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# FINAL TRANSCRIPT

Q1 2009 Ctrip.com International, Ltd. Earnings Conference Call

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**Eddie Leung** *Merrill Lynch - Analyst*

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## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the first quarter 2009 Ctrip.com International Limited earnings conference call. My name is Melanie and I will be your coordinator today.

At this time, all participants are in a listen-only mode. We will conduct a question and answer session at the end of this conference. (Operator Instructions).

I would now like to turn the call over to Ms Jade Wei, Senior Manager of Investor Relations for Ctrip.com. Please proceed.

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### Jade Wei *Ctrip.com International Ltd - Senior IR Manager*

Thank you, Melanie.

Thank you for attending Ctrip's first quarter 2009 earnings call. Joining me on the call today, we have Mr. James Liang, Chairman of the Board, Mr. Min Fan, Chief Executive Officer and Ms Jane Sun, Chief Financial Officer.

We may, during this call, discuss our future outlook and 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 Ctrip's public filings with the Securities and Exchange Commission. Ctrip does not undertake any obligation to update any forward-looking statements except as required under applicable law.

Min, James and Jane will provide business updates, industry outlooks, and financial highlights for the first quarter of 2009, as well as outlook for the second quarter.

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

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### Min Fan *Ctrip.com International Ltd - CEO*

Thanks, Jade and thank you to everyone for joining us today on the call. I am very pleased to report a solid result delivered by our team in the first quarter of 2009. While the economic environment was challenging, we exceeded our guidance on both revenues and profits through



strong revenue growth and effective cost controls.

Our net revenue grew at 18% year-over-year in Q1. Operating income and net income grew at 23% year-over-year.

Travel is one of the most important growth engines to drive economic growth. The Chinese government made extraordinary efforts to promote the tourism and to bolster the economy.

The China National Tourism Administration and its regional bureaus launched the National Tourism and Leisure Plan this year to encourage the Chinese people to participate more in leisure travels.

Ctrip has been working with new key regions including Beijing, Hangzhou, Chengdu etc. to distribute travel coupons and tickets through our website and sales channels. These activities are very well received by our customers and the traffic at our website reached historic peaks during these events.

The year of 2009 is Ctrip's 10th year anniversary. We would like to take this opportunity to thank our customers and business partners for their support and trust in Ctrip. With their support, Ctrip has become one of the best known brands in the travel industry.

Our hotel supply network continues to expand at a rapid pace with approximate 8,300 hotels by the end of March 2009 compared to approximately 6,400 by the same period last year.

The number of hotels with guaranteed allotment rooms further increased and accounted for approximately 70% of the total supply.

By the first quarter of 2009, the number of total customer reached to 6.9m compared to 4.5m by the same period of last year.

As part of our efforts to bring the best values to our customers, we launched our campaign of Every Wednesday Promotions to promote our tour packages at deep discounts with good quality. This has generated tremendous increase and increasing demand of our overall package tour products.

We also implemented the [Excel] customer experience program this year targeted at elevating our customer experience to a higher level through more variety of products, better customer satisfactions, and more competitive prices.

Starting this year, we have upgraded our hotel reservation website and added more intelligent search functions for [scenic] results, hotel facilities, and the user's comments. This provides our customers with a more user friendly interface and we see an increase in online booking ratio for our hotel business after this new website launch.

In the first quarter of 2009, we have added Taiwan as one of our tour destinations. This is an opportunity for our package tour business and we are seeing very strong demands for mainland travelers to go to Taiwan.

We are working very closely with ezTravel, our business partner in Taiwan, to leverage their expertise to bring the best packages and services to our customers.

On May 7, 2009, we have entered a definitive agreement to acquire around 9.5% additional shares of Home Inns and reached 18.25% of its aggregate basic shares outstanding.

Overall, we are confident that our leadership has been strengthened during the tough times. We will continue to focus on our execution and work hard to live up to the expectations of our customers, partners and investors.

Now I will turn to James for industry outlook.

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**James Liang *Ctrip.com International Ltd - Chairman***

Thanks, Min.

I'm proud that our team has once again demonstrated its ability of strong execution and a financial discipline. Ctrip has built a competitive advantage in the extensive network, high service quality and advanced technology and a strong balance sheet. These strengths will enable Ctrip to outperform the market in a tough environment and to excel to the next level when the economy recovers.

In the short term, the global economy remains challenging and we are monitoring the impact of the recent swine flu to the travel industry very closely.

However, in the long run, China's economy is strongly propelled by the domestic spending, business travel is supported by increased business activity and leisure travel is boosted by a higher personal income. And we will capitalize on these opportunities ahead of us.

