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CTRP - Q2 2015 Ctrip.Com International Ltd Earnings Call

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OVERVIEW:

CTRP reported 2Q15 total revenue of CNY2.7b or \$430m, net income attributable to CTRP's shareholders of CNY143m or \$23m, and diluted earnings per ADS of CNY0.90 or \$0.15. In 3Q15, Co. expects to continue net revenue growth YoY at a rate of approx. 45-50%.



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PRESENTATION

Operator

Good day ladies and gentlemen. Welcome to the second quarter 2015 Ctrip.com International Ltd earnings conference call. My name is Lacy and I'll be your coordinator for today. (Operator instructions)

I would now like to turn the presentation over to your host for today's call, [Cecilia Zhang], IR manager of Ctrip. Please proceed.

Cecilia Zhang - *Ctrip.com International Limited - IR Manager*

Thank you Lacy. Thank you for attending C-Trip's second quarter 2015 earnings conference call. Joining me on the call today we have Mr. James Liang, Chairman of the Board and Chief Executive Officer; Miss Jane Sun, Co-President and Chief Operating Officer; Miss Jenny Wu, Chief Strategy Officer and Miss Cindy Wang, Chief Financial Officer.



We may during this call discuss our future outlook and the performance which are forward-looking statements made under the safe harbor provisions of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the views expressed today.

A number of potential risks and uncertainties are outlined in future public filings with the Securities and Exchange Commission. Ctrip does not undertake any obligation to update any forward-looking statement except as required under applicable law. James, Jane and Cindy will share our strategy and the business updates, operating highlights and financial performance for the second quarter as well as the outlook for the third quarter of 2015.

We will also have a Q&A session towards the end of this call. With that I will turn to James for our business update. James, please.

James Liang - *Ctrip.com International Limited - Chairman and CEO*

Thanks Cecilia. Thanks to everyone for joining us today. We are pleased with the great results achieved in all business segments this quarter. Accommodation reservation volume increased 55% year-over-year. Transportation ticketing volume again delivered the record-breaking year-over-year growth of 106% with air ticketing volume increasing 60% on a yearly basis. The package-tour business growth accelerated to 61% year-over-year in revenue with a robust (inaudible) in growth.

Net revenue of the company reached over RMB2.5 billion, up 47% year-over-year, the highest organic growth rate of the company since 2008. Net commission earned was RMB2.49 billion, up 45% year-on-year. Net commission earned is calculated by deducting from revenue the inventory cost where a company takes inventory risks. The company also treats deep discounts which generate losses at contra revenue.

Together with such strong top line growth we delivered a great bottom line performance that we committed to the market. We generated RMB214 million as non-GAAP upward income in the second quarter making us the most profitable online travel company in China. Unavoidably the competition in the online travel market remains fierce when other players try to boost high growth at the cost of lower ROI and heavy losses. We are very confident that Ctrip has a superior model enabling us to gain market share aggressively and achieve higher earnings.

Today I will focus on mobile penetration and superior service and competitiveness in the online travel market. First our mobile penetration -- mobile remains the key driver of our fast growing business. By the end of Q2 2015 the accumulated downloads for the Ctrip app reached over one billion compared with 200 million one year ago. Total mobile transaction value this quarter spiked over 120% year-over-year. Mobile has become the most important booking platform for the majority of our business operations. Over 85% of the bookings on Ctrip came from mobile channels during the Dragon Boat Festival this year.

Second our services -- the commitment to offer superior services is integral to Ctrip's DNA. We continue to elevate our service level to enlarge the gap between Ctrip and our competitors. At the same time we have successfully improved our efficiency by utilizing advanced technology. Air ticketing business service are good examples. Ctrip has maintained a world class response rate and customer satisfaction level supporting our customers in booking their tickets and post-sale services. These efforts all translated to excellent performance in both volume growth and cost savings. In the past two years air ticketing volume increased by approximately 110% yet our call center headcount remains largely the same, which significantly improved our earnings.

On a parallel our first class service has enabled us to build a loyal customer base with strong purchasing power and build high-end entry barriers for other competitors to enter the mid to high-end segment of the market.

For our combination reservation business transactions from four to five stars in the second quarter accounted for over 50% of our hotel booking volume and approximately 70% of our hotel revenues. Ctrip's air ticketing business also benefits from a yield premium due to the strong purchasing power of our customers. Ctrip served as the largest base of business travelers and high-end leisure travelers in China.

For certain international routes we sell over 40% of their business and first class seats. Our customers also appreciate the value added products and services Ctrip offers alongside air tickets to meet their travel needs. Therefore the takeaways of our air ticketing business consistently doubles that of our peer players.

For mid to high-end customers our focus is on service and yield management. For budget travelers our focus is on market share gain. We will invest the profit generated from the mid to high-end customers to compete aggressively to gain budget customers. In the short term we can generate revenue from these budget customers through cross selling more frequent and lower priced products. In the long run our investment in these customers ensures brand loyalty early on and builds a future customer base.

Third, outbound travel -- outbound travel business is well equipped with a large variety of products and services. It has been growing robustly this quarter. Outbound hotel reservation volume achieved triple digit growth year-over-year, so did international air ticketing revenue. For packaged-tour business international travel accounted for 50% of our travel volume and 65% of our total revenue. Self-guided tours have an even higher percentage coming from international travel at around 70% of the total transactions.

Chinese customers typically face more complications while travelling abroad. Many of the Ctrip's baby tiger projects are designed to make travelling in a foreign place more friendly and enjoyable. Our local activity business becomes a rising star in servicing our outbound customers. Customers could easily purchase from more than 12,000 local activity tickets and day tours from Ctrip before or during their trips to foreign countries. Over 40% of Ctrip's local activity transactions currently come from international business.

Before I hand over the call to Jane I would like to highlight some exciting news happening to the travel industry. On July 31 2015 Beijing won the opportunity to host the 2022 Olympic Winter Games together with (inaudible). This is fantastic news for the travel industry. Ctrip as the largest OTA in China, will seize the opportunity and will be prepared to serve the soaring travel demand in the coming years.

On a separate note the State Council recently re-emphasized the importance of travel consumption and investment as a great driver for the healthy growth of the Chinese economy. The government will announce and implement more policies to support the development of the travel industry and enforce the paid vacation throughout China. We believe this will lift the lifestyle of Chinese customers and release more demand in the future.

