68 million), respectively, which we recorded as other income upon cash receipt. 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 financial subsidies in the future.

Critical Accounting Policies and Estimates

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, disclosures of contingent assets and liabilities on the date of the balance sheet 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.

[Table of Contents](#)

Revenue Recognition. We describe our revenue recognition policies in our consolidated financial statements. We present substantially all of our revenues on a net basis as the travel supplier is primarily responsible for providing the underlying travel services and we do not control the service provided by the travel supplier to the traveler. Revenues are recognized at gross amounts where we undertake substantive inventory risks by pre-purchasing inventories.

On January 1, 2018, we adopted new revenue guidance ASC Topic 606, “Revenue from Contracts with Customers” (“ASC 606”), using the full retrospective transition approach under which our previously issued financial statements for 2016 and 2017 were retrospectively adjusted. The new standard did not change the presentation of our revenues, which continues to be substantially reported on a net basis. However, the timing of revenue recognition for certain revenue streams is changed under the new standard. In particular, revenue for accommodation reservation services, which used to be recognized after end-users completed their stays, is now recognized when the reservation becomes non-cancellable. Revenue for packaged-tour services, which used to be recognized when packaged tours were completed, is now recognized on the departure date of the tours.

Business Combination. We apply ASC 805 “Business Combination,” which requires that all business combinations not involving entities or business under common control be accounted for under the acquisition method. The cost of an acquisition is measured as the aggregate of fair values at the date of exchange of assets given, liabilities incurred and equity instruments issued. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of (i) the total of cost of acquisition, fair value of non-controlling interests and acquisition date fair value of any previously held equity interest in an acquiree over (ii) the fair value of identifiable net assets of an acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of a subsidiary acquired, the difference is recognized directly in the consolidated statements of comprehensive income.

Investment. Our investments include equity method investments, equity securities without readily determinable fair values, equity securities with readily determinable fair values, held to maturity debt securities, and available-for-sale debt securities. We apply equity method in accounting for the investments in entities in which we have the ability to exercise significant influence but do not have control and the investments are in either common stock or in-substance common stock. Unrealized gains on transactions between an affiliated entity and us are eliminated to the extent of our interest in the affiliated entity; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Equity securities without readily determinable fair values are measured and recorded using a measurement alternative that measures the securities at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes. Prior to the fiscal year of 2018, these securities were accounted for using the cost method of accounting, measured at cost less other-than-temporary impairment. Equity securities with readily determinable fair values are measured and recorded at fair value on a recurring basis with changes in fair value, whether realized or unrealized, recorded through the income statement. Prior to 2018, these securities were classified as available-for-sale securities and measured and recorded at fair value with unrealized changes in fair value recorded through other comprehensive income. Debt securities that we have positive intent and ability to hold to maturity are classified as held-to-maturity debt securities and are stated at amortized cost. Debt securities that we have the intent to hold the security for an indefinite period or may sell the security in response to the changes in economic conditions are classified as available for sale and reported at fair value. Unrealized gains and losses (other than impairment losses) are reported, net of the related tax effect, in other comprehensive income (OCI). Upon sale, realized gains and losses are reported in net income. We monitor our investments for other-than-temporary impairment by considering factors including, but not limited to, current economic and market conditions, the operating performance of the companies including current earnings trends and other company-specific information.

Goodwill, Intangible Assets and Long-Lived Assets. Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of our acquisitions of interests in its subsidiaries and consolidated affiliated Chinese entities. Goodwill is not amortized but is reviewed at least annually for impairment or earlier, if an indication of impairment exists. Recoverability of goodwill is evaluated using a two-step process. In the first step, the fair value of a reporting unit is compared to its carrying value. If the fair value of a reporting unit exceeds the carrying value of the net assets assigned to a reporting unit, goodwill is considered not impaired and no further testing is required. If the carrying value of the net assets assigned to a reporting unit exceeds the fair value of a reporting unit, the second step of the impairment test is performed in order to determine the implied fair value of a reporting unit's goodwill. Determining the implied fair value of goodwill requires valuation of a reporting unit's tangible and intangible assets and liabilities in a manner similar to the allocation of purchase price in a business combination. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, goodwill is deemed impaired and is written down to the extent of the difference. We estimate total fair value of the reporting unit using discounted cash flow analysis, and makes assumptions regarding future revenue, gross margins, working capital levels, investments in new products, capital spending, tax, cash flows, and the terminal value of the reporting unit. Separately identifiable intangible assets that have determinable lives continue to be amortized and consist primarily of non-compete agreements, customer list, supplier relationship, technology and business relationship. We amortize intangible assets on a straight-line basis over their estimated useful lives, which is three to ten years. The estimated life of amortized intangibles is reassessed if circumstances occur that indicate the life has changed. Other intangible assets that have indefinite useful life primarily include trademark and domain names. We evaluate indefinite-lived intangible assets 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. We estimate total fair value of the reporting unit using discounted cash flow analysis, and makes assumptions regarding future revenue, gross margins, working capital levels, investments in new products, capital spending, tax, cash flows, and the terminal value of the reporting unit. Long-lived assets (including intangible with definite lives) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Reviews are performed to determine whether the carrying value of asset group is impaired, based on comparison to undiscounted expected future cash flows. If this comparison indicates that there is impairment, we recognize impairment of long-lived assets to the extent the carrying amount of such assets exceeds the fair value. For 2016, 2017 and 2018, 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 consolidated affiliated Chinese entities. If different judgments or estimates had been utilized, material differences could have resulted in the amount and timing of the impairment charge.

Customer Rewards Program. We offer a customer rewards program that allows our end users to participate in a loyalty points program. The points awarded from services can be used as cash or redeemed to gifts on our website and mobile platforms. The estimated incremental costs of the loyalty points program are recognized as reduction of the revenue or sales and marketing expense and accrued for as a current liability. As members redeem awards or their entitlements expire, the accrued liability is reduced correspondingly. As of December 31, 2017 and 2018, our accrued liability for the customer rewards program were approximately RMB610 million and RMB528 million (US\$77 million), respectively, based on the estimated liabilities under the customer reward program. Our expenses for the customer rewards program were approximately RMB202 million, RMB100 million and RMB21 million (US\$3 million) for the years ended December 31, 2016, 2017 and 2018.

Share-Based Compensation. We follow ASC 718 "Stock Compensation," using the modified prospective method. Under the fair value recognition provisions of ASC 718, 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. Under ASC 718, we 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. Expected dividend yield is determined in view of our historical dividend payout rate and future business plan. We estimate expected volatility at the date of grant based on historical volatilities. We recognize compensation expense on all share-based awards on a straight-line basis over the requisite service 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. According to ASC 718, a change in any of the terms or conditions of stock options shall be accounted for as a modification of the plan. Therefore, we calculate incremental compensation cost of a modification as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified, measured based on the share price and other pertinent factors at the modification date. For vested options, the we would recognize incremental compensation cost in the period the modification occurs and for unvested options, we would recognize, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date.

[Table of Contents](#)

Deferred Tax Valuation Allowances. We provide a valuation allowance on our deferred tax assets to the extent we consider it to be more likely than not that we will be unable to realize all or part of such assets. Our future realization of our deferred tax assets depends on many factors, including our ability to generate taxable income within the period during which temporary differences reverse or before our tax loss carry-forwards expire, the outlook for the Chinese economy and overall outlook for our industry. We consider these factors at each balance sheet date and determine whether valuation allowances are necessary. As of December 31, 2016, 2017 and 2018, we recorded deferred tax assets of RMB375 million, RMB462 million and RMB850 million (US\$124 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, 2016, 2017 and 2018, it is more likely than not that the deferred tax assets resulting from the net operating losses of certain subsidiaries will not be realized. Hence, we recorded valuation allowance against our gross deferred tax assets in order to reduce the deferred tax assets to the amount that is more likely than not to be realized. Also, we have elected to early adopt a new accounting guidance issued by the FASB to simplify the presentation of deferred income taxes on the Balance Sheet Classification. Starting December 31, 2015 and prospectively, deferred tax assets and liabilities, along with related valuation allowances are classified as noncurrent on the balance sheet.

Allowance for doubtful accounts. Accounts receivable are recorded at the invoiced amount and do not bear interest. We review on a periodic basis 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 collectability 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 collectability. As of December 31, 2016, 2017 and 2018, the allowance for doubtful accounts was RMB59 million, RMB129 million and RMB156 million (US\$23 million), respectively. The increase of allowance for doubtful accounts in 2018 was primarily attributable to the prolonged ageing of accounts receivables due from merchant customers developed in recent years.

Results of Operations

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

	For the Year Ended December 31 ⁽¹⁾					
	2016		2017		2018	
	RMB (in millions)	%	RMB (in millions)	%	RMB (in millions)	US\$ (in millions) %
Revenues:						
Accommodation reservation	7,321	38	9,531	36	11,580	1,684 37
Transportation ticketing	8,827	46	12,221	46	12,947	1,883 42
Packaged-tour	2,315	12	2,973	11	3,772	549 12
Corporate travel	608	3	753	3	981	143 3
Others	734	4	1,515	5	1,824	265 6
Total revenues	19,805	103	26,993	101	31,104	4,524 100
Less: Sales tax and surcharges	(560)	(3)	(197)	(1)	(139)	(20) (0)
Net revenues	19,245	100	26,796	100	30,965	4,504 100
Cost of revenues	(4,730)	(25)	(4,678)	(17)	(6,324)	(920) (20)
Gross profit	14,515	75	22,118	83	24,641	3,584 80
Operating expenses:						
Product development ⁽¹²⁾	(7,687)	(40)	(8,259)	(31)	(9,620)	(1,399) (31)
Sales and marketing ⁽²⁾	(5,861)	(30)	(8,294)	(31)	(9,596)	(1,396) (31)
General and administrative ⁽²⁾	(2,519)	(13)	(2,622)	(10)	(2,820)	(410) (9)
Total operating expenses	(16,067)	(83)	(19,175)	(72)	(22,036)	(3,205) (71)
(Loss) / income from operations	(1,552)	(8)	2,943	11	2,605	379 9
Interest income	567	3	988	4	1,899	276 6
Interest expense	(732)	(4)	(1,286)	(5)	(1,508)	(219) (5)
Other (expense) / income	(27)	(0)	879	3	(1,075)	(156) (3)
(Loss) / income before income tax expense, equity in income of affiliates and non-controlling interests	(1,744)	(9)	3,524	13	1,921	280 7
Income tax expense	(482)	(2)	(1,285)	(5)	(793)	(115) (3)
Equity in income / (loss) of affiliates	602	3	(65)	(0)	(32)	(5) 0
Net (loss) / income	(1,624)	(8)	2,174	8	1,096	160 4
Less: Net loss / (income) attributable to non-controlling interests	206	1	(19)	(0)	16	2 0
Net (loss) / income attributable to Ctrip's shareholders	(1,418)	(7)	2,155	8	1,112	162 4

(1) Effective from January 1, 2018, we adopted ASC Topic 606, a new accounting standard on the recognition of revenue issued by FASB in 2014, and have applied such accounting standard retrospectively to the years ended December 31, 2016 and 2017.

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

[Table of Contents](#)

	For the Year Ended December 31,						
	2016		2017		2018		
	RMB (in millions)	%	RMB (in millions)	%	RMB (in millions)	US\$ (in millions)	%
Product development	(2,080)	(11)	(1,013)	(4)	(934)	(136)	(3)
Sales and marketing	(393)	(2)	(186)	(1)	(156)	(23)	(1)
General and administrative	(1,087)	(6)	(635)	(2)	(617)	(90)	(2)

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.

2018 compared to 2017*Revenues*

Total revenues were RMB31.1 billion (US\$4.5 billion) in 2018, an increase of 15% over RMB27.0 billion in 2017. This revenues growth was principally driven by the substantial volume growth in hotel room nights sold in 2018.

Accommodation Reservation. Revenues from our accommodation reservation business increased by 21% to RMB11.6 billion (US\$1.7 billion) in 2018 from RMB9.5 billion in 2017, primarily driven by an increase in accommodation reservation volume.

Transportation Ticketing. Revenues from our transportation ticketing business increased by 6% to RMB12.9 billion (US\$1.9 billion) in 2018 from RMB12.2 billion in 2017, primarily due to an increase in ticketing volume.

Packaged-tour. Packaged-tour revenues increased by 27% to RMB3.8 billion (US\$549 million) in 2018 from RMB3.0 billion in 2017, primarily due to an increase in volume growth of organized tours and self-guided tours.

Corporate Travel. Corporate travel revenues increased by 30% to RMB981 million (US\$143 million) in 2018 from RMB753 million in 2017, primarily due to an increase in corporate travel demand resulting from various business activities.

Other Businesses. Revenues from other businesses increased by 20% to RMB1.8 billion (US\$265 million) in 2018 from RMB1.5 billion in 2017, primarily due to an increase in revenues from online advertising services.

Cost of Revenues

Cost of revenues in 2018 increased by 35% to RMB6.3 billion (US\$920 million) from RMB4.7 billion in 2017, primarily due to increase of credit card service fee, customer service related expenses and payments to travel suppliers for the service we had control.

[Table of Contents](#)

Operating Expenses

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

Product Development. Product development expenses increased by 16% to RMB9.6 billion (US\$1.4 billion) in 2018 from RMB8.3 billion in 2017, primarily due to an increase in product development personnel related expenses.

Sales and Marketing. Sales and marketing expenses increased by 16% to RMB9.6 billion (US\$1.4 billion) in 2018 from RMB8.3 billion in 2017, primarily attributable to an increase in sales and marketing related activities. Our advertising expenses increased from RMB5.1 billion in 2017 to RMB6.0 billion (US\$871 million) in 2018.

General and Administrative. General and administrative expenses increased by 8% to RMB2.8 billion (US\$410 million) in 2018 from RMB2.6 billion in 2017, primarily due to an increase in general and administrative personnel related expenses.

Interest Income

Interest income increased by 92% to RMB1.9 billion (US\$276 million) in 2018 from RMB988 million in 2017 due to an increase in cash, cash equivalents and short-term investments in 2018.

Interest Expense

Interest expense increased by 17% to RMB1.5 billion (US\$219 million) in 2018 from RMB1.3 billion in 2017 due to an increase in short-term debt and long-term debt in 2018.

Other (Expense) / Income

Other expense was RMB1.1 billion (US\$156 million) in 2018 while other income was RMB879 million in 2017, primarily due to the RMB3.1 billion (US\$446 million) fair value loss of equity securities investments and largely offset by RMB1.2 billion (US\$173 million) gain on disposal of long-term investments in 2018.

Income Tax Expense

Income tax expense was RMB793 million (US\$115 million) in 2018, a decrease of 38% over RMB1.3 billion in 2017, primarily due to the decrease in our taxable income. Our effective income tax rate in 2018 was 41%, as compared to 36% in 2017. The change in our effective income tax rate from 2017 to 2018 was mainly due to the combined impacts from change in profitability, changes in the profits of our subsidiaries with different tax rates and decrease of non-deductible share-based compensation expenses.

Equity in Loss of Affiliates

Equity in loss of affiliates is RMB32 million (US\$5 million) in 2018 while equity in loss of affiliates is RMB65 million in 2017. This is primarily attributable to the losses incurred from our equity method investments.

2017 compared to 2016

Revenues

Total revenues were RMB27.0 billion in 2017, an increase of 36% over RMB19.8 billion in 2016. This revenues growth was principally driven by the substantial volume growth in hotel room nights sold and air tickets and railway tickets sold in 2017.

Accommodation Reservation. Revenues from our accommodation reservation business increased by 30% to RMB9.5 billion in 2017 from RMB7.3 billion in 2016, primarily driven by an increase in accommodation reservation volume.

[Table of Contents](#)

Transportation Ticketing. Revenues from our transportation ticketing business increased by 38% to RMB12.2 billion in 2017 from RMB8.8 billion in 2016, primarily due to an increase in ticketing volume.

Packaged-tour. Packaged-tour revenues increased by 28% to RMB3.0 billion in 2017 from RMB2.3 billion in 2016, primarily due to an increase in volume growth of organized tours and self-guided tours.

Corporate Travel. Corporate travel revenues increased by 24% to RMB753 million in 2017 from RMB608 million in 2016, primarily due to an increase in corporate travel demand resulting from various business activities.

Other Businesses. Revenues from other businesses increased by 106% to RMB1.5 billion in 2017 from RMB734 million in 2016, primarily due to an increase in revenues from online advertising services.

Cost of Revenues

Cost of revenues in 2017 decreased by 1% to RMB4.7 billion from RMB4.7 billion in 2016, primarily due to efficiency gain in our service center and decrease in personnel related expenses.

Operating Expenses

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

Product Development. Product development expenses increased by 7% to RMB8.3 billion in 2017 from RMB7.7 billion in 2016, primarily due to the increase in product development personnel related expenses.

Sales and Marketing. Sales and marketing expenses increased by 42% to RMB8.3 billion in 2017 from RMB5.9 billion in 2016, primarily attributable to an increase in promotion related activities. Our advertising expenses increased from RMB2.8 billion in 2016 to RMB5.1 billion in 2017.

General and Administrative. General and administrative expenses increased by 4% to RMB2.6 billion in 2017 from RMB2.5 billion in 2016, primarily due to an increase in consulting expenses and the provision of trade and other receivables, which was provided based on the ageing of the receivables.

Interest Income

Interest income increased by 74% to RMB988 million in 2017 from RMB567 million in 2016 due to an increase in cash, cash equivalents and short-term investments in 2017.

Interest Expense

Interest expense increased by 76% to RMB1.3 billion in 2017 from RMB732 million in 2016 due to the issuance of the 2022 Booking Notes, the 2022 Notes, and the increase of the loan facilities in 2017.

Other (Expense) / Income

Other income was RMB879 million in 2017 while other expense was RMB27 million in 2016, primarily due to foreign exchange gain of RMB469 million driven by Renminbi continually appreciating relative to U.S. dollars while foreign exchange loss was RMB558 million in 2016 driven by Renminbi continually depreciating relative to U.S. dollars. Our subsidy income was RMB264 million in 2017.

Income Tax Expense

Income tax expense was RMB1.3 billion in 2017, an increase of 167% over RMB482 million in 2016, primarily due to the increase in our taxable income. Our effective income tax rate in 2017 was 36%, as compared to -28% in 2016. The effective income tax rate for 2017 was primarily due to profitability changes in our subsidiaries with different tax rates and certain non-tax deductible losses including the share-based compensation.

[Table of Contents](#)*Equity in Income/(Loss) of Affiliates*

Equity in loss of affiliates is RMB65 million in 2017 while equity in income of affiliates is RMB602 million in 2016. This is mainly due to the share exchange transaction with BTG and we recognized an equity pick-up gain of BTG in 2016.

Inflation

Inflation in China has not materially impacted our results of operations. According to NBS, the year-over-year percent changes in the consumer price index for December 2016, 2017 and 2018 were increases of 2.1%, 1.8% and 1.9%, respectively. Inflation in recent years has been associated with food and other consumption items and minimum wages in China. Consumption items do not represent major direct cost items for our business. While personnel costs represent a material part of our total operating costs and expenses, inflation in minimum wages in China primarily affects certain categories of our non-managerial staff costs while increases in total personnel costs of our business remain manageable. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China.

*B. Liquidity and Capital Resources***Liquidity**

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

	For the Year Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$
	(in millions)			
Net cash provided by operating activities	5,270	7,069	7,115	1,036
Net cash used in investing activities	(20,350)	(15,229)	(14,078)	(2,048)
Net cash provided by financing activities	12,291	8,020	11,926	1,733
Effect of foreign exchange rate changes on cash and cash equivalents, restricted cash	1,465	(47)	819	119
Net (decrease)/increase in cash and cash equivalents, restricted cash	(1,324)	(187)	5,782	840
Cash and cash equivalents, restricted cash, beginning of year	21,503	20,179	19,992	2,908
Cash and cash equivalents, restricted cash, end of year	20,179	19,992	25,774	3,748

Net cash provided by operating activities amounted to RMB7.1 billion (US\$1.0 billion) in 2018, which was primarily attributable to (i) our net income of RMB1.1 billion (US\$160 million) in 2018; (ii) an add-back of RMB6.0 billion (US\$867 million) in non-cash expense/loss items, primarily relating to share-based compensation expenses, depreciation expenses and changes in fair value for equity investments measured at fair value; (iii) an increase in accounts payable of RMB3.7 billion (US\$536 million), primarily due to an increase in volume of hotel, transportation ticketing and package-tour services, as we are generally entitled to certain credit terms from our suppliers; (iv) an increase in advances from customers of RMB1.3 billion (US\$194 million), primarily due to an increase in demand for packaged-tour, ticketing and accommodation services; and (v) an increase in other payable and accruals of RMB914 million (US\$134 million) primarily due to the increase in accrued advertising expenses. These increases were partially offset by (i) an increase in prepayments and other current assets of RMB2.0 billion (US\$297 million), primarily due to an increase in prepayment for packaged-tour, ticketing and accommodation services; (ii) an increase in due from related parties of RMB1.3 billion (US\$186 million); (iii) the gain on disposal of long-term investment of RMB1.2 billion (US\$173 million); and (iv) an increase in accounts receivable of RMB704 million (US\$102 million), primarily due to an increase of volume of corporate travel management services and credit card payments from our individual customers for transportation ticket booking.

Net cash provided by operating activities amounted to RMB7.1 billion in 2017, which was primarily attributable to (i) our net income of RMB2.2 billion in 2017; (ii) an add-back of RMB4.3 billion in non-cash expense/loss items, primarily relating to share-based compensation expenses, impairment of investments and depreciation expenses; (iii) an increase in other payable and accruals of RMB1.3 billion primarily due to the increase in advertising expenses; and (iv) an increase in salary and welfare payable of RMB954 million, primarily due to the increase in the number of personnel and the average payroll and the increase in accrued annual bonus. These increases were partially offset by the gain on disposal of cost method investment of RMB1.4 billion.

[Table of Contents](#)

Net cash provided by operating activities amounted to RMB5.3 billion in 2016, which was primarily attributable to (i) an add-back of RMB4.4 billion in non-cash expense/loss items, primarily relating to share-based compensation expenses and depreciation expenses; (ii) an increase in advances from customers of RMB2.3 billion, primarily due to an increase in demand for packaged-tour, ticketing and accommodation services; (iii) an increase in accounts payable of RMB1.3 billion, primarily due to an increase in volume of transportation ticketing, hotels and packaged-tour services, as we are generally entitled to certain credit terms from our suppliers; and (iv) an increase in salary and welfare payable of RMB1.3 billion, primarily due to the increase in the number of personnel and the average payroll and the increase in accrued annual bonus. These increases were partially offset by (i) our net loss of RMB1.6 billion in 2016; (ii) an increase in accounts receivable of RMB1.3 billion, primarily due to the increase of volume of corporate travel management services, as we normally provide our corporate customers with certain credit terms for the full payments of issued transportation tickets and issued and reserved hotel rooms, as well as an increase in volume of credit card payments from our individual customers for transportation ticket booking, and an increase in insurance receivable from insurance companies; and (iii) a decrease in tax payable of RMB778 million due to tax payment.

Current PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. See “Item 3.D. Key Information — Risk Factors — Risks Related to Our Corporate Structure — Our subsidiaries and consolidated affiliated Chinese entities in China are subject to restrictions on paying dividends or making other payments to us, which may restrict our ability to satisfy our liquidity requirements.”

Net cash used in investing activities amounted to RMB14.1 billion (US\$2.0 billion) in 2018, compared to net cash used in investing activities of RMB15.2 billion in 2017. This decrease in 2018 was primarily due to a decrease in investments and acquisitions. Net cash used in investing activities amounted to RMB15.2 billion in 2017, compared to net cash used in investing activities of RMB20.4 billion in 2016. This decrease in 2017 was primarily due to a decrease in investments and acquisitions.

Net cash provided by financing activities amounted to RMB11.9 billion (US\$1.7 billion) in 2018, compared to net cash provided by financing activities of RMB8.0 billion in 2017 and RMB12.3 billion in 2016. We did not make any dividend payment in 2016, 2017 and 2018. Net cash flow in financing activities in 2018 was mainly due to the proceeds from bank borrowings in an aggregate amount of RMB14.7 billion (US\$2.1 billion) in 2018.

Capital Resources

As of December 31, 2018, our principal sources of liquidity have been cash generated from operating activities, borrowings from third-party lenders, as well as the proceeds we received from our public offerings of ordinary shares and our offerings of convertible senior notes. Our cash and cash equivalents consist of cash on hand and liquid investments which are unrestricted as to withdrawal or use. Our financing activities consist of issuance and sale of our shares and convertible senior notes to investors and related parties and borrowings from third-party lenders. As of the date of this annual report, we had convertible senior notes outstanding in an aggregate principal amount of US\$3.8 billion (RMB26.5 billion) and a term loan facility outstanding with an aggregate principal of US\$4.8 billion. 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, our cash flow from operations and proceeds from our financing activities will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for the foreseeable future and for at least 12 months subsequent to the filing of this annual report. 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.

As of December 31, 2018, our primary capital commitment was RMB17 million (US\$2.4 million) in connection with capital expenditures of property, equipment and software.

C Research and Development, Patents and Licenses, etc.

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

[Table of Contents](#)

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, 2018 to December 31, 2018 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Arrangements

In connection with our air ticketing business, we are required by the CAAC and International Air Transport Association, or IATA, to enter into guarantee arrangements and to pay deposits. The unused deposits are repaid at the end of the guaranteed period on an annual basis. As of December 31, 2018, the total quota of the air tickets that we were entitled to issue was up to RMB1.1 billion (US\$157 million). The total amount of the deposit we paid was RMB140 million (US\$20 million).

Based on the guarantee arrangements and historical experience, the maximum amount of the future payments is approximately RMB941 million (US\$137 million) which is the guaranteed amount of the air ticket that we could issue rather than a financial guarantee. We will be liable to pay only when it issues the air tickets to its users and such payable is included in the accounts payable. Therefore, we believe the guarantee arrangements do not constitute any contractual and constructive obligation of us and has not recorded any liability beyond the amount of the tickets that have already been issued.

F. Tabular Disclosure of Contractual Obligations

The following sets forth our contractual obligations as of December 31, 2018:

	Total	Less Than 1 Year	1-3 Years (RMB in millions)	3-5 Years	More Than 5 Years
Convertible senior notes with principal and interest	27,942	3,802	9,786	7,211	7,143
Term loans and other debt, with principal and interest	35,086	26,605	7,151	1,329	1
Operating lease obligations	997	335	379	169	114
Purchase obligations	17	12	5	—	—
Total	64,042	30,754	17,321	8,709	7,258

In June 2015, we issued the 2020 Notes in an aggregate principal amount of US\$700 million, which may be converted at any time prior to the close of business on the second business day immediately preceding the maturity date of July 1, 2020 based on an initial conversion rate of 9.1942 of our ADSs per US\$1,000 principal amount of notes. The conversion rate is subject to adjustment upon occurrence of certain events. The 2020 Notes bear interest at a rate of 1.00% per year, payable semiannually in arrears on January 1 and July 1 of each year, beginning on January 1, 2016.

In June 2015, we issued the 2025 Notes in an aggregate principal amount of US\$400 million, which may be converted, at each holder's option at any time prior to the close of business on the second business day immediately preceding the maturity date of July 1, 2025 based on an initial conversion rate of 9.3555 of our ADSs per US\$1,000 principal amount of notes. The conversion rate is subject to adjustment upon occurrence of certain events. The 2025 Notes bear interest at a rate of 1.99% per year, payable semiannually in arrears on January 1 and July 1 of each year, beginning on January 1, 2016.

[Table of Contents](#)

In September 2016, we issued the 2022 Notes in an aggregate principal amount of US\$975 million, which may be converted, at each holder's option at any time prior to the close of business on the business day immediately preceding the maturity date of September 15, 2022 based on an initial conversion rate of 15.2688 of our ADSs per US\$1,000 principal amount of notes. The conversion rate is subject to adjustment upon occurrence of certain events. The 2022 Notes bear interest at a rate of 1.25% per year, payable semiannually in arrears on March 15 and September 15 of each year, beginning on March 15, 2017.

In August 2014, we issued the 2019 Booking Notes in an aggregate principal amount of US\$500 million to a subsidiary of Booking, which will mature on August 7, 2019, unless earlier repurchased or converted into our ADSs based on an initial conversion rate of 12.2907 of our ADSs per US\$1,000 principal amount of notes. The conversion rate is subject to adjustment upon occurrence of certain events. The 2019 Booking Notes bear interest at a rate of 1.00% per year, payable semiannually beginning on February 7, 2015.

In May 2015, we issued the 2020 Booking Notes in an aggregate principal amount of US\$250 million to a subsidiary of Booking, which will mature on May 29, 2020, unless earlier repurchased or converted into our ADSs based on an initial conversion rate of 9.5904 of our ADSs per US\$1,000 principal amount of notes. The conversion rate is subject to adjustment upon occurrence of certain events. The 2020 Booking Notes bear interest at a rate of 1.00% per year, payable semiannually beginning on November 29, 2015.

In December 2015, we issued the 2025 Booking Notes in an aggregate principal amount of US\$500 million to a subsidiary of Booking, which will mature on December 11, 2025, unless earlier repurchased or converted into our ADSs based on an initial conversion rate of 14.6067 of our ADSs per US\$1,000 principal amount of notes. The conversion rate is subject to adjustment upon occurrence of certain events. The 2025 Booking Notes bear interest at a rate of 2.00% per year, payable semiannually beginning on June 11, 2016.

In December 2015, we issued the 2025 Hillhouse Notes in an aggregate principal amount of US\$500 million to Hillhouse, which will mature on December 11, 2025, unless earlier repurchased or converted into our ADSs based on an initial conversion rate of 14.6067 of our ADSs per US\$1,000 principal amount of notes. The conversion rate is subject to adjustment upon occurrence of certain events. The 2025 Hillhouse Notes bear interest at a rate of 2.00% per year, payable semiannually beginning on June 11, 2016.

In September 2016, we issued the 2022 Booking Notes in an aggregate principal amount of US\$25 million to a subsidiary of Booking, which will mature on September 15, 2022, unless earlier repurchased or converted into our ADSs based on an initial conversion rate of 15.2688 of our ADSs per US\$1,000 principal amount of notes. The conversion rate is subject to adjustment upon occurrence of certain events. The 2022 Booking Notes bear interest at a rate of 1.25% per year, payable semiannually beginning on March 15, 2017.

As of December 31, 2018, we obtained short-term bank borrowings of RMB25.1 billion (US\$3.6 billion) in aggregate, of which RMB9.5 billion (US\$1.4 billion) were collateralized by bank deposits of RMB1.5 billion (US\$215 million) classified as restricted cash and/or short-term investment of RMB8.8 billion (US\$1.3 billion). The weighted average interest rate for the outstanding borrowings was approximately 4.09%.

As of December 31, 2018, we obtained long-term borrowings of RMB8.0 billion (US\$1.2 billion) in aggregate collateralized by bank deposits, properties and/or stock at one or more of our wholly-owned subsidiaries. The interest rate for the outstanding borrowings was approximately from 1.9% to 7.0%.

As of December 31, 2018, our term loans and other debt also included securitization debt, represented by the revolving debt securities which are collateralized by the receivable related to financial services. The revolving debt securities have the terms ranged from six months to one year with the annual interest rate from 4.55% to 5.80%. The revolving debt securities do not contain significant covenant.

Operating lease obligations for the years 2019, 2020, 2021, 2022, 2023 and thereafter are RMB335 million, RMB225 million, RMB154 million, RMB96 million, RMB73 million and RMB114 million, respectively. Rental expenses amounted to approximately RMB378 million, RMB445 million and RMB502 million (US\$73 million) for the years ended December 31, 2016, 2017 and 2018, respectively. Rental expense is charged to the statements of income and comprehensive income when incurred.

[Table of Contents](#)

While the table above indicates our contractual obligations as of December 31, 2018, the actual amounts we are eventually required to pay may be different in the event that any agreements are renegotiated, cancelled or terminated.

G. Safe Harbor

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

- our anticipated growth strategies;
- our future business development, results of operations and financial condition;
- our ability to continue to control costs and maintain profitability; and
- the expected growth in the overall economy and demand for travel services in China.

