eLong, Inc.
Form 20-F
June 18, 2009

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2008

OR

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

OR

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

Commission file number: 000-50984

eLong, Inc.
(Exact name of Registrant as specified in its charter)
Cayman Islands
(Jurisdiction of incorporation or organization)
Xingke Plaza Building, Tower B, Third Floor
10 Middle Jiuxianqiao Road, Chaoyang District
Beijing 100016, People s Republic of China
(Address of principal executive offices)
Guangfu Cui, Chief Executive Officer
Telephone: +(8610) 5806-2288 / Facsimile: +(8610) 6436-6019
Xingke Plaza Building, Tower B, Third Floor
10 Middle Jiuxianqiao Road, Chaoyang District
Beijing 100016, People s Republic of China
(Name, Telephone and Facsimile number and Address of Company Contact Person)

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

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing two ordinary shares, par value $0.01 per ordinary share	The NASDAQ Global Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

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

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of December 31, 2008: 18,513,519 ordinary shares, par value US$0.01 per share; 28,550,704 high-vote ordinary shares, par value US$0.01 per share.

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

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 o No þ

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

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

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 o Item 18 o

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 o No þ

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In this annual report on Form 20-F, references to we, us, our company, our and eLong are to eLong, Inc., its subsidiaries, and additionally, in the context of describing our operations, our affiliated Chinese entities. References to China or the PRC are to the People s Republic of China, excluding for the purpose of this annual report Hong Kong, Macau and Taiwan. Unless otherwise noted, references to Expedia are to Expedia, Inc. (NASDAQ: EXPE), and references to Expedia Asia Pacific are to Expedia Asia Pacific-Alpha Limited.

Unless the context otherwise requires, references in this annual report to shares or ordinary shares are to our ordinary shares, par value US$0.01 per share. Such references do not cover our high-vote ordinary shares, as we refer separately to such shares using the term high-vote ordinary shares. References to ADSs are to our American depositary shares, each of which represents two ordinary shares, and references to ADRs are to the American depositary receipts that evidence our ADSs. References to the NASDAQ stock market are to the NASDAQ Global Market. References to our articles of association are to our Second Amended and Restated Articles of Association.

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

The eLong characters in Chinese as well as eLong.com in English are among our registered trademarks in China. This annual report also contains product and service names of companies other than eLong that are trademarks of their respective owners.

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

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This annual report contains certain forward-looking statements. These statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements, which are contained principally in the sections entitled *Item 3: Key Information Risk Factors*, *Item 4: Information on the Company Business* and *Item 5: Operating and Financial Review and Prospects,* relate to future events or our future financial performance, our ability to continue to control our costs and maintain the quality of our services, the expected growth of and change in the travel and online commerce industries in China, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include those listed under *Item 3: Key Information Risk Factors.* In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, intend, plan, anticipate, believe, estimate, predict, potential, continue or t terms or other comparable terminology. One or more of these factors could materially and adversely affect our operating results and financial condition in future periods. We cannot assure you that we will attain any estimates or become profitable or that the assumptions on which they are based are reliable.

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You should not rely upon forward-looking statements as predictions of future events. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. All forward-looking statements contained in this annual report are qualified by reference to this cautionary statement.

PART I

Item 1: Identity of Directors, Senior Management and Advisers.

Not applicable.

Item 2: Offer Statistics and Expected Timetable.

Not applicable.

Item 3: Key Information.

Selected Financial Data

You should read the following information in conjunction with our consolidated financial statements and related notes and *Item 5: Operating and Financial Review and Prospects* below.

The selected consolidated statements of operations (other than ADS data) and selected consolidated cash flow data for the years ended December 31, 2006, 2007 and 2008, and the selected consolidated balance sheet data as of December 31, 2007 and 2008, are derived from our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with these consolidated financial statements and related notes.

The selected consolidated statements of operations (other than ADS data) and selected consolidated cash flow data for the years ended December 31, 2004 and 2005 and the selected consolidated balance sheet data as of December 31, 2004, 2005 and 2006 are derived from our audited consolidated balance sheet and related notes which are not included in this annual report. These consolidated financial statements are prepared in accordance with U.S. GAAP.