Now let me turn to Jane for an update on our financial performance.

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**Jane Sun *Ctrip.com International Ltd - CFO***

Thanks, James. I'm very pleased to report the solid results for the first quarter of 2009. Despite all the challenges from the economy, our net revenues were CNY401m or \$59m for the first quarter of 2009, up 18% year-on-year.

Hotel reservation revenues amounted to CNY187m or \$27m for the first quarter of 2009, representing a 9% increase from the same period in 2009 primarily driven by a 17% increase in hotel room reservation volumes which was partially offset by a decrease in commission per room.

Hotel reservation revenue represented an 11% decrease from the previous quarter, primarily due to the decrease of hotel booking volumes during the Chinese New Year holiday.

Air ticketing revenues for the first quarter of 2009 were CNY184m or \$27m representing a 16% increase from the same period in 2008, primarily driven by a 40% increase in air ticketing sales volumes which was partially offset by a decrease in commission per ticket.

Air ticketing revenue increased 11% from the previous quarter primarily due to the increased air ticketing volume.

Packaged tour revenues for the first quarter of 2009 were CNY38m or \$6m, up 41% from the same period in 2008 and 25% from the previous quarter primarily due to the increased leisure travel volume in the first quarter of 2009.

Gross margin was 78% in the first quarter of 2009, decreased from 80% in the same period last year and increased from 77% in the previous quarter.

Product development expenses for the first quarter of 2009 increased by 18% to CNY63m or \$9m from the same period in 2008 primarily due to the increased product development personnel resources. Product development expenses remained relatively consistent with the previous quarter.

Excluding share based compensation charges, product development expenses accounted for 14% of net revenues, increasing from 13% in the same period of last year and remaining consistent with the fourth quarter of 2008.

Sales and marketing expenses for the first quarter of 2009 increased by 7% to CNY71m or \$10m from the same period in 2008 primarily due to the increased sales and marketing activities and personnel resources. Sales and marketing expenses decreased 13% from the previous quarter primarily due to the decrease in advertisement and other sales and marketing activities.

Excluding share based compensation charges, sales and marketing expenses accounted for 17% of net revenues which was a decrease from

18% in the same period last year and 19% in the previous quarter.

General and administrative expenses for the first quarter of 2009 decreased by 3% to CNY41m or \$6m from the same period in 2008, primarily due to the decrease of share based compensation charges. General and administrative expenses remained relatively consistent with the previous quarter.

Excluding share based compensation charges, general and administrative expenses accounted for 6% of net revenues which was a decrease from 7% in the previous period last year and was relatively consistent with the previous quarter.

Income from operation for the first quarter of 2009 was CNY135m or \$20m which represented a 23% increase from the same period in 2008 and a 16% increase from the previous quarter.

Excluding share based compensation charges, income from operations was CNY162m or \$24m, representing a 13% increase from the same period in 2008 and a 9% increase from the previous quarter.

Operating margin was 34% in the first quarter of 2009, compared to 32% in the first quarter of 2008 and 30% in the previous quarter.

Excluding share based compensation charges, operating margin was 40% in the first quarter of 2009 compared to 42% in the first quarter of 2008 and 38% in the previous quarter.

Net income for the first quarter of 2009 was CNY121m or \$18m, representing a 23% increase from the same period in 2008 and remaining consistent with the previous quarter.

Excluding share based compensation charges, net income was CNY148m and \$22m representing a 12% increase from the same period in 2008 and a 4% decrease from the previous quarter.

The effective tax rate for the first quarter of 2009 decreased to 18% as compared to 28% in the same period of 2008 due to the application of the High and New Technology Enterprise preferential tax treatment to certain PRC subsidiaries.

The effective tax rate for the first quarter of 2009 increased from 2% in the previous quarter primarily due to the full year benefit upon initial application of high and new technology status in the fourth quarter of 2008.

Diluted earnings per ADS were CNY1.79 or \$0.26 for the first quarter of 2009. Excluding share based compensation charges, diluted earnings per ADS were CNY2.18 or \$0.32.

As of March 31, 2009, the balance of cash and short term investment was CNY1.4b or \$202m.

For the second quarter of 2009, Ctrip expects to continue the year-over-year revenue growth of approximately 10% to 15%.

With that, operator, we would like to open the line for questions.

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## QUESTIONS AND ANSWERS

### Operator

Yes, ma'am. (Operator Instructions).

And our first question comes from the line of Mike Olson with Piper Jaffray. Go ahead.