The forward-looking statements included in this annual report on Form 20-F are subject to risks, uncertainties and assumptions about our company. Our actual results of operations may differ materially from the forward-looking statements as a result of the risk factors described under “Item 3.D. Key Information — Risk Factors,” included elsewhere in this annual report on Form 20-F, including the following risks:

- slow-down of economic growth in China and the global economic downturn may have a material and adverse effect on our business, and may materially and adversely affect our growth and profitability;
- general declines or disruptions in the travel industry may materially and adversely affect our business and results of operations;
- the trading price of our ADSs has been volatile historically and may continue to be volatile regardless of our operating performance;
- if we are unable to maintain existing relationships with travel suppliers and strategic alliances, or establish new arrangements with travel suppliers and strategic alliances similar to those we currently have, our business may suffer;
- if we fail to further increase our brand recognition, we may face difficulty in retaining existing and acquiring new business partners and customers, and our business may be harmed;
- if we do not compete successfully against new and existing competitors, we may lose our market share, and our business and results of operations may be materially and adversely affected;
- our business could suffer if we do not successfully manage current growth and potential future growth;
- our strategy to acquire or invest in complementary businesses and assets involves significant risks and uncertainty that may prevent us from achieving our objectives and harm our financial condition and results of operations;
- our quarterly results are likely to fluctuate because of seasonality in the travel industry in Greater China;
- our business may be harmed if our infrastructure and technology are damaged or otherwise fail or become obsolete;

[Table of Contents](#)

- our business depends substantially on the continuing efforts of our key executives, and our business may be severely disrupted if we lose their services;
- inflation in China may disrupt our business and have an adverse effect on our financial condition and results of operations; and
- if the ownership structure of our consolidated affiliated Chinese entities and the contractual arrangements among us, our consolidated affiliated Chinese entities and their shareholders are found to be in violation of any PRC laws or regulations, we and/or our consolidated affiliated Chinese entities may be subject to fines and other penalties, which may adversely affect our business and results of operations.

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

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

ITEM 6 DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The names of our current directors and senior management, their ages as of the date of this annual report and the principal positions with Ctrip.com International, Ltd. held by them are as follows:

Directors and Executive Officers	Age	Position/Title
James Jianzhang Liang	49	Co-founder; Executive Chairman of the Board
Min Fan	53	Co-founder; Vice Chairman of the Board and President
Jane Jie Sun	50	Chief Executive Officer and Director
Maohua Sun	47	Chief Operating Officer and Executive Vice President
Cindy Xiaofan Wang	43	Chief Financial Officer and Executive Vice President
Neil Nanpeng Shen ⁽¹⁾⁽²⁾	51	Co-founder; Independent Director
Qi Ji ⁽²⁾	52	Co-founder; Independent Director
Gabriel Li ⁽¹⁾	51	Vice Chairman of the Board, Independent Director
JP Gan ⁽¹⁾⁽²⁾	47	Independent Director
Robin Yanhong Li	50	Director
Herman Yu	48	Director

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

Pursuant to the currently effective articles of association of our company, our board of directors consists of nine directors, including without limitation (i) three directors appointed by our co-founders consisting of Messrs. James Jianzhang Liang, Neil Nanpeng Shen, Qi Ji and Min Fan, subject to the approval of a majority of our independent directors; and (ii) one director who is the current chief executive officer of our company. Each of our directors will hold office until such director's successor is elected and duly qualified, or until such director's earlier death, bankruptcy, insanity, resignation or removal. There are no family relationships among any of the directors or executive officers of our company.

Biographical Information

James Jianzhang Liang is one of the co-founders and the executive chairman of our company. He has served as a member of our board of directors since our inception and has been the chairman of the board since August 2003. Mr. Liang served as our chief executive officer from 2000 to January 2006, and from March 2013 to November 2016. Under his visionary leadership, Ctrip has successfully transitioned from offline to online and from online to mobile, made strategic investments in key industry players, and cultivated and invested in new business ideas. Ctrip is now one of the world's largest online travel agencies. Mr. Liang has won many accolades for his contributions to the Chinese travel industry, including Best CEO in the internet category in the 2016 All-Asia Executive Team Rankings by Institutional Investor and 2015 China's Business Leader of the Year by Forbes. Prior to founding our company, Mr. Liang held a number of technical and managerial positions with Oracle Corporation from 1991 to 1999 in the United States and China, including the head of the ERP consulting division of Oracle China from 1997 to 1999. Mr. Liang currently serves on the boards of MakeMyTrip (Nasdaq: MMYT) and he serves as an independent director of SINA (Nasdaq: SINA). Mr. Liang received his Ph.D. degree from Stanford University and his Master's and Bachelor's degrees from Georgia Institute of Technology. He also attended the "China Gifted Youth Class" in Fudan University.

Min Fan is one of the co-founders of our company. Mr. Fan has been a member of our board of director since October 2006 and has served as the vice chairman of our board of directors since March 2013. Mr. Fan has served as our president since February 2009. He also served as our chief executive officer from January 2006 to February 2013, as our chief operating officer from November 2004 to January 2006, and as our executive vice president from 2000 to November 2004. During his tenure as our chief executive officer, Mr. Fan was named one of the Top 10 Great Leaders Award of the Year on the 2010 APEC China SME Value List, 2008 EY Entrepreneur of the Year and 2007 Best New Economic Figure of the Year. In 2009 and 2016, Fan Min was elected Vice Chairman of the Board of the China Tourism Association. Prior to co-founding Ctrip, Mr. Fan was the chief executive officer of Shanghai Travel Service Company, a leading domestic travel agency in China, from 1997 to 2000. From 1990 to 1997, he served as the deputy general manager and in a number of other senior positions at Shanghai New Asia Hotel Management Company, which was one of the leading hotel management companies in China. Mr. Fan has served as an independent director of Leju Holdings Limited (NYSE: LEJU) since 2014. Mr. Fan obtained his Master's and Bachelor's degrees from Shanghai Jiao Tong University. He also studied at the Lausanne Hotel Management School of Switzerland in 1995.

Jane Jie Sun has served as the chief executive officer of our company, as well as a member of the board of directors, since November 2016. Prior to that, she was a co-president since March 2015, chief operating officer since May 2012, and chief financial officer from 2005 to 2012. Ms. Sun is well respected for her extensive experience in operating and managing online travel businesses, mergers and acquisitions, and financial reporting and operations. In 2017, She was named as one of the most influential and outstanding business women by Forbes China. She was also named one of Fortune's Top 50 Most Powerful Women in Business, and one of Fast Company's Most Creative People in Business. During her tenure at Ctrip, she won the Best CEO and Best CFO Award by Institutional Investor. Prior to joining Ctrip, Ms. Sun worked as the head of the SEC and External Reporting Division of Applied Materials, Inc. since 1997. Prior to that, she worked with KPMG LLP as an audit manager in Silicon Valley, California for five years. She is a member of the American Institute of Certified Public Accountants and a State of California Certified Public Accountant. Ms. Sun received her Bachelor's degree from the business school of the University of Florida with high honors. She also obtained her LLM degree from Peking University Law School.

Maohua Sun has served as our chief operating officer since November 2016 and executive vice president since January 2015. Ms. Sun joined us in 2000 and has held a number of managerial positions at our company. In 2000, she started at Ctrip where she was director of the customer service center and implemented a comprehensive quality management system. In 2006, Ms. Sun was promoted to vice president, then senior vice president in 2011. In 2012, she transferred to the accommodation business unit, where she now serves as executive vice president. Ms. Sun served as chief executive officer of accommodation business unit from 2012 to 2017. Prior to joining us, Ms. Sun worked at the Jinjiang Group, a hotel management company in China, from 1994 to 2000. Ms. Sun received her Bachelor's degree from Shanghai Jiao Tong University and Master of Business Administration from China Europe International Business School. In 2018, Ms. Sun entered into visiting scholar programs in Stanford University and University of Cambridge.

Cindy Xiaofan Wang has served as our chief financial officer since November 2013 and executive vice president since May 2016. Prior to that, she was our Vice President since January 2008. Ms. Wang joined us in 2001 and has held a number of managerial positions at our company. In 2017, Ms. Wang won the Best CFO Award by Institutional Investor in the 2017 All-Asia Executive Team Rankings. Prior to joining us, she served as finance manager in China eLabs, a venture capital firm, from 2000 to 2001. Previously, Ms. Wang worked with PricewaterhouseCoopers Zhong Tian CPAs Limited Company. Ms. Wang serves on the board of directors of Huazhu Group Limited (Nasdaq: HTHT) since January 2018. Ms. Wang received a Master of Business Administration from Massachusetts Institute of Technology and obtained her Bachelor's degree from Shanghai Jiao Tong University. Ms. Wang is a Certified Public Accountant (CPA).

[Table of Contents](#)

Neil Nanpeng Shen is one of the co-founders of our company and has been our company's director since our inception. Mr. Shen is the founding managing partner of Sequoia Capital China. Mr. Shen served as our president from August 2003 to October 2005 and as chief financial officer from 2000 to October 2005. Prior to founding our company, Mr. Shen had worked for more than eight years in the investment banking industry in New York and Hong Kong. Currently, Mr. Shen also serves as a director of a number of public and private companies, including Noah Holdings Limited (NYSE: NOAH), Pinduoduo Inc. (Nasdaq: PDD), Meituan Dianping (SEHK: 03690) and China Renaissance Holdings Limited (SEHK: 01911). Mr. Shen received his Master's degree from Yale University and his Bachelor's degree from Shanghai Jiao Tong University.

Qi Ji is one of the co-founders of our company. He has served as our director since our inception. He was the chief executive officer and president of our company from 1999 to 2001. Mr. Ji founded Huazhu Group Limited (Nasdaq: HTHT) and has also served as the executive chairman since February 2007. He also served as the chief executive officer of Huazhu Group Limited from February 2007 to August 2009 and from January 2012 to May 2015. Prior to that, he co-founded Home Inns & Hotels Management Inc., or Home Inns, and served as its chief executive officer from January 2001 to January 2005. Prior to founding Ctrip, Mr. Ji served as the chief executive officer of Shanghai Sunflower High-Tech Group, which he founded in 1997. He headed the East China Division of Beijing Zhonghua Yinghua Intelligence System Co., Ltd. from 1995 to 1997. He received both his Master's and Bachelor's degrees from Shanghai Jiao Tong University.

Gabriel Li has served at different times on our board of directors since 2000. Mr. Li has been vice chairman of our board since August 2003. Mr. Li is the managing partner and investment committee member of Orchid Asia Group Management Limited, a private equity firm focused on investing in Asia specifically China over the past 20+ years. Prior to Orchid Asia, Mr. Li was a managing director at the Carlyle Group in Hong Kong, overseeing Asian technology investments. From 1997 to 2000, he was at Orchid Asia's predecessor, where he made numerous investments in China and North Asia. Previously, he was a management consultant at McKinsey & Company in Hong Kong and Los Angeles. Mr. Li is also currently the Director of Nirvana Asia Ltd., Qeeka Home (Cayman) Inc., and Sangfor Technologies Inc. Mr. Li graduated summa cum laude from the University of California at Berkeley, earned his Master's degree in Science from the Massachusetts Institute of Technology and his Master's degree in Business Administration from Stanford Business School.

JP Gan has served as our director since 2002. Mr. Gan has been a managing partner of Qiming Venture Partners since 2006. From 2005 to 2006, Mr. Gan was the chief financial officer of KongZhong corporation, a wireless internet company formerly listed on the Nasdaq. Prior to joining KongZhong, Mr. Gan was a director of The Carlyle Group responsible for venture capital investments in the Greater China region from 2000 to 2005. Mr. Gan worked at the investment banking division of Merrill Lynch, in Hong Kong from 1999 to 2000, and worked at Price Waterhouse in the United States from 1994 to 1997. Mr. Gan has also been a director of Bilibili Inc. (Nasdaq: BILI) since 2015. Mr. Gan obtained his Masters of Business Administration from the University of Chicago Booth School of Business and his Bachelor of Business Administration from the University of Iowa.

Robin Yanhong Li has served as our director since 2015. He is co-founder, chairman and chief executive officer of Baidu, and oversees Baidu's overall strategy and business operations. Mr. Li has been serving as the chairman of Baidu's board of directors since Baidu's inception in January 2000 and as Baidu's chief executive officer since January 2004. Mr. Li served as Baidu's president from February 2000 to December 2003. Prior to founding Baidu, Mr. Li worked as a senior engineer for Infoseek, a pioneer in the internet search engine industry, from July 1997 to December 1999. Mr. Li was a senior consultant for IDD Information Services from May 1994 to June 1997. Mr. Li currently serves as an independent director and chairman of the compensation committee of New Oriental Education & Technology Group Inc., a NYSE-listed company that provides private educational services in China. Mr. Li also acts as the vice chairman of the internet Society of China (ISC). Mr. Li has also been a vice chairman of All-China Federation of Industry & Commerce since December 2012. Mr. Li received a Bachelor's degree in information science from Peking University in China and a Master's degree in computer science from the State University of New York at Buffalo.

Herman Yu has served as our director since October 2017. Mr. Yu currently serves as the chief financial officer of Baidu (Nasdaq: BIDU), overseeing all of its finance functions. Prior to joining Baidu, Mr. Yu was the chief financial officer of Weibo Corp. (Nasdaq: WB) from 2015 to 2017. From 2004 to 2015, Mr. Yu worked at SINA Corp. (Nasdaq: SINA), serving as its chief financial officer over the past 8 years. Mr. Yu began his career in the Silicon Valley, where he held various finance and accounting management positions at Adobe Systems Inc., Cadence Design Systems, Inc. and VeriFone Systems, Inc. Mr. Yu, a California Certified Public Accountant, holds a B.A. in economics from the University of California, Santa Cruz and an M.A. in accountancy from the University of Southern California. He also sits on the boards of 58.com Inc. (NYSE:WUBA) and ZTO Express Inc. (NYSE:ZTO).

[Table of Contents](#)

B. Compensation

We have entered into a standard form of director agreement with each of our directors. Under these agreements, we paid cash compensation (inclusive of directors' fees) to our directors in an aggregate amount of US\$1.7 million in 2018. Directors are reimbursed for all expenses incurred in connection with each Board of Directors meeting and when carrying out their duties as directors of our company. See "Item 6.B. Directors, Senior Management and Employees — Compensation — Employees' Share Incentive Plans" for options granted to our directors in 2018.

We have entered into standard forms of employment agreements with our executive officers. Under these agreements, we paid cash compensation to our executive officers in an aggregate amount of US\$1.6 million in 2018, excluding compensation paid to Min Fan, James Jianzhang Liang and Jane Jie Sun, who also serve and receive compensation as our executive directors. These agreements provide for terms of service, salary and additional cash compensation arrangements, all of which have been reflected in the 2018 aggregate compensation amount. See "Item 6.B. Directors, Senior Management and Employees — Compensation — Employees' Share Incentive Plans" for options granted to our executive officers in 2018.

Our PRC subsidiaries are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, housing fund, unemployment and other statutory benefits. Except for the above statutory contributions, we have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors.

Employees' Share Incentive Plans

Our board of directors has made share-based awards under five share incentive plans, namely, the Global Share Incentive Plan, as amended and restated in July 2018, or the A&R Global Plan, the 2007 Share Incentive Plan, or the 2007 Plan, the 2005 Employee's Stock Option Plan, or the 2005 Plan, the 2003 Employee's Option Plan, or the 2003 Plan, and the 2000 Employee's Stock Option Plan, or the 2000 Plan. The terms of the 2005 Plan, the 2003 Plan and the 2000 Plan are substantially similar. The purpose of the plans is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, officers and directors and to promote the success of our business. Our board of directors believes that our company's long-term success is dependent upon our ability to attract and retain superior individuals who, by virtue of their ability and qualifications, make important contributions to our business.

The 2007 Plan, the 2005 Plan, the 2003 Plan and the 2000 Plan have all expired. Under the A&R Global Plan, the maximum aggregate number of ordinary shares that may be issued pursuant to awards was 8,138,463 as of the first business day of 2019, with annual increases on January 1 of each subsequent calendar year by the number of ordinary shares representing 3% of our then total issued and outstanding share capital as of December 31 of the preceding year until the termination of the plan. Under the A&R Global Plan, options to purchase 3,421,145 shares and 64,174 restricted share units were issued and outstanding as of February 28, 2019.

[Table of Contents](#)

In June 2017, our board of directors approved our Global Share Incentive Plan.

In July 2018, our compensation committee and board of directors amended and restated the Global Share Incentive Plan and approved the Amended and Restated Global Share Incentive Plan to increase the number of shares that may be issued thereunder.

The following table summarizes, as of February 28, 2019, the outstanding options and the outstanding restricted share units granted under our 2007 Plan and the A&R Global Plan to the individual executive officers and directors named below. The table gives effect to the modifications described above.

	Ordinary Shares Underlying Options / Restricted Share Units Granted	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
James Jianzhang Liang	1,940,200	161.96; 179.64; 237.00; 247.44; 324.96; 350.72; 209.04	From January 9, 2014 to November 9, 2018	From January 9, 2022 to November 9, 2026
	109,500 ⁽¹⁾	—	From February 8, 2016 to February 9, 2018	—
Jane Jie Sun	980,200	102.84; 87.96; 70.32; 78.56; 161.96; 179.64; 237.00; 247.44; 324.96; 350.72; 209.04	From November 18, 2011 to November 9, 2018	From November 18, 2019 to November 9, 2026
	34,500 ⁽¹⁾	—	From February 8, 2016 to February 9, 2018	—
Min Fan	426,867	102.84; 87.96; 70.32; 78.56; 161.96; 179.64; 237.00; 247.44; 324.96; 350.72; 0.01	From November 18, 2011 to November 9, 2018	From November 18, 2019 to November 9, 2026
	8,000 ⁽¹⁾	—	From February 8, 2016 to February 9, 2018	—
Maohua Sun	*	237.00; 247.44; 324.96; 350.72	From April 2, 2015 to February 9, 2018	From April 2, 2023 to February 9, 2026
	* ⁽¹⁾	—	February 8, 2016	—
Cindy Xiaofan Wang	*	161.96; 179.64; 237.00; 247.44; 324.96; 350.72; 209.04; 0.01	From January 9, 2014 to November 9, 2018	From January 9, 2022 to November 9, 2026
	* ⁽¹⁾	—	February 8, 2016	—
Neil Nanpeng Shen	*	78.56; 179.64; 237.00; 247.44; 324.96; 350.72; 209.04	From January 27, 2013 to November 9, 2018	January 27, 2021 to November 9, 2026
Qi Ji	*	179.64; 237.00; 247.44; 324.96; 350.72; 209.04	From December 6, 2014 to November 9, 2018	From December 6, 2022 to November 9, 2026
Gabriel Li	*	78.56; 179.64; 237.00; 247.44; 324.96; 350.72; 209.04	From January 27, 2013 to November 9, 2018	From January 27, 2021 to November 9, 2026
JP Gan	*	179.64; 237.00; 247.44; 324.96; 350.72; 209.04	From December 6, 2014 to November 9, 2018	From December 6, 2022 to November 9, 2026

* Aggregate number of shares represented by all grants of options and/or restricted share units to the person account for less than 1% of our total outstanding ordinary shares.

(1) Restricted share units.

[Table of Contents](#)

The following paragraphs summarize the terms of our 2007 Plan, which was amended and restated effective November 17, 2008.

Plan Administration. Our board of directors, or a committee designated by our board or directors, will administer the plan. The committee or the full board of directors, as appropriate, will determine the type or types of incentive share awards to be granted and provisions and terms and conditions of each grant and may at their absolute discretion adjust the exercise price of an option grant. The exercise price per share subject to an option may be reduced by the committee or the full board of directors, without shareholder or option holder approval. The types of incentive share awards pursuant to the 2007 Plan include, among other things, an option, a restricted share award, a share appreciation right award and a restricted share unit award.

Award Agreements. Options and stock purchase rights granted under our plan are evidenced by a stock option agreement or a stock purchase right agreement, as applicable, that sets forth the terms, conditions and limitations for each grant.

Eligibility. We may grant awards to our employees, directors and consultants or any of our related entities, which include our subsidiaries or any entities which are not subsidiaries but are consolidated in our consolidated financial statements prepared under U.S. GAAP.

Acceleration of Options upon Corporate Transactions. The outstanding options will terminate and accelerate upon occurrence of a change of control corporate transaction where the successor entity does not assume our outstanding options under the plan. In such event, each outstanding option will become fully vested and immediately exercisable, and the transfer restrictions on the awards will be released and the repurchase or forfeiture rights will terminate immediately before the date of the change of control transaction provided that the grantee's continuous service with us shall not be terminated before that date.

Term of the Options. The term of each option grant shall be stated in the stock option agreement, provided that the term shall not exceed ten years from the date of the grant, and in the case of incentive share options, five years from the date of the grant.

Vesting Schedule. In general, the plan administrator determines, or the incentive award agreement specifies, the vesting schedules. Currently, three types of vesting schedules were adopted for the incentive awards granted under the 2007 Plan. One of the vesting schedules is that one-third of the incentive awards vest 24 months after a specified vesting commencement date, an additional one-third vest 36 months after the specified vesting commencement date and the remaining one-third vest 48 months after the specified vesting commencement date, subject to other terms under the 2007 Plan and the incentive award agreement. Another type of vesting schedule is that one-fourth of the incentive awards vest every 12 months over a four-year vesting period starting from a specified vesting commencement date, subject to other terms under the 2007 Plan and the incentive award agreement. The last type of vesting schedule is that one-tenth of the incentive awards vest 12 months after a specified vesting commencement date, an additional three-tenth vest 24 months after the specified vesting commencement date, another three-tenth vest 36 months after the specified vesting commencement date and the remaining three-tenth vest 48 months after the specified vesting commencement date, subject to other terms under the 2007 Plan and the incentive award agreement.

[Table of Contents](#)

Other Equity Awards. In addition to stock options, we may also grant to our employees, directors and consultants or any of our related entities share appreciation rights, restricted share awards, restricted share unit awards, deferred share awards, dividend equivalents and share payment awards, with such terms and conditions as our board of directors (or, if applicable, the compensation committee) may, subject to the terms of the plan, establish.

Transfer Restrictions. Options to purchase our ordinary shares may not be transferred in any manner by the optionee other than by will or the laws of succession and may be exercised during the lifetime of the optionee only by the optionee.

Termination or Amendment of the Plan. Unless terminated earlier, the plan was terminate automatically in 2017. Our board of directors has the authority to amend or terminate the plan subject to shareholder approval to the extent necessary to comply with applicable law, regulation or stock exchange rule. We must also generally obtain approval of our shareholders to (i) increase the number of shares available under the plan (other than any adjustment as described above), (ii) permit the grant of options with an exercise price that is below fair market value on the date of grant, (iii) extend the exercise period for an option beyond ten years from the date of grant, or (iv) results in a material increase in benefits or a change in eligibility requirements.

The following paragraphs summarize the principal terms of our A&R Global Plan.

Plan Administration. Our compensation committee of the board of directors, or a committee delegated by our compensation committee, will administer the plan. The committee or the full board of directors, as appropriate, will determine the type or types of incentive share awards to be granted and provisions and terms and conditions of each grant and may at their absolute discretion adjust the exercise price of an option grant. The exercise price per share subject to an option may be reduced by the committee or the full board of directors, without shareholder or option holder approval. The types of incentive share awards pursuant to the Global Plan include, among other things, an option, a restricted share award, a share appreciation right award and a restricted share unit award.

Award Agreements. Options and stock purchase rights granted under our plan are evidenced by an award agreement, that sets forth the terms, conditions and limitations for each grant.

Eligibility. We may grant awards to our employees, directors and consultants or any of our related entities, which include our subsidiaries or any entities which are not subsidiaries but are consolidated in our consolidated financial statements prepared under U.S. GAAP.

Term of the Options. The term of each option grant shall be stated in the stock option agreement, provided that the term shall not exceed ten years from the date of the grant, and in the case of incentive share options, five years from the date of the grant.

Vesting Schedule. In general, the plan administrator determines, or the incentive award agreement specifies, the vesting schedules. Our vesting schedule is mainly that one-tenth of the incentive awards vest 12 months after a specified vesting commencement date, an additional three-tenth vest 24 months after the specified vesting commencement date, another three-tenth vest 36 months after the specified vesting commencement date and the remaining three-tenth vest 48 months after the specified vesting commencement date, subject to other terms under the Global Plan and the incentive award agreement.

Other Equity Awards. In addition to stock options, restricted share awards and restricted share unit awards, we may also grant to our employees, directors and consultants or any of our related entities share appreciation rights, deferred share awards, dividend equivalents and share payment awards, with such terms and conditions as our board of directors (or, if applicable, the compensation committee) may, subject to the terms of the plan, establish.

Transfer Restrictions. Awards may not be transferred in any manner by the participant other than by will or the laws of succession and may be exercised during the lifetime of the participant only by the participant.

[Table of Contents](#)

Termination or Amendment of the Plan. Unless terminated earlier, the plan will terminate automatically in 2027. Our board of directors has the authority to amend or terminate the plan to the extent necessary to comply with applicable law, regulation or stock exchange rule. We must also generally obtain approval of our shareholders to (i) increase the number of shares available under the plan (other than any adjustment as described above), (ii) permits the committee to extend the exercise period for an option beyond ten years from the date of grant, or (iii) results in a change in eligibility requirements.

C. Board Practices

Our board of directors currently consists of nine directors. A director is not required to hold any shares in the company by way of qualification. Our board of directors may exercise all the powers of the company to borrow money, mortgage or charge its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party. No director is entitled to any severance benefits upon termination of his directorship with us. As of the date of this annual report, four out of nine of our directors meet the “independence” definition under The Nasdaq Stock Market, Inc. Marketplace Rules, or the Nasdaq Rules. As Nasdaq Rules permit a foreign private issuer like us to follow the corporate governance practices of its home country, we chose to rely on home country practice in lieu of the requirement to have a majority of independent directors on our board under Nasdaq Rules. See “Item 16G. Corporate Governance.”

Committees of the Board of Directors

Audit Committee. Our audit committee reports to the board regarding the appointment of our independent auditors, the scope and results of our annual audits, compliance with our accounting and financial policies and management’s procedures and policies relatively to the adequacy of our internal accounting controls.

As of the date of this annual report, our audit committee consists of Messrs. Gan, Li and Shen. All of these directors meet the audit committee independence standard under Rule 10A-3 under the Exchange Act. The independence definition under Rules 5605 of the Nasdaq Rules is met by Messrs. Gan, Li and Shen. In addition, all the members of our audit committee qualify as “audit committee financial experts” as defined in the relevant Nasdaq Rules.

Compensation Committee. Our compensation committee reviews and evaluates and, if necessary, revises the compensation policies adopted by the management. Our compensation committee also determines all forms of compensation to be provided to our senior executive officers. In addition, the compensation committee reviews all annual bonuses, long-term incentive compensation, share options, employee pension and welfare benefit plans. Our chief executive officer may not be present at any committee meeting during which her compensation is deliberated.

As of the date of this annual report, our compensation committee consists of Messrs. Gan, Ji and Shen, all of whom meet the “independence” definition under the Nasdaq Rules.

Duties of Directors

Under Cayman Islands law, our directors have a duty of loyalty to act honestly and in good faith in the best interests of our company. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association. Our articles of association govern the way our company is operated and the powers granted to the directors to manage the daily affairs of our company.

Terms of Directors and Officers

All directors hold office until their successors have been duly elected and qualified unless such office is vacated earlier in accordance with the articles of association. A director may only be removed by the shareholders who appointed such director, except in the case of ordinary directors, who may be removed by ordinary resolutions of the shareholders. Officers are elected by and serve at the discretion of the board of directors.

D. Employees

As of December 31, 2018, we and our consolidated subsidiaries and consolidated affiliated Chinese entities had approximately 45,100 employees, including approximately 3,400 in management and administration, approximately 14,900 in our customer service centers, approximately 6,000 in sales and marketing, and approximately 20,800 in product development including supplier management personnel and technical support personnel. Most of our employees are based in Shanghai, Beijing, Nantong and Chengdu. We consider our relations with our employees to be good.

[Table of Contents](#)

E. Share Ownership

As of February 28, 2019, 69,187,290 of our ordinary shares were issued and outstanding (excluding the 4,502,213 ordinary shares that were issued to Bank of New York Mellon, the depository of our ADS program, for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our stock incentive plans and for our treasury ADSs). Our shareholders are entitled to vote together as a single class on all matters submitted to shareholders vote. No shareholder has different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of February 28, 2019 by each of our directors and executive officers and each person known to us to own beneficially more than 5% of our ordinary shares. Except as otherwise noted, the address of each person listed in the table is c/o Ctrip.com International, Ltd., 968 Jin Zhong Road, Shanghai 200335, People's Republic of China.

	Ordinary Shares Beneficially Owned ⁽¹⁾	
	Number	% ⁽²⁾
Directors and Senior Management:		
James Jianzhang Liang ⁽³⁾	1,465,071	2.1%
Min Fan ⁽⁴⁾	1,313,939	1.9%
Jane Jie Sun ⁽⁵⁾	805,184	1.2%
Neil Nanpeng Shen ⁽⁶⁾	*	*
Other directors and executive officers as a group, each of whom individually owns less than 0.1%	*	*
All directors and officers as a group ⁽⁷⁾	4,105,327	5.8%
Principal Shareholders:		
Baidu Entities ⁽⁸⁾	13,144,917.5	19.0%
Baillie Gifford & Co (Scottish Partnership) ⁽⁹⁾	6,026,364	8.7%
Booking Entities ⁽¹⁰⁾	5,800,440.25	8.0%
T. ROWE PRICE ASSOCIATES, INC. ⁽¹¹⁾	4,072,481	5.9%

* Less than 1% of our total outstanding ordinary shares.

Notes:

- Beneficial ownership is determined in accordance with the SEC rules, and includes voting or investment power with respect to the securities.
- For each person and group included in this table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of the number of ordinary shares outstanding as of February 28, 2019, the number of ordinary shares underlying share options held by such person or group that were exercisable within 60 days after February 28, 2019, and the number of ordinary shares in the form of ADSs assuming full conversion of notes held by such person or group to ADSs at the initial conversion rate.
- Includes 782,871 ordinary shares held by Mr. Liang and 682,200 ordinary shares that were issuable upon exercise of options exercisable within 60 days after February 28, 2019 held by Mr. Liang.
- Includes 897,739 ordinary shares held Mr. Fan and 416,200 ordinary shares that were issuable upon exercise of options exercisable within 60 days after February 28, 2019 held by Mr. Fan.
- Includes 152,984 ordinary shares held by Ms. Sun and 652,200 ordinary shares that were issuable upon exercise of options exercisable within 60 days after February 28, 2019.
- Mr. Shen's business address is Suite 2215, Two Pacific Place, 88 Queensway Road, Hong Kong.
- Includes 2,229,429 ordinary shares and 1,875,898 ordinary shares that were issuable upon exercise of options exercisable within 60 days after February 28, 2019 held by all of our current directors and executive officers, as a group.
- Includes 13,144,917.5 ordinary shares (including 991,852.5 ordinary shares represented by ADSs) beneficially owned as of September 12, 2016 by Baidu Holdings Limited, a wholly-owned subsidiary of Baidu, Inc. (collectively, "Baidu Entities"). Information regarding beneficial ownership is reported as of September 12, 2016, based on the information contained in the Schedule 13D/A filed by Baidu Entities with SEC on September 14, 2016. Please see the Schedule 13D/A filed by Baidu Entities with SEC on September 14, 2016 for information relating to Baidu Entities. The address for Baidu Holdings Limited is c/o Baidu, Inc., No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, the People's Republic of China, and the address for Baidu, Inc. is No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, the People's Republic of China.

[Table of Contents](#)

- (9) Includes 6,026,364 ordinary shares represented by ADSs held by Baillie Gifford & Co (Scottish Partnership). Information regarding beneficial ownership is reported as of December 31, 2018, based on the information contained in the Schedule 13G/A filed by Baillie Gifford & Co (Scottish Partnership) with SEC on January 24, 2019. Please see the Schedule 13G/A filed by Baillie Gifford & Co (Scottish Partnership) with SEC on January 24, 2019 for information relating to Baillie Gifford & Co (Scottish Partnership). The address for Baillie Gifford & Co (Scottish Partnership) is Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, Scotland, the United Kingdom.
- (10) Includes 2,636,075 ordinary shares represented by ADSs held by Priceline Group Treasury Company B.V., an indirectly wholly-owned subsidiary of Booking Holdings Inc. (formerly known as The Priceline Group Inc.), 67,994 ordinary shares held by Booking and an aggregate of 3,096,371.25 ordinary shares represented by ADSs issuable to Booking Holdings Treasury Company upon conversion of the convertible notes subscribed for and purchased by Priceline Group Treasury Company B.V. from the Company on August 7, 2014, May 29, 2015, December 11, 2015 and September 12, 2016 and later transferred to Booking Holdings Treasury Company in December 2018. Priceline Group Treasury Company B.V., Booking Holdings Treasury Company and Booking are collectively referred to as “Booking Entities” in this annual report. Information regarding beneficial ownership is reported as of September 12, 2016, based on the information contained in the Schedule 13D/A filed by the Booking Entities with SEC on September 19, 2016. Please see the Schedule 13D/A filed by the Booking Entities with SEC on September 19, 2016 for information relating to Booking. The address for Priceline Group Treasury Company B.V. is Herengracht 597, Amsterdam 1017CE, Netherlands, and the address for Booking is c/o Booking Holdings Inc., 800 Connecticut Avenue, Norwalk, CT 06854, the United States.
- (11) Includes 4,072,481 ordinary shares represented by ADS held by T.ROWE PRICE ASSOCIATES, INC. Information regarding beneficial ownership is reported as of December 31, 2018, based on the information contained in the Schedule 13G/A filed by T.ROWE PRICE ASSOCIATES, INC. with SEC on February 14, 2019. Please see the Schedule 13G/A filed by T.ROWE PRICE ASSOCIATES, INC. with SEC on February 14, 2019 for information relating to T.ROWE PRICE ASSOCIATES, INC. The address for T.ROWE PRICE ASSOCIATES, INC. is 100 E. Pratt Street, Baltimore, Maryland 21202, the United States.