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

SELECTED CONSOLIDATED FINANCIAL DATA

	eLong, Inc. Year ended December 31,					
	2004 RMB	**2005 RMB**	**2006 RMB**	**2007 RMB**	**2008 RMB**	**2008 US$**
	(in thousands, except for per share data)					
Selected Consolidated Statements of Operations Data						
Net revenues	124,767	179,842	249,841	297,586	327,313	47,975
Gross profit	108,273	139,395	187,596	215,089	230,317	33,758
Total operating expenses	(131,059)	(185,624)	(203,608)	(229,678)	(271,999)	(39,867)
Income (loss) from operations	**(22,786)**	**(46,229)**	**(16,012)**	**(14,589)**	**(41,682)**	**(6,109)**
Income (loss) from continuing operations	(20,803)	(43,285)	(444)	(25,691)	(76,593)	(11,227)
Net income (loss)	**(18,982)**	**(60,518)**	**1,040**	**(25,588)**	**(76,593)**	**(11,227)**
Income (loss) per share from continuing operations	(1.14)	(0.87)	(0.01)	(0.51)	(1.54)	(0.23)
Total basic income (loss) per share	(1.04)	(1.22)	0.02	(0.51)	(1.54)	(0.23)
Total diluted income (loss) per share	(1.04)	(1.22)	0.02	(0.51)	(1.54)	(0.23)
Income (loss) per ADS from continuing operations	(2.28)	(1.74)	(0.02)	(1.02)	(3.08)	(0.46)
Total basic income (loss) per ADS	(2.08)	(2.44)	0.04	(1.02)	(3.08)	(0.46)
Total diluted income (loss) per ADS	(2.08)	(2.44)	0.04	(1.02)	(3.08)	(0.46)

	eLong, Inc. As of December 31,					
	2004 RMB	**2005 RMB**	**2006 RMB**	**2007 RMB**	**2008 RMB**	**2008 US$**
	(in thousands)					
Selected Consolidated Balance Sheet Data						
Cash and cash equivalents	610,047	988,560	1,199,323	1,138,447	321,541	47,130
Working capital[(1)]	639,099	1,013,590	1,106,345	1,079,590	898,693	131,725
Property and equipment, net	15,428	33,306	37,809	43,962	52,484	7,693

Total assets	741,074	1,188,421	1,334,908	1,331,668	1,137,964	166,796
Long-term obligation		2,287	980			
Accumulated deficit	(43,205)	(103,097)	(102,056)	(127,644)	(204,237)	(29,936)
Shareholders equity	678,889	1,088,330	1,199,799	1,184,611	1,012,181	148,359

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

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	eLong, Inc. Year ended December 31,					
	2004 RMB	2005 RMB	2006 RMB	2007 RMB	2008 RMB	2008 US$
	(in thousands)					
Selected Consolidated Cash Flow Data						
Net cash provided by (used in) operating activities	(5,339)	30,478	76,554	42,349	(14,076)	(2,063)
Net cash provided by (used in) investing activities	(30,140)	(32,813)	72,985	(43,638)	(641,501)	(94,027)
Net cash provided by (used in) financing activities	572,460	404,058	95,140	7,355	(98,331)	(14,413)

Exchange Rate Information

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

The translations of Renminbi amounts into U.S. dollar amounts in this annual report are based on the noon buying rate in the City of New York for cable transfers of Renminbi as published by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi amounts to U.S. dollar amounts and from U.S. dollar amounts to Renminbi amounts in this annual report were made at a rate of RMB 6.8225 to US$1.00, the noon buying rate in effect as of December 31, 2008. The noon buying rate as of April 30, 2009 was RMB6.8180 to US$1.00. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollar or Renminbi amounts, as the case may be, at any particular rate, the rates stated herein, or at all. The Chinese government imposes controls over the conversion of Renminbi into foreign currencies. For discussion of the effects of currency control and fluctuating exchange rates on the value of our shares and ADSs, see *Item 3: Key Information Risk Factors Risks Related to Doing Business in the People s Republic of China Governmental control of currency conversion may affect our ability to pay dividends and the value of our ADSs* and *Item 3: Key Information Risk Factors Risks Related to Doing Business in the People s Republic of China Fluctuation in the value of the Renminbi may materially and adversely affect our financial results and the value of our company and ADSs.*

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

Average Exchange Rates of Renminbi per U.S. Dollar

	Average
Year ended December 31, 2004	8.2768
Year ended December 31, 2005	8.1826
Year ended December 31, 2006	7.9579
Year ended December 31, 2007	7.5806
Year ended December 31, 2008	6.9193

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The table below sets forth the high and low exchange rate between Renminbi and U.S. dollars for each of the six months from November 2008 through April 2009.

