

HISTORY AND CORPORATE STRUCTURE

HISTORY AND DEVELOPMENT

Overview

Founded in 1999 and listed on Nasdaq in 2003, we have become the leading one-stop travel platform globally, integrating a comprehensive suite of travel products and services and differentiated travel content. The Company operates under a portfolio of brands, including Ctrip, Qunar, Trip.com and Skyscanner.

Our Company is a holding company incorporated in the Cayman Islands in March 2000. Since our inception, we have conducted the majority of our operations in China through our subsidiaries and variable interest entities. We have also developed our operations overseas since 2009.

Key corporate milestones

The following is a summary of our key corporate development milestones:

Date	Event
1999	Commencement of our business and launch of Ctrip brand
2003	IPO and listing on Nasdaq, trading under “CTRP”
2015	Strategic investment in Qunar
2016	Global expansion with acquisition of Skyscanner
2017	Launch of Trip.com mobile application and online website
2019	Renaming to Trip.com Group Limited, trading under “TCOM”

Significant Subsidiaries

The following are certain details of our Significant Subsidiaries:

Name of company	Principal business activities	Date and jurisdiction of establishment
Ctrip.com (Hong Kong) Limited	a holding company	June 11, 1999, Hong Kong, China
C-Travel International Limited	a holding company	March 3, 2006, Cayman Islands
Qunar Cayman Islands Limited (“Qunar”)	a holding company	July 31, 2006, Cayman Islands
Skyscanner Holdings Limited (“Skyscanner”)	a global travel search site provider	September 16, 2011, England and Wales
Ctrip Computer Technology (Shanghai) Co., Ltd. (“Ctrip Computer Technology”)	a company providing hotel-related and other technical consulting services	January 19, 1994, PRC
Shanghai Ctrip International Travel Agency Co., Ltd. (“Shanghai Ctrip”)	a company providing travel-related products and services	May 16, 2002, PRC
Ctrip Travel Information Technology (Shanghai) Co., Ltd. (“Ctrip Travel Information”)	a company providing technology and consulting services	March 13, 2003, PRC
Ctrip Travel Network Technology (Shanghai) Co., Ltd. (“Ctrip Travel Network”)	a company providing product services, information services, and technology	April 14, 2005, PRC

HISTORY AND CORPORATE STRUCTURE

Name of company	Principal business activities	Date and jurisdiction of establishment
Beijing Qunar Software Technology Co., Ltd. (“ Qunar Software ”)	a company providing technology and consulting services	October 10, 2006, PRC
Chengdu Ctrip International Travel Agency Co., Ltd. (“ Chengdu Ctrip International ”)	a company providing travel-related products and services	November 4, 2008, PRC
Chengdu Ctrip Information Technology Co., Ltd. (“ Chengdu Information ”)	a company providing technology and consulting services	October 20, 2010, PRC
Wancheng (Shanghai) Travel Service Co., Ltd. (“ Wancheng ”)	a company providing travel-related products and services	October 29, 2013, PRC
Shanghai Hecheng International Travel Agency Co., Ltd. (“ Hecheng ”)	a company providing hotel-related products and services	September 10, 2015, PRC
Shanghai Ctrip Commerce Co., Ltd. (“ Ctrip Commerce ”)	an affiliated consolidated entity providing value-added telecommunications business and internet information services	July 18, 2000, PRC
Shanghai Huacheng Southwest International Travel Agency Co., Ltd. (“ Shanghai Huacheng ”)	an affiliated consolidated entity providing air-ticketing agent services	March 13, 2001, PRC
Beijing Qu Na Information Technology Co., Ltd. (“ Qunar Beijing ”)	an affiliated consolidated entity providing value-added telecommunications business and internet information services	March 17, 2006, PRC
Chengdu Ctrip Travel Agency Co., Ltd. (“ Chengdu Ctrip ”)	an affiliated consolidated entity providing air-ticketing agent service	January 8, 2007, PRC

Listing on Nasdaq

Our ADSs have been listed on the Nasdaq Global Market since December 2003 and the Nasdaq Global Select Market since July 2006. Our ADSs were previously traded under the symbol “CTRP” and are currently traded under the symbol “TCOM,” starting from November 5, 2019.