As of February 28, 2019, 69,187,290 of our ordinary shares were issued and outstanding (excluding the 4,502,213 ordinary shares that were issued to Bank of New York Mellon, the depository of our ADS program, for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our stock incentive plans and for our treasury ADSs). Based on a review of the register of members maintained by our Cayman Islands registrar, we believe that as of February 28, 2019, 60,872,006 ordinary shares were held by two record shareholders in the United States, including 60,872,005 ordinary shares (including treasury shares that were repurchased but not retired by the Company) held of record by The Bank of New York Mellon, the depository of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

Please refer to “Item 6.E. Directors, Senior Management and Employees — Share Ownership.”

B. Related Party Transactions

Arrangements with Consolidated Affiliated Chinese Entities

Current PRC laws and regulations impose substantial restrictions on foreign ownership of the air-ticketing, travel agency and value-added telecommunications businesses in China. Therefore, we conduct part of our operations in our non-accommodation reservation businesses through a series of agreements between our PRC subsidiaries, our consolidated affiliated Chinese entities and/or their respective shareholders. Our consolidated affiliated Chinese entities hold the licenses and approvals for conducting the air-ticketing, travel agency, and value-added telecommunications businesses in China. We do not hold any ownership interest in our consolidated affiliated Chinese entities. In 2015, we restructured our business lines and most of the contractual arrangements that we previously entered into with our consolidated affiliated Chinese entities in order to further strengthen our ability to control these entities and receive substantially all of the economic benefits from them. Moreover, we plan to enter into the same series of agreements with all of our future consolidated affiliated Chinese entities. As of the date of this annual report, Min Fan, our vice chairman of the board and president, Maohua Sun, Hui Cao and Hui Wang, all being our officers, are the principal record owners of our consolidated affiliated Chinese entities.

As of the date of this annual report, the equity holding structures of each of our significant consolidated affiliated Chinese entities are as follows:

- Maohua Sun and Min Fan owned 10.2% and 89.8%, respectively, of Ctrip Commerce.
- Ctrip Commerce owned 100% of Shanghai Huacheng.

[Table of Contents](#)

- Min Fan and Qi Shi owned 99.5% and 0.5%, respectively, of Chengdu Ctrip.
- Hui Cao and Hui Wang owned 60% and 40%, respectively, of Qunar Beijing.

We believe that the terms of these agreements are no less favorable than the terms that we could obtain from disinterested third parties. The terms of the agreements with the same title between us and our respective consolidated affiliated Chinese entities are substantially similar except for the amount of the business loans to the shareholders of each entity and the amount of service fees paid by each entity. We believe that the shareholders of our consolidated affiliated Chinese entities will not receive any personal benefits from these agreements except as shareholders of our company. According to our PRC counsel, Commerce & Finance Law Offices, these agreements are valid, binding and enforceable under the current laws and regulations of China as of the date of this annual report. The principal terms of these agreements are described below.

Powers of Attorney. Each of the shareholders of our consolidated affiliated Chinese entities, except for Hui Cao and Hui Wang, signed an irrevocable power of attorney to appoint Ctrip Travel Network or Ctrip Travel Information, as attorney-in-fact to vote, by itself or any other person to be designated at its discretion, on all matters of the applicable consolidated affiliated Chinese entities. Each such power of attorney will remain effective as long as the applicable consolidated affiliated Chinese entity exists, and such shareholders of the applicable consolidated affiliated Chinese entities are not entitled to terminate or amend the terms of the power of attorneys without prior written consent from us.

As of the date of this annual report, each of the shareholders of Qunar Beijing, Hui Cao and Hui Wang, also signed an irrevocable power of attorney authorizing an appointee, to exercise, in a manner approved by Qunar, on such shareholder's behalf the full shareholder rights pursuant to applicable laws and Qunar Beijing's articles of association, including without limitation full voting rights and the right to sell or transfer any or all of such shareholder's equity interest in Qunar Beijing. Each such power of attorney is effective until such time as such relevant shareholder ceases to hold any equity interest in Qunar Beijing. The terms of the power of attorney with respect to Qunar Beijing are otherwise substantially similar to the terms described in the foregoing paragraph.

Technical Consulting and Services Agreements. Ctrip Travel Information and Ctrip Travel Network, each a wholly-owned PRC subsidiary of ours, provide our consolidated affiliated Chinese entities, except for Qunar Beijing, with technical consulting and related services and staff training and information services on an exclusive basis. We also maintain their network platforms. In consideration for our services, our consolidated affiliated Chinese entities agree to pay us service fees as calculated in such manner as determined by us from time to time based on the nature of service, which may be adjusted periodically. For 2018, our consolidated affiliated Chinese entities paid Ctrip Travel Information (after our restructuring of business lines and restatement of contractual arrangements in 2015) and Ctrip Travel Network (after our restructuring of business lines and restatement of contractual arrangements in 2015) a quarterly fee based on the number of transportation tickets sold in the quarter, at an average rate from RMB4 (US\$0.6) to RMB5 (US\$0.7) per ticket. Although the service fees are typically determined based on the number of transportation tickets sold, given the fact that the nominee shareholders of such consolidated affiliated Chinese entities have irrevocably appointed the employees of our subsidiaries to vote on their behalf on all matters they are entitled to vote on, we have the right to determine the level of service fees paid and therefore receive substantially all of the economic benefits of our consolidated affiliated Chinese entities in the form of service fees. The services fees paid by all of such consolidated affiliated Chinese entities as a percentage of their total net income were 96.3%, 68.3% and 88.5% for the years ended December 31, 2016, 2017 and 2018. Ctrip Travel Information or Ctrip Travel Network, as appropriate, will exclusively own any intellectual property rights arising from the performance of this agreement. The initial term of these agreements is 10 years and may be renewed automatically in 10-year terms unless we disapprove the extension. We retain the exclusive right to terminate the agreements at any time by delivering a 30-day advance written notice to the applicable consolidated affiliate Chinese entity.

As of the date of this annual report, pursuant to the restated exclusive technical consulting and services agreement between Qunar Beijing and Qunar Software, Qunar Software provides Qunar Beijing with technical, marketing and management consulting services on an exclusive basis in exchange for service fee paid by Qunar Beijing based on a set formula defined in the agreement subject to adjustment by Qunar Software at its sole discretion. This agreement will remain in effect until terminated unilaterally by Qunar Software or mutually. The terms of this agreement are otherwise substantially similar to the terms described in the foregoing paragraph.

[Table of Contents](#)

Share Pledge Agreements. The shareholders of our consolidated affiliated Chinese entities, except for Hui Cao and Hui Wang, have pledged their respective equity interests in the applicable consolidated affiliated Chinese entities as a guarantee for the performance of all the obligations under the other contractual arrangements, including payment by such consolidated affiliated Chinese entities of the technical and consulting services fees to us under the technical consulting and services agreements, repayment of the business loan under the loan agreements and performance of obligations under the exclusive option agreements, each agreement as described herein. In the event any of such consolidated affiliated Chinese entity breaches any of its obligations or any shareholder of such consolidated affiliated Chinese entities breaches his or her obligations, as the case may be, under these agreements, we are entitled to enforce the equity pledge right and sell or otherwise dispose of the pledged equity interests after the pledge is registered with the relevant local branch of SAMR, and retain the proceeds from such sale or require any of them to transfer his or her equity interest without consideration to the PRC citizen(s) designated by us. These share pledge agreements are effective until two years after the pledgor and the applicable consolidated affiliated Chinese entities no longer undertake any obligations under the above-referenced agreements.

As of the date of this annual report, pursuant to the equity interest pledge agreement among Qunar Software, Hui Cao and Hui Wang, Hui Cao and Hui Wang have pledged their equity interests in Qunar Beijing along with all rights, titles and interests to Qunar Software as guarantee for the performance of all obligations under the relevant contractual arrangements mentioned herein. After the pledge is registered with the relevant local branch of SAMR, Qunar Software may enforce this pledge upon the occurrence of a settlement event or as required by the PRC law. The pledge, along with this agreement, will be effective upon registration with the local branch of the SAMR, and will expire when all obligations under the relevant contractual arrangements have been satisfied or when each of Hui Cao and Hui Wang completes a transfer of equity interest and ceases to hold any equity interest in Qunar Beijing. In enforcing the pledge, Qunar Software is entitled to dispose of the pledge and have priority in receiving payment from proceeds from the auction or sale of all or part of the pledge until the obligations are settled. The terms of this agreement are otherwise substantially similar to the terms described in the foregoing paragraph.

Loan Agreements. Under the loan agreements we entered into with the shareholders of our consolidated affiliated Chinese entities, except for Hui Cao and Hui Wang, we extended long-term business loans to these shareholders of our consolidated affiliated Chinese entities with the sole purpose of providing funds necessary for the capitalization or acquisition of such consolidated affiliated Chinese entities. These business loan amounts were injected into the applicable consolidated affiliated Chinese entities as capital and cannot be accessed for any personal uses. The loan agreements shall remain effective until the parties have fully performed their respective obligations under the agreement, and the shareholders of such consolidated affiliated Chinese entities have no right to unilaterally terminate these agreements. In the event that the PRC government lifts its substantial restrictions on foreign ownership of the air-ticketing, travel agency, or value-added telecommunications business in China, as applicable, we will exercise our exclusive option to purchase all of the outstanding equity interests of our consolidated affiliated Chinese entities, as described in the following paragraph, and the loan agreements will be cancelled in connection with such purchase. However, it is uncertain when, if at all, the PRC government will lift any or all of these restrictions.

The following table sets forth, as of the date of this report, the amount of each business loan, the date each business loan arrangement was entered into, the principal, interest, maturity date and outstanding balance of the loan, the borrower and the relevant significant consolidated affiliated Chinese entity.

Date of Loan Agreement	Borrower	Significant Consolidated Affiliated Chinese Entity	Principal		Interest	Maturity Date	Outstanding Balance	
			(in millions of RMB)	(in millions of US\$)			(in millions of RMB)	(in millions of US\$)
December 14, 2015	Min Fan	Ctrip Commerce	26.9	3.9	None	December 13, 2025	26.9	3.9
December 14, 2015	Maohua Sun	Ctrip Commerce	3.1	0.4	None	December 13, 2025	3.1	0.4
December 14, 2015	Min Fan	Chengdu Ctrip	497.5	72.4	None	December 13, 2025	497.5	72.4
December 14, 2015	Qi Shi	Chengdu Ctrip	2.5	0.4	None	December 13, 2025	2.5	0.4
March 23, 2016	Hui Cao	Qunar Beijing	6.6	1.0	None	Until repayment notice	6.6	1.0
March 23, 2016	Hui Wang	Qunar Beijing	4.4	0.6	None	Until repayment notice	4.4	0.6

[Table of Contents](#)

As of the date of this annual report, pursuant to the loan agreement among Qunar Software, Hui Cao and Hui Wang, the loans extended by Qunar Software to each of Hui Cao and Hui Wang are only repayable by a transfer of such borrower's equity interest in Qunar Beijing to Qunar Software or its designated party, in proportion to the amount of the loan to be repaid. This loan agreement will continue in effect indefinitely until such time when (i) the borrowers receive a repayment notice from Qunar Software and fully repay the loans, or (ii) an event of default (as defined therein) occurs unless Qunar Software sends a notice indicating otherwise within 15 calendar days after it is aware of such event. The terms of this loan agreement is otherwise substantially similar to the terms described in the foregoing paragraphs.

Exclusive Option Agreements. As consideration for our entering into the loan agreements described above, each of the shareholders of our consolidated affiliated Chinese entities, except for Hui Cao and Hui Wang, has granted us an exclusive, irrevocable option to purchase, or designate one or more person(s) at our discretion to purchase, all of their equity interests in the applicable consolidated affiliated Chinese entities at any time we desire, subject to compliance with the applicable PRC laws and regulations. We may exercise the option by issuing a written notice to the shareholder of relevant consolidated affiliated Chinese entity. The purchase price shall be equal to the contribution actually made by the shareholder for the relevant equity interest. Therefore, if we exercise these options, we may choose to cancel the outstanding loans we extended to the shareholders of such consolidated affiliated Chinese entities pursuant to the loan agreements as the loans were used solely for equity contribution purposes. The initial term of these agreements is 10 years and may be renewed automatically in 10-year terms unless we disapprove the extension. We retain the exclusive right to terminate the agreements at any time by delivering a written notice to the shareholder of applicable consolidated affiliate Chinese entity.

Hui Cao and Hui Wang also entered into an equity option agreement with Qunar, Qunar Software and Qunar Beijing. This equity option agreement contains arrangements that are similar to that as described in the foregoing paragraph. This agreement will remain effective with respect to each of Qunar Beijing's shareholders until all of the equity interest has been transferred or Qunar and Qunar Software terminates the agreement unilaterally with 30 days' prior written notice.

Our consolidated affiliated Chinese entities and their shareholders agree not to enter into any transaction that would affect the assets, obligations, rights or operations of our consolidated affiliated Chinese entities without our prior written consent. They also agree to accept our guidance with respect to day-to-day operations, financial management systems and the appointment and dismissal of key employees.

In addition, we also enter into technical consulting and services agreements with our majority or wholly-owned subsidiaries of some of the consolidated affiliated Chinese entities, such as Chengdu Ctrip International, and these subsidiaries pay us service fees based on the level of services provided. The existence of such technical consulting and services agreements provides us with the enhanced ability to transfer economic benefits of these majority or wholly-owned subsidiaries of the consolidated affiliated Chinese entities to us in exchange for the services provided, and this is in addition to our existing ability to consolidate and extract the economic benefits of these majority or wholly-owned subsidiaries of the consolidated affiliated Chinese entities. For instance, the consolidated affiliated Chinese entities may cause the economic benefits to be channeled to them in the form of dividends, which then may be further consolidated and absorbed by us through the contractual arrangements described above.

Share Incentive Grants

Please refer to "Item 6.B. Directors, Senior Management and Employees — Compensation — Employees' Share Incentive Plans."

Employment Agreements

See "Item 6.B. Directors, Senior Management and Employees — Compensation."

Commissions from Homeinns and BTG

In December 2016, in connection with our share exchange transaction with BTG and Homeinns, we exchanged our previously held equity interest in Homeinns for 22% equity interest of BTG. BTG had entered into agreements with us to provide hotel rooms for our customers. Total commissions from BTG amounted to RMB93 million (US\$14 million) for the year ended December 31, 2018. These commissions were paid to us in our ordinary course of business on terms substantially similar to those for our unrelated hotel suppliers.

Commissions from Huazhu and its affiliates

One of our hotel suppliers, Huazhu Group Limited, or Huazhu, has a director in common with our company and a director who is a family member of one of our officers. Huazhu has entered into agreements with us to provide hotel rooms for our customers. Total commissions Huazhu paid us amounted to RMB61 million (US\$9 million) for the year ended December 31, 2018. These commissions were paid to us in our ordinary course of business on terms substantially similar to those for our unrelated hotel suppliers.

Commissions to/from Tongcheng-eLong

In 2014, we purchased a minority stake of LY.com. We have entered into agreements to provide hotel rooms to LY.com. In 2015, we acquired approximately 38% share capital of eLong, Inc. We subsequently participated as a member in the buying consortium in eLong, Inc. going-private transaction that was completed in May 2016. In March 2018, eLong completed a merger with LY.com and the enlarged group Tongcheng-eLong supersedes eLong and LY.com to promote our hotel rooms on their platforms. Before the merger, we paid commission of RMB66 million (US\$10 million) and RMB6 million (US\$1 million) to eLong and LY.com, respectively, and eLong paid commission of RMB63 million (US\$9 million) to us for the year ended December 31, 2018. After the merger, total commissions to Tongcheng-eLong paid by us amounted to RMB516 million (US\$75 million) and Tongcheng-eLong paid commissions to us amounted to RMB190 million (US\$28 million) for the year ended December 31, 2018.

Commissions to Baidu

In October 2015, we completed a share exchange transaction with Baidu. We entered into various agreements with Baidu to promote our hotels, ticketing services and tour products on Baidu's platform. We paid commissions to Baidu amounting to RMB67 million (US\$10 million) in 2018.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8 FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

We are not currently a party to any pending material litigation or other legal proceeding and are not aware of any pending litigation or other legal proceeding that may have a material adverse impact on our business or operations. However, we are and may continue to be subject to various legal proceedings and claims that are incidental to our ordinary course of business.

Dividend Policy

During the past five years, we have not distributed dividends to our shareholders of record.

We have received dividends from our subsidiaries, which have received consulting or other fees from our consolidated affiliated Chinese entities. In accordance with current Chinese laws and regulations, our subsidiaries and affiliated entities in China are required to allocate to their general reserves at least 10% of their respective after-tax profits for the year determined in accordance with Chinese accounting standards and regulations. Each of our subsidiaries and affiliated entities in China may stop allocations to its general reserve if such reserve has reached 50% of its registered capital. In addition, our subsidiaries in China, including Ctrip Computer Technology, Ctrip Travel Information and Ctrip Travel Network, 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. Allocations to these statutory reserves and funds can only be used for specific purposes and are not transferable to us in the form of loans, advances, or cash dividends.

Our board of directors has complete discretion as to whether we will distribute dividends in the future, subject to the approval of our shareholders. Even if our board of directors determines to distribute dividends, the form, frequency and amount of our dividends will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, potential tax implications and other factors as the board of directors may deem relevant. Any dividend we declare will be paid to the holders of ADSs, subject to the terms of the deposit agreement, to the same extent as holders of our ordinary shares, less the fees and expenses payable under the deposit agreement. Any dividend we declare will be distributed by the depository bank to the holders of our ADSs. Cash dividends on our ordinary shares, including those represented by the ADSs, if any, will be paid in U.S. dollars.

[Table of Contents](#)

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9 THE OFFER AND LISTING

A. Offer and Listing Details.

Our ADSs have been listed on the Nasdaq Global Market since December 2003 and the Nasdaq Global Select Market since July 2006. Our ADSs are traded under the symbol "CTRP." On December 1, 2015, we effected a change of the ratio of the ADSs to ordinary shares from four ADSs representing one ordinary share to eight ADSs representing one ordinary share.

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs have been listed on the Nasdaq Global Market since December 2003 and on the Nasdaq Global Select Market since July 2006 under the symbol "CTRP."

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Ordinary Shares

General. All of our outstanding ordinary shares are fully paid and non-assessable. Our ordinary shares are issued in registered form, and are issued when entered in our register of members. Our shareholders who are nonresidents of the Cayman Islands may freely hold and vote their shares.

Dividends. The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Law.

[Table of Contents](#)

Voting Rights. Each ordinary share is entitled to one vote on all matters upon which the ordinary shares are entitled to vote. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of our board of directors or any other shareholder or shareholders collectively present in person or by proxy and holding at least ten percent in par value of the shares giving a right to attend and vote at the meeting.

A quorum required for a meeting of shareholders consists of at least two shareholders (or, if our company has only one shareholder, that one shareholder) holding at least one-third of the outstanding voting shares in our company, present in person or by proxy. Shareholders' meetings may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding in aggregate not less than ten percent in par value of our voting share capital. Advance notice of at least seven days is required for the convening of any of our shareholders meetings.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast in a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes attaching to the ordinary shares cast in a general meeting. A special resolution is required for matters such as a change of name or amending the memorandum and articles of association. Holders of the ordinary shares may by ordinary resolution, among other things, make changes in the amount of our authorized share capital and consolidate and divide all or any of our share capital into shares of larger amount than our existing share capital and cancel any authorized but unissued shares.

Liquidation. On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of shares), assets available for distribution among the holders of ordinary shares shall be distributed among the holders of our ordinary shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

Calls on Shares and Forfeiture of Shares. Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time and place of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption, Repurchase and Surrender of Shares. We may issue shares on the terms that such shares are subject to redemption, at our option or at the option of the holders thereof on such terms and in such manner as may be determined, prior to the issue of such shares, by special resolution. Our company may also repurchase any of our shares (including redeemable shares) provided that the manner of such purchase has been authorized by an ordinary resolution of our shareholders. Under the Companies Law (2018 Revision), the redemption or repurchase of any share may be paid out of our company's profits or share premium account or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital if our company shall, immediately following such payment, be able to pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Law, no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding, or (c) our company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

Variations of Rights of Shares. If at any time the share capital of our company is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not our company is being wound-up and except where our articles of association or the Companies Law impose any stricter quorum, voting or procedural requirements in regard to the variation of rights attached to a specific class, be varied either with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class.

Shareholder Rights Plan

On November 23, 2007, our board of directors declared a dividend of one ordinary share purchase right, or a Right, for each of our ordinary shares outstanding at the close of business on December 3, 2007. As long as the Rights are attached to the ordinary shares, we will issue one Right (subject to adjustment) with each new ordinary share so that all such ordinary shares will have attached Rights. When exercisable, each Right will entitle the registered holder to purchase from us one ordinary share at a price of US\$700 per ordinary share, subject to adjustment. On August 7, 2014, we entered into a First Amendment and, subsequently on the same day, a Second Amendment to the Rights Agreement dated as of November 23, 2007 between the Bank of New York Mellon and us. Through these two amendments, we (a) extended the term of our rights plan for another ten years and the Rights will expire on August 6, 2024, subject to the right of our board of directors to extend the rights plan for another ten years prior to its expiration; and (b) modified the trigger threshold of the Rights to allow more flexibility. Specifically, shareholders who file or are entitled to file beneficial ownership statement on Schedule 13G pursuant to Rule 13d-1(b)(1) of the Exchange Act, typically institutional investors with no intention to acquire control of the issuer, will be able to beneficially own up to 20% of our total outstanding shares before the Rights are triggered, while all other shareholders must maintain their beneficial ownership at a level below 10% of our total outstanding shares before the Rights are triggered, among other things. Certain named shareholders are defined as “Exempted Person” under the currently effective rights plan as long as their beneficial ownership do not exceed 10% of our total outstanding shares. On May 29, 2015, October 26, 2015 and December 23, 2015, we entered into a Third Amendment, a Fourth Amendment and a Fifth Amendment to the Rights Agreement with the Bank of New York Mellon, respectively, for the purposes of amending the definition of “Exempted Person.” Accordingly, in so far as Booking and any of its subsidiaries are concerned in connection with the determination of Exempt Person, the term “Exempt Person” will be applied only to the extent that the number of ordinary shares beneficially owned by such Exempt Person (excluding the number of our ADSs or the ordinary shares that are beneficially owned by Booking and any of its subsidiaries due to any such entity’s ownership or conversion of that certain note issued by us pursuant to a convertible note purchase agreement dated December 9, 2015 between a subsidiary of Booking and us) at all times does not exceed fifteen percent (15%) of the ordinary shares then outstanding in the aggregate and in so far as Baidu and any of its subsidiaries are concerned in connection with the determination of Exempt Person, the term “Exempt Person” will be applied only to the extent that the number of ordinary shares beneficially owned by such Exempt Person at all times does not exceed twenty-seven percent (27%) of the ordinary shares then outstanding in the aggregate.

The Rights were not distributed in response to any specific effort to acquire control of our company.

Registered Office and Objects

Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, or at such other place as our directors may from time to time decide. The objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

Board of Directors

Our board of directors currently consists of nine directors. Our board of directors may exercise all the powers of the company to borrow money, to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and to issue debentures, debenture stock or other securities whether outright or as security for any debt, liability or obligation of our company or of any third party. A director may vote with respect to any contract or transaction in which he or she is interested as long as he or she has made a declaration of the nature of such interest. A director is not required to hold any shares in our company by way of qualification, and there is no requirement for a director to retire at any age limit.

We have a compensation committee that assists the board in reviewing and approving the compensation structure and form of compensation of our directors and executive officers. Members of the compensation committee are not prohibited from direct involvement in determining their own compensation. Our chief executive officer may not be present at any committee meeting during which her compensation is deliberated.

For details of our board committees, see “Item 6.C. Directors, Senior Management and Employees — Board Practices — Board of Directors.”

C. Material Contracts

Other than in the ordinary course of business and other than the one described under this item, in “Item 4. Information on the Company” and “Item 7.B. — Major Shareholders and Related Party Transactions — Related Party Transactions” or elsewhere in this annual report, we have not entered into any material contract during the two years immediately preceding the date of this annual report: a €980 million term loan agreement dated June 8, 2017 among Ctrip.com International, Ltd. (as borrower), Bank of China (as sole mandated lead arranger), Industrial and Commercial Bank of China, Shanghai Branch and Shanghai Pudong Development Bank, Shanghai Branch (as joint lead arrangers), Bank of China, Shanghai Branch (as agent), Bank of China, Shanghai Changning Sub-branch (as guarantee agent), and certain lenders.

[Table of Contents](#)

D. Exchange Controls

See “Item 4.B. Information on the Company — Business Overview — PRC Government Regulations — Regulations of Foreign Currency Exchange and Dividend Distribution.”

E. Taxation

The following summary of the material Cayman Islands, PRC and U.S. federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws not addressed herein.

Cayman Islands Taxation

According to Maples and Calder (Hong Kong) LLP, the Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within, the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaty with any country that is applicable to any payments made to or by us.

We have received an undertaking from the Governor in Council of the Cayman Islands that, in accordance with section 6 of the Tax Concessions Law (1995 Revision) of the Cayman Islands, for a period of 20 years from 14 March, 2000, no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to us or our operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable (i) on or in respect of the shares, debentures or other obligations of our company or (ii) by way of the withholding in whole or in part of any payment of dividend or other distribution of income or capital by our company to our members or any payment of principal or interest or other sums due under a debenture or other obligation of our company.

PRC Taxation

If the PRC tax authorities determine that our Cayman Islands holding company is a “resident enterprise” for PRC enterprise income tax purposes, a withholding tax of 10% may be imposed on dividends that non-PRC resident enterprise holders of our ADSs receive from us and on gains realized on their sale or other disposition of ADSs, if such income is considered as income derived from within China. See “Item 3.D. Key Information — Risk factors — Risks Related to Our Corporate Structure — Our subsidiaries and consolidated affiliated Chinese entities in China are subject to restrictions on paying dividends or making other payments to us, which may restrict our ability to satisfy our liquidity requirements.”

United States Federal Income Tax Considerations

The following discussion is a summary of United States federal income tax considerations generally applicable to the ownership and disposition of our ADSs or ordinary shares by a U.S. Holder (as defined below) that will hold our ADSs or ordinary shares as “capital assets” (generally, property held for investment) under the United States Internal Revenue Code of 1986, as amended, or the Code. This summary is based upon the provisions of the Code and regulations, rulings and decisions thereunder as of the date hereof, all of which are subject to differing interpretations or change, possibly with retroactive effect. No ruling has been sought from the United States Internal Revenue Service, or the IRS, with respect to any United States federal income tax consequences described below, and there can be no assurance that the IRS or a court will not take a contrary position.

This summary does not discuss all aspects of United States federal income taxation that may be important to particular investors in light of their individual investment circumstances, including investors subject to special tax rules, such as banks, insurance companies, broker dealers, dealers or traders in securities or commodities, persons that elect to mark their securities to market, tax-exempt entities, persons liable for alternative minimum tax, U.S. expatriates, regulated investment companies or real estate investment trusts, a partnership (including any pass-through or other entity treated as a partnership for United States federal income tax purposes) or persons holding ADSs or ordinary shares through partnerships (including any pass-through or other entity treated as partnerships for United States federal income tax purposes), persons holding an ADS or ordinary share as part of a straddle, hedging, conversion or integrated transaction, investors whose “functional currency” is not the U.S. dollar, holders that actually or constructively own 10% or more (by voting power or value) of all classes of our outstanding capital stock, or persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee share option or otherwise as compensation.

[Table of Contents](#)

In addition, this summary does not discuss the Medicare tax on net investment income, any state, local or estate or gift tax considerations and, except for the limited instances where PRC tax law and potential PRC taxes are discussed below, does not discuss any non-United States tax considerations. Each U.S. Holder is urged to consult its tax advisor regarding the United States federal, state, local, and non-United States income and other tax considerations of an investment in our ADSs or ordinary shares.

As used in this section, "U.S. Holder" means a beneficial owner of ADSs or ordinary shares that for United States federal income tax purposes is,

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity subject to tax as a corporation) organized under the laws of the United States, any State or the District of Columbia;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial trust decisions or (2) has a valid election in effect to be treated as a U.S. person under the Code.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of our ADSs or ordinary shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding our ADSs or ordinary shares and their partners are urged to consult their tax advisors regarding an investment in our ADSs or ordinary shares.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement have been and will be complied with in accordance with the terms. If you hold ADSs, you should be treated as the holder of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes.

Taxation of Dividends and Other Distributions on the ADSs or Ordinary Shares

Subject to the description below under "— Passive Foreign Investment Company Rules," the amount of any distribution to you with respect to the ADSs or ordinary shares, before deduction for any taxes imposed by the PRC, will be included in your gross income as dividend income on the date of receipt by the depository, in the case of ADSs, or by you, in the case of ordinary shares, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under United States federal income tax principles). Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, you should assume that any distribution paid will generally be treated as a "dividend" for United States federal income tax purposes. Any dividends we pay will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

With respect to individuals and other non-corporate U.S. Holders, dividends may be taxed at the lower capital gains rate applicable to "qualified dividend income," provided that (1) our ADSs or ordinary shares are readily tradable on an established securities market in the United States or we are eligible for the benefits of an income tax treaty with the United States that the United States Treasury has determined is satisfactory for purposes of the rules applicable to qualified dividends and that includes an exchange of information program, (2) we are neither a passive foreign investment company, nor are treated as such with respect to you (as discussed below) for our taxable year in which the dividend was paid or the preceding taxable year, and (3) certain holding period requirements are met. United States Treasury guidance indicates that common or ordinary shares, or ADSs representing such shares, are considered for the purpose of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on the Nasdaq Global Select Market, as are our ADSs (but not our ordinary shares). Moreover, if we are treated as a "resident enterprise" for PRC tax purposes under its EIT Law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. You should consult your tax advisor regarding the availability of the lower capital gains rate applicable to qualified dividend income for dividends paid with respect to our ADSs or ordinary shares.

[Table of Contents](#)

For United States foreign tax credit purposes, dividends will generally be treated as income from foreign sources and will constitute passive category income. Depending on your particular facts and circumstances, you may be eligible to claim a foreign tax credit in respect of any non-refundable foreign withholding taxes imposed on dividends received on our ADSs or ordinary shares. If you do not elect to claim a foreign tax credit for foreign tax withheld, you will be permitted instead to claim a deduction, for United States federal income tax purposes, in respect of such withholdings, but only for a year in which you elect to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex and their outcome depends in large part on your particular facts and circumstances. Accordingly, you should consult your tax advisor regarding the availability of the foreign tax credit based on your particular circumstances.

Sale, Exchange or Other Disposition of the ADSs or Ordinary Shares

Subject to description below under “— Passive Foreign Investment Company Rules,” you will recognize capital gain or loss on any sale, exchange or other taxable disposition of an ADS or ordinary share equal to the difference, if any, between the amount realized for the ADS or ordinary share and your tax basis in the ADS or ordinary share. The gain or loss will generally be capital gain or loss. If you are a non-corporate U.S. Holder who has held the ADS or ordinary share for more than one year, you generally will be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will generally be treated as United States-source income or loss for foreign tax credit limitation purposes, which will generally limit the availability of foreign tax credits. However, if we are treated as a “resident enterprise” for PRC tax purposes, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. In such event, if PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares, a U.S. Holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat the gain as PRC-source income. You should consult your tax advisor regarding the proper treatment of gain or loss recognized on a sale, exchange or other taxable disposition of the ADSs or ordinary shares in your particular circumstances.