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**Mike Olson Piper Jaffray - Analyst**

Good morning, just a couple of quick questions.

Can you talk about what you're seeing in hotel and air pricing so far in Q2 and what's built into your guidance assumption along those lines for Q2?

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**Jane Sun Ctrip.com International Ltd - CFO**

Sure. The Q2 pricing remains fairly consistent from a quarter-over-quarter basis. From a year-over-year, basis, the price drop is still about 5% to 10% for hotels and 10% to 15% for air tickets.

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**Mike Olson Piper Jaffray - Analyst**

Okay. And what is typically the seasonal pattern for hotel and air pricing during Q2? Is pricing usually stronger or weaker in Q2 versus Q1?

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**Jane Sun Ctrip.com International Ltd - CFO**

Normally Q1 is the slowest season for the hotel business. As the weather is getting warmer, Q2 normally is better than Q1. This year there is some uncertainty because the global economic crisis has impacted every country. So we are monitoring the pricing very carefully.

So far, I think the pricing from the quarter-over-quarter basis has been fairly consistent.

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**Mike Olson Piper Jaffray - Analyst**

Okay, thanks very much.

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**Jane Sun Ctrip.com International Ltd - CFO**

Thank you, Mike.

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**Operator**

Our next question comes from the line of Richard Ji with Morgan Stanley. Go ahead.

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**Richard Ji Morgan Stanley - Analyst**

Hi, Min, James and Jane, good quarter. \

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**Jane Sun Ctrip.com International Ltd - CFO**

Thank you.

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**Richard Ji Morgan Stanley - Analyst**

Sure. I have two questions.

First starting with the commission rate trend and obviously, the volume growth for your air ticketing has been pretty strong and I'm just curious about the commission rate as of now. And do you see a further expansion of your commission rate going forward? And also for the commission for air ticket and as well as the hotel room, do you expect recovery in the second half this year?

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**Jane Sun Ctrip.com International Ltd - CFO**

Thanks, Richard.

First of all, for the hotel commission rate, it has been fairly stabilized at around 15%. So the drop in commission per room was primarily driven by the price.

On air ticket, the price drop is about 10% to 15%. The commission rate is still maintained within 4% to 5% on the overall ticket price, within



5% to 6% on the air ticket. It's probably trending at the lower end of the range rather than the middle range.

And going forward, I think so far, the commission rate has been stabilized based on our current visibility.

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**Min Fan Ctrip.com International Ltd - CEO**

And the swine flu happened.

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**Richard Ji Morgan Stanley - Analyst**

Sure, yes. Thanks, that's helpful.

My second question is regarding your packaged tour business. Obviously it is more anti-cyclical than business travel as evidenced by a very strong annual sales growth. And I was just wondering about the discount level you are currently offering to the customer and when do you expect to scale back that discount?

And also, what new products have you been developing and what is the (inaudible) going forward?

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**Min Fan Ctrip.com International Ltd - CEO**

Yes, for the packaged tour, although the business travel decreased because of the financial crisis, we still see quite a strong performance of our leisure products. I think this is one, because of the overall, the country, the government -- they provide quite some policies to promote domestic travel. And in the meantime, we have also provided quite some competitive package products among our customers.

And I think in the Q2, we can still see the leisure customer will still be increased with our sales efforts. And in terms of new products, we are working very hard with our partners to try to provide better hotel plus air flight products to our customers.

I think in the Q2, the leisure market will still be growing.

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**Richard Ji Morgan Stanley - Analyst**

Okay. Thanks.

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**Min Fan Ctrip.com International Ltd - CEO**

Thank you, Richard.

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**Operator**

Our next question comes from the line of Paul Keung with Oppenheimer. Go ahead.

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**Paul Keung Oppenheimer - Analyst**

Hi. My question is about the outlook for your business. You suggested that the leisure business is improving. The package tours and the business travel are still growing faster than your core business. So I was wondering in your guidance then is it -- where you expect to see possibly the business being slower than we saw the first quarter and where do you expect it to be faster? Just to sort of reconcile why the guidance is what it is.

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**Jane Sun Ctrip.com International Ltd - CFO**

We gave a very prudent guidance at around 10% to 15%. That implies probably the same price drop on a year-over-year basis. So for hotel, the price drop, we assume, is still 5% to 10% and volume growth is somewhere around a similar level as this quarter.

For air ticket, the price drop is around 10% to 15% and the volume growth is somewhere around 30% because the base for our air ticketing is growing bigger.



And for package tour, it is somewhere around 10% to 20% increase for the second quarter.