Since the date of our listing on Nasdaq and up to the Latest Practicable Date, we have had no instances of non-compliance with the rules of Nasdaq in any material respects and to the best knowledge of our Directors after having made all reasonable enquiries, there is no matter that should be brought to [REDACTED] attention in relation to our compliance record on Nasdaq. We believe that the Listing on the Hong Kong Stock Exchange will present us with an opportunity to further expand [REDACTED] and broaden our access to capital markets.

Acquisitions, disposals and strategic investments

In October 2015, we completed a share exchange transaction with Baidu Inc. (“**Baidu**”), whereby we obtained approximately 45% of the aggregate voting interest of Qunar in exchange for our newly issued ordinary shares. 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. In October 2016, we participated as a member in the buying consortium in Qunar’s going-private transaction and rolled our

HISTORY AND CORPORATE STRUCTURE

then existing equity stake into the entity that wholly owns Qunar upon the completion of the transaction in February 2017.

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 us. The total purchase consideration for the acquisition of Skyscanner was approximately £1.4 billion (which consisted of around £1.2 billion in cash and the remainder in our Shares).

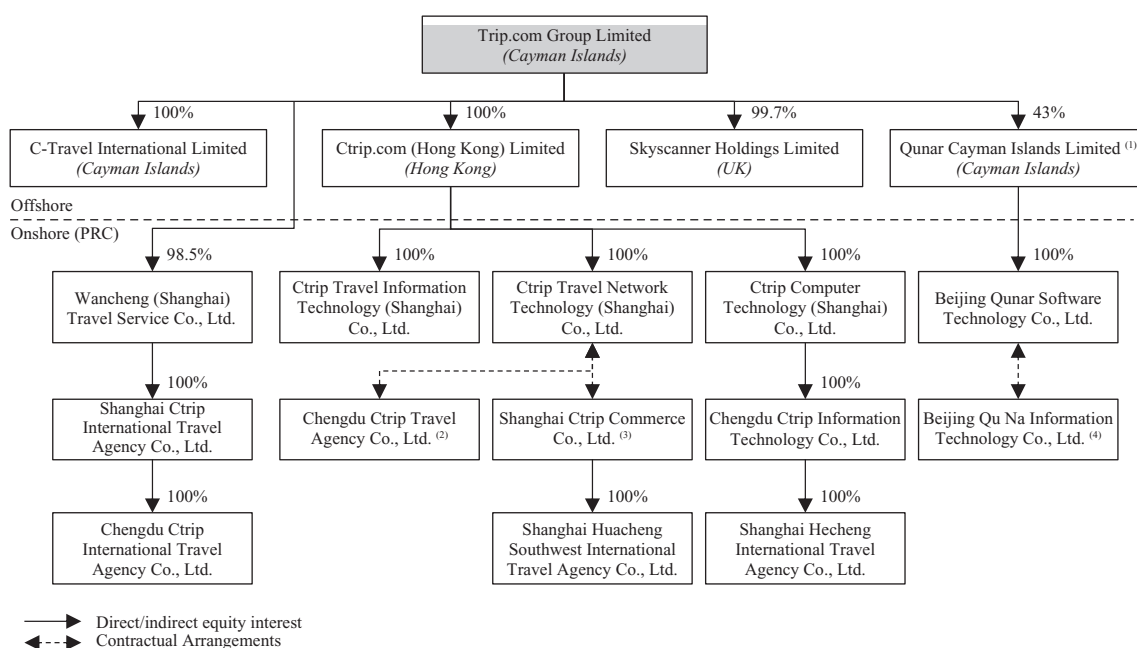
We invested in convertible notes (which have been subsequently converted to ordinary shares) and ordinary shares of MakeMyTrip Limited (“**MakeMyTrip**”), a leading online travel company in India, in January 2016 and May 2017 respectively. In August 2019, we completed a share exchange transaction with Naspers Limited (“**Naspers**”), pursuant to which Naspers exchanged its stake in MakeMyTrip, for newly issued shares in our Company. Concurrent with the share exchange, we also invested certain ordinary shares and Class B shares of MakeMyTrip in a third-party investment entity. Immediately after the closing of the transaction, we owned ordinary shares and Class B shares of MakeMyTrip, representing approximately 49.0% of the then total voting power in MakeMyTrip.