Passive Foreign Investment Company Rules

A non-U.S. corporation is considered to be a passive foreign investment company, or PFIC, for any taxable year if either:

- at least 75% of its gross income is passive income; or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income (the “asset test”).

Passive income generally includes, among other things, dividends, interest, rents, royalties, and gains from the disposition of passive assets. Passive assets are those which give rise to passive income, and include assets held for investment, as well as cash, assets readily convertible into cash and working capital. The company’s goodwill and other unbooked intangibles are taken into account and may be classified as active or passive depending upon the relative amounts of income generated by the company in each category. We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock.

Although we do not believe that we should be treated as a PFIC for United States federal income tax purposes for our taxable year ended December 31, 2018, there can be no assurance in this regard. Because the value of our assets and the amount of our active goodwill will generally be determined by reference to the market price of our ADSs and ordinary shares for purposes of the asset test, recent fluctuations in the market price of our ADSs or ordinary shares put us at risk of being classified as a PFIC for our taxable year ended December 31, 2018. The market price of the ADSs and ordinary shares may continue to fluctuate considerably; consequently, we cannot assure you of our PFIC status for our current taxable year ending December 31, 2019, or for any future taxable year.

[Table of Contents](#)

Although the law in this regard is not entirely clear, we treat our consolidated affiliated Chinese entities as being owned by us for United States federal income tax purposes because we control their management decisions and we are entitled to substantially all of their economic benefits and, as a result, we consolidate their results of operations in our consolidated U.S. GAAP financial statements. If it were determined, however, that we are not the owner of our consolidated affiliated Chinese entities for United States federal income tax purposes, we would likely be treated as a PFIC for our taxable year ended December 31, 2018 and for subsequent taxable years.

If we are a PFIC for any year during which you hold ADSs or ordinary shares, we will generally continue to be treated as a PFIC with respect to you for all succeeding years during which you hold ADSs or ordinary shares, unless we cease to be a PFIC and you make a deemed sale election with respect to the ADSs or ordinary shares, as applicable. If such election is made, you will be deemed to have sold the ADSs or ordinary shares you hold at their fair market value and any gain from such deemed sale would be subject to the consequences described below. After the deemed sale election, your ADSs or ordinary shares with respect to which such election was made will not be treated as shares in a PFIC unless we subsequently become a PFIC.

For each taxable year that we are treated as a PFIC with respect to you, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ADSs or ordinary shares, unless you make a “mark-to-market” election as discussed below. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares;
- the amount allocated to the current taxable year, and any taxable years in your holding period prior to the first taxable year in which we became a PFIC, will be treated as ordinary income; and
- the amount allocated to each of the other taxable years will be subject to tax at the highest rate of tax in effect for you for such year and will be increased by an additional tax equal to interest on the resulting tax deemed deferred with respect to each such other taxable year.

A U.S. Holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election for such stock to elect out of the tax treatment discussed in the preceding paragraph. If you make a valid mark-to-market election for our ADSs or ordinary shares, you will include in income for each year that we are treated as a PFIC with respect to you an amount equal to the excess, if any, of the fair market value of the ADSs or ordinary shares you hold as of the close of the year over your adjusted basis in such ADSs or ordinary shares. You will be allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or ordinary shares over their fair market value as of the close of the year. However, deductions will be allowable only to the extent of any net mark-to-market gains on the ADSs or ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as any gain on the actual sale or other disposition of the ADSs or ordinary shares, will be treated as ordinary income. The mark-to-market election is available only for “marketable stock,” which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter (“regularly traded”) on a qualified exchange or other market, as defined in applicable United States Treasury regulations. Our ADSs are listed on the Nasdaq Global Select Market, which is a qualified exchange or other market for these purposes. Consequently, if the ADSs continue to be listed on the Nasdaq Global Select Market and are regularly traded, and you are a holder of ADSs, we expect that the mark-to-market election would be available to you were we to be or become a PFIC. You should consult your tax advisor as to the availability and desirability of a mark-to-market election.

Alternatively, if a non-U.S. corporation is a PFIC, a U.S. holder of shares in that corporation may avoid taxation under the rules described above by making a “qualified electing fund” election to include in income its share of the corporation’s income on a current basis. However, you can make a qualified electing fund election with respect to your ADSs or ordinary shares only if we agree to furnish you annually with certain tax information, and we currently do not intend to prepare or provide such information. Therefore, you should assume that you will not receive such information from us and would not be able to make a qualified electing fund election.

[Table of Contents](#)

Because, as a technical matter, a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a U.S. Holder will continue to be subject to the PFIC rules with respect to such U.S. Holder's indirect interest in any investments held by us that are treated as an equity interest in a PFIC for United States federal income tax purposes.

In the case of a U.S. Holder who has held our ADSs or ordinary shares during any taxable year in respect of which we were classified as a PFIC and continues to hold such ADSs or ordinary shares (or any portion thereof), and has not previously made a mark-to-market election, and who later considers making a mark-to-market election, special tax rules may apply relating to purging such ADSs or ordinary shares of the PFIC taint. You should consult your tax advisor concerning the United States federal income tax consequences of purchasing, holding and disposing of our ADSs or ordinary shares, including the possibility of making a mark-to-market election and the unavailability of the qualified electing fund election.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We have previously filed with SEC a registration statement on Form F-1, as amended and prospectus under the Securities Act, with respect to our underlying ordinary shares represented by ADSs. We have also previously filed with SEC (i) our registration statement on Form F-2, as amended, in 2004 and prospectus under the Securities Act, with respect to the sale of ADSs by certain selling shareholders; (ii) our registration statement on Form F-3 in 2007 and prospectus under the Securities Act, with respect to the sale of ADSs by a selling shareholder; (iii) our registration statement on Form F-3 in 2010 with respect to the sale of ADSs by our company and any selling shareholders on a continuous basis and a prospectus under the Securities Act; and (iv) our registration statement on Form F-3 in 2015 with respect to the sale of ADSs by our company on a continuous basis and "shelf takedown" prospectus supplements.

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at SEC's public reference room located at Room 1580, 100F Street, NE, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

Our consolidated financial statements have been prepared in accordance with U.S. GAAP.

We will furnish our shareholders with annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP.

I. Subsidiary Information

Not applicable.

ITEM 11. 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, interest rates associated with the issuance of the 2020 Notes, the 2025 Notes, the 2022 Notes, the 2019 Booking Notes, the 2020 Booking Notes, the 2025 Booking Notes, the 2022 Booking Notes and the 2025 Hillhouse Notes. For information about these notes, see "Item 5.F. Operating and Financial Review and Prospects — Tabular Disclosure of Contractual Obligations." 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 as of December 31, 2018, a one basis point decrease in interest rates would result in approximately a RMB4 million (US\$0.6 million) 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.

[Table of Contents](#)

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 the majority of our revenues are denominated in Renminbi. 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 used forward contracts and currency borrowings to hedge our exposure to foreign currency risk. For the year ended December 31, 2018, foreign exchange losses accounted for approximately -2% of our net income. As of December 31, 2018, a 1% strengthening/weakening of Renminbi against U.S. dollars would have increased/decreased our net income by 0.5%. See “Item 3.D. Key Information — Risk Factors — Risks Related to Doing Business in China — Future movements in exchange rates between the U.S. dollars and Renminbi may adversely affect the value of our ADSs.”

Investment Risk. As of December 31, 2018, our equity method investments totaled US\$1.8 billion. We periodically review our investments for impairment. Unrealized gains on transactions between the affiliated entity and us are eliminated to the extent of our interest in the affiliated entity; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. We are unable to control these factors and an impairment charge recognized by us will impact our operating results and financial position.

In December 2016, in connection with our share exchange transaction with BTG and Homeinns, we exchanged our previously held equity interest in Homeinns for 22% equity interest of BTG and recognized a gain of RMB1.4 billion. If BTG experiences a net loss in the future, we will share its net loss proportionate to our equity interest. In May 2015, we acquired approximately 38% share capital of eLong, Inc. We subsequently participated as a member in the buying consortium in eLong, Inc. going-private transaction that was completed in May 2016. In March 2018, eLong consummated a merger with LY.com with share swap transaction. We received an equity method investment in the enlarged group with previously held equity investment and preferred shares of eLong be exchanged. For the year ended December 31, 2018, we acquired additional equity interest and after these transactions, we had 27% equity interest in the enlarged group and applied equity method for this investment.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees paid by our ADS holders

The Bank of New York Mellon, the depositary of our ADS program, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deducting from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

[Table of Contents](#)

Persons depositing or withdrawing shares must pay:

\$ 5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

\$ 0.02 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs

\$ 0.02 (or less) per ADSs per calendar year

Registration or transfer fees

Expenses of the depositary

Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by the depositary or its agents for servicing the deposited securities

For:

Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property

Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates

Any cash distribution to ADS registered holders

Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders

Depositary services

Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares

Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)

Converting foreign currency to U.S. dollars

As necessary

As necessary

Fees and Payments from the Depositary to Us

We expect to receive from the depositary a reimbursement of approximately US\$5 million, net of withholding tax, for our continuing annual stock exchange listing fees and our expenses incurred in connection with investor relationship programs for 2018. In addition, the depositary has agreed to reimburse us annually for our expenses incurred in connection with investor relationship programs in the future. The amount of such reimbursements is subject to certain limits.

PART II.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, our management, including our chief executive officer, Jane Jie Sun, and our chief financial officer, Cindy Xiaofan Wang, has performed an assessment of the effectiveness of our disclosure controls and procedures, as that term is defined in Rules 13a-15(e) of the Exchange Act, as of the end of the period covered by this annual report. Based on that assessment, our management has concluded that our disclosure controls and procedures were effective as of December 31, 2018.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with U.S. GAAP, and that receipts and expenditures of our company are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use or disposition of our company's assets that could have a material effect on the consolidated 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 risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management conducted an assessment of the effectiveness of our company's internal control over financial reporting as of December 31, 2018 based on the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

PricewaterhouseCoopers Zhong Tian LLP, our independent registered public accounting firm, audited the effectiveness of internal control over financial reporting as of December 31, 2018, as stated in their report.

Attestation Report of the Registered Public Accounting Firm

PricewaterhouseCoopers Zhong Tian LLP, our independent registered public accounting firm, audited the effectiveness of internal control over financial reporting as of December 31, 2018, as stated in their report that appears on page F-2 of this annual report.

Changes in Internal Control over Financial Reporting

As required by Rule 13a-15(d), under the Exchange Act, our management, including our chief executive officer and our chief financial officer, also conducted an assessment of our internal control over financial reporting to determine whether any changes occurred during the period covered by this report have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that assessment, it has been determined that there has been no such change during the period covered by this annual report.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

See "Item 6.C. Directors, Senior Management and Employees — Board Practices."

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our chief executive officer, chief financial officer, financial controller, vice presidents and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as an exhibit to our annual report on Form 20-F for our fiscal year 2003, and posted the code on our investor relations website at ir.ctrip.com. On March 3, 2009, our board of directors approved amendments to our code of ethics and on July 13, 2012, the code of ethics was further amended and restated by our board of directors. We have filed our amended and restated code of business conduct and ethics as an exhibit to our annual report on Form 20-F for our fiscal year 2012, and posted the amended and restated code on our investor relations website at ir.ctrip.com. On October 31, 2017, our board of directors approved our further amended and restated code of business conduct and ethics. We have filed our amended and restated code of business conduct and ethics as Exhibit 11.1 to our annual report on Form 20-F for our fiscal year 2017. You can also find the amended and restated code of business conduct and ethics on our investor relations website at ir.ctrip.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by PricewaterhouseCoopers Zhong Tian LLP, our principal accountant, for the periods indicated.

	For the Year Ended December 31,		
	2017	2018	2018
	RMB	RMB	US\$
Audit Fees ⁽¹⁾	16,630,916	17,084,868	2,484,891
Audit Related Fees ⁽²⁾	513,050	4,697,050	683,158
Tax Fees ⁽³⁾	4,812,771	1,715,553	249,517
All Other Fees ⁽⁴⁾	9,000	9,000	1,309

- (1) "Audit Fees" represent the aggregate fees incurred for each of the fiscal years listed for professional services rendered by our principal accountant for the interim review of quarterly financial statements and the audit of our annual financial statements and other statutory audits of our subsidiaries.
- (2) "Audit Related Fees" represent the aggregate fees incurred in each of the fiscal years listed for assurance and related services that are provided by our principal accountant that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "Audit Fees."
- (3) "Tax Fees" represent the aggregate fees incurred in each of the fiscal years listed for professional services rendered by our principal accountant for tax compliance, tax advice and tax planning.
- (4) "All Other Fees" represent the aggregate fees incurred in each of the fiscal years listed for products and services provided by our principal accountant, other than the services reported in (1), (2) and (3).

Our audit committee pre-approves all audit and permissible non-audit services provided by the principal accountant. These services may include audit services, audit-related services and tax services, as well as, to a very limited extent, specifically designated non-audit services which, in the opinion of the audit committee, will not impair the independence of the principal accountant. The principal accountant and our management are required to report to the audit committee on the quarterly basis regarding the extent of services provided by the principal accountant in accordance with this pre-approval.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

We had adopted several share repurchase plans that were completed prior to January 1, 2018. On April 3, 2014, our board of directors approved an additional share repurchase plan, or the 2014 Repurchase Plan, pursuant to which we were authorized to purchase our own ADSs with an aggregate value of up to US\$600 million by a repurchase of corresponding ordinary shares from the depositary, to be funded out of our existing cash balance. Under the 2014 Repurchase Plan, we were authorized to effect a share repurchase on the open market at prevailing market prices and/or in negotiated transactions off the market from time to time as market conditions, in their judgment, warrant, in accordance with all applicable requirements of Rule 10b-18 under the Exchange Act and on the terms set out in the resolutions of our board of directors approving such share repurchase. As of the date of this annual report on Form 20-F, we purchased approximately 42 million ADSs with a total consideration of approximately US\$510 million from the open market under the 2014 Repurchase Plan.

[Table of Contents](#)

Period	Total Number of ADS Purchased	Average Price Paid Per ADS ⁽¹⁾	Total Number of ADSs Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of ADSs that May Yet Be Purchased Under the Plans
January 1 to January 31, 2018	—	US\$ N/A	—	US\$ 505,310,115
February 1 to February 28, 2018	—	US\$ N/A	—	US\$ 505,310,115
March 1 to March 31, 2018	—	US\$ N/A	—	US\$ 505,310,115
April 1 to April 30, 2018	—	US\$ N/A	—	US\$ 505,310,115
May 1 to May 31, 2018	—	US\$ N/A	—	US\$ 505,310,115
June 1 to June 30, 2018	—	US\$ N/A	—	US\$ 505,310,115
July 1 to July 31, 2018	—	US\$ N/A	—	US\$ 505,310,115
August 1 to August 31, 2018	—	US\$ N/A	—	US\$ 505,310,115
September 1 to September 30, 2018	—	US\$ N/A	—	US\$ 505,310,115
October 1 to October 31, 2018	—	US\$ N/A	—	US\$ 505,310,115
November 1 to November 30, 2018	—	US\$ N/A	—	US\$ 505,310,115
December 1 to December 31, 2018	—	US\$ N/A	—	US\$ 505,310,115
Total	—	US\$ N/A	—	US\$ 505,310,115

(1) Each ADS represents 0.125 ordinary shares.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

As a Cayman Islands company listed on Nasdaq, we are subject to the Nasdaq corporate governance listing standards. However, Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq corporate governance listing standards. In lieu of (i) the requirements of Rule 5605(b) of the Nasdaq Rules that a majority of a Nasdaq-listed company's board of directors be independent directors as defined in Rule 5605(a)(2), and (ii) the requirements of Rule 5635(c) of the Nasdaq Rules that shareholder approval be required prior to the issuance of securities when a stock option or purchase plan is to be established or materially amended or other equity compensation arrangement made or materially amended, pursuant to which stock may be acquired by officers, directors, employees, or consultants, we intend to follow our home country practices with respect to the composition of our board of directors and approval for adoption and material amendment to our equity-based compensation plans. Our Cayman Islands counsel has provided a letter to the Nasdaq Stock Market certifying that under Cayman Islands law, we are not required to follow or comply with the requirements of the Rule 5600 series of the Nasdaq Rules (except for those rules that are required to be followed pursuant to Rule 5615(a)(3)). Nasdaq has acknowledged the receipt of this letter.

Other than the home country practices described above, we are not aware of any significant ways in which our corporate governance practices differ from those followed by U.S. domestic companies under the Nasdaq Rules.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III.

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements for Ctrip.com International, Ltd. and its subsidiaries are included at the end of this annual report.

ITEM 19. EXHIBITS

Exhibit Number	Document
1.1	Amended and Restated Memorandum and Articles of Association of Ctrip.com International, Ltd. (incorporated by reference to Exhibit 3.2 to our Registration Statement on Form F-1 (File No. 333-110455) filed with the Securities and Exchange Commission on November 25, 2003)
1.2	Amendment to the Amended and Restated Memorandum and Articles of Association of Ctrip.com International, Ltd. adopted by the shareholders of Ctrip.com International, Ltd. on October 17, 2006 (incorporated by reference to Exhibit 99.2 to our Report of Foreign Private Issuer on Form 6-K furnished to the Securities and Exchange Commission on October 17, 2006)
1.3	Amendment to the Amended and Restated Memorandum and Articles of Association of Ctrip.com International, Ltd. adopted by the shareholders of Ctrip.com International, Ltd. on October 26, 2012 (incorporated by reference to Exhibit 1.3 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on March 29, 2013)
1.4	Second Amended and Restated Memorandum and Articles of Association of Ctrip.com International, Ltd. adopted by the shareholders of Ctrip.com International, Ltd. on December 21, 2015 (incorporated by reference to Exhibit 99.2 to our Report of Foreign Private Issuer on Form 6-K furnished to the Securities and Exchange Commission on December 23, 2015)
2.1	Specimen American Depositary Receipt of Ctrip.com International, Ltd. (incorporated by reference to the prospectus dated January 25, 2010 as part of the Registration Statement on Form F-6 (File no. 333-145167) filed with the Securities and Exchange Commission on August 6, 2007)
2.2	Specimen Stock Certificate of Ctrip.com International, Ltd. (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form F-1 (File No. 333-110455) filed with the Securities and Exchange Commission on November 25, 2003)
2.3	Rights Agreement dated as of November 23, 2007 between Ctrip.com International, Ltd. and The Bank of New York, as Rights Agent (incorporated by reference to Exhibit 4.1 to our Report of Foreign Private Issuer on Form 6-K furnished to the Securities and Exchange Commission on November 23, 2007)
2.4	First Amendment to the Rights Agreement dated as of August 7, 2014 between Ctrip.com International, Ltd. and The Bank of New York, as Rights Agent (incorporated by reference to Exhibit 4.1 to our Report of Foreign Private Issuer on Form 8-A/A furnished to the Securities and Exchange Commission on August 8, 2014)
2.5	Second Amendment to the Rights Agreement dated as of August 7, 2014 between Ctrip.com International, Ltd. and The Bank of New York, as Rights Agent (incorporated by reference to Exhibit 4.2 to our Report of Foreign Private Issuer on Form 8-A/A furnished to the Securities and Exchange Commission on August 8, 2014)
2.6	Third Amendment to the Rights Agreement dated as of May 29, 2015 between Ctrip.com International, Ltd. and The Bank of New York, as Rights Agent (incorporated by reference to Exhibit 4.3 to our Report of Foreign Private Issuer on Form 8-A/A furnished to the Securities and Exchange Commission on June 4, 2015)
2.7	Fourth Amendment to the Rights Agreement dated as of October 26, 2015 between Ctrip.com International, Ltd. and The Bank of New York, as Rights Agent (incorporated by reference to Exhibit 4.3 to our Report of Foreign Private Issuer on Form 8-A/A furnished to the Securities and Exchange Commission on October 27, 2015)
2.8	Fifth Amendment to the Rights Agreement dated as of December 23, 2015 between Ctrip.com International, Ltd. and The Bank of New York, as Rights Agent (incorporated by reference to Exhibit 4.3 to our Report of Foreign Private Issuer on Form 8-A/A furnished to the Securities and Exchange Commission on December 23, 2015)
2.9	Deposit Agreement dated as of December 8, 2003, as amended and restated as of August 11, 2006, and as further amended and restated as of December 3, 2007, among Ctrip.com International, Ltd., The Bank of New York as Depositary, and all Owners and Beneficial Owners from time to time of American Depositary Shares issued thereunder (incorporated by reference to Exhibit 2.4 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 29, 2008)

[Table of Contents](#)

Exhibit Number	Document
4.1	Form of Ctrip.com International, Ltd. Stock Option Plans (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form F-1 (File No. 333-110455) and Exhibit 10.23 to our Registration Statement on Form F-2 (File No. 333-121080) filed with the Securities and Exchange Commission on November 13, 2003 and December 8, 2004, respectively)
4.2	Form of Indemnification Agreement with the Registrant's directors and executive officers (incorporated by reference to Exhibit 10.2 to our Registration Statement on Form F-1 (File No. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)
4.3	Translation of Form of Labor Contract for Employees of the Registrant's subsidiaries in China (incorporated by reference to Exhibit 10.3 to our Registration Statement on Form F-1 (File No. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)
4.4	Employment Agreement between the Registrant and James Jianzhang Liang (incorporated by reference to Exhibit 10.4 to our Registration Statement on Form F-1 (File No. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)
4.5	Employment and Confidentiality Agreement between the Registrant and Jane Jie Sun (incorporated by reference to Exhibit 4.5 to our Annual Report on Form 20-F (File No. 000-50483) filed with the Securities and Exchange Commission on June 26, 2006)
4.6	Employment Agreement, between the Registrant and Min Fan (incorporated by reference to Exhibit 10.6 to our Registration Statement on Form F-1 (File No. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)
4.7	Translation of Executed Form of Technical Consulting and Services Agreement between a wholly-owned subsidiary of the Registrant and a consolidated affiliated Chinese entity of the Registrant, as currently in effect, and a schedule of all executed technical consulting and services agreements adopting the same form in respect of a consolidated affiliated Chinese entity of the Registrant (incorporated by reference to Exhibit 4.7 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 23, 2018)
4.8	Translation of Executed Form of Loan Agreement between a wholly-owned subsidiary of the Registrant and shareholders of a consolidated affiliated Chinese entity of the Registrant, as currently in effect, and a schedule of all executed loan agreements adopting the same form in respect of a consolidated affiliated Chinese entity of the Registrant (incorporated by reference to Exhibit 4.8 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 23, 2018)
4.9	Translation of Executed Form of Exclusive Call Option Agreement among a wholly-owned subsidiary of the Registrant, a consolidated affiliated Chinese entity of the Registrant and a shareholder of the consolidated affiliated Chinese entity, as currently in effect, and a schedule of all executed exclusive option agreements adopting the same form in respect of a consolidated affiliated Chinese entity of the Registrant (incorporated by reference to Exhibit 4.9 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 23, 2018)
4.10	Translation of Executed Form of Equity Pledge Agreement between a wholly-owned subsidiary of the Registrant and a shareholder of a consolidated affiliated Chinese entity of the Registrant, as currently in effect, and a schedule of all executed share pledge agreements adopting the same form in respect of a consolidated affiliated Chinese entity of the Registrant (incorporated by reference to Exhibit 4.10 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 23, 2018)
4.11	Translation of Executed Form of Power of Attorney by a shareholder of a consolidated affiliated Chinese entity of the Registrant, as currently in effect, and a schedule of all executed power of attorney adopting the same form in respect of a consolidated affiliated Chinese entity of the Registrant (incorporated by reference to Exhibit 4.11 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 23, 2018)
4.12	Confidentiality and Non-Competition Agreement, effective as of September 10, 2003, between the Registrant and Qi Ji (incorporated by reference to Exhibit 10.16 to our Registration Statement on Form F-1 (File No. 333-110455) filed with the Securities and Exchange Commission on November 13, 2003)
4.13	Form of Director Agreement between the Registrant and its director (incorporated by reference to Exhibit 4.20 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on May 11, 2004)
4.14	Translation of State Land Use Right Assignment Contract dated February 25, 2008 between Nantong Land Resource Bureau and Ctrip Information Technology (Nantong) Co., Ltd. (incorporated by reference to Exhibit 4.21 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 29, 2008)
4.15	Ctrip.com International, Ltd. 2007 Share Incentive Plan, as amended and restated as of November 17, 2008 (incorporated by reference to Exhibit 4.21 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on May 26, 2009)

[Table of Contents](#)

Exhibit Number	Document
4.16	Purchase Agreement dated May 7, 2009 between Ctrip.com International, Ltd. and Home Inns & Hotels Management Inc. (incorporated by reference to Exhibit 99.(B) to our General Statement of Acquisition of Beneficial Ownership on Schedule 13D (File No. 005-82520) filed with the Securities and Exchange Commission on May 21, 2009)
4.17	Registration Rights Agreement dated May 7, 2009 between Ctrip.com International, Ltd. and Home Inns & Hotels Management Inc. (incorporated by reference to Exhibit 99.(C) to our General Statement of Acquisition of Beneficial Ownership on Schedule 13D (File No. 005-82520) filed with the Securities and Exchange Commission on May 21, 2009)
4.18	Subscription Agreement dated March 12, 2010 between Ctrip.com International, Ltd. and China Lodging Group, Limited (currently known as Huazhu Group Limited) (incorporated by reference to Exhibit 99.(A) to our General Statement of Acquisition of Beneficial Ownership on Schedule 13D (File No. 005-85408) filed with the Securities and Exchange Commission on April 9, 2010)
4.19	Share Purchase Agreement dated March 12, 2010 between Ctrip.com International, Ltd. and the selling shareholders named therein (incorporated by reference to Exhibit 99.(B) to our General Statement of Acquisition of Beneficial Ownership on Schedule 13D (File No. 005-85408) filed with the Securities and Exchange Commission on April 9, 2010)
4.20	Investor and Registration Rights Agreement dated March 12 2010 between Ctrip.com International, Ltd. and China Lodging Group, Limited (currently known as Huazhu Group Limited) (incorporated by reference to Exhibit 99.(C) to our General Statement of Acquisition of Beneficial Ownership on Schedule 13D (File No. 005-85408) filed with the Securities and Exchange Commission on April 9, 2010)
4.21	Translation of Construction Contract as of February 2012 between Chengdu Ctrip Information Technology Co., Ltd. and Hunan No. 1 Engineering Co., Ltd. (incorporated by reference to Exhibit 4.27 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on March 30, 2012)
4.22	Translation of State-Owned Construction Land Use Right Transfer Contract dated September 30, 2011 between Chengdu Ctrip Information Technology Co., Ltd. and Chengdu Land Resources Bureau (incorporated by reference to Exhibit 4.30 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on March 30, 2012)
4.23	Indenture dated September 24, 2012 constituting US\$180.0 million 0.50% Convertible Senior Notes due 2017 (incorporated by reference to Exhibit 4.30 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on March 29, 2013)
4.24	Indenture dated October 17, 2013 constituting US\$800.0 million 1.25% Convertible Senior Notes due 2018 (incorporated by reference to Exhibit 4.32 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on March 28, 2014)
4.25	Convertible Note Purchase Agreement dated August 7, 2014 between Ctrip.com International, Ltd. and Priceline Group Treasury Company B.V. for the issuance and purchase of US\$500 million 1.00% convertible note due 2019 (incorporated by reference to Exhibit 2 to Schedule 13D (File No. 005-79455) filed by The Priceline Group Inc. (currently known as Booking Holdings Inc.) with the Securities and Exchange Commission on September 29, 2014)
4.26	The Secured Credit Agreement dated December 29, 2014 between Ctrip Investment Holding Ltd and Exquisite Marine Ltd. (incorporated by reference to Exhibit 4.37 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 27, 2015)
4.27	Share Purchase Agreement for the acquisition of certain shares of eLong dated May 22, 2015 between Ctrip.com International, Ltd., C-Travel International Limited, Keystone Lodging Holdings Limited, Plateno Group Limited, Luxuriant Holdings Limited, Expedia, Inc. and Expedia Asia Pacific — Alpha Limited. (incorporated by reference to Exhibit B to Schedule 13D (File No. 005-80401) filed by Ctrip.com International, Ltd. with the Securities and Exchange Commission on June 1, 2015)
4.28	Right of First Refusal Agreement dated May 22, 2015 by and between C-Travel International Limited and Keystone Lodging Holdings Limited (incorporated by reference to Exhibit D to Schedule 13D (File No. 005-80401) filed by Ctrip.com International, Ltd. with the Securities and Exchange Commission on June 1, 2015)
4.29	Convertible Note Purchase Agreement dated May 26, 2015 between Ctrip.com International, Ltd. and Priceline Group Treasury Company B.V. for the issuance and purchase of US\$250 million 1.00% convertible note due 2020 (incorporated by reference to Exhibit 1 to Schedule 13D/A (File No. 005-79455) filed by The Priceline Group Inc. (currently known as Booking Holdings Inc.) with the Securities and Exchange Commission on May 29, 2015)
4.30	Purchase Agreement dated June 18, 2015 between Ctrip.com International, Ltd. and J.P. Morgan Securities LLC for the issuance of US\$700 million 1.00% Convertible Senior Notes due 2020 and US\$400 million 1.99% Convertible Senior Notes due 2025 (incorporated by reference to Exhibit 4.42 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 22, 2016)

[Table of Contents](#)

Exhibit Number	Document
4.31	Indenture dated June 24, 2015 constituting US\$700 million 1.00% Convertible Senior Notes due 2020 (incorporated by reference to Exhibit 4.43 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 22, 2016)
4.32	Indenture dated June 24, 2015 constituting US\$400 million 1.99% Convertible Senior Notes due 2025 (incorporated by reference to Exhibit 4.44 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 22, 2016)
4.33	Share Exchange Agreement dated as of October 24, 2015 among Baidu, Inc., Baidu Holdings Limited and Ctrip.com International, Ltd. (incorporated by reference to Exhibit 2 to Schedule 13D (File No. 005-79455) filed by Baidu, Inc. with the Securities and Exchange Commission on November 4, 2015)
4.34	Standstill Agreement dated as of October 26, 2015 between Baidu, Inc. and Ctrip.com International, Ltd. (incorporated by reference to Exhibit 3 to Schedule 13D (File No. 005-79455) filed by Baidu, Inc. with the Securities and Exchange Commission on November 4, 2015)
4.35	Registration Rights Agreement dated as of October 26, 2015 between Baidu Holdings Limited and Ctrip.com International, Ltd. (incorporated by reference to Exhibit 4 to Schedule 13D (File No. 005-79455) filed by Baidu, Inc. with the Securities and Exchange Commission on November 4, 2015)
4.36	Convertible Note Purchase Agreement dated December 9, 2015 between Ctrip.com International, Ltd. and Priceline Group Treasury Company B.V. for the issuance and purchase of US\$500 million 2.00% convertible note due 2025 (incorporated by reference to Exhibit 1 to Schedule 13D/A (File No. 005-79455) filed by The Priceline Group Inc. (currently known as Booking Holdings Inc.) with the Securities and Exchange Commission on December 14, 2015)
4.37	Third Amended and Restated Standstill Agreement dated December 9, 2015 between Ctrip.com International, Ltd. and The Priceline Group Inc. (currently known as Booking Holdings Inc.) (incorporated by reference to Exhibit 2 to Schedule 13D/A (File No. 005-79455) filed by The Priceline Group Inc. (currently known as Booking Holdings Inc.) with the Securities and Exchange Commission on December 14, 2015)
4.38	Convertible Note Purchase Agreement dated December 9, 2015 among Ctrip.com International, Ltd., Gaoling Fund, L.P. and YHG Investment, L.P. for the issuance and purchase of US\$500 million 2.00% convertible notes due 2025 (incorporated by reference to Exhibit 4.50 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 22, 2016)
4.39	Framework Agreement for Treatment of Qunar Employee Shares and Equity Awards dated December 9, 2015 between Ctrip.com International, Ltd. and Qunar Cayman Islands Limited (incorporated by reference to Exhibit 4.51 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 22, 2016)
4.40	Restated Exclusive Technical Consulting and Services Agreement dated March 23, 2016 between Beijing Qu Na Information Technology Co., Ltd. and Beijing Qunar Software Technology Co., Ltd. (incorporated by reference to Exhibit 4.52 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 22, 2016)
4.41	Loan Agreement dated March 23, 2016 among Beijing Qunar Software Technology Co., Ltd., Hui Cao and Hui Wang (incorporated by reference to Exhibit 4.53 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 22, 2016)
4.42	Equity Option Agreement dated March 23, 2016 among Qunar Cayman Islands Limited, Beijing Qunar Software Technology Co., Ltd., Hui Cao, Hui Wang and Beijing Qu Na Information Technology Co., Ltd. (incorporated by reference to Exhibit 4.54 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 22, 2016)
4.43	Equity Interest Pledge Agreement dated March 23, 2016 among Beijing Qunar Software Technology Co., Ltd., Hui Cao and Hui Wang (incorporated by reference to Exhibit 4.55 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 22, 2016)
4.44	Power of Attorney by Hui Cao and Hui Wang dated March 23, 2016 (incorporated by reference to Exhibit 4.56 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 22, 2016)
4.45	Form of Underwriting Agreement dated September 7, 2016 among Ctrip.com International, Ltd., J.P. Morgan Securities LLC and Morgan Stanley & Co International plc for the issuance of 28,500,000 ADSs (incorporated by reference to Exhibit 1.1 to our Report of Foreign Private Issuer on Form 6-K furnished to the Securities and Exchange Commission on September 6, 2016)

[Table of Contents](#)

Exhibit Number	Document
4.46	Purchase Agreement dated September 7, 2016 among Ctrip.com International, Ltd., J.P. Morgan Securities LLC and Morgan Stanley & Co International plc for the issuance of US\$975 million 1.25% convertible senior notes due 2022 (incorporated by reference to Exhibit 4.46 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 13, 2017)
4.47	Indenture dated September 12, 2016 constituting US\$975 million 1.25% convertible senior notes due 2022 (incorporated by reference to Exhibit 4.47 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 13, 2017)
4.48	Subscription Agreement dated September 6, 2016 between Ctrip.com International, Ltd. and Baidu Holdings Limited for the subscription of our ordinary shares in the amount of US\$100 million (incorporated by reference to Exhibit 4.48 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 13, 2017)
4.49	Agreement dated November 23, 2016 among Ctrip.com International, Ltd. and the sellers stated therein for the purchase and sale of shares of Skyscanner (incorporated by reference to Exhibit 4.49 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 13, 2017)
4.50	Translation of Subscription Agreement for Private Placement Shares of China Eastern Airlines Corporation Limited dated June 27, 2016 between China Eastern Airlines Corporation Limited and Shanghai Licheng Information Technology Co., Ltd., an indirect subsidiary of Ctrip.com International, Ltd., for the private placement of A shares of China Eastern Airlines Corporation Limited in the amount of approximately RMB3 billion (incorporated by reference to Exhibit 4.50 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 13, 2017)
4.51	English summary of €980 Million Term Loan Agreement dated June 8, 2017 among Ctrip.com International, Ltd. (as borrower), Bank of China (as sole mandated lead arranger), Industrial and Commercial Bank of China, Shanghai Branch and Shanghai Pudong Development Bank, Shanghai Branch (as joint lead arrangers), Bank of China, Shanghai Branch (as agent), Bank of China, Shanghai Changning Sub-branch (as guarantee agent), and certain lenders (incorporated by reference to Exhibit 4.51 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 23, 2018)
4.52	Ctrip.com International, Ltd. Amended and Restated Global Share Incentive Plan (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form S-8 (File No. 333-230297) filed with the Securities and Exchange Commission on March 15, 2019)
8.1*	List of Significant Consolidated Entities of the Registrant
11.1	Code of Business Conduct and Ethics of the Registrant, as amended and restated as of October 31, 2017 (incorporated by reference to Exhibit 11.1 to our Annual Report on Form 20-F (File No. 001-33853) filed with the Securities and Exchange Commission on April 23, 2018)
12.1*	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Maples and Calder (Hong Kong) LLP
15.2*	Consent of Commerce & Finance Law Offices
15.3*	Consent of PricewaterhouseCoopers Zhong Tian LLP
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed with this annual report on Form 20-F.