The travel market in China enters an unprecedented era with great growth potential and innovative opportunities. Ctrip is well positioned with fundamental advantages in services, products, technologies and branding to solidify our leadership. We also have deep pockets and will generate strong cash flow to gain market share and to invest in new business initiatives for our future. With that I will turn to Jane for the operations highlights.

Jane Sun - Ctrip.com International Limited - Co-President and COO

Thanks James. Hello everyone. This is Jane. I'm pleased to share the updates about Ctrip's main businesses with you. First of all, our hotels and other accommodations -- at the end of the second quarter 2015 Ctrip's domestic hotel coverage reached 330,000, a 200% surge from a year ago. International hotel coverage also expanded to 670,000 indicating a 55% increase year-over-year. We have expanded our hotel [pools] and strengthened our product competitiveness by offering a wide selection of both agent models and merchant models.

Our agent model products include prepaid, weekend and packaged hotel offerings. Customers can easily pick the product that best fits their budget and flexibility. We achieved the goals through internal innovations as well as working with the best suppliers from our open platform. In the second quarter the open platform hotel volume jumped to 200% year-over-year growth. With the strong momentum into both high-end and low star rated hotels total hotel volume grew 55% compared with the second quarter of last year.

International hotels continued to achieve triple digit growth this quarter despite the headwinds brought by MERs in certain regions.

Secondly our transportation ticketing services -- following last quarter's phenomenal performance the volume growth of transportation tickets increased further with a record high of 106% year-over-year growth in the second quarter of 2015. Air tickets maintained strong momentum with 60% higher volume growth over the same quarter last year. It was worth noticing that the vast majority of our growth comes from the tickets sold to the end user, not to the B2B channels.

Ctrip has the largest market share serving the individual travelers in China which demonstrates our real power in the value chain. The air ticket distribution industry is experiencing a structural change. While the major airlines cut the front end fixed portion of the commission in order to improve their sales and marketing efficiency. Ctrip has been very supportive in this transition. We intend to build a mutually beneficial partnership with airlines and provide the most efficient distribution channel for airlines.

Train tickets sustained its growth speed and tripled its size year-over-year. In light of the fast development of high speed rail train infrastructure across the country, more and more people are choosing to travel by train. Ctrip's team is committed to provide the best user experience by expanding its train ticket offering. This year the addition to simple train ticket bookings our new function is added for real time ticket inventory monitoring, multi-facet train ticket special seat selection and ticket delivery services.

In late July we invested RMB100 million in Suanya.cn who operates two of the most popular train ticket booking apps in China. With a combined effort we firmly believe that Ctrip will further fortify our leadership position in this area.

For bus ticketing, it is still in its early stage, but it is growing rapidly. We have covered bus routes in over 60 prefecture-level cities in China and will expand further into future. The peak daily tickets sold reached 50,000 during the Dragon Boat Festival this year, significantly higher than the other players.

Next, the package tour business; package tour revenue grew, further accelerated to 61% year-over-year, driven by strong volume growth. Open platform volume grew almost 200% year-over-year in the second quarter of 2015 and contributed to 25% of the organized tour. According to the recent third party research report, Ctrip remain to be the leader in the package tour business with a market share more than doubling than that of the second player in the market. Our team has worked diligently to both optimizing significant services and create new ones that exceed customers' expectation.

A particularly new service initiative worth mentioning is our new visa application service. The prevalence of the smartphones has allowed Ctrip to launch a sales service visa processing system where we can automatically complete the visa application forms for our customer with the pictures of relevant materials uploaded to apps. The system is currently supporting applications for over 60 countries and bring great convenience to our outbound travelers.

Ctrip's ability to manage emergencies is what makes our service standing out from that of the other players. We have a well-established emergency management system that every employee bears in mind in the event of any natural or manmade emergency. For example, when the typhoon hit China's east coast in early July, Ctrip kicked off our emergency plan immediately. We sent customers the latest travel updates through multiple channels, including APP notification, text message and WeChat. We also helped our customer to rearrange their journey successfully and timely. Our swift reaction and considerate services, were greatly appreciated by all the travelers.

Fourthly, our corporate travel; Ctrip's corporate travel business maintained solid growth at 34% in the second quarter. Accumulated downloads for our corporate APP reached record high at one million and around 30% of the total corporate travel transactions were made through APP and over 60% of corporate travel bookings were made through online and mobile channels compared to 45% a year ago, which is the highest number in the industry of corporate travel.

Our corporate travel business is always thinking one step ahead. As part of the strategic transformation, we have extended our services to become integrated travel partners to our clients. Our ITT is working hard to seamlessly connect our system with our customers' systems so that corporate travel procedures can be completed easily and quickly on one unified platform.

Finally, I'm very pleased to share with you that Ctrip, as the only one company from online travel industry, has been selected as one of the top 10 internet enterprises in China in 2015 by CNNIC. It is a great honor and prepares us to work even more diligently and deliver better value to our customers, our partners and our shareholders.

Now I will turn to Cindy for the financial highlights.



Cindy Wang - *Ctrip.com International Limited - CFO*

Thanks Jane, thanks everyone. For the second quarter 2015, Ctrip reported total revenue of RMB2.7 billion or \$430 million, representing a 46% increase from the same period in 2014. Total revenues for the second quarter of 2015 increased by 9% from the previous quarter. Accommodation reservation revenues amounted to RMB1.1 billion or \$178 million for the second quarter of 2015, representing a 47% increase year-on-year primarily driven by an increase of 55% increase in accommodation reservation volumes. Our accommodation reservation revenues increased by 16% quarter-on-quarter.

Transportation ticketing revenues for the second quarter of 2015 were RMB1.1 billion or \$170 million, representing a 45% increase year-on-year, primarily driven by an increase of 106% increase in ticketing volumes. Transportation ticketing revenues increased by 11% quarter-on-quarter. Packaged tour revenues for the second quarter of 2015 were RMB329 million, or \$53 million, representing a 61% increase year-on-year, primarily driven by an increase in volume growth of organized tours and self-guided tours. Packaged-tour revenue decreased by 17% quarter-on-quarter, primarily due to seasonality.

Corporate travel revenues for the second quarter of 2015 were RMB121 million or \$19 million, representing a 34% increase year-on-year, primarily driven by an increased corporate travel demand from business activities. Corporate travel revenues increased by 30% quarter-on-quarter, primarily due to seasonality.

For the second quarter of 2015, net revenues were RMB2.5 billion or \$408 million, representing a 47% increase from the same period in 2014. Net revenue for the second quarter of 2015 increased by 9% from the previous quarter.