We have not conducted any major acquisitions or disposals during the Track Record Period.

CORPORATE STRUCTURE

Our corporate structure

The following simplified diagram summarizes, for illustrative purposes, our corporate structure, including our significant subsidiaries and consolidated affiliated Chinese entities as of December 31, 2020.



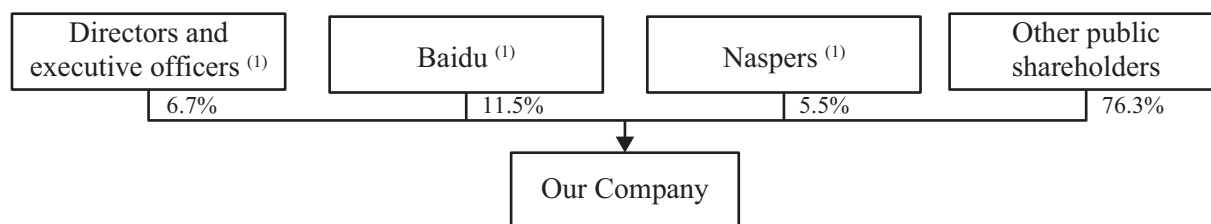
Notes:

- (1) For further details about the indirect ownership of Qunar Cayman Islands Limited, see “—History and development—Acquisitions, disposals and strategic investments”.
- (2) Min Fan and Qi Shi hold 99.5% and 0.5% of the equity interest in Chengdu Ctrip Travel Agency Co., Ltd., respectively.
- (3) Tao Yang and Maohua Sun hold 89.8% and 10.2% of the equity interest in Shanghai Ctrip Commerce Co., Ltd., respectively.
- (4) Hui Cao and Hui Wang hold 60% and 40% of the equity interest in Beijing Qu Na Information Technology Co., Ltd., respectively.

HISTORY AND CORPORATE STRUCTURE

Shareholding structure

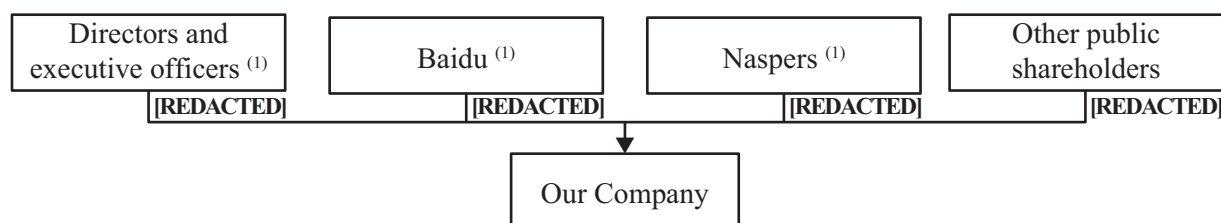
The following diagram illustrates our shareholding structure as at February 28, 2021:



Note:

(1) See “Major Shareholders” for further details on the voting rights and the beneficial ownership of our directors and executive officers as a group and other shareholders. Based on the latest publicly available information filed with the SEC, as at Latest Practicable Date. Based on 601,075,512 issued and outstanding ordinary shares as at February 28, 2021, after accounting for the Share Subdivision, excluding the 26,071,360 ordinary shares, after accounting for the Share Subdivision, that were issued to The 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, and treasury shares we own.

The following diagram illustrates our shareholding structure immediately upon the completion of the [REDACTED] (assuming all major shareholders’ shareholdings remain unchanged as of the Latest Practicable Date, [REDACTED], the [REDACTED] is not exercised, and no additional Shares are issued under the Share Incentive Plans):



See above for note.

CONTRACTUAL ARRANGEMENTS

Current PRC laws and regulations impose substantial restrictions on foreign ownership of the travel agency and value-added telecommunications businesses in China. Therefore, we conduct part of our 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 operating the 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 Latest Practicable Date, Min Fan, our vice chairman of the board and president, Tao Yang, Maohua Sun, Qi Shi, Hui Cao, and Hui Wang, all being our officers or senior counsels, are the principal record owners of our consolidated affiliated Chinese entities.