** Furnished with this annual report on Form 20-F.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CTRIP.COM INTERNATIONAL, LTD.

By: /s/ Jane Jie Sun
Name: Jane Jie Sun
Title: Chief Executive Officer and Director

Date: March 15, 2019

CTrip.COM International, Ltd.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Statements of Income/(Loss) and Comprehensive Income/(Loss) for the years ended December 31, 2016, 2017 and 2018	F-4
Consolidated Balance Sheets as of December 31, 2017 and 2018	F-5
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2016, 2017 and 2018	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2017 and 2018	F-9
Notes to the Consolidated Financial Statements	F-11

Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Ctrip.com International, Ltd. and its subsidiaries (the "Company") as of December 31, 2018 and December 31, 2017, and the related consolidated statements of income/(loss) and comprehensive income/(loss), of shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for revenue from contracts with customers and the manner in which it accounts for investments in equity securities in 2018.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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.

/s/ PricewaterhouseCoopers Zhong Tian LLP

PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China
March 15, 2019

We have served as the Company's auditor since 2003.

CTRIP.COM INTERNATIONAL, LTD.

CONSOLIDATED STATEMENTS OF INCOME/(LOSS) AND COMPREHENSIVE INCOME/(LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018

(In millions, except for share and per share data)

	2016	2017	2018	2018
	RMB	RMB	RMB	US\$
Revenues:				
Accommodation reservation	7,321	9,531	11,580	1,684
Transportation ticketing	8,827	12,221	12,947	1,883
Packaged-tour	2,315	2,973	3,772	549
Corporate travel	608	753	981	143
Others	734	1,515	1,824	265
Total revenues	19,805	26,993	31,104	4,524
Less: Sales tax and surcharges	(560)	(197)	(139)	(20)
Net revenues	19,245	26,796	30,965	4,504
Cost of revenues	(4,730)	(4,678)	(6,324)	(920)
Gross profit	14,515	22,118	24,641	3,584
Operating expenses:				
Product development	(7,687)	(8,259)	(9,620)	(1,399)
Sales and marketing	(5,861)	(8,294)	(9,596)	(1,396)
General and administrative	(2,519)	(2,622)	(2,820)	(410)
Total operating expenses	(16,067)	(19,175)	(22,036)	(3,205)
(Loss)/income from operations	(1,552)	2,943	2,605	379
Interest income	567	988	1,899	276
Interest expense	(732)	(1,286)	(1,508)	(219)
Other (expense)/income	(27)	879	(1,075)	(156)
(Loss)/income before income tax expense, equity in income of affiliates and non-controlling interests	(1,744)	3,524	1,921	280
Income tax expense	(482)	(1,285)	(793)	(115)
Equity in income/(loss) of affiliates	602	(65)	(32)	(5)
Net (loss)/income	(1,624)	2,174	1,096	160
Net loss/(income) attributable to non-controlling interests	206	(19)	16	2
Net (loss)/income attributable to Ctrip.com International, Ltd.	(1,418)	2,155	1,112	162
Net (loss)/income	(1,624)	2,174	1,096	160
Other comprehensive income/(expense):				
Foreign currency translation	(324)	723	(1,072)	(156)
Unrealized securities holding gains/(losses), net of tax	915	4,686	(696)	(102)
Reclassification adjustment for net gain recognized on disposal of available-for-sale debt investment	(141)	(40)	—	—
Total comprehensive (loss)/income	(1,174)	7,543	(672)	(98)
Comprehensive loss/(income) attributable to non-controlling interests	206	(19)	16	2
Comprehensive (loss)/income attributable to Ctrip.com International, Ltd.	(968)	7,524	(656)	(96)
(Loss)/earnings per ordinary share				
— Basic	(23.97)	32.51	16.25	2.36
— Diluted	(23.97)	30.75	15.67	2.28
(Loss)/earnings per ADS				
— Basic	(3.00)	4.06	2.03	0.30
— Diluted	(3.00)	3.84	1.96	0.29
Weighted average ordinary shares outstanding				
— Basic shares	59,166,582	66,300,808	68,403,426	68,403,426
— Diluted shares	59,166,582	71,775,893	70,924,623	70,924,623
Share-based compensation included in Operating expense above is as follows:				
Product development	2,080	1,013	934	136
Sales and marketing	393	186	156	23
General and administrative	1,087	635	617	90

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

CTRIP.COM INTERNATIONAL, LTD.

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2018

(In millions, except for share and per share data)

	2017 RMB	2018 RMB	2018 US\$
ASSETS			
Current assets:			
Cash and cash equivalents	18,243	21,530	3,131
Restricted cash	1,749	4,244	617
Short-term investments	28,130	36,753	5,346
Accounts receivable, net	4,749	5,668	824
Due from related parties	374	1,642	239
Prepayments and other current assets	6,173	9,557	1,390
Total current assets	59,418	79,394	11,547
Long-term deposits and prepayments	840	768	112
Long-term loan receivable	19	—	—
Long-term receivables due from related parties	218	229	33
Land use rights	97	94	14
Property, equipment and software	5,616	5,872	854
Investments	25,574	26,874	3,909
Goodwill	56,246	58,026	8,439
Intangible assets	13,750	13,723	1,996
Deferred tax assets	462	850	124
Total assets	162,240	185,830	27,028
LIABILITIES			
Current liabilities:			
Short-term debt and current portion of long-term debt	16,316	36,011	5,238
Accounts payable	7,459	11,714	1,704
Due to related parties	419	492	72
Salary and welfare payable	3,465	3,694	537
Taxes payable	927	1,019	148
Advances from customers	7,868	9,472	1,378
Accrued liability for customer reward program	610	528	77
Other payables and accruals	5,098	5,854	851
Total current liabilities	42,162	68,784	10,005
Deferred tax liabilities	3,895	3,838	558
Long-term debt	29,220	24,146	3,512
Other long-term liabilities	348	329	48
Total liabilities	75,625	97,097	14,123
Commitments and contingencies (Note 19)			
Shareholders' equity			
Share capital (US\$0.01 par value; 175,000,000 shares authorized, issued shares as of December 31, 2017 and 2018: 70,529,793 and 72,051,947; outstanding shares as of December 31, 2017 and 2018: 67,600,654 and 69,122,824)	5	5	1
Additional paid-in capital	71,341	73,876	10,745
Statutory reserves	384	484	70
Accumulated other comprehensive income/(loss)	6,379	(1,482)	(216)
Retained earnings	8,838	15,943	2,319
Less: Treasury stock (2,929,139 and 2,929,123 shares as of December 31, 2017 and 2018, respectively)	(2,111)	(2,111)	(307)
Total Ctrip.com International, Ltd. shareholders' equity	84,836	86,715	12,612
Non-controlling interests	1,779	2,018	293
Total shareholders' equity	86,615	88,733	12,905
Total liabilities and shareholders' equity	162,240	185,830	27,028

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

CTRIP.COM INTERNATIONAL, LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018

(In millions, except for share and per share data)

	Ordinary shares (US\$0.01 par value)		Additional paid-in capital	Statutory reserves	Accumulated other comprehensive income/(loss)	Retained earnings	Number of Treasury stock	Treasury stock	Total Ctrip.com International, Ltd. shareholders' equity	Non- controlling interests	Total shareholders' equity
	Number of shares issued	Par value									
Balance as of December 31, 2015	51,167,228	4	37,992	169	560	8,199	(3,577,357)	(2,373)	44,551	19,134	63,685
Cumulative effect of adoption of new accounting standard	—	—	—	—	—	117	—	—	117	—	117
Issuance of ordinary shares for the exercise of stock options	796,582	—	198	—	—	—	—	—	198	—	198
Share-based compensation	—	—	3,560	—	—	—	—	—	3,560	—	3,560
Appropriations to statutory reserves	—	—	—	69	—	(69)	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	(324)	—	—	—	(324)	—	(324)
Unrealized securities holding gains	—	—	—	—	915	—	—	—	915	—	915
Disposal of available-for- sale debt investment	—	—	—	—	(141)	—	—	—	(141)	—	(141)
Early Conversion of Convertible Notes	330,048	—	29	—	—	—	330,048	137	166	—	166
Net income / (loss)	—	—	—	—	—	(1,418)	—	—	(1,418)	(206)	(1,624)
Issuance of ordinary shares, net of issuance costs	4,436,844	—	10,652	—	—	—	—	—	10,652	—	10,652
Issuance of additional equity stake by subsidiaries	—	—	—	—	—	—	—	—	—	135	135
Issuance of ordinary shares for settlement of Convertible Notes	1,044,805	—	2,438	—	—	—	—	—	2,438	—	2,438
Disposal of shares in subsidiaries	—	—	—	—	—	—	—	—	—	(3)	(3)
Acquisition of additional shares in subsidiaries	5,407,787	1	8,969	—	—	—	—	—	8,970	(15,501)	(6,531)
Business combination	972,118	—	1,982	—	—	—	—	—	1,982	425	2,407
Balance as of December 31, 2016	64,155,412	5	65,820	238	1,010	6,829	(3,247,309)	(2,236)	71,666	3,984	75,650

CTRIP.COM INTERNATIONAL, LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018

(In millions, except for share and per share data)

	Ordinary shares (US\$0.01 par value)		Additional paid-in capital	Statutory reserves	Accumulated other comprehensive income/(loss)	Retained earnings	Number of Treasury stock	Treasury stock	Total Ctrip.com International, Ltd. shareholders' equity	Non- controlling interests	Total shareholders' equity
	Number of shares issued	Par value									
Issuance of ordinary shares for the exercise of stock options	1,639,073	—	621	—	—	—	—	—	621	—	621
Share-based compensation	—	—	1,834	—	—	—	—	—	1,834	—	1,834
Appropriations to statutory reserves	—	—	—	146	—	(146)	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	723	—	—	—	723	—	723
Unrealized securities holding gains	—	—	—	—	4,686	—	—	—	4,686	—	4,686
Disposal of available-for-sale debt investment	—	—	—	—	(40)	—	—	—	(40)	—	(40)
Early Termination of call option	—	—	650	—	—	—	—	—	650	—	650
Issuance of ordinary shares for early Conversion of Convertible Notes	1,043,375	—	2,234	—	—	—	—	—	2,234	—	2,234
Early Termination of Convertible Notes	318,170	—	37	—	—	—	318,170	125	162	—	162
Net income / (loss)	—	—	—	—	—	2,155	—	—	2,155	19	2,174
Acquisition of additional shares in subsidiaries	444,624	—	145	—	—	—	—	—	145	(2,458)	(2,313)
Business combination	—	—	—	—	—	—	—	—	—	234	234
Balance as of December 31, 2017	67,600,654	5	71,341	384	6,379	8,838	(2,929,139)	(2,111)	84,836	1,779	86,615

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

CTRIP.COM INTERNATIONAL, LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018

(In millions, except for share and per share data)

	Ordinary shares (US\$0.01 par value)		Additional paid-in capital	Statutory reserves	Accumulated other comprehensive income/(loss)	Retained earnings	Number of Treasury stock	Treasury stock	Total Ctrip.com International, Ltd. shareholders' equity	Non- controlling interests	Total shareholders' equity
	Number of shares issued	Par value									
Cumulative effect of adoption of new accounting standard (Note 2)	—	—	—	—	(6,093)	6,093	—	—	—	—	—
Issuance of ordinary shares for the exercise of stock options	1,522,154	—	653	—	—	—	—	—	653	—	653
Share-based compensation	—	—	1,707	—	—	—	—	—	1,707	—	1,707
Appropriations to statutory reserves	—	—	—	100	—	(100)	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	(1,072)	—	—	—	(1,072)	—	(1,072)
Unrealized securities holding losses	—	—	—	—	(696)	—	—	—	(696)	—	(696)
Early Termination of Convertible Notes	16	—	—	—	—	—	16	—	—	—	—
Net income / (loss)	—	—	—	—	—	1,112	—	—	1,112	(16)	1,096
Issuance of additional equity stake by subsidiaries	—	—	—	—	—	—	—	—	—	394	394
Disposal of shares in subsidiaries	—	—	4	—	—	—	—	—	4	(34)	(30)
Acquisition of additional shares in subsidiaries	—	—	(224)	—	—	—	—	—	(224)	(378)	(602)
Non-controlling interest in subsidiary disposed of in Business Combination	—	—	395	—	—	—	—	—	395	4	399
Business combination	—	—	—	—	—	—	—	—	—	269	269
Balance as of December 31, 2018	69,122,824	5	73,876	484	(1,482)	15,943	(2,929,123)	(2,111)	86,715	2,018	88,733

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

CTRIP.COM INTERNATIONAL, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018
(In millions)

	2016	2017	2018	2018
	RMB	RMB	RMB	US\$
Cash flows from operating activities:				
Net (loss)/income	(1,624)	2,174	1,096	160
<i>Adjustments to reconcile net income to cash provided by operating activities:</i>				
Share-based compensation	3,560	1,834	1,707	249
Equity in (income)/loss of affiliates	(602)	65	32	5
Loss from disposal of property, equipment and software	9	52	41	6
Gain on disposal of long-term investment	(290)	(1,416)	(1,181)	(173)
Loss/(gain) from disposal of a subsidiary	—	(11)	2	—
Impairments of long-term investment	48	411	—	—
Provision/impairment related to an equity method investment	—	967	61	9
Changes in fair value for equity investments measured at fair value	—	—	3,064	446
Gain from the re-measurement of the previously held equity interest to the fair value in the business acquisition	—	—	(249)	(36)
Provision for doubtful accounts	32	98	69	10
Depreciation of property, equipment and software	461	490	546	79
Amortization of intangible assets and land use rights	257	393	436	63
Deferred income tax expenses/(benefits)	28	(168)	(632)	(92)
<i>Changes in current assets and liabilities, net of assets acquired and liabilities assumed/disposed of in business combinations/dispositions, net of deconsolidations:</i>				
Increase in accounts receivable	(1,349)	(52)	(704)	(102)
(Increase)/decrease in due from related parties	(602)	259	(1,280)	(186)
Decrease/(increase) in prepayments and other current assets	591	410	(2,039)	(297)
Decrease/(increase) in long-term receivables	75	45	(41)	(6)
Increase in accounts payable	1,251	171	3,687	536
Increase/(decrease) in due to related parties	583	(359)	73	11
Increase in salary and welfare payable	1,259	954	220	32
(Decrease)/increase in taxes payable	(778)	(140)	42	6
Increase/(decrease) in advances from customers	2,271	(341)	1,333	194
Increase/(decrease) in accrued liability for customer reward program	65	(49)	(82)	(12)
Increase in other payables and accruals	25	1,282	914	134
Net cash provided by operating activities	<u>5,270</u>	<u>7,069</u>	<u>7,115</u>	<u>1,036</u>
Cash flows from investing activities:				
Purchase of property, equipment and software	(683)	(471)	(673)	(98)
Cash paid for long-term investments	(5,408)	(1,541)	(4,387)	(638)
Cash paid for business combinations, net of cash acquired	(9,157)	(309)	1	—
Purchase of intangible assets	(6)	(23)	(35)	(5)
Increase in short-term investments and borrowings	(5,935)	(13,936)	(8,811)	(1,282)
Cash repayment from long-term receivables	212	—	—	—
Cash received from loans to the users	—	441	1,022	149
Cash paid for loans to the users	—	(580)	(998)	(145)
Net change in loans to the users with terms of less than three months	—	(252)	(918)	(134)
Cash received from disposal of long-term investments	717	1,453	723	105
Cash used from deconsolidation of a subsidiary, net of cash disposed	(90)	—	—	—
Cash used from disposal of a subsidiary, net of cash received	—	(11)	(2)	—
Net cash used in investing activities	<u>(20,350)</u>	<u>(15,229)</u>	<u>(14,078)</u>	<u>(2,048)</u>

CTRIP.COM INTERNATIONAL, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018
(In millions)

	2016	2017	2018	2018
	RMB	RMB	RMB	US\$
Cash flows from financing activities:				
Proceeds from short-term bank loans	1,980	2,137	11,768	1,712
Proceeds from long-term bank loans	2,550	6,202	2,973	432
Proceeds from exercise of share options	212	732	677	98
Cash paid for acquisition of additional equity stake in subsidiaries	(6,532)	(1,759)	(1,196)	(174)
Cash paid for settlement of convertible notes	(2,034)	—	(3,297)	(480)
Proceeds from securitization debt	—	—	608	88
Cash received from non-controlling shareholders	87	58	393	57
Proceeds from issuance of senior convertible notes, net of issuance costs	6,545	—	—	—
Proceeds from Early Termination of Purchased Call Option	—	650	—	—
Proceeds from issuance of ordinary shares, net of issuance costs	10,653	—	—	—
Repayment of loans due to related parties	(1,821)	—	—	—
Proceeds from repayment of loans due from related parties	651	—	—	—
Net cash provided by financing activities	12,291	8,020	11,926	1,733
Effect of foreign exchange rate changes on cash and cash equivalents, restricted cash	1,465	(47)	819	119
Net (decrease)/increase in cash and cash equivalents, restricted cash	(1,324)	(187)	5,782	840
Cash and cash equivalents, restricted cash, beginning of year	21,503	20,179	19,992	2,908
Cash and cash equivalents, restricted cash, end of year	20,179	19,992	25,774	3,748
Supplemental disclosure of cash flow information				
Cash paid during the year for income taxes	412	1,575	1,315	191
Cash paid for interest, net of amounts capitalized	594	1,218	1,444	210
Supplemental schedule of non-cash investing and financing activities				
Conversion of convertible senior notes	2,605	2,396	—	—
Non-cash consideration paid for business acquisitions, investments and non-controlling interest	(14,626)	(1,179)	(942)	(137)
Share exchange for equity investment	(2,499)	—	—	—
Accruals related to purchase of property, equipment and software	(23)	(42)	(22)	(3)
Unpaid cash consideration for business acquisitions and acquisition of additional shares of subsidiary	(497)	(626)	(188)	(27)

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

CTRIP.COM INTERNATIONAL, LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts expressed in RENMINBI (RMB) unless otherwise stated)

1. ORGANIZATION AND NATURE OF OPERATIONS

The accompanying consolidated financial statements include the financial statements of Ctrip.com International, Ltd. (the “Company”), its subsidiaries, VIEs and VIEs’ subsidiaries. The Company, its subsidiaries, the consolidated VIEs and their subsidiaries are collectively referred to as the “Group”.

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

2. PRINCIPAL ACCOUNTING POLICIES***Basis of presentation***

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted 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.

Adoption of new accounting guidance

On January 1, 2018, the Company adopted new revenue guidance ASC Topic 606, “Revenue from Contracts with Customers” (“ASC 606”), using the full retrospective transition approach under which the Company’s previously issued financial statements for 2016 and 2017 were retrospectively adjusted.

The new standard did not change the presentation of the Company’s revenues, which continues to be substantially reported on a net basis. However, the timing of revenue recognition for certain revenue streams is changed under the new standard. In particular, revenue for accommodation reservation services, which used to be recognized after end-users completed their stays, is now recognized when the reservation becomes non-cancellable. Revenue for packaged-tour services, which used to be recognized when packaged-tours were completed, is now recognized on the departure date of the tours. Please refer to “Revenue Recognition” for more details.

The key line items of the Company’s previously issued consolidated income/(loss) statements for 2016 and 2017 that have been retrospectively adjusted as follows (RMB in millions):

	Year Ended December 31, 2017		Year Ended December 31, 2016	
	As Reported	As Adjusted	As Reported	As Adjusted
Accommodation reservation	9,517	9,531	7,309	7,321
Packaged-tour	2,970	2,973	2,310	2,315
Total revenue	26,977	26,993	19,788	19,805
Net revenues	26,780	26,796	19,228	19,245
Gross profit	22,101	22,118	14,499	14,515
Income/(loss) from operations	2,926	2,943	(1,568)	(1,552)
Income/(loss) before income tax expense, equity in income of affiliates and non-controlling interests	3,506	3,524	(1,760)	(1,744)
Income tax expense	(1,281)	(1,285)	(478)	(482)
Net income/(loss)	2,161	2,174	(1,636)	(1,624)

[Table of Contents](#)

The key line items of the Company's previously issued consolidated balance sheets for 2017 that have been retrospectively adjusted as follows (RMB in millions):

	Balance at December 31, 2017		
	As Reported	Adjustments	As Adjusted
Accounts receivable, net	4,559	190	4,749
Total current assets	59,228	190	59,418
Total assets	162,050	190	162,240
Deferred tax liabilities	3,848	47	3,895
Total liabilities	75,578	47	75,625

On January 1, 2018, the Company adopted new financial instruments accounting standard ASU No. 2016-01, which requires equity investments to be measured at fair value with subsequent changes recognized in net income, except for those accounted for under the equity method or requiring consolidation. The new standard also changes the accounting for investments without a readily determinable fair value and that do not qualify for the practical expedient to estimate fair value. A policy election can be made for these investments whereby investment will be carried at cost and adjusted in subsequent periods for any impairment or changes in observable prices of identical or similar investments. With the adoption of the new standard, the Company recognized the changes in fair value for all equity investments measured at fair value through net income/(loss). For investments in equity securities lacking of readily determinable fair values, the Company elected to use the measurement alternative defined as cost, less impairments, adjusted by observable price changes. The new standard also requires the Company to reclassify the accumulated unrealized gain or loss of the equity investments measure at fair value that were previously recognized in other comprehensive income to retained earnings on the date of the adoption. Upon the adoption, the Company reclassified approximately RMB6.1 billion of accumulated other comprehensive income, reflective of the net unrealized gain for the marketable equity securities that existed as of January 1, 2018, into retained earnings.

Consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, VIEs and VIEs' subsidiaries. All significant transactions and balances between the Company, its subsidiaries, VIEs and VIEs' subsidiaries 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.

The Company applies the guidance codified in Accounting Standard Codification 810, Consolidations ("ASC 810") on accounting for VIEs and their respective subsidiaries, which requires certain variable interest entities to be consolidated by the primary beneficiary of the entity in which it has a controlling financial interest. A VIE is an entity with one or more of the following characteristics: (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support; (b) as a group, the holders of the equity investment at risk lack the ability to make certain decisions, the obligation to absorb expected losses or the right to receive expected residual returns, or (c) an equity investor has voting rights that are disproportionate to its economic interest and substantially all of the entity's activities are on behalf of the investor. Accordingly, the financial statements of the following VIEs and VIEs' subsidiaries are consolidated into the Company's financial statements since July 1, 2003 or their respective date of establishment/acquisition, whichever is later:

The following is a summary of the Company's major VIEs and VIEs' subsidiaries:

Name of VIE and VIEs' subsidiaries	Date of establishment/acquisition
Shanghai Ctrip Commerce Co., Ltd. ("Shanghai Ctrip Commerce")	Established on July 18, 2000
Shanghai Huacheng Southwest International Travel Agency Co., Ltd. ("Shanghai Huacheng", formerly known as Shanghai Huacheng Southwest Travel Agency Co., Ltd.)	Established on March 13, 2001
Chengdu Ctrip Travel Agency Co., Ltd. ("Chengdu Ctrip")	Established on January 8, 2007
Beijing Qu Na Information Technology Company Limited ("Qunar Beijing")	Established on March 17, 2006

The Company is considered the primary beneficiary of a VIE or VIEs' subsidiary and consolidated the VIE or VIEs' subsidiary if the Company had variable interests, that will absorb the entity's expected losses, receive the entity's expected residual returns, or both.

Major variable interest entities and their subsidiaries

The Company conducts a part of its operations through a series of agreements with certain VIEs and VIEs' subsidiaries as stated in above. These VIEs and VIEs' subsidiaries are used solely to facilitate the Group's participation in Internet content provision, advertising business, travel agency and air-ticketing services in the People's Republic of China ("PRC") where foreign ownership is restricted. From 2015, the Company restructured its business lines to change some of its VIEs to its wholly owned subsidiaries, which carry out the businesses that are not foreign ownerships restricted.

Shanghai Ctrip Commerce is a domestic company incorporated in Shanghai, the PRC. Shanghai Ctrip Commerce holds a value-added telecommunications business license and is primarily engaged in the provision of advertising business on the Internet website. Two senior officers of the Company collectively hold 100% of the equity interest in Shanghai Ctrip Commerce. The registered capital of Shanghai Ctrip Commerce was RMB30,000,000 as of December 31, 2018.

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 holds 100% of the equity interest in Shanghai Huacheng. The registered capital of Shanghai Huacheng was RMB100,000,000 as of December 31, 2018.

Chengdu Ctrip is a domestic company incorporated in Chengdu, the PRC. Chengdu Ctrip holds air transport sales agency license and domestic travel agency license and is engaged in the provision of air-ticketing service. Two senior officers of the Company hold 100% of the equity interest in Chengdu Ctrip. The registered capital of Chengdu Ctrip was RMB500,000,000 as of December 31, 2018.

Qunar Beijing is a domestic company incorporated in Beijing, the PRC. Qunar Beijing holds various domestic and cross-border business licenses of Qunar. Two senior officers of the Company hold 100% of the equity interest in Qunar Beijing. The registered capital of Qunar Beijing was RMB11,000,000 as of December 31, 2018.

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

As of December 31, 2018, the Company has various agreements with its consolidated VIEs and VIEs' subsidiaries, 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: Each of the shareholders of our consolidated affiliated Chinese entities, except for Hui Cao and Hui Wang, signed an irrevocable power of attorney to appoint Ctrip Travel Network and Ctrip Travel Information, as attorney-in-fact to vote, by itself or any other person to be designated at its discretion, on all matters of the applicable consolidated affiliated Chinese entities. Each such power of attorney will remain effective as long as the applicable consolidated affiliated Chinese entity exists, and such shareholders of the applicable consolidated affiliated Chinese entities are not entitled to terminate or amend the terms of the power of attorneys without prior written consent from us.

As of the date of this annual report, each of the shareholders of Qunar Beijing, Hui Cao and Hui Wang, also signed an irrevocable power of attorney authorizing an appointee, to exercise, in a manner approved by Qunar, on such shareholder's behalf the full shareholder rights pursuant to applicable laws and Qunar Beijing's articles of association, including without limitation full voting rights and the right to sell or transfer any or all of such shareholder's equity interest in Qunar Beijing. Each such power of attorney is effective until such time as such relevant shareholder ceases to hold any equity interest in Qunar Beijing. The terms of the power of attorney with respect to Qunar Beijing are otherwise substantially similar to the terms described in the foregoing paragraph.

Technical Consulting and Services Agreements: Ctrip Travel Information and Ctrip Travel Network, each a wholly owned PRC subsidiary of ours, provide our consolidated affiliated Chinese entities, except for Qunar Beijing, with technical consulting and related services and staff training and information services on an exclusive basis. We also maintain their network platforms. In consideration for our services, our consolidated affiliated Chinese entities agree to pay us service fees as calculated in such manner as determined by us from time to time based on the nature of service, which may be adjusted periodically. For 2018, our consolidated affiliated Chinese entities paid Ctrip Travel Information a quarterly fee based on the number of transportation tickets sold in the quarter, at an average rate from RMB4 (US\$0.6) to RMB5 (US\$0.7) per ticket. Although the service fees are typically determined based on the number of transportation tickets sold, given the fact that the nominee shareholders of such consolidated affiliated Chinese entities have irrevocably appointed the employees of our subsidiaries to vote on their behalf on all matters they are entitled to vote on, we have the right to determine the level of service fees paid and therefore receive substantially all of the economic benefits of our consolidated affiliated Chinese entities in the form of service fees. Ctrip Travel Information and Ctrip Travel Network, as appropriate, will exclusively own any intellectual property rights arising from the performance of this agreement. The initial term of these agreements is 10 years and may be renewed automatically in 10-year terms unless we disapprove the extension. We retain the exclusive right to terminate the agreements at any time by delivering a 30-day advance written notice to the applicable consolidated affiliate Chinese entity.

[Table of Contents](#)

As of the date of this annual report, pursuant to the restated exclusive technical consulting and services agreement between Qunar Beijing and Qunar Software, Qunar Software provides Qunar Beijing with technical, marketing and management consulting services on an exclusive basis in exchange for service fee paid by Qunar Beijing based on a set formula defined in the agreement subject to adjustment by Qunar Software at its sole discretion. This agreement will remain in effect until terminated unilaterally by Qunar Software or mutually. The terms of this agreement are otherwise substantially similar to the terms described in the foregoing paragraph.

Share Pledge Agreements: The shareholders of our consolidated affiliated Chinese entities, except for Hui Cao and Hui Wang, have pledged their respective equity interests in the applicable consolidated affiliated Chinese entities as a guarantee for the performance of all the obligations under the other contractual arrangements, including payment by such consolidated affiliated Chinese entities of the technical and consulting services fees to us under the technical consulting and services agreements, repayment of the business loan under the loan agreements and performance of obligations under the exclusive option agreements, each agreement as described herein. In the event any of such consolidated affiliated Chinese entity breaches any of its obligations or any shareholder of such consolidated affiliated Chinese entities breaches his or her obligations, as the case may be, under these agreements, we are entitled to enforce the equity pledge right and sell or otherwise dispose of the pledged equity interests after the pledge is registered with the relevant local branch of SAIC, and retain the proceeds from such sale or require any of them to transfer his or her equity interest without consideration to the PRC citizen(s) designated by us. These share pledge agreements are effective until two years after the pledgor and the applicable consolidated affiliated Chinese entities no longer undertake any obligations under the above-referenced agreements.