So if you aggregate everything together, that should give you around 10% to 15% year-over-year growth.

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**Paul Keung Oppenheimer - Analyst**

Got it. And the next question is on the marketing efficiency. Obviously, you've seen -- consistently you guys have been able to improve your marketing spend as a percent of revenues. And also as you measure on a volume basis, it looks like it generally has been improving.

Has there any change in the improvement of your -- how much of this business comes from repeat or is there any particular marketing channel that you have been very successful in improving the efficiency of?

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**Jane Sun Ctrip.com International Ltd - CFO**

The repeat customer remains around 80% of our revenue from repeat customers. So that has been very consistent. During the tough times, we control our cost very carefully and prudently. So every channel we put our money in has to generate -- maximize the return. So every team is tasked to maximize the investment return for their sales and marketing dollars. And so far, we have been very successful.

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**Operator**

Our next question comes from the line of Eddie Leung with Merrill Lynch. Go ahead.

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**Eddie Leung Merrill Lynch - Analyst**

Good morning, Jane, Min, James and Jade. I have a couple of questions.

The first one is could you guys comment on the competition between airlines? Especially have we seen a decline in deep discount tickets recently?

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**Min Fan Ctrip.com International Ltd - CEO**

In terms of the airline and -- I should say we are a very good supplementary sales channel for all the airlines in China and we have very good cooperation among all the airlines. And so I think that this trend is still very healthy.

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**Eddie Leung Merrill Lynch - Analyst**

And how about the deep discount tickets? Have we seen a decline in the number of deep discount tickets after the government implemented some deregulation of policies on discounts?

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**Min Fan Ctrip.com International Ltd - CEO**

I think the (inaudible) ticket price kind of 10% to 15% in Q1 compared to the same period of last year and also the fuel surcharge was removed by the government. So the fuel surcharge is about CNY100 in Q12008. So in total, you can see the customer can enjoy a 15% to 20% lower price than last year.

So I think the airline price decline mainly because of the -- from the airline company policies and from the government policies. So of course -- yes go ahead.

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**Eddie Leung Merrill Lynch - Analyst**

One final question is could you also share with us your views on hotel supplies going forward into the year? Are we going to see more five star or four star hotels or more economy chains or two star and three star hotels?

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**Min Fan Ctrip.com International Ltd - CEO**

Yes. Right now in the hotel market, because of last year's Olympic games, you can see there are more five stars emerged from the market as well as the budget hotel chain are growing very fast.

So you can see our partner hotels increase a lot from the 6,000 something last year, same time to now more than 8,000. So our total hotel



pool is growing very significantly and this gives us a very good position to work with our hotels and to provide more products to our customers.

I think for the hotel market, it is a very good sign because our customer will have more choices and also, more hotels, and we can get more allotment among those hotels. Then we can provide better service satisfaction for our customers.

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**Eddie Leung Merrill Lynch - Analyst**

So are we going to see the increase in partner hotels to be the same in the upcoming few quarters, meaning that we will see a positive trend on that front?

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**Min Fan Ctrip.com International Ltd - CEO**

Yes, I think if you see the hotels in Shanghai or around Shanghai, there would be -- still quite some hotels would be built because of the Expo next year. And around the Beijing area, I think the new hotels would not be so many as before because most of the hotels would be built before or around the Olympic Games.

So I think in the Eastern China area, we still can see quite some new hotels come in the coming years.

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**Eddie Leung Merrill Lynch - Analyst**

Got that. That's very helpful. Thanks,

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**James Liang Ctrip.com International Ltd - Chairman**

Thank you.

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**Jane Sun Ctrip.com International Ltd - CFO**

Thank you.

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**Operator**

Our next question comes from the line of Ming Zhao with SIG. Go ahead.

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**Ming Zhao Susquehanna Financial Group - Analyst**

Thanks for the call and good morning.

I have a question -- first question on the hotel volume. If we look at the hotel volume, in the first quarter, it was up by 17% versus fourth quarter 11%. It doesn't seem that macro environment is better in the first quarter. So why the hotel volume was better in Q1 than in Q4? That is my first question.

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**Min Fan Ctrip.com International Ltd - CEO**

Yes, for the hotel volume, I should say, with more hotels we cooperate and this will help to gain more volume. This is one reason and the secondly -- and we just said in the Q1, we do see the quite significant growth in the leisure market. So I think for this quarter, we did acquire quite some leisure customer. As you see the new customers in Q1 we gain a lot.

I think this also help to promote our hotel volume.