Recent Exchange Rates of Renminbi per U.S. Dollar

	High	**Low**
November 2008	6.8373	6.8220
December 2008	6.8842	6.8225
January 2009	6.8403	6.8225
February 2009	6.8470	6.8241
March 2009	6.8438	6.8240
April 2009	6.8361	6.8180

Risk Factors

You should carefully consider each of the following risks and uncertainties associated with our company and the ownership of our securities. You should pay particular attention to the fact that we conduct our operations in China and are governed by a legal and regulatory environment that differs significantly from the environment of the United States or other countries with which you may be familiar. Additional risks not currently known to us or that we currently deem immaterial may also have an adverse impact on our business operations.

Risks Related to Our Business

We have sustained losses in the past and cannot assure you that we will grow or be profitable in the future.

We sustained net losses in each of our fiscal years from 2004 through 2008, other than 2006. Moreover, our growth rate has fluctuated significantly during the period from 2004 through 2008. As a result, we cannot assure you that we will be able to grow our business or to be profitable at any time in the future.

Declines or disruptions in the travel industry may reduce our revenues.

Our business is affected by the condition of the travel industry in China. Travel expenditures are highly sensitive to business and personal discretionary spending levels and thus tend to decline during general economic downturns, such as the slowdown in economic growth arising from the international financial crisis which began in 2008. Adverse trends or events that tend to reduce travel and are likely to reduce our revenues include:

- declines in economic growth, recessions, and financial or other economic crises;
- increases in prices in the hotel, airline or other travel-related sectors;

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- the occurrence of travel-related accidents;
- outbreaks, or the fear of outbreaks, of H1N1 flu (swine flu), severe acute respiratory syndrome, avian flu or other diseases;
- terrorist attacks or threats of terrorist attacks or wars;
- natural disasters or poor weather conditions.

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

Our business may be harmed if we fail to strengthen our brand and provide high quality service to our customers and business partners.

We must successfully promote our eLong brand in order to grow our business. We must introduce new consumers to the eLong brand and ensure high levels of service in order for the eLong brand to be associated with quality and value. If we fail to ensure high service levels and strengthen our brand recognition among our current and potential customers and business partners, our operating results and financial condition may be adversely affected.

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

We face many sources of competition, including other providers of hotel and flight reservation services, such as Ctrip.com and traditional travel agencies. As we do not have exclusive arrangements with our suppliers and our business involves relatively low fixed costs, new competitors face low barriers to entry in our industry. We also face increasing competition from hotels and airlines as they increase their efforts to sell directly to consumers and may engage in alliances with other travel service providers. Moreover, large state-owned companies and/or established international players may choose to enter the PRC travel market in the future, either as sole entrants or in conjunction with our existing or future competitors. Our potential and existing competitors may have competitive advantages over us including more well-known brand names, larger customer bases and greater financial, marketing and other expertise and resources. Therefore, we cannot assure you that we will be able to successfully compete against our current or future competitors.

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

We are dependent on continued relationships on satisfactory terms with our air, hotel and other travel service providers. In particular, the ability to contract in advance for the guaranteed availability of hotel rooms is crucial to our business. However, we do not have exclusive contractual arrangements with our travel suppliers, and we must renew these contracts on an ongoing basis. In addition, third party service providers may impose new or greater requirements upon us to provide guaranteed deposits, escrow funds, prepayment of commission or other preferential terms. We cannot assure you that we will be able to maintain our current relationships, establish new ones, or obtain favorable contractual terms from our service providers.