From this quarter, we introduced a new concept of net commission earned, which is a non-GAAP number, which was RMB1.49 billion (sic - see press release "RMB2.49 billion") for the second quarter, up 45% year-over-year. Net commissioned earned is calculated by deducting from the revenue of the cost of transaction where the Company undertakes the majority of the business risk, including the inventory risks. The Company accounts for this cost offered to the customers as reduction to its revenues and certain significant discounts may result in selling price lower than the cost. If we exclude the transitions from certain discontinued metasearch channels, our net revenue growth rate will exceed 48% year-on-year.

Gross margin was 71% for the second quarter of 2015, compared to 72% in the same period in 2014 and 70% in the previous quarter.

Product development expenses for the second quarter of 2015 increased by 66% to RMB797 million, or \$128 million, from the same period in 2014, primarily due to an increase in product development personnel related expenses. Product development expenses for the second quarter of 2015 decreased by 1% from the previous quarter. Excluding share-based compensation charges, product development expenses accounted for 29% of the net revenues, increased from 25% in the same period in 2014 and decreased from 32% from the previous quarter.

Sales and marketing expenses for the second quarter of 2015 increased by 42% to RMB679 million, or \$109 million, from the same period in 2014, primarily due to an increase in sales and marketing related activities. Sales and marketing expenses for the second quarter of 2015 decreased by 6% from the previous quarter. Excluding share-based compensation charges, sales and marketing expenses accounted for 26% of the net revenues, decreased from 27% in the same period in 2014 and 30% in the previous quarter.

General and administrative expenses for the second quarter of 2015 increased by 34% to RMB261 million, or \$42 million, from the same period in 2014 primarily due to an increase in amortization expenses for intangible assets of newly acquired entities and other office expenses. General and administrative expenses for the second quarter of 2015 increased by 1% from the previous quarter. Excluding share-based compensation charges, general and administrative expenses accounted for 8% of the net revenues, remained consistent with the same period in 2014 and the previous quarter.

Income from operations for the second quarter of 2015 was RMB61 million, or \$10 million, compared to RMB91 million, or \$15 million in the same period in 2014 and losses from operations of RMB180 million, or \$29 million, in the previous quarter. Excluding share-based compensation charges, income from operations was RMB114 million (sic - see press release "RMB214 million") compared to RMB202 million in the same period in 2014 and loss from operations of RMB21 million in the previous quarter.

Operating margin was 2% for the second quarter of 2015, compared to 5% in the same period in 2014, and negative 8% in the previous quarter. Excluding share-based compensation charges, operating margin was 8%, compared to 12% in the same period in 2014 and negative 1% in the previous quarter.

Income tax expenses for the second quarter of 2015 was RMB31 million, or \$5 million, compared to income tax expense of RMB47 million, or \$8 million, in the same period of 2014 and RMB6 million in the previous quarter.

Net income attributable to Ctrip's shareholders for the second quarter of 2015 was RMB143 million, or \$23 million, compared to RMB135 million, or \$22 million, in the same period in 2014 and net loss attributable to Ctrip's shareholders of RMB126 million, or \$20 million, in the previous quarter. Excluding share-based compensation charges, net income attributable to Ctrip's shareholders was RMB296 million, or \$48 million, compared to RMB246 million, or \$40 million, in the same period in 2014 and RMB33 million, or \$5 million in the previous quarter.

Diluted earnings per ADS were RMB0.90, or \$0.15, for the second quarter of 2015. Excluding share-based compensation charges, diluted earnings per ADS were RMB1.89 (sic - see press release "RMB1.86"), or \$0.30, for the second quarter of 2015.

As of June 30 2015, the balance of cash and cash equivalents, restricted cash and short-term investment was RMB20.5 billion, or \$3.3 billion.

As of August 3 2015, Ctrip had purchased approximately 20 million ADSs in aggregate with a total consideration of \$474 million.

For the third quarter of 2015, the Company expects to continue the net revenue growth year-on-year at a rate of approximately 45% to 50%.

With that, operator, we are opening the line for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator instructions) Dick Wei, Credit Suisse. Please proceed.

Dick Wei - Credit Suisse - Analyst

Hi, good morning, thanks for taking my question and congrats on the strong quarter. I have two questions. First question is wondering if management team can update more on the competitive landscape in the travel industry, particularly maybe with Qunar and maybe with the announcements for eLong privatization offer from Tencent. Secondly and a bigger picture question is about does the Company see any macro slowdown that could impact the travel market in China going into the second half? Thank you.

James Liang - Ctrip.com International Limited - Chairman and CEO

Thanks. Our competitive landscape, I think on the low end, actually is getting more competitive with Qunar and also in terms of the lay of the market, air ticketing, hotel (inaudible) China also aggressively and they are adopting burning money strategy where they offer below cost prices and with almost no ROI and the negative ROI. So on this market we'll (inaudible) of course with a deep pocket, we can also do that but we want to do it in a more smarter way, so we will compete aggressively on this market to maintain the market share in the low end market as well.

I mean high end, because the customer is less sensitive of the value of service and brand, so we think -- we are able to maintain a high growth rate while at the same time still keep a very reasonable profitability. So we can actually use part of the money generated from high end customers to compete aggressively on the low end. That seems to be a very successful strategy.



Jane Sun - *Ctrip.com International Limited - Co-President and COO*

On the privatization, eLong just disclosed that they have received an offer from Tencent, that the offer price is at \$18 (inaudible) higher than the current price. Clearly Tencent has seen the great potential of eLong as a company, so as a shareholder we are very glad to see that. Also, I think Tencent is a very well respected company. We always have very good relationships with them, working closely with them and I think Ctrip also is the largest player in the market and Tencent is the largest social networking platform in the market. So if we can work closely with each other to explore great opportunities and drive more volume onto the platform that will serve our customer with great product, excellent services, I think that it will be a win/win for our customers and our partners and will generate great value for our shareholders.

James will talk about the micro slowdown, microeconomic slowdown.

James Liang - *Ctrip.com International Limited - Chairman and CEO*

Actually we don't see much slowdown in the travel market. Actually we see very high growth rates, especially in the high end of the market, for example outbound travel, we believe it's growing probably over 20% and of course our growth rate is much higher than that. So I think the slowdown is mostly in the manufacturing and the other traditional industries, but on the travel market, I think that it's still very healthy.

Operator

Fawne Jiang, Brean Capital.