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**Ming Zhao Susquehanna Financial Group - Analyst**

That's good.

My second question is on the air ticketing volume. If we compare your ticket volume growth with the airline carriers' data, usually you outperform them by a very significant margin. If we compare the airline volume in the fourth quarter versus Q1, the year-over-year accelerated into Q1. But if we look at your air ticketing volume in Q4 versus Q1, you are at the same growth rate. So why didn't we see better growth in the air ticketing volume in the first quarter?

**Min Fan Ctrip.com International Ltd - CEO**

I think for the ticket volume, because most of our customers are business travelers and in the fourth quarter still the business travel is still impacted a lot. So that way, we did not acquire more -- did not get [big multiple] of the airline volume and also because of the economic situation the long haul travel decreased a lot.

So also, we think the business travel will be impacted a lot. So in the meantime, you can see the leisure travelers, the volume will be increased. So because our total major clients are business -- our air -- this volume generated most from our business travelers. So I think this is one of the reasons.

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**Ming Zhao Susquehanna Financial Group - Analyst**

Alright. That's very helpful. Thank you.

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**Jane Sun Ctrip.com International Ltd - CFO**

Thank you.

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**Operator**

Our next question comes from the line of Kathy Chen with Goldman Sachs. Go ahead.

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**Kathy Chen Goldman Sachs - Analyst**

Hi, thanks for the call.

I have two questions. First on the hotel side, can you talk a little more about the RevPAR trends that you saw in the first quarter as well as the [occupancy] trend and how that is trending so far in the second quarter.

And then the second question is on the airline side, given the better airline volumes that we're seeing, can you share with us if you think that you can continue to get some of the commission bonuses from the airlines that you have received in the past?

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**Jane Sun Ctrip.com International Ltd - CFO**

Sure. Hotel revenue PAR for the Q1 is about -- around 5% to 10% decrease if you compare this quarter versus last year and from a quarter-over-quarter basis, it is fairly stabilized at that level.

For air tickets, I think the volume is growing strongly. So far, the commission rate has been maintained at about 4% to 5% over the total ticket price and 5% to 6% over the air ticket volume and it has been very stabilized based on our current visibility.

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**Kathy Chen Goldman Sachs - Analyst**

Okay, thanks. If I can just add another follow up question to a previous question regarding your sales and marketing. It looks like there was a pretty big drop in the first quarter. How should we think about that trend going forward and is this a sustainable level? And then how does that flow through to the operating margin trends that we should see in the second quarter?

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**Jane Sun Ctrip.com International Ltd - CFO**

Sales and marketing, we normally maintain at somewhere between 17% to 20%. That's the normalized range. For Q1, it is a very slow season during the year. So normally, Q1, sales and marketing, we control it very tightly. But the normalized range should be somewhere between 17% to 20%.

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**Kathy Chen Goldman Sachs - Analyst**

Okay, thank you.

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**Operator**

Our next question comes from the line of Marisa Ho with Credit Suisse. Go ahead.



**Marisa Ho Credit Suisse - Analyst**

Yes, I have two quick follow up questions please.

The first one is Min just mentioned that during the first quarter, you saw a significant decrease in long haul travel because of the economy. So when we're looking at the airline ASP being down by 10% to 15% on the year-on-year basis, is it more a reflection of the mix shift from the long haul tickets towards the short haul tickets or is that more a reflection of the like-for-like reduction in airline prices?

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**Jane Sun Ctrip.com International Ltd - CFO**

When we get our average price, I think it actually reflect many things. First of all, it reflects the decrease in the long haul flights. Secondly, it also reflects the trend now from -- for example, fist class travelers to economy class. And thirdly, the airline also voluntarily cut their price.

So it is a mix of many factors. But definitely, the reduction in the long haul travel is one of the factors why the price dropped.

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**Marisa Ho Credit Suisse - Analyst**

Alright, thanks.

And you also mentioned you successfully launched some deeply discounted package tours and they were received very well by your customers. To what extent has that impacted your margins for the package tour business?

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**Min Fan Ctrip.com International Ltd - CEO**

I think, in fact, for the package business for the past two quarters, we did very well in the short haul packages. And also if you -- just to answer the question you asked about why we have more hotel room nights and maybe not so a big increase in the airline tickets, and we do see a trend that during the weekends, we gain more customers, later customers. So normally, they come from Shanghai to nearby cities. They normally would not take air flight so they would just drive there or they would take the trains there. So we can see the weekends normalized with the increase.

In terms of the margin, in fact, for those short to middle haul, the package margin is not lower. It is in our -- it meet our expectations. So it is no problem for us to get more short haul, the packages, yes.