We are also dependent on continued relationships and agreements with certain third-party distribution partners, such as telecommunications companies to which we pay a commission for hotel reservations they generate for us by transferring their customer calls and online inquiries to our call center and online reservation systems. Third-party distribution partners accounted for approximately one-third of our total revenue for the year ended December 31, 2008. Our relationships with the third parties are non-exclusive, and thus the third parties are generally able to choose other service providers for all or a portion of their commercial cooperation, rather than continuing such commercial relationships with us. We cannot assure you that we will be able to maintain satisfactory relationships, obtain favorable contractual terms with such distribution partners or establish new relationships with distribution partners on satisfactory terms in the future.

Substantial uncertainties exist with respect to the interpretation and application of PRC laws and regulations restricting foreign investment in the air ticketing, travel agency and Internet content provision businesses as well as other laws affecting our ownership structure and business operations.

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

We cannot assure you that PRC government authorities will not determine that our current ownership structure and these contractual arrangements are not in compliance with applicable laws and regulations. If we or any of our affiliated Chinese entities are found to be in violation of any existing or future PRC laws or regulations, the relevant governmental authorities would have broad discretion in taking action to address such violation, including, without limitation:

- levying fines or 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/or our affiliated Chinese entities to restructure our ownership structure or operations; and
- requiring that we discontinue any or all portions of our Internet content provision, air ticketing or travel agency businesses.

Any of the above could cause significant disruptions to, and have a material adverse effect on, our operations.

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

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

We are controlled by Expedia and conflicts of interest may arise.

Expedia controls approximately 96% of our voting power and has the power to control the election and appointment of our board of directors, and thus we are a controlled company as defined in Rule 5615 of the NASDAQ Listing Rules. As a result of our ownership structure, Expedia is generally able to exercise control over all matters requiring approval by our board of directors or our shareholders.

Conflicts of interest may arise between Expedia and us, including corporate opportunities, potential acquisitions or transactions as well as other matters. Expedia s control could prevent a sale of our company or removal or replacement of any or all of our board of directors, even if such actions would be beneficial to our other shareholders. In addition, some of our directors may have interests in both us and in Expedia, which could cause them to have conflicts of interest.

Other than contracts for cooperation in certain specific areas as discussed in this annual report, Expedia is under no obligation to provide us with benefits relating to its travel related businesses. Thus we cannot assure you that we will realize any future benefits as a result of being controlled by Expedia, and we may be adversely affected by any conflicts of interest between eLong and Expedia.

We depend on our senior executives and other employees, and our business may be severely disrupted if we lose their services.

Our business operations depend on the continuing performance and service of our senior executives and other key employees. We rely on their expertise in operations, finance, technology and travel services and we depend on their relationships with suppliers and regulators. In the last two years, we have experienced substantial turnover at all levels of our company including our senior management. If one or more of our senior executives or other key employees are unable or unwilling to continue in their present positions, we may not be able to easily replace them, and may incur additional expenses to recruit and train replacement personnel. Moreover, if any of our senior executives joins or forms a competitor, we may lose customers and suppliers. We cannot guarantee that we will be able to successfully enforce the noncompetition provisions of our employment agreements with such senior executives or key employees.

We may not use our existing cash, cash equivalents and short-term investments effectively.

Cash, cash equivalents and short-term investments comprise a significant portion of our total assets. Our failure to make effective use of our cash, cash equivalents and short-term investments could prevent us from improving our financial results, operations and competitive position. A significant portion of our cash, cash equivalents and short-term investments are denominated in U.S. dollars. In 2008, we recorded a foreign exchange loss of RMB61.1 million (US$9.0 million) resulting from the appreciation of the Renminbi. If the Renminbi continues to appreciate we will continue to record exchange losses on these cash, cash equivalents and short-term investments and these losses could be material to our results of operations.

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Our quarterly results may fluctuate due to seasonality in the travel industry in China.

Our business experiences fluctuations, reflecting seasonal variations in demand for travel services in China. For example, the first calendar quarter of each year generally contributes the lowest portion of our annual net revenues primarily due to a slowdown in business activity during the Chinese New Year holiday. In addition, seasonality of the PRC travel market is affected by PRC national and provincial government regulation of the calendar of public holidays, including for example, the decision by the State Council in 2008 to restructure the annual calendar of public holidays by adding a few shorter holidays and reducing the May 1st holiday period from one week to three days. Consequently, our revenues may fluctuate significantly from quarter to quarter.