Fawne Jiang - *Brean Capital - Analyst*

Good morning, thank you for taking my questions. First question is actually regarding your net commission earned. It seems like the first time you've disclosed the measure. I just wonder whether you can give us a bit of color in terms of key components that makes up the difference between your revenue versus the net commission earned, particularly regarding your merchant model, just wonder what is the current percentage of your overall business and do we actually see that underperforming or outperforming your agency model?

Second component to your net commission earned, it seems like you mentioned that you may sell products that's actually below the cost. Just wonder what's the percentage of that volume right now.

Cindy Wang - *Ctrip.com International Limited - CFO*

Thank you. Different companies in this industry may use different ways to recognize revenue. In order to help our investors to have an apple-to-apple comparison, we introduced the concept of net commission earned which will basically take the following two items into consideration. First, different from other players, we excluded any negative revenue for loss making sales we offered to our customers in our US GAAP numbers. Second, compared with US GAAP number to be more prudent, we further excluded revenue for the cost of transactions where the Company takes inventory risk.

We believe the concept of net commission earned is the best way to present the real revenue performance for all players in the travel industry. If we excluded the transactions from certain discontinued metasearch channels, our net revenue will grow at a higher rate, approximately 48% year-over-year.

For the compare the merchant as well as the agent model, both business models grow very rapidly and merchant model actually, for those merchant models, we don't actually record the growth revenue for all merchant business models. We take a very prudent accounting way to recognize the growth of parts only where we take inventory risk. This actually is different from the accounting treatment of other players.

Operator

Wendy Huang, Macquarie.

Wendy Huang - Macquarie - Analyst

Thank you. I have two questions. My first question is about your outbound travel business, obviously you've mentioned that a lot in your prepared remarks. Could you provide some details about the top destinations [processed] through your platform at the moment and also the margin difference between the organized tour and the self-guided tour and what was volume and revenue contribution respective from these type of tours?

Secondly, this is a follow up question on that accounting change about the net commission revenue. So you mentioned the loss making revenue part, is that part mainly actually resulting from the baby tiger project or is that mainly from some open platform volume? Thank you.

Jane Sun - Ctrip.com International Limited - Co-President and COO

Sure, Wendy this is Jane. Thanks for your question, I will take care of your question and address it one by one. First of all, on the outbound travel, it has the top growth trajectory for us. Our consumers, as they are making more money, they start to travel from Asia and then to Europe, to Australia, New Zealand and further to North America and South America. So we have seen strong growth in outbound business.

In terms of top travel destinations, I think in Asia, Japan, for this quarter is strong and in South East Asia, Thailand, Singapore, Malaysia has always been very strong travel destinations. As summer comes, people can take longer vacation, then our long distance tours start to grow very well. So traditionally the travel packages to Europe and America and Australia all grow very well during the long holidays. So we have seen strong growth in the outbound business.

The second question you had is the margin for package tour and also for group tours. In terms of the price, our dynamic package probably has some premium. In terms of the cost efficiency, group tour has some premium. So margin-wise, if you aggregate these two together, it's similar margins; both grow very strongly, addressing different markets. Normally when the older generation goes abroad and particularly for their first trip abroad, they tend to join a group tour. The younger generation who can speak very good English, they tend to join the dynamic package tour. So both sides have been demonstrating strong growth in the past.

Your third question is on accounting change. As Cindy explained, in the market some players report GMV as their revenue. Some players report loss making revenue on the topline and then record sales and marketing in their expense and therefore it's a growth up on revenue and expense. In order to provide apple-to-apple comparison, we believe one number will put everyone on the same line and that number is net commission earned. So what we do is we take out the loss making revenue which might generate negative revenue as a contra revenue on the topline. Ctrip hardly does any loss making marketing, so the number for the contra revenue is limited to in our number.

The second way is during the Golden Week holiday, we have to take some inventory risk by booking our gross number in revenue. That number also needs to be adjusted to reflect the true commission we earned. So if you adjust for these two numbers, that gives you a true revenue you earned for each transaction. So 99% of our transactions have very positive net commission earned. That will put everybody on the same line and give investors a very clear apple to apple comparison in terms of earnings ability for each transaction.

Operator

Mike Olson, Piper Jaffray.

Michael Olson - Piper Jaffray - Analyst

Yes good morning. I just had a couple of questions mostly on the guidance. Could you please run through any guidance detail that you can provide on each segment of the business? Then also what you're anticipating for Q3 operating margins and if you can provide any detail on what you're expecting for full year 2015 operating margin? Thank you.

Cindy Wang - Ctrip.com International Limited - CFO

Thank you Mike. I will take your question. On the top line we maintain a very strong growth momentum to achieve overall year-over-year 45% to 50% growth. For each of the line items, our hotel accommodation reservations will grow at a year-over-year 40% to 50% in the revenue and transportation will also grow 40% to 50% in the revenue. Thanks to the very strong volume growth as well as the commission recovered from the last year's comparatively lower base, our package tour business will achieve 50% to 60% revenue growth for the third quarter.

On the bottom line, we improved our operational efficiency for our all business units and thanks to the heavy investment we made last year all baby tigers revenue ramped up which largely helped us to improve our operation margin. In the third quarter we will work very hard to achieve a non-GAAP operating income at about RMB400 million to RMB500 million which actually represents a year-over-year growth of about 80% to 120% growth.

Operator

Alicia Yap, Barclays.

Alicia Yap - Barclays - Analyst

Hi good morning James, Jane, Jenny and Cindy. Thanks for taking my question. I have a follow-up question on the eLong proposed [taking] private transactions with Tencent. Can you give us a little bit more color? What is the current relationship now between Ctrip and eLong given this announcement today? Then how will this change Ctrip's role in eLong as well as any partnership between Ctrip and Tencent?

Cindy Wang - Ctrip.com International Limited - CFO

Sure, eLong just received the offer from Tencent so the taking private proposal was made by Tencent to eLong. So they have more details if you have questions, please feel free to ask them. As a shareholder of eLong, whatever is good for the company and for the shareholder, we will be very supportive. In terms of the relationship with Tencent and eLong as we discussed Ctrip is one of the shareholders of eLong and eLong is an independent company with its independent Board members and it's also a separate independent company listed on NASDAQ.

In terms of our relationship with Tencent, we always had very good relationship with Tencent. We work with them closely, we have very high respect for that team because they share a similar dream which is product driven, very social networking, sophisticated. So yes I think if we focus on the customer's needs and every company has its strength to offer to our customers, I think we will be able to provide the best for our customers and our partners.