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**Marisa Ho Credit Suisse - Analyst**

Would it be correct to say that your hotel partners probably will be more than happy to work with you and to that extent, they will be able to give you very good prices, so you are not necessarily absorbing the margin shock yourself?

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**Min Fan Ctrip.com International Ltd - CEO**

That is true, yes.

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**Marisa Ho Credit Suisse - Analyst**

That's great. Thank you very much.

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**Min Fan Ctrip.com International Ltd - CEO**

Thank you.

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**Operator**

Our next question comes from the line of James Lee with Sterne, Agee. Go ahead.

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**James Lee Sterne, Agee & Leach, Inc - Analyst**

Thanks for taking my question.

Can you guys talk about the World Expo 2010? How much traffic do you expect coming to Shanghai next year because of that event and basically, how are you positioned to benefit from this trend? Are you participating in any type of government run program to help you



accelerate the business activities? And maybe you can help us understand a little bit how different is that versus the Olympics of 2008, in your view? Thank you.

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**Min Fan Ctrip.com International Ltd - CEO**

Yes. I think the next year, the World Expo will be a very good opportunity for Ctrip and also for all the travel industry to gain more business.

According to the government expectations, or according to their projections, the total visitors would be around 70m people and time would be around 180 days, so nearly half year. So I should say this would be very positive for travel business because if you compare Expo with the Olympic Games, because the Olympic games is just one month, around one month. And they will get very strict traffic restrictions and also some kind of restriction. But for the Expo, the government will definitely try to get more and more visitors.

So I think we will definitely -- we will try our best to service our customers during this big event. And right now, we are working very closely with the government, with the organizations where we try to get the rights to sell the tickets for Expo and also developing the necessary package for the Expo. And also we work very hard to upgrade our English website. If you check our English website right now, it is more user friendly and more information for destination, for all the travel know how in China. So we definitely -- we anticipate we can get quite some new customers not only from the domestic market, as well -- also, we will get some more demand from abroad.

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**James Lee Sterne, Agee & Leach, Inc - Analyst**

Now, if I could ask a follow up question. You talked about the -- inbound versus domestic traffic. Can you care to guesstimate the impact of the World Expo inbound versus domestic. And I'll also ask a question here regarding the (inaudible) of substitution to economy chain. maybe Jane you can answer that. How much are you taking that into your guidance in the second quarter? Thank you.

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**Jane Sun Ctrip.com International Ltd - CFO**

So the first question is inbound travelers. Inbound it's going to be depending on a couple of factors. First of all, I think how attractive I think the World Expo is for the foreign visitors. Based on the normalized projection, the foreign visitors and the business people should show some interest at coming to China, but it is very hard for us to see really how many there will be coming. And also, it's going to depend on the worldwide economy.

For this year, I think the inbound travelers definitely decreased quite significantly because particularly, for the visitors from US and Europe, the economic crisis has impacted their travel budget.

So whether or not the economy will rebound next year will impact the volume from outbound to inbound. But we would like to take advantage of this event to attract as much as possible, the inbound volume and hopefully, they will become Ctrip users also. So that is the first thing.

Your second question is the economy chain hotel, how are they going to support the events. Is that right, James?

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**James Lee Sterne, Agee & Leach, Inc - Analyst**

I was referring to the second quarter guidance. Clearly, you were probably seeing some substitution into economy chains and therefore that may lower your per room rate based on the commission that you generate.

I was wondering if you were taking any of that into your guidance in the second quarter or how are you doing it?

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**Jane Sun Ctrip.com International Ltd - CFO**

Sure. I think the economy chain hotel definitely grows very fast because it provides good value for the travelers. However, in terms of the revenue contribution, it is much less than 10%. So it's not significantly impact our revenue mix.

But the impact is [taken] in our guidance but the impact is not too significant.

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**James Lee Sterne, Agee & Leach, Inc - Analyst**

Thank you so much.

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**Jane Sun Ctrip.com International Ltd - CFO**

Thank you, James.

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**Operator**

Our next question comes from the line of Ashish Thadhani with Gilford Securities. Go ahead.

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**Ashish Thadhani Gilford Securities - Analyst**

Good morning, nice quarter.

In the past, you have emphasized that a vast majority of your hotel reservation revenue is derived from bookings at three to five star hotels where the commission per room is the highest and room nights have grown very nicely in recent years.

My question has to do with the Home Inns investment. I think it's -- cumulative now, it is about \$90m. That investment in the economy segment, is it at odds with the stated positioning of the past?