As of the date of this annual report, pursuant to the equity interest pledge agreement among Qunar Software, Hui Cao and Hui Wang, Hui Cao and Hui Wang have pledged their equity interests in Qunar Beijing along with all rights, titles and interests to Qunar Software as guarantee for the performance of all obligations under the relevant contractual arrangements mentioned herein. After the pledge is registered with the relevant local branch of SAIC, Qunar Software may enforce this pledge upon the occurrence of a settlement event or as required by the PRC law. The pledge, along with this agreement, will be effective upon registration with the local branch of the SAIC, and will expire when all obligations under the relevant contractual arrangements have been satisfied or when each of Hui Cao and Hui Wang completes a transfer of equity interest and ceases to hold any equity interest in Qunar Beijing. In enforcing the pledge, Qunar Software is entitled to dispose of the pledge and have priority in receiving payment from proceeds from the auction or sale of all or part of the pledge until the obligations are settled. The terms of this agreement are otherwise substantially similar to the terms described in the foregoing paragraph.

Loan Agreements: Under the loan agreements we entered into with the shareholders of our consolidated affiliated Chinese entities, except for Hui Cao and Hui Wang, we extended long-term business loans to these shareholders of our consolidated affiliated Chinese entities with the sole purpose of providing funds necessary for the capitalization or acquisition of such consolidated affiliated Chinese entities. These business loan amounts were injected into the applicable consolidated affiliated Chinese entities as capital and cannot be accessed for any personal uses. The loan agreements shall remain effective until the parties have fully performed their respective obligations under the agreement, and the shareholders of such consolidated affiliated Chinese entities have no right to unilaterally terminate these agreements. In the event that the PRC government lifts its substantial restrictions on foreign ownership of the air-ticketing, travel agency, or value-added telecommunications business in China, as applicable, we will exercise our exclusive option to purchase all of the outstanding equity interests of our consolidated affiliated Chinese entities, as described in the following paragraph, and the loan agreements will be cancelled in connection with such purchase. However, it is uncertain when, if at all, the PRC government will lift any or all of these restrictions.

As of the date of this annual report, pursuant to the loan agreement among Qunar Software, Hui Cao and Hui Wang, the loans extended by Qunar Software to each of Hui Cao and Hui Wang are only repayable by a transfer of such borrower's equity interest in Qunar Beijing to Qunar Software or its designated party, in proportion to the amount of the loan to be repaid. This loan agreement will continue in effect indefinitely until such time when (i) the borrowers receive a repayment notice from Qunar Software and fully repay the loans, or (ii) an event of default (as defined therein) occurs unless Qunar Software sends a notice indicating otherwise within 15 calendar days after it is aware of such event. The terms of this loan agreement is otherwise substantially similar to the terms described in the foregoing paragraphs.

Exclusive Option Agreements: As consideration for our entering into the loan agreements described above, each of the shareholders of our consolidated affiliated Chinese entities, except for Hui Cao and Hui Wang, has granted us an exclusive, irrevocable option to purchase, or designate one or more person(s) at our discretion to purchase, all of their equity interests in the applicable consolidated affiliated Chinese entities at any time we desire, subject to compliance with the applicable PRC laws and regulations. We may exercise the option by issuing a written notice to the relevant consolidated affiliated Chinese entity. The purchase price shall be equal to the contribution actually made by the shareholder for the relevant equity interest. Therefore, if we exercise these options, we may choose to cancel the outstanding loans we extended to the shareholders of such consolidated affiliated Chinese entities pursuant to the loan agreements as the loans were used solely for equity contribution purposes. The initial term of these agreements is 10 years and may be renewed automatically in 10-year terms unless we disapprove the extension. We retain the exclusive right to terminate the agreements at any time by delivering a written notice to the applicable consolidated affiliate Chinese entity.

Hui Cao and Hui Wang also entered into an equity option agreement with Qunar, Qunar Software and Qunar Beijing. This equity option agreement contains arrangements that are similar to that as described in the foregoing paragraph. This agreement will remain effective with respect to each of Qunar Beijing's shareholders until all of the equity interest has been transferred or Qunar and Qunar Software terminates the agreement unilaterally with 30 days' prior written notice.

Our consolidated affiliated Chinese entities and their shareholders agree not to enter into any transaction that would affect the assets, obligations, rights or operations of our consolidated affiliated Chinese entities without our prior written consent. They also agree to accept our guidance with respect to day-to-day operations, financial management systems and the appointment and dismissal of key employees.

Risks in relation to contractual arrangements between the Company's PRC subsidiaries and its affiliated Chinese entities:

The Company has been advised by Commerce & Finance Law Offices, its PRC legal counsel, that its contractual arrangements with its consolidated VIEs as described in the Company's annual report are valid, binding and enforceable under the current laws and regulations of China. Based on such legal opinion and the management's knowledge and experience, the Company believes that its contractual arrangements with its consolidated VIEs are in compliance with current PRC laws and legally enforceable. However, there may be in the event that the affiliated Chinese entities and their respective shareholders fail to perform their contractual obligations, the Company may have to rely on the PRC legal system to enforce its rights. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since the PRC legal system is still evolving, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit remedies available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. Due to the uncertainties with respect to the PRC legal system, the PRC government authorities may ultimately take a view contrary to the opinion of its PRC legal counsel with respect to the enforceability of the contractual arrangements.

There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. Accordingly, the Company cannot be assured that the PRC government authorities will not ultimately take a view that is contrary to the Company's belief and the opinion of its PRC legal counsel. In March 2019, the draft Foreign Investment Law was submitted to the National People's Congress for review and was approved on March 15, 2019, which will come into effect from January 1, 2020. The approved Foreign Investment Law does not touch upon the relevant concepts and regulatory regimes that were historically suggested for the regulation of VIE structures, and thus this regulatory topic remains unclear under the Foreign Investment Law. Since the Foreign Investment Law is new, there are substantial uncertainties exist with respect to its implementation and interpretation and the possibility that such entities will be deemed as foreign-invested enterprise and subject to relevant restrictions in the future shall not be excluded. If the contractual arrangements establishing the Company's VIE structure are found to be in violation of any existing law and regulations or future PRC laws and regulations, the relevant PRC government authorities will 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 us or our affiliated Chinese entities to discontinue any portion or all of our value-added telecommunications, air-ticketing, travel agency or advertising businesses. Any of these actions could cause significant disruption to the Company's business operations, and have a severe adverse impact on the Company's cash flows, financial position and operating performance. If the imposing of these penalties cause the Company to lose its rights to direct the activities of and receive economic benefits from its VIEs, which in turn may restrict the Company's ability to consolidate and reflect in its financial statements the financial position and results of operations of its VIEs.

Summary financial information of the Group's VIEs in the consolidated financial statements

Pursuant to the contractual arrangements with the VIEs, the Company has the power to direct activities of the VIEs, and can have assets transferred freely out of the VIEs without any restrictions. Therefore, the Company considers that there is no asset of a consolidated VIE that can be used only to settle obligations of the VIE, except for registered capital and PRC statutory reserves of the VIEs amounting to a total of RMB1.4 billion as of December 31, 2018. As all the consolidated VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the VIEs do not have recourse to the general credit of the Company for any of the liabilities of the consolidated VIEs.

Summary financial information of the VIEs, which represents aggregated financial information of the VIEs and their respective subsidiaries included in the accompanying consolidated financial statements, is as follows:

	As of December 31,	
	2017	2018
	RMB(in millions)	RMB(in millions)
Total assets	21,756	26,574
Less: Inter-company receivables	(1,570)	(5,228)
Total assets excluding inter-company	20,186	21,346
Total liabilities	19,282	23,405
Less: Inter-company payables	(12,114)	(14,117)
Total liabilities excluding inter-company	7,168	9,288

As of December 31, 2017 and 2018, the VIEs' assets mainly consisted of cash and cash equivalent (December 31, 2017: RMB6.6 billion, December 31, 2018: RMB7.2 billion), short-term investment (December 31, 2017: RMB6.1 billion, December 31, 2018: RMB4.3 billion), accounts receivables (December 31, 2017: RMB3.3 billion, December 31, 2018: RMB2.9 billion), prepayments and other current assets (December 31, 2017: RMB1.9 billion, December 31, 2018: RMB3.6 billion) and investments (non-current) (December 31, 2017: RMB1.4 billion, December 31, 2018: RMB2.3 billion). The inter-company receivables of RMB1.6 billion and RMB5.2 billion as of December 31, 2017 and 2018 mainly represented the cash paid by a VIE to one of the Company's WFOEs for treasury cash management purpose.

As of December 31, 2017 and 2018, the VIEs' liabilities mainly consisted of accounts payable (December 31, 2017: RMB3.3 billion, December 31, 2018: RMB3.4 billion), other payables and accruals (December 31, 2017: RMB1.5 billion, December 31, 2018: RMB1.7 billion), advance from customers (December 31, 2017: RMB1.1 billion, December 31, 2018: RMB2.3 billion) and short-term debt (December 31, 2017: RMB0.8 billion, December 31, 2018: RMB1.2 billion). The inter-company payables as of December 31, 2017 and 2018 were RMB12.1 billion and RMB14.1 billion, respectively, which primarily consisted of the payables due to Ctrip.com (Hong Kong) Limited ("Ctrip HK"), one of the Company's wholly-owned subsidiaries, for its payment of overseas air tickets and tour packages on behalf of a VIE and another VIEs' subsidiary and the service fees payable to the WFOEs under the technical consulting and services agreements, which are operational in nature from the VIEs and their subsidiaries' perspectives.

The following table set forth the summary of results of operations of the VIEs and their subsidiaries of the Company:

	For the year ended December 31,		
	2016	2017	2018
	RMB(in millions)	RMB(in millions)	RMB(in millions)
Net revenues	8,706	8,237	8,357
Cost of revenues	2,443	2,490	2,983
Net income	101	863	170

As aforementioned, the VIEs mainly conduct transportation ticketing and advertising businesses. Revenues from VIEs accounted for around 27% of the Company's total revenues in 2018. The air-ticketing continued to increase in 2018, primarily driven by the increase in the air-ticketing volume.

The VIEs' net income before the deduction of the inter-company consulting fee charges were RMB2.8 billion, RMB2.7 billion and RMB1.5 billion for the years ended December 31, 2016, 2017 and 2018, respectively.

The WFOEs are the sole and exclusive provider of technical consulting and related services and information services for the VIEs. Pursuant to the Exclusive Technical Consulting and Service Agreements, the VIEs pay service fees to the WFOEs based on the VIEs' actual operating results. The WFOEs are entitled to receive substantially all of the net income and transfer a majority of the economic benefits in the form of service fees from the VIEs and VIEs' subsidiaries to the WFOEs. For remaining undistributed retained earnings, tax planning strategies are in place to support their enterprise income tax free treatment.

[Table of Contents](#)

The amount of service fees paid by all the VIEs as a percentage of the VIEs' total net income were 96.3%, 68.3% and 88.5% for the years ended December 31, 2016, 2017 and 2018, respectively.

The following tables set forth the summary of cash flow activities of the VIEs and their subsidiaries of the Company:

	For the year ended December 31,		
	2016	2017	2018
	RMB(in millions)	RMB(in millions)	RMB(in millions)
Net cash provided by operating activities	7,191	1,232	591
Net cash used in investing activities	—	—	—
Net cash provided by financing activities	—	—	—

Currently there is no contractual arrangement that could require the Company to provide additional financial support to the consolidated VIEs. As the Company is conducting certain business in the PRC mainly through the VIEs, the Company may provide such support on a discretionary basis in the future, which could expose the Company to a loss.

Foreign currencies

The Group's reporting currency is RMB. The Company's functional currency is US\$. The Company's operations are conducted through the subsidiaries and VIEs where the local currency is the functional currency and the financial statements of those subsidiaries are translated from their respective functional currencies into RMB.

Transactions denominated in currencies other than functional currencies are translated at the exchange rates quoted by the People's Bank of China (the "PBOC"), the Hong Kong Association of Banks (the "HKAB") or major Taiwan banks, prevailing or averaged at the dates of the transaction for PRC and Hong Kong subsidiaries and ezTravel, a Taiwan subsidiary respectively. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of income and comprehensive income. Monetary assets and liabilities denominated in foreign currencies are translated using the applicable exchange rates quoted by the PBOC, HKAB or banks located in Taiwan at the balance sheet dates. All such exchange gains and losses are included in the consolidated statements of income/(loss).

Assets and liabilities of the group companies are translated from their respective functional currencies to the reporting currency at the exchange rates at the balance sheet dates, equity accounts are translated at historical exchange rates and revenues and expenses are translated at the average exchange rates in effect during the reporting period. The exchange differences for the translation of group companies with non-RMB functional currency into the RMB 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 = RMB6.8755 on December 31, 2018, representing the certificated exchange rate published by the Federal Reserve Board. 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, 2018, or at any other rate.

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.

Restricted cash

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

Short-term investments

Short-term investments represent i) held-to-maturity investments which are due in one year and stated at amortized cost; and ii) the investments issued by commercial banks or other financial institutions with a variable interest rate indexed to the performance of underlying assets within one year. These investments are stated at fair value. Changes in the fair value are reflected in the consolidated statements of income and comprehensive income.

Installment credit and nonrecourse securitization debt

The Company provides installment credit solutions to users. Such amounts are recorded at the outstanding principal amount less allowance for doubtful accounts, and include accrued interest receivable and presented in receivable related to financial services in Note 3.

Since 2018, the Company entered into asset backed securitization arrangements with third-party financial institution and set up a securitization vehicle which issued revolving debt securities to third party investors. The Company consolidated the servicer of the securitized debt since economic interests are retained in the form of subordinated interests and it acts as the servicer of securitization vehicles. The proceeds from the issuance of debt securities are reported as current securitization debt. The contractual maturities of the debt securities are within one year, the securities are repaid as collections on the underlying collateralized assets occur and the amounts are included in “short-term debt and current portion of long-term debt”.

As of December 31, 2017 and 2018, the collateralized receivable related to financial services were nil and RMB733 million, respectively, and the non-collateralized receivable related to financial services were RMB596 and RMB818 million, respectively.

For the years ended December 31, 2017 and 2018, the total allowance for the receivable related to financial services was not material. The Company recognized the interest income from the receivable related to financial services in Revenue — Others. The interest expenses in relation to the nonrecourse securitization debt were recognized in the cost of revenue. For the years ended December 31, 2017 and 2018, the interest incomes and the interest expenses were not material.

The gross amount is presented in the investing section of the cash flow statement unless the term of the receivables is 3 month or less, in which case it is presented on a net basis in the investing section.

Land use rights

Land use rights represent the prepayments for usage of the parcels of land where the office buildings are located, are recorded at cost, and are amortized over their respective lease periods (usually over 40 to 50 years).

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	30-40 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	3-5 years
Furniture and fixtures	3-5 years
Software	3-5 years

The Company recognizes the disposal of Property, equipment and software in general and administrative expenses.

Investments

The Company’s investments include equity method investments, equity securities without readily determinable fair values, equity securities with readily determinable fair values, held to maturity debt securities, and available-for-sale debt securities.

The Company applies equity method in accounting for its investments in entities in which the Company has the ability to exercise significant influence but does not have control and the investments are in either common stock or in-substance common stock. Unrealized gains on transactions between the Company and an affiliated entity are eliminated to the extent of the Company’s interest in the affiliated entity, unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Equity securities without readily determinable fair values are measured and recorded using a measurement alternative that measures the securities at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes. Prior to fiscal 2018, these securities were accounted for using the cost method of accounting, measured at cost less other-than-temporary impairment.

[Table of Contents](#)

Equity securities with readily determinable fair values are measured and recorded at fair value on a recurring basis with changes in fair value, whether realized or unrealized, recorded through the income statement. Prior to 2018, these securities were classified as available-for-sale securities and measured and recorded at fair value with unrealized changes in fair value recorded through other comprehensive income.

Debt securities that the company has positive intent and ability to hold to maturity are classified as held to maturity debt securities and are stated at amortized cost.

Debt securities that the company has the intent to hold the security for an indefinite period or may sell the security in response to the changes in economic conditions are classified as available-for-sale debt securities and reported at fair value. Unrealized gains and losses (other than impairment losses) are reported, net of the related tax effect, in other comprehensive income (OCI). Upon sale, realized gains and losses are reported in net income.

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.

Fair value measurement of financial instruments

Financial assets and liabilities of the Group primarily comprise of cash and cash equivalents, restricted cash, time deposits, financial products, accounts receivable, due from related parties, available-for-sale debt investments, equity securities, accounts payable, due to related parties, advances from end users, short-term bank borrowings, other short-term liabilities and long-term debts. As of December 31, 2017 and 2018, the Company does not hold any derivative instruments, and except for long-term debt, equity securities and available-for-sale debt investments, carrying values of these financial instruments approximated their fair values because of their generally short maturities. The Company reports equity securities and available-for-sale debt investments at fair value at each balance sheet date and changes in fair value are reflected in the statements of income and comprehensive income. The Company disclosed the fair value of its long-term debts based on Level 2 inputs in Note 16.

The Company measures its financial assets and liabilities using inputs from the following three levels of the fair value hierarchy. The three levels are as follows:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets that the management has the ability to access at the measurement date.

Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 includes unobservable inputs that reflect the management's assumptions about the assumptions that market participants would use in pricing the asset. The management develops these inputs based on the best information available, including the own data.

Business combination

U.S. GAAP requires that all business combinations not involving entities or businesses under common control be accounted for under the acquisition method. The Group applies ASC 805, "Business combinations", the cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the (i) the total of cost of acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statements of income and comprehensive income.

[Table of Contents](#)

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of products and forecasted life cycle and forecasted cash flows over that period. The Company's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Any changes to provisional amounts identified during the measurement period are recognized in the reporting period in which the adjustment amounts are determined.

Acquisitions

During the periods presented, the Company completed several transactions to acquire controlling shares to enrich its products and to expand business. The Company makes estimates and judgments in determining the fair value of the acquired assets and liabilities, based in part on independent appraisal reports as well as its experience with purchasing similar assets and liabilities in similar industries. The amount excess of the purchase price over the fair value of the identifiable assets and liabilities acquired is recorded as goodwill. The major acquisitions during the periods presented are as follows:

In May 2018, the Company consummated a step acquisition by acquiring substantially all the remaining equity interest of an offline travel agency company in which the Company previously held approximately 48% equity interest. The total purchase consideration was RMB1.1 billion which included the cash consideration of RMB198 million, the fair value of the previously held equity interest of RMB543 million and equity interest representing a 1.9% non-controlling interest of one of the Company's subsidiaries with the fair value of RMB399 million which is determined on Level 3 measures. The Company recognized a gain from the re-measurement of its previously held equity interest to the fair value with amount of RMB249 million and reported in other income (Note 2). The Company recognized the non-controlling interest of the equity interest disposed at the book value of the proportionate shares of the net assets of the subsidiary with amount of RMB4 million and the difference between the fair value of the non-controlling interest with the book value of RMB395 million recorded as additional paid-in capital. As of December 31, 2018, all the cash consideration has been paid. The financial results of the acquired company have been included in the Company's consolidated financial statements since the date the Company obtained control and were not significant to the Company for the year ended December 31, 2018.

The net liability assumed based on their fair values was RMB212 million, including cash acquired with amount of RMB482 million. The fair value of non-controlling interest amounting to RMB15 million was measured based on the purchase price, taking into account a discount reflective of the non-controlling nature of the interest. The newly identifiable intangible assets were RMB269 million which primarily consist of brand name which is amortized over 10 years on a straight-line basis. The deferred tax liability of RMB 67 million as recognized in associated with the identifiable intangible assets. The goodwill recognized for the acquisition was RMB1.2 billion which is primarily made up of the expected synergies from combining operations of the acquiree and the acquirer, which do not qualify for separate recognition.

On December 9, 2016, the Company consummated an acquisition of nearly all the equity interest of Skyscanner with the total purchase consideration of £1.4 billion (RMB12.0 billion). The purchase consideration consists of £1.2 billion (RMB10 billion) in cash and Ctrip ordinary shares. The cash consideration was subsequently agreed with selling shareholder to adjust to RMB10.1 billion in 2017 for an increase of RMB60 million. The financial statements of Skyscanner are consolidated by the Company from December 31, 2016 onwards since the financial results of Skyscanner during the period from December 10, 2016 through December 31, 2016 were not material to the Company.

The net assets acquired based on their fair values was RMB325 million, including cash acquired with amount of RMB571 million. The fair value of non-controlling interest amounting to RMB316 million was measured based on the purchase price, taking into account a discount reflective of the non-controlling nature of the interest. The newly identifiable intangible assets were RMB3.1 billion which primarily consist of trademark and domain, supplier relationship and IT Platform. The trademark and domain are assessed to be indefinite-lived intangible assets. The fair values of the supplier relationship and IT Platform with amount of RMB929 million and RMB191 million respectively, are amortized over 9 years and 6 years, respectively on a straight-line basis. The deferred tax liability of RMB620 million as recognized in associated with the identifiable intangible assets. The goodwill recognized for the Skyscanner acquisition was RMB9.5 billion which primarily made up of the expected synergies from combining operations of the acquiree and the acquirer, which do not qualify for separate recognition. The final allocation of purchase price recorded in 2017 has reflected the subsequent adjustment of total consideration with a corresponding adjustment to goodwill (Note 9).

[Table of Contents](#)

In October 2015, the Company completed a share exchange transaction with Baidu, Inc. (“Baidu”), which was the principal shareholder of Qunar, upon completion of the exchange, the Company issued approximately 11 million ordinary shares, with the fair value of US\$3.4 billion (RMB21.7 billion) to Baidu in exchange for approximately 179 million Class A (There were 193 million outstanding Class A shares in Qunar) and 11 million Class B ordinary share of Qunar. The Class A and Class B represents 3 votes and 1 vote per share respectively, and Class A ordinary shares were converted into Class B ordinary shares upon transfer. After the transaction, Ctrip owned ordinary share of Qunar representing approximately 45% of Qunar’s aggregate voting interest and 48% economic interest. In connection with the transaction with Baidu, on December 10, 2015, the Company issued approximately 4 million ordinary shares to certain special purpose vehicles in exchange for approximately 66 million Class B ordinary shares of Qunar issued as equity incentives to Qunar’s employees.

For the years ended December 31, 2016 and 2017, the Company made certain investments, in the form of limited partnership capital contribution or other financing arrangements, in several non-U.S. investment entities, with fair values of approximately US\$2.9 billion and US\$0.4 billion in 2016 and 2017, respectively (the “Investment”). These investment entities have spent the investment to acquire the equity interest of Qunar that was not held by the Company, through privately negotiated transactions. In accordance with ASC 810, the Company consolidates the financial statements of these investment entities and as such the investments were eliminated in consolidation. The Company accounts for the purchases of the Qunar non-controlling shares as equity transactions by adjusting the carrying amount of non-controlling interest of Qunar to reflect the decrease in the non-controlling interest’s ownership in Qunar by RMB15.5 billion and RMB2.2 billion in 2016 and 2017 respectively. The difference between the amount of the change in non-controlling interest and the consideration paid was recognized in additional paid-in capital of the Company with amount of RMB3.7 billion and RMB0.6 billion in 2016 and 2017 respectively.

Other than the acquisitions disclosed above, none of other acquisition occurred during the periods presented was material to its businesses or financial results. Other immaterial acquisitions in 2016, 2017 and 2018 with total consideration of RMB120 million, RMB251 million and RMB553 million respectively resulted in goodwill increase of RMB159 million, RMB291 million and RMB621 million respectively.

Goodwill and other intangible assets

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of the Company’s acquisitions of interests in its subsidiaries and consolidated VIEs.

Goodwill is not amortized but is reviewed at least annually for impairment or earlier, if an indication of impairment exists. Recoverability of goodwill is evaluated using a two-step process. In the first step, the fair value of a reporting unit is compared to its carrying value. If the fair value of a reporting unit exceeds the carrying value of the net assets assigned to a reporting unit, goodwill is considered not impaired and no further testing is required. If the carrying value of the net assets assigned to a reporting unit exceeds the fair value of a reporting unit, the second step of the impairment test is performed in order to determine the implied fair value of a reporting unit’s goodwill. Determining the implied fair value of goodwill requires valuation of a reporting unit’s tangible and intangible assets and liabilities in a manner similar to the allocation of purchase price in a business combination. If the carrying value of a reporting unit’s goodwill exceeds its implied fair value, goodwill is deemed impaired and is written down to the extent of the difference. The Company estimates total fair value of the reporting unit using discounted cash flow analysis, and makes assumptions regarding future revenue, gross margins, working capital levels, investments in new products, capital spending, tax, cash flows, and the terminal value of the reporting unit.

As of December 31, 2018, the step one analysis performed indicated that the fair value of the Company’s reporting unit was substantially greater than the respective carrying value. There was no impairment of goodwill during the years ended December 31, 2016, 2017 and 2018. Each quarter the Company reviews the events and circumstances to determine if goodwill impairment may be indicated.

Separately identifiable intangible assets that have determinable lives continue to be amortized and consist primarily of non-compete agreements, customer list, supplier relationship, technology and business relationship as of December 31, 2017 and 2018. The Company amortizes intangible assets on a straight-line basis over their estimated useful lives, which is three to ten years. The estimated life of amortized intangibles is reassessed if circumstances occur that indicate the life has changed. Other intangible assets that have indefinite useful life primarily include trademark and domain names As of December 31, 2017 and 2018. The Company evaluates indefinite-lived intangible assets 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 estimates total fair value of the reporting unit using discounted cash flow analysis, and makes assumptions regarding future revenue, gross margins, working capital levels, investments in new products, capital spending, tax, cash flows, and the terminal value of the reporting unit.

The Company reviews intangible assets with indefinite lives annually for impairment.

No impairment on other intangible assets was recognized for the years ended December 31, 2016, 2017 and 2018.

Impairment of long-lived assets

Long-lived assets (including intangible with definite lives) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Reviews are performed to determine whether the carrying value of asset group is impaired, based on comparison to undiscounted expected future cash flows. If this comparison indicates that there is impairment, the Group recognizes impairment of long-lived assets to the extent the carrying amount of such assets exceeds the fair value.

Accrued liability for customer reward program

The Company's end users participate in a loyalty points program. The points awarded from services can be used as cash or redeemed to gifts on the Company's website and mobile platforms.

The estimated incremental costs of the loyalty points program are recognized as reduction of the revenue or sales and marketing expense and accrued for as a current liability. As members redeem awards or their entitlements expire, the accrued liability is reduced correspondingly. As of December 31, 2017 and 2018, the Company's accrued liability for its customer reward program amounted to RMB610 million and RMB528 million, respectively, based on the estimated liabilities under the customer reward program. For the years ended December 31, 2016, 2017 and 2018, the expenses recognized for the customer rewards program were approximately RMB202 million, RMB100 million and RMB21 million and decreased in 2018 due to the change of customer reward program.

Deferred revenue

The Group has a coupon program, through which the Group provides coupons for end users who book selected hotels online through website. The end users who use the coupons receive credits in their virtual cash accounts upon check-out from the hotels and reviews for hotels submitted. The end users may redeem the amount of credits in their virtual cash account in cash or voucher for their future bookings on the Company's website and mobile platforms. The Group accounts for the estimated cost of future usage of coupons as reduction of the revenue.

Revenue recognition

The Group presents substantially all of its revenues on a net basis as the travel supplier is primarily responsible for providing the underlying travel services and the Company does not control the service provided by the travel supplier to the traveler. Revenues are recognized at gross amounts for merchant business where the Group undertakes substantive inventory risks by pre-purchasing inventories.

Accommodation 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 when the reservation becomes non-cancellable which is the point considered when the Company completes its performance obligation in accommodation reservation services. 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 end users have completed their stay. The Group presents revenues from such transactions on a net basis in the statements of income and comprehensive income as the Group, generally, does not control the service provided by the travel supplier to the traveler and has no obligations for cancelled hotel reservations. The amount of accommodation reservation services revenues recognized at gross basis were not significant during the years ended December 31, 2016, 2017 and 2018, respectively.

Transportation ticketing services

Transportation ticketing services revenues mainly represent revenues from tickets reservations and other related services. The Group receives commissions from travel suppliers for ticketing services through the Group's transaction and service platform under various services agreements. Commissions from ticketing services rendered are recognized after tickets are issued as this is when the Group's performance obligation is satisfied. The Group presents revenues from such transactions on a net basis in the statements of income as the Group, generally, does not control the service provided by the travel supplier to the traveler and has no obligations for cancelled airline ticket reservations. Loss due to obligations for cancelled ticket reservations is minimal in the past. The amount of transportation ticketing services revenues recognized at gross basis were not significant during the years ended December 31, 2016, 2017 and 2018, respectively.

[Table of Contents](#)

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 on the departure date of the tours as this is when the Group's performance obligation is satisfied. The Group presents revenues from such transactions on a net basis in the statements of income when the Group does not control the service provided by the travel supplier to the traveler and has no obligations for cancelled packaged-tour products reservations. The amounts of packaged-tour products and services revenues recognized at gross basis were immaterial during the years ended December 31, 2016, 2017, respectively. While the Group expanded the merchant business in 2018 for packaged-tour products, the Group presents majority of its packaged-tour products and services revenues recognized on net basis for the year ended December 31, 2018.

Corporate travel

Corporate travel management revenues primarily include commissions from air ticket booking, hotel reservation and packaged-tour services rendered to corporate clients. The Group contracts with corporate clients based on service fee model. Travel reservations are made via on-line and off-line services for air tickets, hotel and package-tour. Revenue is recognized on a net basis after the services are rendered and collections are reasonably assured.

Other businesses

Other businesses comprise primarily of online advertising services.

The Company receives advertising revenues, which principally represent the sale of banners or sponsorship on the website and mobile from end users. Advertising revenues are recognized ratably over the fixed term of the agreement as services are provided.

Allowance for doubtful accounts

Accounts receivables are recorded at the invoiced amount and do not bear interest. The Company reviews on a periodic basis 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 collectability 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 collectability. The following table summarized the details of the Company's allowance for doubtful accounts:

	2016	2017	2018
	RMB (in millions)		
Balance at beginning of year	38	59	129
Provision for doubtful accounts	32	98	69
Write-offs	(11)	(28)	(42)
Balance at end of year	<u>59</u>	<u>129</u>	<u>156</u>

Cost of revenues

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

Product development

Product development expenses include expenses incurred by the Group to develop the Group's travel supplier networks as well as to maintain, monitor and manage the Group's transaction and service platform. The Group recognizes website, software and mobile applications development costs in accordance with ASC 350-50 "Website development costs" and ASC 350-40 "Software — internal use software" respectively. 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 and mobile applications or the development of software or mobile applications for internal use and websites content.

Sales and marketing

Sales and marketing expenses consist primarily of costs of payroll and related compensation for the Company's sales and marketing personnel, advertising expenses, and other related marketing and promotion expenses. Advertising expenses, amounting to approximately RMB2.8 billion, RMB5.1 billion and RMB6.0 billion for the years ended December 31, 2016, 2017 and 2018 respectively, are charged to the statements of income as incurred.

Share-based compensation

Under ASC 718, 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. Expected dividend yield is determined in view of the Company's historical dividend payout rate and future business plan. The Company estimates expected volatility at the date of grant based on historical volatilities. The Company recognizes compensation expense on all share-based awards on a straight-line basis over the requisite service period. 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, the Company may need to revise those estimates used in subsequent periods.

According to ASC 718, a change in any of the terms or conditions of stock options shall be accounted for as a modification of the plan. Therefore, the Company calculates incremental compensation cost of a modification as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified, measured based on the share price and other pertinent factors at the modification date. For vested options, the Company would recognize incremental compensation cost in the period the modification occurs and for unvested options, the Company would recognize, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date.

According to ASC 718, the Company classifies options or similar instruments as liabilities if the entity can be required under any circumstances to settle the option or similar instrument by transferring cash or other assets and such cash settlement is probable. The percentage of the fair value that is accrued as compensation cost at the end of each period shall equal the percentage of the requisite service that has been rendered at that date. Changes in fair value of the liability classified award that occur during the requisite service period shall be recognized as compensation cost over that period. Changes in fair value that occur after the end of the requisite service period are compensation cost of the period in which the changes occur. Any difference between the amount for which a liability award is settled and its fair value at the settlement date as estimated is an adjustment of compensation cost in the period of settlement.