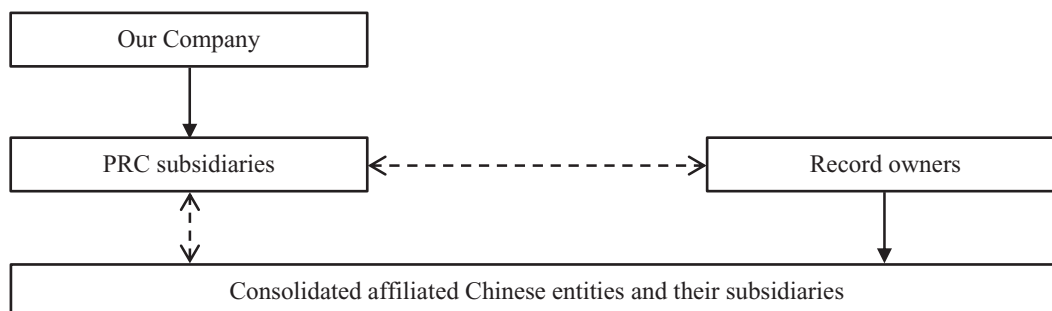
As of the Latest Practicable Date, the equity holding structures of each of our significant consolidated affiliated Chinese entities are as follows:

- Maohua Sun and Tao Yang owned 10.2% and 89.8%, respectively, of Ctrip Commerce.

HISTORY AND CORPORATE STRUCTURE

- Ctrip Commerce owned 100% of Shanghai Huacheng.
- 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.

The following simplified diagram illustrates the VIE structure created by our contractual arrangements:



Notes:

- (1) “——>” denotes legal and beneficial ownership in equity interest.
- (2) “<----->” denotes contractual relationship.

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. The principal terms of these agreements are described below.

Net revenues from VIEs accounted for 27%, 27%, and 36% of the Company’s net revenues for the years ended December 31, 2018, 2019, and 2020. The contractual arrangements currently in force in relation to Ctrip Commerce were first established on December 14, 2015 and amended on April 9, 2019 and May 27, 2019. The contractual arrangements currently in force in relation to Chengdu Ctrip were first established on December 14, 2015 and amended on March 20, 2017. Our contractual arrangements with Qunar Beijing, and relating to its registered shareholders Hui Cao and Hui Wang, were most recently amended and entered into on March 23, 2016. See “Statutory and general information—Further information about our business—Summary of Contractual Arrangements” in Appendix IV for a full list of the contracts constituting the contractual arrangements.

Terms of the arrangements with consolidated affiliated Chinese entities

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 Latest Practicable Date, 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

HISTORY AND CORPORATE STRUCTURE

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 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 2019 and 2020, 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 of RMB4 (US\$0.5) and RMB3 (US\$0.4) per ticket, respectively. 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 a designated person 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 89%, 95% and 117% for the years ended December 31, 2018, 2019 and 2020. 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 Latest Practicable Date, 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 substantially similar to the terms described in the foregoing paragraph.

Equity 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. This agreement shall be valid and binding on the parties, their heirs, successors and permitted assignees. In the event any of such consolidated affiliated

HISTORY AND CORPORATE STRUCTURE

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, 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 pledge shall be established upon registration with the local branch of the SAMR, which has been completed, and will expire 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 Latest Practicable Date, 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. This agreement shall be valid and binding on the parties, their heirs, successors and permitted assignees. Qunar Software may enforce this pledge upon the occurrence of a settlement event or as required by the PRC law. The pledge shall be established upon registration with the local branch of the SAMR, which has been completed, and will expire when all obligations under the relevant contractual arrangements have been satisfied. 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 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 initial term of the loan agreements is 10 years and may be renewed automatically in 10-year terms unless we disapprove the extension by written notice in advance. 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 or repay the loan in advance. The loan agreements shall be valid and binding on the parties, their successors and permitted assignees. In the event that the PRC government lifts its substantial restrictions on foreign ownership of the 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 canceled 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 March 15, 2021, 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	
			RMB	US\$			RMB	US\$
May 27, 2019	Tao Yang	Ctrip Commerce	808.2	123.9	None	May 26, 2029	808.2	123.9
April 9, 2019	Maohua Sun	Ctrip Commerce	88.7	13.6	None	December 13, 2025	88.7	13.6