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**Jane Sun Ctrip.com International Ltd - CFO**

In the past, I think before the economy chain hotel gets too much momentum, I think if we just cover three star hotel and above, we should be able to satisfy our customer's needs very well. But recently, I think the economy chain hotel has grown very fast. And when we listen to our customer's demand, we can see that the economy hotel provides very good value for the customer and our product mix should follow the customer demand.

If we ignore that part of the demand, the customer service level will be decreased. So that is the reason why we have expanded our product coverage to not only cover three star and above but also cover economy chain hotels and two star hotels when we enter into the third tier cities and second tier cities.

That is a very important strategic move for us.

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**Ashish Thadhani Gilford Securities - Analyst**

So in the next several years, where will that split stabilize between three to five star and economy chains long term?

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**Jane Sun Ctrip.com International Ltd - CFO**

Right now, I think the revenue -- the majority of the revenue is to our three star and above. Economy chain hotel still is below 10%.

Going forward, we will monitor it very carefully. It is hard to see where it will be in three or five years from now. But based on the trend, I think that both sides will grow very fast and we will work hard to try to capitalize the growth on both sides.

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**Ashish Thadhani Gilford Securities - Analyst**

Okay, thank you.

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**Jane Sun Ctrip.com International Ltd - CFO**

Thanks, Ashish.

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**Operator**

Our next question comes from the line of Elinor Leung with CLSA. Go ahead.

**Elinor Leung CLSA - Analyst**

Hi, thank you for the call and I have two questions.

The first question is regarding the Q2 guidance. The guidance is better than expected. So do you expect -- do you support it by the leisure travel or do you see an increase from the business activity or business travel that is going to give you better growth for Q2?

The second question is regarding your investment in your Home Inns. You increased your stake in Home Inns. What is the revenue or earnings contribution from Home Inns right now? And how do you feel what will be a quite meaningful revenue or earnings from the investment?

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**Jane Sun Ctrip.com International Ltd - CFO**

The guidance of 5% to 10% has contemplated a couple of factors. First of all, it is the normal seasonality. When the weather is warmer, the normal seasonality is that the Q2 is a little better than Q1.

It also has taken into consideration of the current uncertainty in the economy because the worldwide economy still presents some uncertainty. So that has been taken into consideration also.

And certainly, we also have been monitoring the swine flu impact because we do not know how that is going to impact our business. So our guidance is a prudent guidance to take into consideration of the possible increase during the Q2 and also possible impact from the negative factors such as swine flu and also the worldwide economy.

Your question secondly on the Home Inns right now, we are at 18%. So we are going to use the equity method to pick up 18% of their net income into our P&L.

If you look at their last quarter's P&L, it is very insignificant and their net income is less than CNY1m. So if you pick up 18%, it is only about CNY188,000 to our P&L. So we do not expect it is going to materially impact our income statements.

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**Elinor Leung CLSA - Analyst**

Thank you.

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**Jane Sun Ctrip.com International Ltd - CFO**

Thanks.

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**Operator**

Our next question comes from the line of Candy Huang with Nomura. Go ahead.

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**Candy Huang Nomura - Analyst**

Hi, Jane. A couple of questions.

First about your tax rate. What do you expect the effective tax rate will be in the second quarter and for the rest of the year?

And second about commission rates from the airline companies. It seems like that this quarter the growth, the overall airline ticket growth is much better than fourth quarter last year. But it seems that the commission rate has continued on the low end of the range. So it looks like (inaudible). What's your expectation for the commission rate for the rest of the year? Do you still expect it in the low end of the range?

And third, about your investment in Home Inns. What will you really do to maximize the synergies with Home Inns for the next two or three years. Thank you.

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**Jane Sun *Ctrip.com International Ltd - CFO***

Thanks.

First of all, the tax rate for Q2 is around 15% to 17% excluding share based compensation and around 18% to 20% if you include the share based compensation.

On the air ticket, the volume growth for the industry for Q1 was strong, but the price decreased quite significantly, anywhere between 10% to 15%. So that is the reason why per ticket, the rates dropped.

And on the commission rates, so far our commission rate still maintained at the normalized level which is 4% to 5% on overall ticket and 5% to 6% on the air ticket.

That range is stabilized. It is geared towards the lower end of the range. So far, I think that range should be fairly stabilized based on our current visibility.

For Home Inns investment, I think first of all, for Q1, we only had less than 10% shares. So for Q1, it is a cost accounting method. For Q2, it is equity method. We are going to pick up 18% of their bottom line but I think their bottom line is very small. We do not expect it is going to materially impact our P&L either. And in the near future, we do not have any plan to consolidate Home Inns.