Share incentive plans

In October, 2007, the Company adopted a 2007 Share Incentive Plan ("2007 Incentive Plan"). The Company granted 138,061 and nil new shares options and 15,664 and nil new RSUs to employees with 4 year requisite service period for years ended December 31, 2017 and 2018, respectively. RSUs granted under 2007 Incentive Plan have a restricted period for 4 years. As of December 31, 2017 and 2018, 4,367,099 and 3,400,231 options and 1,095,722 and 569,497 RSUs were outstanding under the 2007 Incentive Plan.

In June, 2017, the Company adopted a Global Share Incentive Plan ("Global Incentive Plan"), under which the Company granted 493,105 and 3,286,756 new share options and nil and 87,465 new RSUs to employees with 4 year requisite service period for year ended December 31, 2017 and 2018, respectively. As of December 31, 2017 and 2018, 343,659 and 3,308,777 options and nil and 67,709 RSUs were outstanding under the Global Incentive Plan.

Qunar previously adopted the 2007 Qunar Share Incentive Plan and 2015 Qunar Share Incentive Plan. Immediately prior to the closing of its going private transaction in February 2017, each outstanding vested option granted under the 2007 Qunar Share Incentive Plan and the 2015 Qunar Share Incentive Plan was exchanged for a number of Ctrip ADSs based on a ratio that ensures equivalent economic value, against the payment by the holder of the vested Qunar options of the full amount of exercise price payable; and each outstanding unvested Qunar option granted under the 2007 Qunar Share Incentive Plan and the 2015 Qunar Share Incentive Plan was exchanged for an option of Ctrip to purchase ordinary shares of Ctrip based on a ratio that ensures equivalent economic value with its remaining vesting period unchanged ("Exchange of Qunar Share Incentive Plans").

A summary of option activity under the share incentive plans

[Table of Contents](#)

The following table summarized the Company's share option activity under all the option plans, which has reflected the effect of the Exchange of Qunar Share Incentive Plans (in US\$, except shares):

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2015	5,005,461	122.00	4.77	1,245
Granted	937,002	322.20		
Exercised	(368,722)	80.70		
Forfeited	(41,226)	199.32		
Outstanding at December 31, 2016	5,532,515	157.82	4.54	900
Granted (including grants in exchange for Qunar options)	631,166	43.03		
Exercised	(1,353,697)	68.95		
Forfeited	(99,226)	133.92		
Outstanding at December 31, 2017	4,710,758	168.80	4.72	867
Granted	3,286,756	204.65		
Exercised	(1,050,382)	92.58		
Forfeited	(238,124)	171.61		
Outstanding at December 31, 2018	6,709,008	198.19	5.62	366
Vested and expect to vest at December 31, 2018	6,395,327	197.33	5.54	351
Exercisable at December 31, 2018	2,787,994	173.37	3.39	179

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 of 8% to total unvested options.

The aggregate intrinsic value in the table above represents the total intrinsic value (the aggregate difference between the Company's closing stock price of US\$ 216.48 (US\$ 27.06 per ADS) as of December 31, 2018 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, 2018.

The total intrinsic value of options exercised during the years ended December 31, 2016, 2017 and 2018 were US\$257 million US\$522 million and US\$356 million, respectively.

The following table summarizes information related to outstanding and exercisable options as of December 31, 2018 (in US\$, except shares):

Range of Exercise Prices	Outstanding			Exercisable		
	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)
0.00-100.00	1,559,585	35.58	4.79	748,322	74.14	2.02
100.01-200.00	1,218,954	157.29	2.96	1,218,954	157.29	2.96
200.01-300.00	2,144,923	223.01	6.98	414,227	251.25	4.71
300.01-400.00	1,785,546	338.34	6.52	406,491	324.93	5.87
	6,709,008			2,787,994		

The weighted average fair value of options granted during the years ended December 31, 2016, 2017 and 2018 was US\$140.95, US\$376.78 and US\$150.38 per share, respectively.

As of December 31, 2018, there was US\$546 million of total unrecognized compensation cost, net of estimated forfeitures, related to unvested share options which are expected to be recognized over a weighted average period of 3.2 year. Total unrecognized compensation cost may be adjusted for future changes in estimated forfeitures. Total cash received from the exercise of share options amounted to RMB212 million, RMB732 million and RMB677 million for the year ended December 31, 2016, 2017 and 2018, respectively. The transfer agent was engaged by the Company to collect the exercise proceeds and remitted on regular basis and these amounts were included in "prepayments and other current assets".

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 years ended December 31, 2016, 2017 and 2018:

	2016	2017	2018
Risk-free interest rate	1.16%-1.66%	1.73%-1.94%	2.52%-3.09%
Expected life (years)	5.0	5.0	5.0
Expected dividend yield	0%	0%	0%
Volatility	48%-51%	46%-48%	42%-44%
Fair value of options at grant date per share	from US\$133.85 to US\$141.72	from US\$142.29 to US\$430.87	from US\$88.51 to US\$350.71

[Table of Contents](#)

The following table summarized the Company's RSUs activities under all incentive plans (in US\$, except shares):

	Number of Shares	Weighted average grant date fair value(US\$)
Restricted shares		
Unvested at December 31, 2015	865,408	185.17
Granted	1,183,094	301.62
Vested	(492,825)	223.00
Forfeited	(93,438)	237.69
Unvested at December 31, 2016	1,462,239	263.28
Granted	15,664	323.92
Vested	(285,375)	191.21
Forfeited	(96,806)	274.71
Unvested at December 31, 2017	1,095,722	281.91
Granted	87,465	331.69
Vested	(471,773)	261.48
Forfeited	(74,208)	294.08
Unvested at December 31, 2018	637,206	302.45

As of December 31, 2018, there was US\$69 million unrecognized compensation cost, net of estimated forfeitures, related to unvested restricted shares, which are to be recognized over a weighted average vesting period of 0.5 years. Total unrecognized compensation cost may be adjusted for future changes in estimated forfeitures. The Company determined the fair value of RSUs based on its stock price on the date of grant.

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 enacted. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered unlikely that some portion of, or all of, the deferred tax assets will not be realized.

The Company applies ASC 740, "Income Taxes". It clarifies the accounting for uncertainty in income taxes recognized in the Company's consolidated financial statements and prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures.

Other income/ (expense)

Other income/ (expense) consists of financial subsidies, investment income, foreign exchange gains/(losses), re-measurement of previously held equity interest in step acquisitions etc.. Financial subsidies from local PRC government authorities are 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 authorities. Financial subsidies are recognized as other income when received. The foreign exchange losses in 2016 were mainly contributed by the USD appreciation against Chinese Yuan. Components of other income for the years ended December 31, 2016, 2017 and 2018 were as follows:

	2016	2017	2018
	RMB (in millions)		
Gain on disposal of long-term investments(Note 7)	290	1,416	1,181
Subsidy income	221	264	469
Gain from the re-measurement of the previously held equity interest to the fair value in the business acquisition (Note 2)	—	—	249
Dividends from long-term investment	49	47	24
Gain/(loss) on disposal of a subsidiary	—	11	(2)
Impairments of long-term investments	(48)	(411)	—
Fair value changes of equity securities investments	—	—	(3,064)
Provision/impairment for an equity method investment	—	(967)	(61)
Foreign exchange (losses)/gains	(558)	469	(17)
Others	19	50	146
Total	(27)	879	(1,075)

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 will cease if such reserve has reached to 50% of the registered capital of respective company. Appropriations to discretionary surplus reserve are at the discretion of the board of directors of the VIEs. These reserves can only be used for specific purposes and are not transferable to the Company in form of loans, advances, or cash dividends. Additionally, ezTravel, the Company's subsidiary incorporated in Taiwan, is also required to allocate 10% of its after-tax profit to the statutory reserve in accordance with Taiwan regulations. There is no such regulation of providing statutory reserve in Hong Kong. During the years ended December 31, 2016, 2017, and 2018, appropriations to statutory reserves have been made of approximately RMB69 million, RMB146 million, and RMB100 million, respectively.

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. As the majority 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. However, the Company believes the restrictions on currency exchange imposed by the PRC foreign exchange regulations and enforced by SAFE do not automatically constitute the "restrictions" under Rule 4-08(e)(3) under Regulation S-X, because such restrictions in substance do not prohibit the Company's subsidiaries or VIEs from transferring net assets to the Company in the combined forms of loans, advances and cash dividends without the consent of SAFE, provided that certain procedural formalities should be complied with. As of December 31, 2018, the restricted net assets of the Company's PRC subsidiaries and VIEs not distributable in the form of dividends to the parent as a result of the aforesaid PRC regulations and other restrictions were RMB7 billion.

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, 2016, 2017 and 2018 were RMB8 billion, RMB12 billion and RMB16 billion, 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 sole discretion of the Company, for which the compensatory element of the arrangement is deducted from the accumulated profits.

Effective January 1, 2008, current CIT Law imposes a 10% withholding income tax for dividends distributed by foreign invested enterprises to their immediate holding companies outside mainland China. A lower withholding tax rate will be applied if there is a tax treaty arrangement between mainland China and the jurisdiction of the foreign holding company. Distributions to holding companies in Hong Kong that satisfy certain requirements specified by PRC tax authorities, for example, will be subject to a 5% withholding tax rate. Furthermore, pursuant to the applicable circular and interpretations of the current EIT Law, dividends from earnings created prior to 2008 but distributed after 2008 are not subject to withholding income tax.

Earnings/(loss) per share

In accordance with “*Computation of Earnings Per Share*”, 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). Vested but unexercised stock options with exercise prices that represent little or no consideration are included in the weighted average shares outstanding in the basic earnings per share calculation.

If the number of common shares outstanding increases as a result of a stock dividend or stock split or decreases as a result of a reverse stock split, the computations of basic and diluted EPS shall be adjusted retroactively for all periods presented to reflect that change in capital structure. If changes in common stock resulting from stock dividends, stock splits, or reverse stock splits occur after the close of the period but before the financial statements are issued or are available to be issued, the per-share computations for those and any prior-period financial statements presented shall be based on the new number of shares.

Effective December 1, 2015, the ratio of the Company’s American depositary shares (“ADSs”) to ordinary shares is eight (8) ADSs representing one (1) ordinary share.

Treasury stock

The share-repurchase programs do not require the Company to acquire a specific number of shares and may be suspended or discontinued at any time.

Segment reporting

The Company operates and manages its business as a single segment. Resources are allocated and performance is assessed by the CEO, whom is determined to be the Chief Operating Decision Maker (CODM). Since the Company operates in one reportable segment, all financial segment and product information required by this statement can be found in the consolidated financial statements.

The Company primarily generates its revenues from end users in Great China Area, and assets of the Company are also primarily located in Great China Area. Accordingly, no geographical segments are presented.

Recently Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires that a lessee should recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expenses for such lease generally on a straight-line basis over the lease term. The new leases standard also provides lessees with a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease component. If a lessee makes that accounting policy election, it is required to account for the non-lease components together with the associated lease component as a single lease component and to provide certain disclosures. Entities were initially required to adopt the new leases standard using a modified retrospective transition method. Under that transition method, an entity initially applies the new leases standard (subject to specific transition requirements and optional practical expedients) at the beginning of the earliest period presented in the financial statements. In July 2018, the FASB issued ASU 2018-11, which provides another transition method in addition to the existing transition method by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption consistent with preparers’ requests. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public entities. The Company will adopt this new guidance for the year ended December 31, 2019 and interim periods in the year ended December 31, 2019. The Company estimates approximately RMB800 million to RMB900 million would be recognized as total right-of-use assets and total lease liabilities on our consolidated balance sheet as of January 1, 2019. Other than disclosed, the Company do not expect the new standard to have a material impact on its remaining consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Statements. This ASU requires a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The standard is effective for the Company from calendar 2020, with early adoption permitted for calendar 2019. The Company is evaluating the impact of the adoption of this standard on its consolidated financial statements.

[Table of Contents](#)

In January 2017, the FASB issued ASU 2017-04: Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the Board eliminated Step 2 from the goodwill impairment test. Under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity should apply the amendments in this Update on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. A public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is in the process of evaluating the impact of the Update on its consolidated financial statements.

Certain risks and concentration

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, short-term investment, accounts receivable, amounts due from related parties, prepayments and other current assets. As of December 31, 2016, 2017 and 2018, substantially all of the Company's cash and cash equivalents, restricted cash and short-term investment were held in major financial institutions located in the PRC and in Hong Kong, which management considers to be of high credit quality based on their credit ratings. 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, 2016, 2017 and 2018. No individual customer accounted for more than 10% of accounts receivable as of December 31, 2017 and 2018.

3. PREPAYMENTS AND OTHER CURRENT ASSETS

Components of prepayments and other current assets as of December 31, 2017 and 2018 were as follows:

	2017	2018
	RMB (in millions)	
Prepayments and other deposits	4,576	6,877
Receivable related to financial services (Note 2)	596	1,551
Prepaid expenses	425	401
Others	576	728
Total	<u>6,173</u>	<u>9,557</u>

4. LONG-TERM DEPOSITS AND PREPAYMENTS

The Group's subsidiaries and VIEs are required to pay certain amounts of deposit to airline companies and hotel suppliers. 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 deposits and prepayments as of December 31, 2017 and 2018 were as follows:

	2017	2018
	RMB (in millions)	
Deposits paid to airline suppliers	276	243
Deposits paid to advertising suppliers	89	164
Prepayments for purchase of long lived assets	241	127
Deposits paid to hotel suppliers	75	70
Others	159	164
Total	<u>840</u>	<u>768</u>

5. LAND USE RIGHTS

Land use rights are amortized under straight-line method through the respective period of land rights, which are from 40-50 years. Amortization expense for the years ended December 31, 2016, 2017 and 2018 was approximately RMB3 million, RMB3 million and RMB3 million, respectively. As of December 31, 2017 and 2018, the net book value was RMB97 million and RMB94 million respectively.

6. PROPERTY, EQUIPMENT AND SOFTWARE

Property, equipment and software and its related accumulated depreciation and amortization as of December 31, 2017 and 2018 were as follows:

	2017	2018
	RMB (in millions)	
Buildings	5,162	5,418
Computer equipment	926	1,145
Website-related equipment	638	771
Furniture and fixtures	233	292
Software	167	215
Leaschold improvements	140	146
Construction in progress	8	9
Less: accumulated depreciation and amortization	(1,658)	(2,124)
Total net book value	<u>5,616</u>	<u>5,872</u>

Depreciation expense for the years ended December 31, 2016, 2017 and 2018 was RMB461 million, RMB490 million and RMB546 million, respectively.

7. INVESTMENTS

The Company's long-term investments are consisted of the follows:

	2017	2018
	RMB (in millions)	
Debt investments	6,157	5,107
Equity investments	19,417	21,767
	<u>25,574</u>	<u>26,874</u>

Debt investments

Held to maturity debt securities

Held to maturity investments were time deposits and financial products in commercial banks with maturities of more than one year with the carrying amount of RMB40 million and RMB2.4 billion as of December 31, 2017 and 2018 respectively.

Available-for-sale debt investments

The following table summarizes the Company's available-for-sale debt investments as of December 31, 2018 (RMB in millions):

	Cost, after adjusted with other-than-temporary impairment	Gross Unrealized Gains, including forex adjustment	Gross Unrealized Losses, including forex adjustment	Fair Value
Available-for-sale debt investments	2,633	236	(152)	2,717

The following table summarizes the Company's available-for-sale debt investments as of December 31, 2017 (RMB in millions):

	Cost, after adjusted with other-than-temporary impairment	Gross Unrealized Gains, including forex adjustment	Gross Unrealized Losses, including forex adjustment	Fair Value
Available-for-sale debt investments	5,362	909	(154)	6,117

Equity investments**Equity securities with readily determinable fair values**

The following table summarizes the Company's equity securities with readily determinable fair values as of December 31, 2018 (RMB in millions):

	Cost, after adjusted with other-than-temporary impairment	Gross Unrealized Gains, including forex adjustment	Gross Unrealized Losses, including forex adjustment	Fair Value
Equity securities with readily determinable fair values	5,520	4,320	(845)	8,995

The following table summarizes the Company's equity securities with readily determinable fair values as of December 31, 2017 (RMB in millions):

	Cost, after adjusted with other-than-temporary impairment	Gross Unrealized Gains, including forex adjustment	Gross Unrealized Losses, including forex adjustment	Fair Value
Equity securities with readily determinable fair values	6,136	6,299	—	12,435

For the years ended December 31, 2016, 2017 and 2018, the Company completed the following significant investments which were accounted for as equity securities with readily determinable fair values:

In January, 2016, the Company invested US\$180 million (approximately RMB1.2 billion) to purchase the convertible bonds of MakeMyTrip Limited ("MakeMyTrip") which were subsequently converted to approximately 10% equity interest in MakeMyTrip in October 2016. As of December 31, 2017 and 2018, based on the market price, the Company re-measured the investment at a fair value of RMB2.1 billion and RMB1.8 billion respectively.

In April 2016, the Company purchased 3% equity interest of China Eastern Airlines with consideration of RMB3 billion. As of December 31, 2017 and 2018, based on the market price, the Company re-measured the investment at a fair value of RMB3.8 billion and RMB2.2 billion respectively.

Equity securities without readily determinable fair values

Equity securities without readily determinable fair values and over which the Company has neither significant influence nor control through investments in common stock or in-substance common stock. The carrying value of equity securities without readily determinable fair values was RMB913 million and RMB584 million as of December 31, 2017 and 2018 respectively. There is no fair value changes related to these investments for the years ended December 31, 2017 and 2018. None of the investments individually is considered as material to the Group's financial position.

In 2016, 2017 and 2018, the Company disposed certain equity securities without readily determinable fair values for total consideration of RMB317 million, RMB1.4 billion and RMB261 million, respectively, which results a gain of RMB149 million, RMB1.4 billion, and RMB122 million as reported in other income, respectively. In 2018, the Company also paid certain equity securities without readily determinable fair values with amount of RMB294 million for business acquisition.

In 2016, 2017 and 2018, the Company made investments in equity investments without readily determinable fair values with amount of RMB0.1 billion, RMB0.2 billion and RMB92 million respectively.

Equity method investments

For the years ended December 31, 2016, 2017 and 2018, the Company completed the following investments which were accounted for as equity method investments:

In December 2016, in connection of share exchange transaction with BTG and Homeinns, the Company exchanged its previously held equity interest in Homeinns for 22% equity interest of BTG with a gain of RMB1.4 billion recognized and reported in "Equity in income/(loss) of affiliates" in the statement of income and comprehensive income. The Company applied equity method to account for the investment in BTG on one quarter lag basis. As of December 31, 2017 and 2018, the carrying value of its investment in Homeinns and BTG were RMB2.6 billion and RMB2.7 billion respectively.

[Table of Contents](#)

Tujia used to be a subsidiary of the Company. In 2015, after a private placement of Tujia, the Company lost the control in Tujia. In 2017, Tujia completed a restructure and its offline business was assumed by a newly established company and the Company converted part of its preferred shares investment in Tujia to common shares of Tujia and the newly established company. As of December 31, 2017, the carrying value of its equity method investment and fair value of its preferred shares were RMB1.5 billion and RMB1.7 billion, respectively. The Company applies equity method for its common shares investment on Tujia on one quarter lag basis. The preferred shares investment in Tujia was continued to be accounted for as available-for-sale debt security. As of December 31, 2018, the carrying value of its equity method investments and fair value of its preferred shares were RMB1.2 billion and RMB1.6 billion respectively. The Company concluded it does not have control over Tujia whilst it has majority ownership of Tujia since the Company does not have control of the board of directors of Tujia, which makes all the significant decisions of Tujia.

In May 2015, the Company acquired approximately 38% share capital of eLong, Inc. (“eLong”) and applied equity method on one quarter lag basis. In May 2016, eLong completed its “going-private” transaction and merger with E-dragon Holdings Limited (“E-dragon”) (“Reorganization”). After the Reorganization, the Company applies equity method for its ordinary shares investment in E-dragon’s on one quarter lag basis and the preferred shares of E-dragon are classified as available-for-sale debt security. As of December 31, 2017, the carrying value of its equity investment and fair value of preferred share investment in E-dragon were RMB194 million and RMB1.7 billion, respectively. In March 2018, E-dragon consummated a merger with LY.com with share swap transaction. The Company received an equity method investment in the enlarged group with previously held equity investment and preferred shares of E-dragon be exchanged. The Company recognized RMB847 million gain as reported in other income. For the year ended December 31, 2018, the Company acquired additional equity interest with total consideration of RMB1.4 billion. After these transactions, the Company has 27% equity interest in the enlarged group and applied equity method for this investment. As of December 31, 2018, the carrying value of its equity investment was RMB5.3 billion.

In 2014, through a series of transactions, the Company and other shareholders, including Royal Caribbean Cruises Ltd. (“RCL”) formed Skysea Holding International Ltd. (“Skysea”) where the Company and RCL each owns 35% equity interest of Skysea. The Company and RCL also each provided a loan with amount of US\$80 million to Skysea. The Company accounted for its investment in Skysea under equity method. The loan provided to Skysea was recorded in Long-term receivables due from related parties (Note 12).

Investment funds

For the years ended December 31, 2016, 2017 and 2018, the Company made some investments in several third party investment funds. The Company accounted for these investments under equity methods on one quarter lag basis. As of December 31, 2017 and 2018, the carrying value of these investments were RMB780 million and RMB1.2 billion respectively.

As of December 31, 2017 and 2018, the carrying value of the rest equity method investments were RMB1.0 billion and RMB1.8 billion respectively.

The Company summarizes the condensed financial information of the Company’s equity investments as a group below in accordance with Rule 4-08 of Regulation S-X (RMB in millions).

	2016		2017	2018
	eLong	Other equity investments	Equity investments	Equity investments
Operating data:				
Revenue	1,895	5,918	14,243	17,429
Gross profit	998	4,785	8,145	11,513
(Loss)/Income from operations	(1,313)	155	80	294
Net (loss)/income	(1,635)	(62)	(223)	990
Net loss attributable to our equity method investments companies	(722)	(55)	(79)	(81)
Add: Equity dilution impact	(1)	11	14	7
Add: Gain from disposal of equity method investments	—	1,369	—	42
Equity in (loss)/income of affiliates	(723)	1,325	(65)	(32)
Balance sheet data:				
Current assets	1,979	3,354	9,836	26,612
Long-term assets	455	17,298	16,553	37,435
Current liabilities.	1,687	11,596	8,061	20,404
Long-term liabilities.	16	1,651	6,191	12,011
Non-controlling interests.	16	1,945	324	232

[Table of Contents](#)

For the years ended December 31, 2016, 2017 and 2018, the total cash paid for equity method investments was RMB1.0 billion, RMB0.2 billion and RMB1.7 billion, respectively.

Impairments

The Company performs impairment assessment of its investments by considering factors including, but not limited to, current economic and market conditions as well as the operating performance of the investees. Impairment charges in connection with the equity securities with readily determinable fair value before the adoption of new financial instrument accounting standard of nil and RMB116 million were recorded for the years ended December 31, 2016 and 2017, respectively. Impairment charges in connection with the available-for-sale debt investment of RMB36 million, RMB156 million and nil were recorded for the years ended December 31, 2016, 2017 and 2018, respectively. Impairment charges in connection with equity method investments of nil, RMB64 million and RMB61 million were recorded for the years ended December 31, 2016, 2017 and 2018, respectively. Impairment charges in connection with the equity securities without readily determinable fair value of RMB12 million, RMB139 million and nil were recorded for the years ended December 31, 2016, 2017 and 2018, respectively. The impairment was recorded in "Other income/ (expense)" (Note 2). The carrying value for the equity securities without readily determinable fair value and equity method impairments apply non-recurring fair value measures is nil for the years ended December 31, 2016, 2017 and 2018.

8. FAIR VALUE MEASUREMENT

In accordance with ASC 820-10, the Company measures financial products, time deposits, available-for-sale debt investments and equity securities with readily determinable fair value at fair value on a recurring basis. Equity securities classified within Level 1 are valued using quoted market prices that currently available on a securities exchange registered with the Securities and Exchange Commission (SEC) and Shanghai Stock Exchange (SSE). Financial products and time deposits classified within Level 2 are valued using directly or indirectly observable inputs in the market place. The available-for-sale debt investments classified within Level 3 are valued based on a model utilizing unobservable inputs which require significant management judgment and estimation.

The equity securities without readily determinable fair value, equity method investments and certain non-financial assets are recorded at fair value only if an impairment or observable price adjustment is recognized in the current period. If an impairment or observable price adjustment is recognized on the equity securities during the period, the Company classify these assets as Level 3 within the fair value hierarchy based on the nature of the fair value inputs.

Assets measured at fair value on a recurring basis are summarized below (in millions):

	Fair Value Measurement at December 31, 2018 Using				
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable inputs (Level 3)	Fair Value at December 31, 2018	
	RMB	RMB	RMB	RMB	US\$
Financial products	—	33,185	—	33,185	4,827
Time deposits (with the maturity of more than three months)	—	5,958	—	5,958	866
Equity securities	8,995	—	—	8,995	1,308
Available-for-sale debt investments	—	—	2,717	2,717	395
Total	8,995	39,143	2,717	50,855	7,396

	Fair Value Measurement at December 31, 2017 Using				
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable inputs (Level 3)	Fair Value at December 31, 2017	
	RMB	RMB	RMB	RMB	US\$
Financial products	—	26,892	—	26,892	4,133
Time deposits (with the maturity of more than three months)	—	149	—	149	23
Equity securities	12,435	—	—	12,435	1,911
Available-for-sale debt investments	—	409	5,708	6,117	940
Total	12,435	27,450	5,708	45,593	7,007

[Table of Contents](#)

The roll forward of major Level 3 investments are as following:

	<u>Total</u>
	<u>RMB(in millions)</u>
Fair value of Level 3 investments as at December 31, 2016	6,806
Transfer in and/or out of Level 3	(1,755)
New addition	455
Disposal of investments	(17)
Effect of exchange rate change	(193)
Other than temporary impairments	(156)
The change in fair value of the investments	<u>568</u>
Fair value of Level 3 investments as at December 31, 2017	<u>5,708</u>
Transfer in and/or out of Level 3	69
New addition	150
Disposal of investments	(2,655)
Effect of exchange rate change	121
The change in fair value of the investments	<u>(676)</u>
Fair value of Level 3 investments as at December 31, 2018	<u>2,717</u>

The Company determined the fair value of their investment by using income approach. The determination of the fair value was based on estimates, judgments and information of other comparable public companies. The significant unobservable inputs adopted in the valuation as of December 31, 2018 are as following:

Unobservable Input	
Weighted average cost of capital	17%~19%
Lack of marketability discount	10 %~15%
Risk-free rate	3.5 %
Expected volatility	38 %~41%
Probability	Liquidation scenario: 35%~70% Redemption scenario: 30% IPO scenario: 30%~35%
Dividend yield	Nil

9. GOODWILL

Goodwill, which is not tax deductible, represents the synergy effects of the business combinations. The changes in the carrying amount of goodwill for the years ended December 31, 2017 and 2018 were as follows:

	<u>2017</u>	<u>2018</u>
	<u>RMB (in millions)</u>	
Balance at beginning of year	56,015	56,246
Acquisition of offline travel agency (Note 2)	—	1,166
Acquisition of Skyscanner (Note 2)	(60)	—
Others	291	614
Balance at end of period	<u>56,246</u>	<u>58,026</u>

Goodwill resulting from the business combinations completed in the years ended December 31, 2018 has been allocated to the single reporting unit of the Group. For the years ended December 31, 2016, 2017 and 2018, the Company did not have goodwill impairment. As of December 31, 2018, there had not been any accumulated goodwill impairment provided.

10. INTANGIBLE ASSETS

Intangible assets as of December 31, 2017 and 2018 were as follows:

	2017	2018
	RMB (in millions)	
Intangible asset		
Intangible assets to be amortized		
Business Relationship (Representing the relationship with the travel service providers and other business partners)	1,800	1,858
Technology	713	751
Others	188	518
Intangible assets not subject to amortization		
Trade mark	11,613	11,613
Others	180	163
	<u>14,494</u>	<u>14,903</u>
Less: accumulated amortization		
Intangible assets to be amortized		
Business Relationship	(420)	(671)
Technology	(229)	(353)
Others	(95)	(156)
	<u>(744)</u>	<u>(1,180)</u>
Net book value		
Intangible assets to be amortized		
Business Relationship	1,380	1,187
Technology	484	398
Others	93	362
Intangible assets not subject to amortization		
Trade mark	11,613	11,613
Others	180	163
	<u>13,750</u>	<u>13,723</u>

Finite-lived intangible assets are tested for impairment if impairment indicators arise. The Company amortizes its finite-lived intangible assets using the straight-line method:

Business Relationship	5-10 years
Technology	5-10 years
Others	3-10 years

Amortization expense for the years ended December 31, 2016, 2017 and 2018 was approximately RMB255 million, RMB391 million and RMB433 million respectively.

The annual estimated amortization expense for intangible assets subject to amortization for the five succeeding years is as follows:

	Amortization RMB (in millions)
2019	432
2020	416
2021	252
2022	214
2023	164
	<u>1,478</u>

11. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

	2017	2018
	RMB (in millions)	
Short-term bank borrowings	8,686	25,090
Securitization debt	—	608
2020 Notes (Note 16)	4,554	—
2018 Notes (Note 16)	3,076	—
2022 Notes (Note 16)	—	6,703
2019 Booking Notes (Note 16)	—	3,438
2022 Booking Notes (Note 16)	—	172
Total	<u>16,316</u>	<u>36,011</u>

As of December 31, 2018, the Company obtained short-term bank borrowings of RMB25.1 billion (US\$3.6 billion) in aggregate, of which RMB9.5 billion (US\$1.4 billion) were collateralized by bank deposits of RMB1.5 billion (US\$215 million) classified as restricted cash and/or short-term investment of RMB8.8 billion (US\$1.3 billion). The weighted average interest rate for the outstanding borrowings was approximately 4.09%.

[Table of Contents](#)

The short-term borrowings contain covenants including, among others, limitation on liens, consolidation, merger and sale of the Company's assets. The Company is in compliance with all of the loan covenants as of December 31, 2017 and 2018.

As of December 31, 2018, securitization debt represents the revolving debt securities which are collateralized by the receivable related to financial services. The revolving debt securities have the terms ranged from six months to one year with the annual interest rate from 4.55% to 5.80%. The revolving debt securities do not contain significant covenant.

As of December 31, 2018, RMB3.4 billion of 2019 Booking Notes is classified as short-term debt to present that the Notes may be redeemed or mature within one year. As of December 31, 2018, RMB6.7 billion of 2022 Notes and RMB172 million of 2022 Booking Notes is reclassified as short-term debt because the 2022 Notes holders had a non-contingent option to require the Company to repurchase for cash all or any portion of their 2022 Notes and 2022 Booking Notes on September 15, 2019.

12. RELATED PARTY TRANSACTIONS AND BALANCES

During the years ended December 31, 2016, 2017 and 2018 significant related party transactions were as follows:

	2016	2017	2018
	RMB(in millions)		
Commissions from Tongcheng-eLong (a)	—	—	190
Commissions from eLong (a)	261	573	63
Commissions from Huazhu (a)	44	77	61
Commissions from Homeinns and BTG (a)	67	63	93
Repayment of entrusted loan and interest from Baidu (b)	652	—	—
Shareholders' loan and interest to Skysea (c)	73	4	—
Commissions to Tongcheng-eLong (d)	—	—	516
Commissions to eLong (d)	86	244	66
Commissions to Baidu (d)	96	80	67
Commissions to LY.com (d)	62	70	6
Online marketing service from Baidu (e)	110	38	—
Repayment of entrusted loan and interest to Baidu (f)	1,837	—	—

- (a) BTG, Huazhu and eLong, have entered into agreements with the Company, respectively, to provide hotel rooms for our customers. In 2018, eLong completed a merger with LY.com and the enlarged group Tongcheng-eLong supersedes eLong to provide hotel rooms for our customer. The transactions above represent the commissions earned from these related parties.
- (b) On October 27, 2015, Qunar granted a loan amounting to RMB650 million (US\$100 million) to Baidu. The loan bore an interest at 1.00% with a repayment term of 12 months. Qunar received the repayment in March, 2016.
- (c) In 2014, the Company provided a shareholder's loan of US\$80 million to Skysea. The interest rate is 3% per annum currently and shall be subject to annual review and adjustment with mutual consent. The transactions above represent the interest of the loan. In 2017, the Company provided a provision for the loan and receivable to Skysea with amount of RMB536 million. See (a) below.
- (d) The Company entered into agreements with eLong, LY.com and Baidu, upon which these related parties promote the Company's hotel rooms on their platforms. In 2018, eLong completed a merger with LY.com and the enlarged group Tongcheng-eLong supersedes eLong and LY.com to promote the Company's hotel rooms on their platforms. The transactions above represent the service commissions and Baidu Map business cooperation commission paid to these related parties.
- (e) The Company has entered into marketing service agreements with Baidu. The transactions above represent the marketing service fee paid to Baidu.
- (f) On March 12 and May 4, 2015, Qunar drew down RMB507 million and RMB627 million respectively pursuant to the revolving credit facility agreement with Baidu. In March 2016, Qunar repaid these loans and the facility agreement was terminated. In addition, on October 26, 2015, Qunar was granted a loan amounting to RMB640 million (US\$99 million) from Baidu Times. The loan bore an interest at 4.14% with a repayment term of 12 months. Qunar repaid the loan in March, 2016.