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

A component of our business strategy is to consider acquisitions of businesses in areas that may provide incremental revenue. This may require a significant commitment of management time, capital investment and other resources. We cannot assure you that we will be successful in identifying, negotiating and completing acquisitions on terms favorable to us. In addition, acquisitions that we complete may not be successfully integrated into our existing operations, and thus our operations and results may be adversely affected.

Our business depends on the technology infrastructure and service of third parties.

We rely on third-party computer systems and service providers, including the computerized reservation systems of hotels, airlines and third party service providers such as TravelSky as well as our distribution partners, to make reservations and confirmations, issue air tickets, make deliveries and receive payments. Third parties provide, for instance, telecommunications access lines, significant computer systems and software licensing, support and maintenance service and air ticket delivery. Any interruption in these or other third-party services or deterioration in their performance could impair the quality of our service. Furthermore, if our arrangements with any of these third parties are terminated, we may not find an alternate source of support on a timely basis or on satisfactory terms.

Our business is subject to risks associated with protection of confidential data and credit card fraud.

An increasing portion of our revenue is paid by customers using credit cards. There have been and likely will continue to be attempts to use fraudulently obtained credit card information to pay for our products and services. As fraudulent credit card schemes become more sophisticated, it may become increasingly difficult and costly for us to detect and prevent such fraud, which could cause us to incur significant and unforeseen losses adversely affecting our results of operations.

Our transactions are conducted through our websites or through other network and telecommunications systems. In such transactions, maintenance and secure transmission of confidential information (such as customer itineraries, hotel and other reservation information, personal information and billing information) is essential to maintain consumer and supplier confidence. Due to rapidly advancing technology and the growing sophistication and variety of data security threats, our current security measures may not be adequate to prevent all types of confidentiality and data breaches and to minimize any losses caused thereby. Security breaches on our own, public or third party systems, could expose us to significant losses, adverse publicity and litigation for leakage or disclosure of confidential customer or supplier information, which could harm our reputation and ability to attract customers.

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We do not have comprehensive off-site backup systems or business insurance.

Our call center and substantially all of our computer and communications systems are located at our headquarters in Beijing and therefore vulnerable to damage or interruption from man-made or natural causes. Moreover, we do not have a comprehensive disaster recovery solution and do not carry business interruption insurance to compensate us for losses that may occur.

We depend on our systems and information infrastructure to support all aspects of our booking transactions. If we are unable to upgrade and maintain our systems, we may experience system outages, capacity constraints, system obsolescence or other unintended system disruptions which may result in slower response times, impaired customer service, delays in fulfilling customer orders and ticket deliveries, and inaccurate reporting or processing of travel information. Any of these factors or any business disruption or disaster may result in substantial costs and diversion of resources, which may adversely affect our operations and results.

Our commission revenues may decrease if our hotel suppliers fail to accurately report data concerning our customer hotel stays.

A substantial majority of our revenues is currently generated through commissions received from hotels for room nights booked through us. Generally, we do not receive direct payments for hotel bookings from our customers, instead, we receive commissions from the hotels after the completion of a customer s stay. We maintain records of customer bookings and then verify these with each hotel, generally on a monthly basis, in order to determine the commission payable to us. In addition to our records, we rely on the hotel and customer to provide us accurate information regarding customer check-in and check-out dates. If our hotel suppliers provide us with inaccurate information with respect to number or length of stays of our customers, our revenues may be adversely affected.

We may become involved in litigation regarding our intellectual property rights or our website contents.

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

Our websites contain information about hotels, flights and popular vacation destinations, and other travel-related topics. Third parties could take legal action against us for any alleged false or misleading information accessible on our websites. Any claims could be time consuming to defend, result in litigation and divert management s attention and resources.

If our affiliated Chinese entities violate their contractual agreements with us, our business could be harmed, and we may have to resort to litigation to enforce our rights, which could be time-consuming and ineffective.

We depend substantially on our affiliated Chinese entities to conduct our operations. While we have no direct ownership interest in these entities, we have established effective economic control through a series of contracts with these affiliated Chinese entities and their shareholders. These agreements may not be as effective in providing control as would direct ownership of these businesses. In the event that there is a dispute with respect to our agreements with our affiliated Chinese entities or their shareholders, we would have to rely on the PRC legal system for remedies. Any legal proceeding relating to such dispute could result in a material disruption of our business and damage to our reputation, and the outcome of such litigation would be uncertain.