Alicia Yap - Barclays - Analyst

Then can I follow up on the margins. Cindy gave the margins for the third quarter. What about if we look at entire second half of this year, what is the compare for the first half versus also last year second half? Thank you.



Cindy Wang - *Ctrip.com International Limited - CFO*

This year Ctrip's [topic] is how to balance the investment versus operational efficiency. So thanks to the strategy most of our business units they achieved a much higher operational efficiency. So we do believe with a very strong bottom line we delivered in the first half, we can achieve very good in the bottom line for the second half for the full year this year. Although we still have very limited visibility but we do believe we will at least achieve last year's margin and there's potential we can improve our margin a little bit.

Alicia Yap - *Barclays - Analyst*

Okay, great. Thank you.

Cindy Wang - *Ctrip.com International Limited - CFO*

Thanks Alicia.

Operator

Jin Yoon, Mizuho Securities

Jin Yoon - *Mizuho Securities - Analyst*

Hey, good morning guys. Just a couple of things, first of all, we're seeing nice operating margin leverage starting to really kick in. Now that you've partnered with eLong, when should we start to see further operating margin expansion from collaboration with eLong going forward? That's my first question. My second question is on your visibility.

I think in the recent past you mentioned that you were going to report your earnings towards the end of the reporting season given the fact that the visibility remains a little bit more short sighted. The last couple of quarters you've been reporting towards the earlier part of the earnings season. Does that mean your visibility in your business has changed materially over the last few quarters? I'll stop there, thanks guys.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Thanks Jin. Our operating margin I think mainly its sales driven. We look at our top line and bottom line. On the top line our goal is aggressively to gain market share and we also carefully calculate the ROI for each transaction. So for matured product, each transaction has to make money, has to generate positive ROI.

For immature and start-up type of products then we will look at the lifetime value of a new customer and calculate the ROI. But no matter what happened, the money we spent on a customer has to be recovered through the direct transaction or through carefully calculated lifetime value from a customer. So that's on the top line. Our goal has always been aggressively gain market share in this fast growing market.

Now on the below the line items, we first of all heavily invest our IT system to enable our team to achieve greater efficiency. The example James gave just now is a highlight -- the air ticketing business has been growing over 50% year-over-year in the past two years. Yet, the headcount decreased. So all the extra savings through these IT investment headcount reduction has been a positive drop into our bottom line. Going forward, we will continuously work investing heavily on technology to automate procedures that can be done by machine.

On the other hand, there are things that cannot be replaced by machine which will very much be appreciated by our customer then Ctrip has the best trained workforce to help our customers to get the service. For example, when a typhoon comes, when there is a storm, when there is an



earthquake, thousands of the call center employees will go to the call center and reach out to our customers and rearrange the tours with them while the other players in the market cannot handle this kind of large volume disastrous weather or natural disasters.

So by providing these high level of services during the time that customers best in need, we are able to attract the high end customers which generates high yield for us. That is the reason why Ctrip is the only company who are very profitable. Our margin will continuously improve as a result of the investment in technology and efficiency and also the yield management we diligently work on. So going forward in Q3 as Cindy mentioned, we will be able to generate [400 to 500] operating margin which represents 80% to 100% growth year-over-year. Our efforts will be kept on going forward into Q4 and next year.

On the visibility, it really depends on what's going on in the market. Last time I think there was a lot of uncertainty such as MERs and weather changes and cancellations et cetera. So if the visibility is not clear for us, then we will delay the announcement and guidance until we have very clear visibility to give prudent guidance to our shareholders. For this quarter, based on what we have seen, we already have seen an uptake in the business and also an uptake on the operating margin. So we feel this is the right time to give timely update to our shareholders.

Jin Yoon - *Mizuho Securities - Analyst*

Great, hey thanks guys.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Thanks so much Jin.

Operator

Tian X Hou, T.H. Capital.

Tian Hou - *T.H. Capital Research - Analyst*

Morning Management. Congratulations on the Group quarter. I have one question related to your train ticket sales. So July 22 you make announcement acquire a ticket booking software company in Guangzhou for about RMB100 million. I wonder how are you going to integrate this business with your existing train ticket business at (inaudible)? Also how this new acquisition will impact the transportation volume growth in Q3?

Also, related to your train ticket business, since you do not make money out of any commissions of the train tickets and you benefit more from the traffic generation from the train tickets. So I wonder in the past several quarters how much the traffic contributions has this train ticket made to your main business. That's all my questions. Thank you.

Jenny Wu - *Ctrip.com International Limited - Chief Strategy Officer*

Hi thank you. This is Jenny. For our investment in Suanya.cn you're right, we made this investment recently. This Company is one of the most popular third party train ticketing booking service providers. Suanya currently operate two popular train ticketing booking apps. One is smart travel (spoken in Chinese). Suanya's apps have built a strong brand among the others with over 100 million app downloads due to their advanced functions such as automated train ticketing booking. Combining this to mobile apps Suanya is the largest train ticket booking platform in China right after (inaudible), 12306.com. This is official train ticketing booking platform operated by Ministry of Rail.

The achievement is quite remarkable given the fact that the Company has only eight persons with not much marketing dollars spent yet. This investment will definitely strengthen Ctrip's leadership in transportation ticketing segment. Meanwhile these two apps will expand Ctrip's user



demographics to more low end users. On the other hand, Ctrip's one stop travel platform reached full travel product and advanced service will definitely help Suanya to achieve new success and gradually improve its monetization.

This company will continue to be run independently but will have very close cooperation and synergy with Ctrip. The overall impact on Ctrip's P&L will be very limited and as I mentioned we will work with the team and try to help them to improve their overall service and monetization. At the current state, the impact to our P&L will be very immaterial. I will pass to Cindy for the question.

Cindy Wang - *Ctrip.com International Limited - CFO*

Yes just to present on Jenny's point, on the whole train ticket market as well as Ctrip's own train ticket business, train ticket market is around six to seven times as large as the air ticket market in terms of travel volume. Around 2.4 billion passengers took train trips in 2014, grow 12% year-on-year.

As high speed rail networks spread out, train has become a very attractive alternative travel method for both business and leisure travelers. Ctrip's train ticket [platform] maintain a very strong volume growth of around 200% year-on-year in the second quarter of 2015. The total now, the total train ticket volume is very close to the air ticket volume. We expect our train ticketing volume will surpass air ticket volume in the next few quarters.

Tian Hou - *T.H. Capital Research - Analyst*

Thanks Cindy.