HISTORY AND CORPORATE STRUCTURE

Date of Loan Agreement	Borrower	Significant Consolidated Affiliated Chinese Entity	Principal		Interest	Maturity Date	Outstanding Balance	
			RMB	US\$			RMB	US\$
December 14, 2015 . . .	Maohua Sun	Ctrip Commerce	3.1	0.5	None	December 13, 2025	3.1	0.5
March 20, 2017	Min Fan	Chengdu Ctrip	477.6	73.2	None	December 13, 2025	477.6	73.2
December 14, 2015 . . .	Min Fan	Chengdu Ctrip	19.9	3.0	None	December 13, 2025	19.9	3.0
March 20, 2017	Qi Shi	Chengdu Ctrip	2.4	0.4	None	December 13, 2025	2.4	0.4
December 14, 2015 . . .	Qi Shi	Chengdu Ctrip	0.1	0.0	None	December 13, 2025	0.1	0.0
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	0.7	None	Until repayment notice	4.4	0.7

As of the Latest Practicable Date, 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 loan agreements shall be valid and binding on the parties, their successors and permitted assignees. The terms of this loan agreement is 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. Subject to the evaluation requirements or other restrictions imposed by applicable PRC laws and regulations, 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. This agreement shall be valid and binding on the parties, their heirs, successors and permitted assignees. 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. This agreement shall be valid and binding on the parties, their successors and permitted assignees.

HISTORY AND CORPORATE STRUCTURE

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.

Confirmations and risks relating to the variable interest entity structure

Our PRC Legal Advisor is of the opinion that:

- (a) the current ownership structure of our consolidated affiliated Chinese entities and our corresponding PRC subsidiaries in China is not in violation of applicable PRC laws and regulations currently in effect;
- (b) the VIE agreements entered into by our PRC subsidiaries, our consolidated affiliated Chinese entities and/or their respective shareholders governed by PRC laws and regulations are valid, legal and binding, and do not result in violation of any applicable PRC laws and regulations or their respective articles of association currently in effect; and
- (c) the VIE agreements entered into by our PRC subsidiaries, our consolidated affiliated Chinese entities and/or their respective shareholders governed by PRC laws and regulations would not fall within the circumstances which will lead the arrangements under VIE agreements to be an invalid civil juristic act under the PRC Civil Code.

Based on the above, our directors believe that the agreements underlying the contractual arrangements as described above that confer significant control and economic benefits from the variable interest entities on us are enforceable under the relevant laws. Nevertheless, any violations by the variable interest entities of our agreements with them could disrupt our operations or adversely affect our services. See “Risk Factors—Risks Relating to Our Corporate Structure.”

Additionally, we have been advised by our PRC Legal Advisor that 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 Advisor 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

HISTORY AND CORPORATE STRUCTURE

telecommunications 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. See “Risk factors—Risks Relating to Our Corporate Structure—PRC laws and regulations restrict foreign investment in the travel agency and value-added telecommunications businesses, and substantial uncertainties exist with respect to the application and implementation of PRC laws and regulations.”

There are other risks involved in our corporate structure and the contractual arrangements. A detailed discussion of material risks relating to our Contractual Arrangements is set forth in “Risk Factors—Risks Relating to Our Corporate Structure.”

We have considered the costs and difficulties of acquiring insurance on commercially reasonable terms, and consider it impractical for us to have insurance to cover these risks. Accordingly, we have not purchased insurance to cover the risks relating to the contractual arrangements.

As of the Latest Practicable Date, we have not encountered any interference or encumbrance from any PRC regulators in operating our business through the variable interest entities under the contractual arrangements.

SAFE REGISTRATION IN THE PRC

On October 21, 2005, SAFE issued the Circular of the SAFE on Foreign Exchange Administration for Financing and Round-Trip Investments by Domestic Residents via Overseas Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (“**SAFE Circular 75**”), which came into effective on November 1, 2005 and required 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.

On July 4, 2014, SAFE promulgated the Circular of the SAFE on Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), which superseded SAFE Circular 75 and stated the following:

- (a) a PRC resident, including a PRC resident natural person or a PRC legal person, must register with the local SAFE branch before it contributes assets or equity interests in an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and
- (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other changes, a change of the Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division.

Our PRC Legal Advisor has advised that Mr. Min Fan has completed in 2006 his foreign exchange registration of overseas investments as required under the SAFE Circular 75.