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

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

Our financial results have been, and are expected to continue to be, significantly affected by the condition of the economy and travel industry in China. In 2008, the economy of China experienced several adverse events, including unseasonably strong winter storms in the first quarter, the severe Sichuan earthquake in the second quarter, and the general slowing of the global and Chinese economy due to the international financial crisis during the fourth quarter. China s economy slowed significantly in the second half of 2008 and this slowdown may continue into 2009 and beyond. We anticipate that demand for travel services in China will continue to be linked to the condition of the broader PRC economy for the foreseeable future. We cannot assure you that sustained or rapid economic growth will resume at any time in the future, or that the current or any future slow-down or increased economic volatility will not adversely affect our business. Any slow-down of, or increased volatility in, economic growth in China is likely to reduce expenditures for travel, which in turn would reduce our revenues.

We would be adversely affected by the discontinuation of any preferential tax treatments currently available to us.

Our subsidiary, eLong Information, and one of our affiliated Chinese entities, Beijing Information, each enjoy a 15% preferential enterprise income tax rate for the 2008 calendar year, as they qualified as High New Technology Enterprises under the PRC Corporate Income Tax Law (the CIT Law) and related regulations. The CIT Law, which became effective on January 1, 2008, imposes a unified income tax rate of 25% for both domestic and foreign invested enterprises, but a lower 15% tax rate for High New Technology Enterprises. We cannot assure you that eLong Information and Beijing Information will continue to qualify for the lower tax rate in future years.

The CIT Law also provides that enterprises established in foreign countries or regions for which the de facto management bodies are located within the PRC will be considered as PRC resident enterprises and will be subject to CIT at the rate of 25% on their global income. On April 22, 2009, the State Administration of Taxation issued the Notice on Issues Regarding Recognition of Overseas Incorporated Enterprises Controlled by PRC Domestic Enterprises as PRC Resident Enterprises Based on the De Facto Management Body Criteria (the Tax Residency Notice). Under the Tax Residency Notice, which was retroactively effective as of January 1, 2008, an overseas enterprise will be deemed to be a PRC tax resident and thus subject to CIT of 25% on its global income if it satisfies certain specified conditions. Otherwise, a non-resident enterprise is subject to withholding tax at the rate of 10% with respect to its PRC-source dividend income distributed from earnings accumulated after January 1, 2008, subject to applicable tax agreements or treaties between the PRC and other tax jurisdictions. Although we are controlled by a company located outside of the PRC, Expedia, through Expedia Asia Pacific, we cannot assure you that the PRC tax authorities will not treat eLong, Inc. as a PRC tax resident, and if so, we would be subject to PRC CIT on our worldwide income, and such determination may have retroactive effect.

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Uncertainties and restrictions in the PRC legal system may have a material and adverse impact on our business and limit the protections available to you.

There are substantial uncertainties regarding the interpretation of current and new PRC laws and regulations. It is possible that new laws and regulations will affect our existing and future businesses in ways which we cannot at this time predict, mitigate or prevent, and that any new laws and regulations may be applied retroactively. The PRC authorities retain broad discretion in the interpretation of, and determination of violations of, laws and regulations, including levying fines and penalties, revoking or narrowing the scope of business licenses and requiring other corrective actions. Any such action could have a material adverse effect on our business, results of operations and financial condition, and limit the legal protections available to you.

Fluctuation in the value of the Renminbi may materially and adversely affect our financial results and the value of our company and ADSs.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the China s political and economic conditions. The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People s Bank of China. Currently, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. In the future, the PRC government may adopt a more flexible currency policy, which could result in increased exchange rate volatility and a significant appreciation of the RMB against the U.S. dollar.

Substantially all of our revenue-generating operations are transacted in Renminbi, and we have a significant portion of our financial assets denominated in U.S. dollars. In 2008, we recorded a foreign exchange loss of RMB61.1 million (US$9.0 million) resulting from the appreciation of the Renminbi during 2008. If the Renminbi continues to appreciate we will continue to record unrealized exchange losses on United States dollar-denominated assets and these losses could be material to our results of operations, which could adversely affect the market price for our ADSs.