Cindy Wang - *Ctrip.com International Limited - CFO*

Since, yes, train tickets have even higher percentage coming from our mobile platform, over 80% of the train tickets were purchased through Ctrip's mobile app. But to now the revenue contribution of train ticket is still very small, roughly about 5% of the total transportation revenues. But since we run fully automated operations, the train ticket business itself has been very profitable already.

Tian Hou - *T.H. Capital Research - Analyst*

Okay. Thank you. That's all my questions.

Cindy Wang - *Ctrip.com International Limited - CFO*

Thank you.

Jenny Wu - *Ctrip.com International Limited - Chief Strategy Officer*

Thanks Tian Hou.

Operator

P: Vivian Hao, Deutsche Bank.



Vivian Hao - *Deutsche Bank - Analyst*

Hi, thank you for taking my question. I have two quick questions. It looks like we have achieved a better net average commission improvement on hotel side quarter-over-quarter. Also, our gross margin was up 150 beds quarter-over-quarter. What is the key reason behind, if I can ask, what is the outbound hotel contribution to our current hotel portfolio in terms of both volume and revenue? Also, if we can anticipate any further relieving coupon magnitude? I do have a follow-up question after this one. Thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Sure. So thanks for your question Vivian. The margin improvement as we discussed before comes from both top line and bottom line. On the top line again our goal is aggressively gain market share. All the business team in different business units, have been motivated to aggressively come up with new products and penetrate into the new market in order to get market share in this fast growing market. So if the baby tiger program this year has been very successful, they are able to target in their specific vertical such as train, bus, attraction tickets et cetera. So they have been very aggressive.

Our main product has also demonstrated a strong ability to gain market share particularly for hotels and air ticket. I think the growth they have been demonstrated compared to such a big base is still very amazing. So the team has been very motivated to drive up -- to gain market share and increase our top line revenue.

The second thing is also on the yield management, our team also have been working very hard to make sure we customize and personalize products for our customers. So the (inaudible) management have achieved a good result and it's still on the uprising trend. The third thing is on the cost side as we discussed before, we have been heavily invested in IT technology in order to save headcount and this has resulted in a very good result in operating margin.

Your second question is in the outbound business. For different business lines outbound business is a little bit -- represents a very different percentage. For hotel business outbound business if you include Taiwan and Macau that is about 10% volume and around 15% to 20% revenue. In terms of air ticketing, if you include -- the volume number is about 15% and revenue is even higher.

If you look at package tour business, the majority of the tour, more than 50% of the tour in terms of volume are outbound. The revenue anywhere between 60% to 70% of the revenue are from outbound business. This has been very promising for us because Ctrip's customers tend to have stronger buying power and the product offering we give customers will ensure the high quality of the services and peace of mind when they travel with Ctrip.

Your last question is on the coupon. Yes we -- through careful yield management coupon on the quarter-over-quarter basis have come down modestly. We still have a long way to go but again we need to balance the market share gain and efficiency in marketing tool. So the first goal for us has always been very aggressive to gain market share with a positive ROI. With that in mind, we also want to be very smart in our marketing tool. So we want to issue the coupon to the people that really cares about the money and so far our team has been working very diligently to provide a personalized product to different portfolio of the customers.

Vivian Hao - *Deutsche Bank - Analyst*

Thank you. One very quick follow-up on the last question. We notice this general trend in step-up promotion into the summer season, and given that one of our key competitors has also raised capital and carried out large-scale mobile promotion, can you please elaborate a bit more on our promotional strategy in second half? Thank you.



James Liang - *Ctrip.com International Limited - Chairman and CEO*

Yes. I think we will continue to be very aggressive, especially in the low end, but we also calculate our return very carefully. The reason we put out this net commission is just to give investors a better picture of how effective once contain the result of the containers.

I think it's still too easy to use shareholders' money to buy revenue. So this number is not the best, it's the second-best measure of how effective the marketing campaign is. The best measure of course is still the profit. Especially on the lower end, I think customers are not very loyal.

If you give us below cost price to the customers and the customer may actually try you once but the second time, the third time, the customer still compares prices. So the lifetime value of those budget customers is very low.

So if you try to boost the revenue using shareholder money to buy inventory or below price promotions and this kind of strategy we don't believe is very profitable or very sustainable. So we will do it very aggressively but we will do it very smartly and to generate the best value for our shareholders in the long run.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

And also to add to James's comments. When you have loss-making strategy, what we have noticed in the market that it creates a chain of the third party that will get this inventory at deep discount from the company who is doing loss-making campaign and they will buy this inventory at very deep discounted price and then they sell it at a higher price at the other platform. And therefore this discount campaign is not reaching out to end users but it's reaching out to the chain of the third parties who are taking advantage of the loss-making campaign, which we want to be very careful to avoid.

Operator

Eddie Leung, Merrill Lynch.

Eddie Leung - *Bank of America Merrill Lynch - Analyst*

Good morning. A couple of questions. The first one is about a couple of key factors affecting your hotel and [AR tech] rates. Could you comment on the trend you have seen in industry ASP as well as the impact from a mix shift in your hotel tiering?

And then secondly, just a housekeeping question. Could you give us some color on the dilution in share counts from the convertible bond? Thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Yes. So for the question for the ASP of our accommodation business, hotel business, because we both -- for the both high end as well as for the lower end of the market, we both grow very strongly. And also we are working very hard to deliver better results.

The best result of the Alba International Hotels which actually has the highest ADR in the market. So overall speaking, our ADR has been a very stabilized even though we are still very aggressive to enter into the lower end of the market.

For your second question, the dilution. The [CD] dilution, we calculate the dilution, as long as it has a -- because this quarter we've been profitable so there is some dilution on the ADS, on the share count, especially for the first CD we offered -- we issued in 2012. The impact --



Eddie Leung - *Bank of America Merrill Lynch - Analyst*

Got that. Very helpful, thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Yes, but that impact is limited.

Eddie Leung - *Bank of America Merrill Lynch - Analyst*

Got it, thanks.

Cindy Wang - *Ctrip.com International Limited - CFO*

Thanks, Eddie.

Operator

Jed Kelly, Oppenheimer.

Jed Kelly - *Oppenheimer&Co - Analyst*

Good morning. Can you just provide a little color on what drove the sequential decline in product development cost?

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

So product development cost, we always protect that line. So if the IP has the need to ramp up, to hurry, there is no limit for them. I think to increase the investment in product development has always been our goal.