[Table of Contents](#)

As of December 31, 2017 and 2018, significant balances with related parties were as follows:

	2017	2018
	RMB(in millions)	
Due from related parties, current:		
Due from Tongcheng-eLong	—	1,278
Due from eLong	153	—
Due from Baidu	119	23
Due from others	102	341
	<u>374</u>	<u>1,642</u>
Due from related parties, non-current:		
Due from Skysea (a)	196	207
Due from others	22	22
	<u>218</u>	<u>229</u>
Due to related parties, current:		
Due to Tongcheng-eLong	—	263
Due to eLong	273	—
Due to Baidu	58	8
Due to others	88	221
	<u>419</u>	<u>492</u>

- (a) In 2017, based on the impairment assessment by considering the operating results, market condition and business updates, a provision of RMB536 million for the loan and receivable balance due from Skysea was provided and a liability of RMB367 million for the contingent payable was recorded in “Other payables and accruals” (Note 15) which reflected the best estimates of the liability to be assume by the Company as of the date of this financial statement and offset by the proceeds from the net realisable value of Skysea in the event of winding down of its business, which is undergoing.

13. EMPLOYEE BENEFITS

The Group’s employee benefit primarily related to the full-time employees of the PRC subsidiaries and the VIEs, including medical care, welfare subsidies, housing fund, unemployment insurance and pension benefits. The PRC subsidiaries and 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 PRC government is responsible for the medical benefits and ultimate pension liability to these employees. The total expenses recorded for such employee benefits amounted to RMB1.4 billion, RMB1.6 billion and RMB1.7 billion for the years ended December 31, 2016, 2017 and 2018 respectively.

14. 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 incorporated in Hong Kong are subject to Hong Kong Profits Tax (“CIT”) on the taxable income as reported in their respective statutory financial statements adjusted in accordance with relevant Hong Kong tax laws. The applicable tax rate is 16.5% in Hong Kong.

Taiwan

The Company’s consolidated entities registered in Taiwan are subject to Taiwan Enterprise Income Tax on the taxable income as reported in their respective statutory financial statements adjusted in accordance with relevant Taiwan income tax laws. The applicable tax rate is 20% in Taiwan.

The PRC

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

The PRC CIT laws apply a general enterprise income tax rate of 25% to both foreign-invested enterprises and domestic enterprises. Preferential tax treatments are granted to enterprises, which conduct business in certain encouraged sectors and to enterprises otherwise classified as a High and New Technology Enterprise ("HNTE"). In 2017, Ctrip Computer Technology, Ctrip Travel Information and Ctrip Travel Network reapplied for their qualification as HNTE, which were approved by the relevant government authority. Thus, these subsidiaries are entitled to a preferential EIT rate of 15% from 2017 to 2019. Qunar Software and Qunar Beijing are also entitled a preferential EIT rate of 15% from 2018 to 2020.

In 2002, the State Taxation of Administration ("SAT") started to implement preferential tax policy in China's western regions, and companies located in applicable jurisdictions covered by the Western Regions Catalogue are eligible to apply for a preferential income tax rate of 15% if their businesses fall within the "encouraged" category of the policy. Over the years since 2012, Chengdu Ctrip and Chengdu Ctrip International obtained approval from local tax authorities to apply the 15% tax rate for their annual tax filing subject to periodic renewals. After the initial effective period expired in 2014, the two entities were approved by the relevant government authority to renew this qualification, which will expire in 2020. In 2013, Chengdu Information obtained approval from local tax authorities to apply the 15% tax rate for its 2012 tax filing and for the years from 2013 to 2020.

Pursuant to the PRC CIT Law, all foreign invested enterprises in the PRC are subject to the withholding tax for their earnings generated after January 1, 2008. The Company expects to indefinitely reinvest undistributed earnings generated after January 1, 2008 in the onshore PRC entities. As a result, no deferred tax liability was provided on the outside basis difference from undistributed earnings after January 1, 2008.

Income/(loss) from domestic and foreign components before income tax expenses

	2016	2017	2018
	RMB (in millions)		
Domestic	2,224	5,852	4,663
Foreign	(3,968)	(2,328)	(2,742)
Total	<u>(1,744)</u>	<u>3,524</u>	<u>1,921</u>

The loss from foreign components mainly includes the share based compensation charge, impairment for investments, foreign exchange gain/(loss) and interest income/(loss) incurred in its overseas companies.

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, 2016, 2017 and 2018 were as follows:

	2016	2017	2018
	RMB (in millions)		
Current income tax expense	454	1,453	1,425
Deferred tax expense/(benefit)	28	(168)	(632)
Income tax expense	<u>482</u>	<u>1,285</u>	<u>793</u>

Income tax expense was RMB793 million (US\$115 million) in the year ended December 31, 2018, decrease from RMB1.3 billion in the year ended 2017. The effective income tax rate in year ended December 31, 2018 was 41%, as compared to 36% in the year ended 2017, mainly due to the combined impacts from change in profitability of the Group, changes in the profits of the Company's subsidiaries with different tax rates and decrease of non-deductible share-based compensation expenses.

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

The reconciliation between the statutory CIT rate and the Group's effective tax rate for the years ended December 31, 2016, 2017 and 2018 were as follows:

	2016	2017	2018
Statutory CIT rate	25%	25%	25%
Tax differential from statutory rate applicable to subsidiaries with preferential tax rates	8%	6%	(23)%
Non-deductible expenses and non-taxable income incurred	(51)%	3%	37%
Change in valuation allowance	(10)%	2%	2%
Effective CIT rate	<u>(28)%</u>	<u>36%</u>	<u>41%</u>

[Table of Contents](#)

The change in the Group's effective tax rates from year over year is primarily attributable to the tax differential from certain subsidiaries with preferential tax rates as well as the non-deductible expenses.

The non-deductible expenses are primarily attributable to the share-based compensation charge of RMB3.6 billion, RMB1.8 billion and RMB1.7 billion for the years ended December 31, 2016, 2017 and 2018, respectively, and the losses from the equity securities investments measured at fair value change of RMB3.1 billion for the year ended December 2018, which was not deductible according to the PRC tax laws. For the years ended December 31, 2016, 2017 and 2018, such non-deductible expense increased the income tax in the amount of RMB890 million, RMB458 million and RMB790 million, respectively by using enacted tax rate of 25%, which led to the increase of effective tax rate of -51%, 13% and 41% respectively. The remaining impact from the non-deductible expenses comes from the other expenses incurred on the Company level which is also not subject to income tax.

The provisions for income taxes for the years ended December 31, 2016, 2017 and 2018 differ from the amounts computed by applying the CIT primarily due to preferential tax rate enjoyed by certain subsidiaries and VIEs of the Company. The following table sets forth the effect of preferential tax on China operations:

	2016	2017	2018
	RMB (In millions, except per share data)		
Tax holiday effect	178	345	520
Basic net income per ADS effect	0.38	0.65	0.95
Diluted net income per ADS effect	0.38	0.60	0.92

For the years ended December 31, 2016, 2017 and 2018, the impacts on effective tax rates from the Company's major subsidiaries with preferential tax rates are as follows:

		Impact on the effective tax rates		
		2016	2017	2018
Ctrip Computer Technology (Shanghai) Co., Ltd.	15%	4.2%	(1.6)%	(5.5)%
Ctrip Travel Information Technology (Shanghai) Co., Ltd.	15%	1.9%	(1.6)%	(4.0)%
Ctrip Travel Network Technology (Shanghai) Co., Ltd.	15%	7.4%	(1.6)%	(5.7)%
Chengdu Information Technology Co., Ltd.	15%	1.4%	(2.1)%	(3.2)%
The Company and its subsidiaries in Hong Kong and Cayman	16.5%, 0%	0.8%	15.4%	1.7%
Qunar and subsidiaries	15%	(5.9)%	(1.0)%	(5.0)%
Others	15%	(1.6)%	(1.1)%	(1.3)%
Total		8.2%	6.4%	(23.0)%

Significant components of deferred tax assets and liabilities:

	2017	2018
	RMB (in millions)	
Accrued expenses	331	532
Loss carry forward	151	191
Accrued liability for customer reward related programs	99	57
Accrued staff salary	4	65
Others	74	243
Less: Valuation allowance of deferred tax assets	(197)	(238)
Total deferred tax assets	462	850
Deferred tax liabilities:		
Recognition of intangible assets arise from business combinations and unrealized holding gain	(3,895)	(3,838)
Net deferred tax (liabilities)/assets	(3,433)	(2,988)

Movement of valuation allowances:

	2016	2017	2018
	RMB (in millions)		
Balance at beginning of year	31	150	197
Current year additions	119	47	41
Balance at end of year	150	197	238

[Table of Contents](#)

As of December 31, 2017 and 2018, valuation allowance of RMB197 million and RMB238 million was mainly provided for operating loss carry forwards related to certain subsidiary based on then assessment where it is more likely than not that such deferred tax assets will not be realized. If events were to occur in the future that would allow the Company to realize more of its deferred tax assets than the presently recorded net amount, an adjustment would be made to the deferred tax assets that would increase income for the period when those events occurred.

As of December 31, 2018, the Group had net operating tax loss carry forwards amounted to RMB875 million which will expire from 2019 to 2022 if not used.

As of December 31, 2017 and 2018, the unrecognized tax benefit and accrual is nil.

Qunar, one of the Company's subsidiaries acts as an agent for its air travel facilitating services including aviation insurance policies (the "Aviation Insurance Arrangements"), presents revenues from such transactions on a net basis. Under the current PRC CIT Laws and regulations, Qunar's existing business arrangement more likely than not will subject Qunar to income taxes on a gross basis for the Aviation Insurance Arrangements. The difference between the net revenue and the gross revenue is considered as deemed revenue for additional income taxes. The associated income tax expense is calculated by applying the applicable tax rate to the deemed revenue amount and includes the late payment interest based on the applicable tax rules. Such liabilities primarily represent the tax provision made with respect to the deemed revenue from these transactions. It is possible that the amount accrued will change in the next 12 months, however, an estimate of the range of the possible change cannot be made at this time.

15. OTHER PAYABLES AND ACCRUALS

Components of other payables and accruals as of December 31, 2017 and 2018 were as follows:

	2017	2018
	RMB (in millions)	
Accrued operating expenses	2,852	3,626
Deposits received from suppliers and packaged-tour users	507	836
Payable for acquisition and investments	626	226
Provision related to an equity method investment (Note 12)	367	367
Others	746	799
Total	<u>5,098</u>	<u>5,854</u>

16. LONG-TERM DEBT

	2017	2018
	RMB (millions)	
2020 Notes	—	4,813
2025 Notes	2,603	2,750
2022 Notes	6,344	—
2019 Booking Notes	3,253	—
2020 Booking Notes	1,627	1,719
2025 Booking and Hillhouse Notes	6,506	6,876
2022 Booking Notes	163	—
Long-term loan	8,807	8,035
Less: Debt issuance cost	(83)	(47)
Total	<u>29,220</u>	<u>24,146</u>

As of December 31, 2018, the fair value of the Company's long-term debt, based on Level 2 inputs, was RMB24.1 billion.

Description of 2018 Convertible Senior Notes

On October 17, 2013, the Company issued US\$800 million in aggregate principle amount of 1.25% Convertible Senior Notes due 2018 (the "2018 Notes"). The 2018 Notes may be converted, at an initial conversion rate of 12.7568 ADSs per US\$1,000 principal amount of the 2018 Notes (which represents an initial conversion price of US\$78.39 per ADS) at any time prior to the close of business on the second business day immediately preceding the maturity date of October 15, 2018. Debt issuance costs were US\$19.6 million and are being amortized to interest expense to the put date of the 2018 Notes (October 15, 2016).

Absent a fundamental change (as defined in the indenture for the 2018 Notes), each holder of the 2018 Notes has a right at such holder's option to require the Company to repurchase for cash all or any portion of such holder's 2018 Notes on October 15, 2016. As a result of this option the 2018 Notes were classified as current liability as at December 31, 2015. The holders did not exercise that option and it expired and the 2018 Notes were reclassified to non-current liability as at December 31, 2016 as they do not mature until 2018. The Company believes that the likelihood of occurrence of events considered a fundamental change is remote. The 2018 Notes are not redeemable prior to the maturity date of October 15, 2018.

[Table of Contents](#)

Concurrently with the issuance of the 2018 Notes, the Company purchased a call option (“2013 Purchased Call Option”) and sold warrants (“2013 Sold Warrants”) where the counterparty agreed to sell to the Company up to approximately 10.2 million of the Company’s ADSs at a price of US\$ 78.39 per ADS upon the Company’s exercise of the 2013 Purchased Call Option and the Company received US\$77.2 million from the same counterparty for the sale of warrants to purchase up to approximately 10.2 million of the Company’s ADSs at an exercise price of US\$96.27 per ADS.

In June 2017, the Company exchanged approximately US\$327 million aggregate principal amount of the outstanding 2018 Notes for approximately 8.3 million of its ADSs based on a conversion price of approximately US\$39.19 per ADS computed pursuant to the indenture of the 2018 Notes. The conversion price has reflected the share split of the Company effective from December 1, 2015.

The Company offered inducements to the holders of the 2017 and 2018 Notes for early conversion. As a result, for the years ended December 31, 2016 and 2017, US\$26 million and US\$352 million of the 2017 and 2018 Notes were early converted to 2.6 million and 10.8 million ADSs respectively, at the initial conversion rate of the 2017 and 2018 Notes. Such early conversion also resulted in an early termination of the 2012 and 2013 Purchased Call Option, from which the Company has received US\$12 million and US\$100 million (RMB650 million) in 2016 and 2017 respectively.

In 2018, the remaining 2018 Notes with principal amount of US\$473 million (RMB3.3 billion) have all been redeemed for cash.

Description of 2020 Convertible Senior Notes

On June 18, 2015, the Company issued US\$700 million of 1.00% Convertible Senior Notes due 2020 (the “2020 Notes”). The 2020 Notes may be converted at an initial conversion rate of 9.1942 ADSs per US\$1,000 principal amount of the 2020 Notes (which represents an initial conversion price of US\$108.76 per ADS) at any time prior to the close of business on the second business day immediately preceding the maturity date of July 1, 2020. Debt issuance costs were US\$11.3 million and are being amortized to interest expense to the put date of the 2020 Notes (July 1, 2018).

Absent a fundamental change (as defined in the indenture for the 2020 Notes), each holder of the 2020 Notes has a right at such holder’s option to require the Company to repurchase for cash all or any portion of such holder’s 2020 Notes on July 1, 2018. The Company believes that the likelihood of occurrence of events considered a fundamental change is remote. The Company did not receive any repurchase requests from holders on July 1, 2018, and the 2020 Notes were reclassified from short-term to long-term on the consolidated balance sheet following this date. The 2020 Notes are not redeemable prior to the maturity date of July 1, 2020.

Concurrently with the issuance of the 2020 Notes, the Company purchased a call option (“2015 Purchased Call Option”) and sold warrants (“2015 Sold Warrants”) where the counterparty agreed to sell to the Company up to approximately 6.4 million of the Company’s ADSs upon the Company’s exercise of the 2015 Purchased Call Option and the Company received US\$84.4 million from the same counterparty for the sale of warrants to purchase up to approximately 6.4 million of the Company’s ADSs.

Description of 2025 Convertible Senior Notes

On June 18, 2015, the Company issued US\$400 million of 1.99% Convertible Senior Notes due 2025 (the “2025 Notes”). The 2025 Notes may be converted, at an initial conversion rate of 9.3555 ADSs per US\$1,000 principal amount of the 2025 Notes (which represents an initial conversion price of US\$106.89 per ADS), at each holder’s option at any time prior to the close of business on the second business day immediately preceding the maturity date of July 1, 2025. Debt issuance costs were US\$6.8 million and are being amortized to interest expense to the put date of the 2025 Notes (July 1, 2020).

Absent a fundamental change (as defined in the indenture for the 2025 Notes), each holder of the 2025 Notes has a right at such holder’s option to require the Company to repurchase for cash all or any portion of such holder’s 2025 Notes on July 1, 2020. If a fundamental change (as defined in the indenture for the 2025 Notes) occurs at any time, each holder has a right at such holder’s option to require the Company to repurchase for cash all or any portion of such holder’s 2025 Notes on the date notified in writing by the Company in accordance with the indenture for the 2025 Notes. The Company believes that the likelihood of occurrence of events considered a fundamental change is remote. The 2025 Notes are generally not redeemable prior to the maturity date of July 1, 2025, except that the Company may, at its option, redeem all but not part of the 2025 Notes in accordance with the indenture for the 2025 Notes if the Company has or will become obligated to pay holders additional amount due to certain changes in tax law of the relevant jurisdiction.

Description of 2022 Convertible Senior Notes

On September 12, 2016 and September 19, 2016, the Company issued US\$975 million of 1.25% Convertible Senior Notes due 2022 (the “2022 Notes”). The 2022 Notes may be converted, at an initial conversion rate of 15.2688 ADSs per US\$1,000 principal amount of the 2022 Notes (which represents an initial conversion price of US\$65.49 per ADS) at each holder’s option at any time prior to the close of business on the business day immediately preceding the maturity date of September 15, 2022. Debt issuance costs were US\$19 million and are being amortized to interest expense to the put date of the 2022 Notes (September 15, 2019).

Absent a fundamental change (as defined in the indenture for the 2022 Notes), each holder of the 2022 Notes has a right at such holder’s option to require the Company to repurchase for cash all or any portion of such holder’s 2022 Notes on September 15, 2019, as a result the 2022 Notes were reclassified from long-term to short-term as of December 31, 2018. If a fundamental change (as defined in the indenture for the 2022 Notes) occurs at any time, each holder has a right at such holder’s option to require the Company to repurchase for cash all or any portion of such holder’s 2022 Notes on the date notified in writing by the Company in accordance with the indenture for the 2022 Notes. The Company believes that the likelihood of occurrence of events considered a fundamental change is remote. The 2022 Notes are generally not redeemable prior to the maturity date of September 15, 2022, except that the Company may, at its option, redeem all but not part of the 2022 Notes in accordance with the indenture for the 2022 Notes if the Company has or will become obligated to pay holders additional amount due to certain changes in tax law of the relevant jurisdiction.

The Company assessed the 2017 Notes, 2018 Notes, 2020 Notes, 2025 Notes and 2022 Notes (collectively as “Notes”), the 2012 Purchased Call Option, 2013 Purchased Call Option and 2015 Purchased Call Option (the “Purchased Call Options”), and the 2012 Sold Warrants, 2013 Sold Warrants and 2015 Sold Warrants (the “Sold Warrants”) under ASC 815 and concluded that:

- The Notes, the Purchased Call Options and the Sold Warrants (1) do not entail the same risks; and (2) have a valid business purpose and economic need for structuring the transactions separately. Therefore, the offering of the Notes, the Purchased Call Options and Sold Warrants transactions should be accounted separately;
- The repurchase option is considered clearly and closely related to its debt host and does not meet the requirement for bifurcation;
- Since the conversion option is considered indexed to the Company’s own stock, bifurcation of conversion option from the Notes is not required as the scope exception prescribed in ASC 815-10-15-74 is met;
- There was no BCF attribute to the Notes as the set conversion prices for the Notes were greater than the respective fair values of the ordinary share price at date of issuances;

Therefore, the Company has accounted for the respective Notes as a single instruments as a long-term debt. The debt issuance cost was recorded as reduction to the long-term debts and are amortised as interest expenses using the effective interest method. The value of the Notes are measured by the cash received. The Purchased Call Options and Sold Warrants are accounted for within stockholders’ equity.

Description of Booking and Hillhouse Notes

On August 7, 2014, the Company issued Convertible Senior Note (the “2019 Booking Note”) at an aggregate principal amount of US\$500 million to an indirect subsidiary of the Booking Group. The Booking 2019 Note is due on August 7, 2019 and bears interest of 1% per annum, which will be paid semi-annually beginning on February 7, 2015. The Booking 2019 Note will be convertible into the Company’s ADSs with an initial conversion price of approximately US\$81.36 per ADS.

On May 26, 2015, the Company issued Convertible Senior Note (the “2020 Booking Note”) at an aggregate principal amount of US\$250 million to an indirect subsidiary of the Booking Group. The Booking 2020 Note is due on May 29, 2020 and bears interest of 1% per annum, which will be paid semi-annually beginning on November 29, 2016. The Booking 2020 Note will be convertible into the Company’s ADSs with an initial conversion price of approximately US\$104.27 per ADS.

On December 10, 2015, the Company issued Convertible Senior Notes at an aggregate principal amount of US\$1 billion to an indirect subsidiary of the Booking Group and two affiliates of Hillhouse (the “2025 Booking and Hillhouse Notes”). The 2025 Booking and Hillhouse Notes are due on December 11, 2025 and bear interest of 2% per annum, which will be paid semi-annually beginning on June 11, 2016. The 2025 Booking and Hillhouse Notes will be convertible into the Company’s ADSs with an initial conversion price of approximately US\$68.46 per ADS.

[Table of Contents](#)

On September 12, 2016, the Company issued US\$25 million Convertible Senior Note to an indirect subsidiary of the Booking Group (the “2022 Booking Note”). The 2022 Booking Note is due on September 15, 2022 and bears interest of 1.25% per annum, which will be paid semi-annually beginning on March 15, 2017. The 2022 Booking Note will be convertible into the Company’s ADSs with an initial conversion price of approximately US\$65.49 per ADS. The 2022 Booking Note were reclassified from long-term to short-term as of December 31, 2018 (Note 11).

The Company has accounted for the above notes as a single instrument. The value of the above notes is measured by the cash received. The Company recorded the interest expenses according to its annual interest rate. There was no BCF attribute to the above notes as the set conversion price for the above notes was greater than the fair value of the ADS price at date of issuance.

Long-term Loans from Commercial Banks

As of December 31, 2018, the Company obtained long-term borrowings of RMB8.0 billion (US\$1.2 billion) in aggregate collateralized by bank deposits, properties and/or stock at one or more of its wholly-owned subsidiaries. The interest rate for the outstanding borrowings was approximately from 1.9% to 7.0%.

17. CAPITAL AND TREASURY STOCK

As of December 31, 2018, the Company had 2,929,123 shares treasury stock at total cost of US\$307 million.

In September 2016, the Company completed the public offering of an aggregate of 32,775,000 ADSs, or the 2016 ADS Offering, including 4,275,000 ADSs in connection with the underwriters’ exercise of over-allotment option for an aggregate offering price of approximately US\$1.5 billion. Concurrently with the 2016 ADS Offering, the Company issued ordinary shares with the respective subsidiaries of Baidu, Inc., or Baidu, and Booking Group Inc., or Booking at an aggregate investment amount of US\$100 million and US\$25 million, respectively. The issuance cost incurred for the above offerings with amount of RMB226 million was presented as reduction to the offering proceeds.

18. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share and diluted earnings per share were calculated as follows:

	2016	2017	2018
	RMB (in millions, except for share and per share data)		
Numerator:			
Net (loss)/income attributable to Ctrip’s shareholders	(1,418)	2,155	1,112
Eliminate the dilutive effect of interest expense of convertible notes	—	52	—
Numerator for diluted (loss)/earnings per share	<u>(1,418)</u>	<u>2,207</u>	<u>1,112</u>
Denominator:			
Denominator for basic (loss)/earnings per ordinary share			
- weighted average ordinary shares outstanding	59,166,582	66,300,808	68,403,426
Dilutive effect of share options	—	2,978,969	2,521,197
Dilutive effect of convertible notes	—	2,345,083	—
Dilutive effect of convertible notes sold warrants	—	151,033	—
Denominator for diluted earnings/(loss) per ordinary share	<u>59,166,582</u>	<u>71,775,893</u>	<u>70,924,623</u>
Basic (loss)/earnings per ordinary share	<u>(23.97)</u>	<u>32.51</u>	<u>16.25</u>
Diluted (loss)/earnings per ordinary share	<u>(23.97)</u>	<u>30.75</u>	<u>15.67</u>
Basic (loss)/earnings per ADS	<u>(3.00)</u>	<u>4.06</u>	<u>2.03</u>
Diluted (loss)/earnings per ADS	<u>(3.00)</u>	<u>3.84</u>	<u>1.96</u>

All the convertible senior notes had anti-dilutive impact and were excluded in the computation of diluted EPS in 2018. The 2018, 2020, 2025 and 2022 Notes, the 2025 Booking and Hillhouse Notes and 2022 Booking Notes were not included in the computation of diluted EPS in 2017 because the inclusion of such instrument would be anti-dilutive. All the convertible senior notes had anti-dilutive impact and were excluded in the computation of diluted EPS in 2016, given the loss reported.

[Table of Contents](#)

For the years ended December 31, 2016, 2017 and 2018, the Company had securities which could potentially dilute basic earnings per share in the future, which were excluded from the computation of diluted earnings/(loss) per share as their effects would have been anti-dilutive. Such weighted average numbers of ordinary shares outstanding are as following:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Convertible Notes	10,066,342	8,281,479	9,604,548
Outstanding weighted average stock options	3,678,030	99,695	2,521,197
Sold Warrants	303,176	—	—
	<u>14,047,548</u>	<u>8,381,174</u>	<u>12,125,745</u>

19. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Company has entered into leasing arrangements relating to office premises that are classified as operating leases for the periods from 2019 to 2023. Future minimum lease payments for non-cancelable operating leases are as follows:

	<u>Office Premises</u> <u>RMB (in millions)</u>
2019	335
2020	225
2021	154
2022	96
2023	73
Thereafter	114
	<u>997</u>

Rental expense amounted to RMB378 million, RMB445 million and RMB502 million for the years ended December 31, 2016, 2017 and 2018, respectively. Rental expense is charged to the statements of income and comprehensive income when incurred.

Capital commitments

As of December 31, 2018, the Company had outstanding capital commitments totaling RMB17 million, which consisted of capital expenditures of property, equipment and software.

Deposit under guarantee arrangement

In connection with its air ticketing business, the Group is required by an affiliate of Civil Aviation Administration of China (“CAAC”) and International Air Transport Association (“IATA”) to enter into guarantee arrangements and to pay deposits. The unused deposits are repaid at the end of the guaranteed period on an annual basis. As of December 31, 2018, the total quota of the air tickets that the Company was entitled to issue was up to RMB1.1 billion. The total amount of the deposit the Company paid was RMB140 million.

Based on the guarantee arrangements and historical experience, the maximum amount of the future payments of Company is approximately RMB941 million which is the guaranteed amount of the air ticket that the Company could issue rather than a financial guarantee. The Company will be liable to pay only when it issues the air tickets to its users and such payable is included in the accounts payable. Therefore, the Company believes the guarantee arrangements do not constitute any contractual and constructive obligation of the Company and has not recorded any liability beyond the amount of the tickets that have already been issued.

Contingencies

The Company is not currently a party to any pending material litigation or other legal proceeding or claims.

[Table of Contents](#)

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.

20. SUBSEQUENT EVENTS

The Company has evaluated the subsequent events through the date of issuance of these financial statement.

Ctrip.com International, Ltd.**List of Significant Consolidated Entities****Significant Subsidiaries***

C-Travel International Limited, a Cayman Islands company
Ctrip.com (Hong Kong) Limited, a Hong Kong company
Ctrip Computer Technology (Shanghai) Co., Ltd., a PRC company
Ctrip Travel Information Technology (Shanghai) Co., Ltd., a PRC company
Ctrip Travel Network Technology (Shanghai) Co., Ltd., a PRC company
Wancheng (Shanghai) Travel Agency Co., Ltd., a PRC company
Shanghai Hecheng International Travel Agency Co., Ltd., a PRC company
Skyscanner Holdings Limited, a UK company
Shanghai Ctrip International Travel Agency Co., Ltd., a PRC company
Chengdu Ctrip International Travel Service Co., Ltd., a PRC company
Chengdu Information Technology Co., Ltd., a PRC company
Qunar Cayman Islands Limited, a Cayman Islands company
Beijing Qunar Software Technology Co., Ltd., a PRC company

Significant Consolidated Affiliated Chinese Entities*

Shanghai Ctrip Commerce Co., Ltd., a PRC company
Shanghai Huacheng Southwest International Travel Agency Co., Ltd., a PRC company
Chengdu Ctrip Travel Agency Co., Ltd., a PRC company
Beijing Qu Na Information Technology Co., Ltd., a PRC company

* Other consolidated entities of Ctrip.com International, Ltd. have been omitted from this list since, considered in the aggregate as a single entity, they would not constitute a significant subsidiary.

**Certification by the Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jane Jie Sun, certify that:

1. I have reviewed this annual report on Form 20-F of Ctrip.com International, Ltd. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 15, 2019

By: /s/ Jane Jie Sun
Name: Jane Jie Sun
Title: Chief Executive Officer

Certification by the Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Cindy Xiaofan Wang, certify that:

1. I have reviewed this annual report on Form 20-F of Ctrip.com International, Ltd. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 15, 2019

By: /s/ Cindy Xiaofan Wang
Name: Cindy Xiaofan Wang
Title: Chief Financial Officer

**Certification by the Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Ctrip.com International, Ltd. (the "Company") on Form 20-F for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jane Jie Sun, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2019

By: /s/ Jane Jie Sun
Name: Jane Jie Sun
Title: Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Ctrip.com International, Ltd. (the "Company") on Form 20-F for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Cindy Xiaofan Wang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2019

By: /s/ Cindy Xiaofan Wang
Name: Cindy Xiaofan Wang
Title: Chief Financial Officer

Maples and Calder Letterhead

Our ref DKP/302248-000002/14422891v2
Direct tel +852. 3690.7523
Email Devika.Parchment@maples.com

Ctrip.com International, Ltd.
968 Jin Zhong Road
Shanghai 200335
People's Republic of China

15 March, 2019

Dear Sirs

Ctrip.com International, Ltd. (the "Company")

We consent to the reference to our firm under the heading "Taxation" in the Company's Annual Report on Form 20-F for the year ended December 31, 2018, which will be filed with the Securities and Exchange Commission in the month of March 2019 and further consent to the incorporation by reference of the summary of our opinion under this heading into the Company's registration statement on Form S-8 (No. 333-116567, No. 333-136264, No. 333-146761, No. 333-218899 and No. 333-230297) that were filed on June 17, 2004, August 3, 2006, October 17, 2007, June 22, 2017 and March 15, 2019, respectively.

Yours faithfully,

/s/ Maples and Calder (Hong Kong) LLP
Maples and Calder (Hong Kong) LLP

通商律師事務所
Commerce & Finance Law Offices
6F NCI Tower, A12 Jianguomenwai Avenue,
Chaoyang District, Beijing, PRC; Postcode: 100022
Tel: (8610) 65693399 Fax: (8610) 65693838
Website: www.tongshang.com

March 15, 2019

Ctrip.com International, Ltd.
968 Jin Zhong Road
Shanghai 200335
People's Republic of China

Dear Sirs,

We consent to the reference to our firm under the headings “Key Information — Risk Factors,” “Information on the Company — Business Overview — PRC Government Regulations,” “Major Shareholders and Related Party Transactions — Related Party Transactions” and “Financial Statements — Notes to the Consolidated Financial Statements” in Ctrip.com International, Ltd.’s Annual Report on Form 20-F for the year ended December 31, 2018, which will be filed with the Securities and Exchange Commission in the month of March 2019, and further consent to the incorporation by reference of the summaries of our opinions under these captions into Ctrip.com International, Ltd.’s Registration Statements on Form S-8 (No. 333-116567, No. 333-136264, No. 333-146761, No. 333-218899 and No. 333-230297) that were filed on June 17, 2004, August 3, 2006, October 17, 2007 and June 22, 2017 and March 15, 2019 respectively.

Yours faithfully,
/s/ Commerce & Finance Law Offices
Commerce & Finance Law Offices

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-116567, No. 333-136264, No. 333-146761, No. 333-218899 and No. 333-230297) of Ctrip.com International, Ltd. of our report dated March 15, 2019 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Annual Report on Form 20-F.

/s/ PricewaterhouseCoopers Zhong Tian LLP

PricewaterhouseCoopers Zhong Tian LLP

Shanghai, People's Republic of China

March 15, 2019