Governmental control of currency conversion may affect our ability to pay dividends and the value of our ADSs.

We receive substantially all of our revenues in Renminbi, which is currently not a fully convertible currency. Under China s existing foreign exchange regulations, payments of current account items, including profit distributions and interest payments, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange. The Chinese government, however, may restrict access in the future to foreign currencies for current account transactions. If this were to occur, we might not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs, which could adversely affect the value of our ADSs.

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PRC regulations may limit our ability to transfer our funds held overseas into China.

On August 29, 2008, the PRC State Administration of Foreign Exchange (SAFE) promulgated a notice regulating the conversion by a foreign-invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The notice provides that the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies. The use of such Renminbi capital may not be changed without SAFE s approval, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. This notice may significantly limit our ability to transfer our existing cash to our PRC operating subsidiaries, which may adversely affect our business development, and we may not be able to convert our cash held overseas into Renminbi to invest in, or to acquire, assets or companies in the PRC.

Our subsidiaries and affiliated Chinese entities in China are subject to restrictions on paying dividends or making other payments to us, which may decrease our primary internal source of funds.

As 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 or our subsidiaries by our affiliated Chinese entities. Current PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits subject to a 10% withholding tax, if any, determined in accordance with Chinese accounting standards and regulations. Our wholly-owned foreign subsidiaries are required to provide for certain statutory reserves, namely a general reserve, an enterprise expansion fund and a staff welfare and bonus fund. These subsidiaries are required to allocate at least 10% of their after tax profits on an individual company basis as determined under PRC GAAP to the general reserve and have the right to discontinue allocations to the general reserve if such reserve has reached 50% of registered capital on an individual company basis. These reserves are not distributable as cash dividends. Further, if our subsidiaries and 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 in turn would limit our ability to pay dividends on our ordinary shares.

Our online business relies on the telecommunications infrastructure of China s Internet.

Most access to the Internet in China is maintained through a network owned by the local Chinese telecommunications carriers (*e.g.* China Unicom and China Telecom) under the regulatory supervision of China s Ministry of Industry and Information Technology (the MIIT, formerly known as the Ministry of Information, or MII). In addition, networks in China connect to the Internet through a government-controlled international gateway, which is the only channel through which domestic Chinese users connect to the international Internet network. We rely on this infrastructure and China Unicom and China Telecom to provide data communications capacity, primarily through local telecommunications lines. We would have no access to alternative networks and services, on a timely basis, if at all, in the event of any infrastructure disruption or failure. Moreover, the Internet infrastructure in China may not support the demands associated with continued growth in Internet usage in China.

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

Failure to maintain effective internal controls could have a material and adverse effect on the trading price of our ADSs.

Our management has concluded that our internal control over financial reporting is effective, as of December 31, 2008. See *Item 15. Control and Procedures*. Our independent registered public accounting firm, Ernst & Young Hua Ming (Ernst & Young) , has issued an attestation report on our internal control over financial reporting, which is included in this Form 20-F. Effective internal controls are necessary for us to produce reliable financial reports. Any failure to maintain the effectiveness of our internal controls over financial reporting, in addition to causing us to be unable to report in future annual reports on Form 20-F that such internal controls are effective, could result in the loss of investor confidence in the reliability of our financial statements, which in turn could adversely affect 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 maintain compliance with the Sarbanes-Oxley Act or other requirements of U.S. securities laws.

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The market price for our ADSs may be volatile.

The market price of our ADSs has been volatile and is likely to continue to be so. Since our initial public offering, the trading price of our ADSs has ranged from a low of US$3.15 per ADS to a high of $25.99 per ADS. On April 30, 2009, the closing price of our ADSs was US$6.30 per ADS. Our trading price may continue to be subject to wide fluctuations in response to various factors including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates and evaluations by securities analysts;
- general market and index trends in the NASDAQ stock market;
- changes in the economic performance or market valuations of other travel, Internet, online commerce or publicly listed companies with substantial operations in China;
- announcements by us or our competitors of new services, acquisitions, strategic partnerships, joint ventures or capital commitments;
- additions or departures of key personnel;