What's happening this year is that if you remember in Q4 we aggressively invest in 16 baby tiger programs. We hired lots of engineers from Silicon Valley from all the other high-tech companies and built up the team. So the investment has generated a very good scalability for this quarter so our team didn't feel we need to hire aggressively from the market.

But going forward, if our team has new initiatives that they feel in the future will help our Company to penetrate into a new area, definitely they have -- we have the financial bandwidth, we're able and we are willing to make the investment any time that it is necessary. So that's what happened in this line.

Jed Kelly - *Oppenheimer&Co - Analyst*

Thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Thanks.



Operator

[Chin Choi] with 86Research

Chin Choi - 86Research - Analyst

Hi, good morning. Good morning, James, Jane, Jenny, Cindy and [Jade]. Congratulations for a very strong quarter. I just have two questions.

The first one is regarding our open platform progress. I'm wondering, what is the current revenue and the volume contribution to the hotel area and impact of tour business from open platform?

And the second question is about our gross margin. You mentioned that the open platform volume grew by almost 200% year-over-year for packaged tour business in the second quarter. Does that mean the gross margin improved for the ticketing and the hotel business itself or whether that's mainly because of the improving couponing for the second quarter or whether that's mainly because of the operating efficiency for our hotel and air ticket booking business for the second quarter. Thank you very much.

Cindy Wang - Ctrip.com International Limited - CFO

Thank you. For the open platform contribution, hotel in terms of volume contributed -- open platform contributed about 10% of the total hotel volumes. For air ticket it contributed roughly 60% in the volume and for the packaged tour for last year we invested heavily in the open platform strategy in the packaged tour business. So now we have approximately 25% volume contribution from the open platform.

And for the margin part, yes, we -- this, as Jane mentioned, we actually for the couponing part, if you compare year-over-year it remains flattish but if you compare quarter-over-quarter because of our yield management efforts we saved couponing as a percentage of total net revenue at about 1% to 2%. That's one of the reasons why sequentially our gross margin improved. Of course, across all business units we increased our operational efficiency so overall our gross margin improved slightly from the last quarter.

Chin Choi - 86Research - Analyst

Thank you, Cindy. Very helpful.

Cindy Wang - Ctrip.com International Limited - CFO

Thanks.

Operator

Thomas Chong with Citigroup

Thomas Chong - Citigroup - Analyst

Hi, good morning. Hi, James, Jane, Jenny and Cindy. I have two questions. The first question is about the third quarter guidance. Given that you have generated synergies with eLong can we get some color or quantify some numbers? What is -- about the amount in terms of the savings, in terms of marketing as well as the key important impact from the synergies?

And the second question is about the baby tigers in the same period. Can management give us some color or any update about the profitability, about the baby tiger initiative from the quarter? Thanks.

Cindy Wang - *Ctrip.com International Limited - CFO*

Sure. For the first question, eLong Investment. eLong will remain as a standalone business and it will operate independently. And eLong's board we believe will make the right strategy to bring eLong to bring eLong to be a much better company.

Ctrip's vision is to become the most comprehensive platform for the Chinese travelers and eLong has the potential to become the best booking platform in China focusing on the online and mobile hotel bookings. After this investment of course it is good for the two leading players to create a healthy ecosystem, which is good for the whole industry, the business partners as well as for our customers.

And your second question is for the baby tigers. Yes, last year we heavily invested in the baby tiger -- all 15 baby tigers, and we built up the separate IT system to support each of the baby tigers. And this year we do see their revenue ramped up.

And as we evaluate their performance both from the top line as well as the bottom line, so their operational efficiency increased significantly compared with last year. And by the end of this year we do believe most of the baby tigers will be at least breakeven and some of them have already been very profitable, like the train ticket business.

Operator

Ming Zhou with UBS.

Ming Zhou - *UBS - Analyst*

Morning. Congratulate to the strong quarter. So I have three questions.

First is regarding the follow-up on the industry competition landscape. I think apart from your original competitor, recently we see [Allies Chei] and also Tongcheng become -- after receiving the investment from (inaudible) becoming much more aggressive in expanding. Could you comment on that?

And secondly, could you update on your cruise business? And also apart from the cruise business, do you have any plan to make other investment into these kind of more asset-heavy business model? I think I read some news regarding that you are interested in leasing some islands in Greece. Is that true or is there any comment on that?

And thirdly, I think you made a very remarkable improvement in product development expenses as a percentage of revenue. And is there any further room for improvement going forward? And also, on the sales and marketing side, any upside we can look for? Thanks.

James Liang - *Ctrip.com International Limited - Chairman and CEO*

Okay, there's a lot of questions. I think the first question, I think we already talked about quite a bit. So down the lower end there's a lot of the new aggressive competitors and they are burning money and I don't believe their ROI is justified but that's the nature of the market, and we'll also compete aggressively but we will do it smartly. On the --

Cindy Wang - *Ctrip.com International Limited - CFO*

On the cruise industry I think if you look at the growth in this market I think the cruise industry is just at baby, infant stage. So there are lots of interest in the market. And if you look at the matured market, at least 1% to 2% of the people will travel as their income increases.

In China we don't have even one million people to travel via cruise yet. So the market is very promising.

Now, on Ctrip we made impressive investment by holding about 30% to 35% of the SkySea by forming a joint venture with Royal Caribbean. We believe we can contribute to our China knowledge to this JV and Royal Caribbean is very strong in operating the cruise business. So that's how the JV is formed.

And I think for us going forward it's always -- we want to invest in the promising market but we want to invest it in a smart way, which we can contribute our knowledge and our strength into the business.

The third thing you mentioned is the island I think it is just the (inaudible) market.

James Liang - *Ctrip.com International Limited - Chairman and CEO*

I think the best way to help Greece government is sending them more Chinese customers.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Yes, I think that our marketing team did a good job. If you have already noticed it, I think they have done a very good job with trying to attract attention.

But I think Ctrip's strength again is aggregate the customers' needs and send it to attractive destinations and provide these customers with the best service so they have peace in mind, they enjoy their travel journey and they will come back to us. So that's our strategy, but we're not interested in buying any islands in Greece.

Operator

[Henry Goh] with [Winabi] Research

Henry Goh - *Winabi Research - Analyst*

Hi. Thanks for taking my question. This question is about the air ticket business. So we know that you mentioned the 60% of all air tickets is actually from open platform, but as airlines continue to low accommodation when we know that the air tickets and contribution from the open platform may be less than an income decreased because some smaller agency open platform may not survive due to the commission cost.

On the other hand, the direct sales, the air ticket commission may continue to trend down with the commission cost. So how should we think about the economics, the tech rates of this air ticket business going forward? Thank you.

Jenny Wu - *Ctrip.com International Limited - Chief Strategy Officer*

Yes. Air ticket take rates for Ctrip have been maintained within the 4% to 5% very healthily, although throughout the past few years airlines have been cutting the commission rate.

The way we did it is because we provide excellent services to our customers and on Ctrip's platform not only we sell air tickets, we also have more than 20 products to be sold including hotels, attraction tickets, trains et cetera, cruise tickets. So when the customer come and travel with us by booking a ticket, we know exactly where they are going and we can target our product very effectively by cross-selling certain products to them. And therefore on aggregate the cross-selling plus some incentives from the airlines have been maintained at a healthy level.



Secondly, the reduction on the air ticketing commission really hits the smaller players which does not have the efficiency as Ctrip does. For Ctrip because of our scalability enable us to achieve greater operation leverage so we can offer 24 hours, seven days service without adding too much labor cost.

But if it is a mom and pop smaller shops it's very difficult to do that. So again, the high level service Ctrip has enables us to attack high-end customers which are willing to buy cross-sold products. That's helpful.

And also the strong platform and IT investment we have made enabling us to create greater scalability than the other player, which also is helpful to increase our margin. That's how we become a very efficient sales and marketing channel for airlines and we will keep up with our hard work to become the most efficient sales channel for airlines and also help them to upsell their product.

As we discussed during the opening comments, for certain routes we're able to sell more than 40% of the business class and first class tickets for airlines, which is very helpful for airlines to upsell their products and improve their revenues as well.

Henry Goh - *Winabi Research - Analyst*

Thank you.

Jenny Wu - *Ctrip.com International Limited - Chief Strategy Officer*

Thanks.

Operator

Amanda Chen, Morgan Stanley.

Amanda Chen - *Morgan Stanley - Analyst*

Hi, good morning. Thank you for taking my question. My question is regarding the eLong privatization proposal. If I read the number correctly, it seems that the proposal price which is \$18 per ADS is lower than the price that we bought shares from Expedia which was \$29 per ADS. Also according to Jen's answer previously I think that we are quite positive to this privatization proposal. So could you please share with us a more rational (inaudible) attitude? Thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Sure, sure. I think each company independently evaluates the market condition and the value of the company. When we got the shares from Expedia, we got some shares at high voting power and therefore the price is a little bit higher. How Tencent comes up with this number, Tencent will be the best company to address it but I'm sure they also take into consideration of the current trading volume and also trading price and then make a very generous premium based on the trading prices. So every company independently evaluates the value and comes up with different proposals.

The second thing is the rationale behind it. Again I think the privatization is between Tencent and eLong so they will be able to help you with the details. We are only a passive shareholder and whatever is good for the company, for the shareholders we definitely will be positive about it.



Amanda Chen - Morgan Stanley - Analyst

Thank you.

Jane Sun - Ctrip.com International Limited - Co-President and COO

Yes given Ctrip's very leading position in the travel industry and also Tencent's very extensive user region cross platform capability, we believe that the privatization open the chance that Ctrip and Tencent we both can cooperate with each other in the future.

Operator

Yong Wang, J.P. Morgan.

Yong Wang - J.P. Morgan - Analyst

Hi.

Jane Sun - Ctrip.com International Limited - Co-President and COO

Hello.

Yong Wang - J.P. Morgan - Analyst

Thank you for taking my question. My question is related to call center headcount. So you mentioned that call center headcount remain stable in the quarter and my question is as volume contribution for our online and mobile continue to trend up and we continue to invest in IT capability, do you have any plan to further streamline call center headcount? What could be the potential margin impact in the long run? Thanks.

Jane Sun - Ctrip.com International Limited - Co-President and COO

Call center actually has been the most profitable sales channel for us. If you look at revenue generated per call, on average call center can generate 20% higher [AD] price than the other two channels. Also the room nights or ticket number call center generate also is 20% higher. For call center sales, we do not issue coupons. So if you aggregate these factors and compare sales channel with our mobile and PC channel, the revenue per call for the call center is around 60% to 70% higher than the other two channels.

The second thing is, we aggressively again in the IT system to make it as efficient as possible. So although the volume has increased significantly, we are able to handle a lot of routine transactions through automated services such as changed, cancelled tickets. If it's a very easy transaction without needing human intervention we will encourage our customers to do it on our apps or on our PC platform.

In the time that customers badly need to get hold of our employees, then we want to make sure Ctrip provide the best service to our customers. So that's a very good combination to increase as much as possible on our more automated services meanwhile supplement by a very high end customers with timely responsiveness with very considerate service when customers need it.

Operator

[David Jin], Goldman Sachs.

David Jin - *Goldman Sachs - Analyst*

Hi, good morning, good evening. Thank you Management for taking my question. I just have a follow-up question because Management mentioned in the opening up saying that you will see more government support for the travel industry. I'm just wondering can you give us a sense of what kind of changes we will see from the income [saving] perspective. Will there be like lower tax rate or more subsidies into the travel segment which will impact us? Thank you very much.

James Liang - *Ctrip.com International Limited - Chairman and CEO*

I don't think there is any specific plan but I think at every level of government, they will invest more resources to build more travel supplies or travel products. I think the government still has -- in China the government still has a lot of resources so once they are focusing travel as the primary industry for future growth, they will see a lot more products available for Chinese consumers that will boost travel demands for the long run. So we are positive and in this sense we haven't seen any specific plans to -- in terms of tax breaks or things like that yet.

David Jin - *Goldman Sachs - Analyst*

Thank you very much.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Thanks David.

Operator

Ladies and gentlemen, this concludes the question and answer portion of today's call. I would like to turn the call back to Cecilia Zhang for closing comments.

Cecilia Zhang - *Ctrip.com International Limited - IR Manager*

Thank you everyone for joining us on the call today. We look forward to convening with you again next quarter. Thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Thank you very much.

Cindy Wang - *Ctrip.com International Limited - CFO*

Thank you for your time.

Jenny Wu - *Ctrip.com International Limited - Chief Strategy Officer*

Thank you.



James Liang - *Ctrip.com International Limited - Chairman and CEO*

Thank you.

Operator

Thank you for your participation in today's conference. This concludes your presentation. You may all disconnect. Good day everyone.

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