In a strategic value, I think mainly, we are going to try to increase efficiency through seamless cooperation with them. So that helps, I guess, your question.

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**Candy Huang *Nomura - Analyst***

Thank you.

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**Jane Sun *Ctrip.com International Ltd - CFO***

Thanks.

**Operator**

Our next question comes from the line of Chris Zee with BNP. Go ahead.

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**Chris Zee *BNP Paribas - Analyst***

Hi, good morning. It's Chris on the line here. Congratulations on this very strong set of results. I have some follow up question.

First of all, in the opening remarks, it was mentioned or highlighted that part of the revenue growth excitement was boosted because of the government led policies giving out the travel coupons.

So on this, what do you reckon is the leisure versus the business travel mix both for the hotel as well as for the air ticketing side? That's just the first part of my question.

The second part of my question also related to that is that for the 10% to 15% growth guidance for second Q, how much do you reckon would also be coming from leisure. And then I have a follow up question on the cost side.

Thanks.

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**Min Fan *Ctrip.com International Ltd - CEO***

Okay, regarding your first question, I think in the Q1, we do get quite positive feedback from our customers because Ctrip is working with the different governments -- different city governments to promote the travel coupon and travel tickets. For example, we worked together with the Hangzhou Tourism Bureau to distribute those tickets among our customers. And more and more leisure customers will be attracted



and they will book Ctrip hotels to stay in Hangzhou and nearby cities to enjoy their weekends or enjoy their holidays.

And also, because in June, there is the golden holiday in China and there are -- more and more leisure customer will book for products by Ctrip.

So in this Q1, we do see the quite significant (inaudible) at least in terms of the leisure market.

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**Chris Zee BNP Paribas - Analyst**

Okay. And how is the traction on the Taiwan segment so far? Obviously, the cross-strait relations has improved. Are you seeing more traction for bookings to Taiwan?

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**Min Fan Ctrip.com International Ltd - CEO**

I think with Taiwan, because right now, Taiwan, just we lifted the travel restriction just late last year and the [chance] is there and the demand is very huge.

But still I think this part of the business will be a step by step process because of the flight capacity and because of the -- you may know right now, the price is still not so cheap.

So of course, they are already decreased a lot compared with the indirect flight. But still, the price is at the middle to high end. So we can see the changes there and we anticipate the volume will be increasing very steadily in the years to come.

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**Chris Zee BNP Paribas - Analyst**

Just one final question. On the cost side, should we expect in the second Q and going forward, the sales and marketing expenses as well as the SG&A to increase at a slower pace compared to revenue? And what should we think about for the product development expense? Should we think about that expense line to grow in line with the revenue?

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**Jane Sun Ctrip.com International Ltd - CFO**

I think we normally control our cost very prudently. For product development, the normalized range is somewhere between 14% to 16%, 17% -- 14%, 15% probably at the current range is stabilized.

Sales and marketing, we have already discussed anywhere between 17% to 20% is the normalized range. G&A, 7% to 8% is the normalized range.

We are hoping that we can grow our top line and we can control our costs at least in line with revenue growth, not to let the cost to outpace the revenue growth.

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**Chris Zee BNP Paribas - Analyst**

Okay, thank you.

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**Jane Sun Ctrip.com International Ltd - CFO**

Thank you very much.

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**Operator**

Our next question comes from the Martin Ji with ClearBridge Advisors. Go ahead.

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**Martin Ji ClearBridge Advisors - Analyst**

Hi there. Thank you for taking my question.

My question is on Home Inns investments. I just wonder if you can help us better understand the rationales. Is this the sort of an experiment for lack of a better word, for you guys to try to backward integrate into your suppliers? Or do you think longer term, the lower budget hotel



segment is better than the higher budget and so that's why you want to get into Home Inns?

What are the rationales for the investment?

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**Min Fan Ctrip.com International Ltd - CEO**

I think that with some space in Home Inns for Ctrip, we can better improve our efficiencies through seamless cooperation with Home Inns and also, we can obtain more allotment and get more service satisfaction from our customers.

As you may know that in China, the budget hotel chain are growing very fast. I think maybe Home Inns can be one of the -- will be one of the largest hotel chain in China. If you guess which hotel chain will exceed (inaudible) hotels, I think probably Home Inns in five years or seven years will lead this still.

So for Ctrip, we work closely with Home Inns and I think it will be better, to improve our customer service level and to increase our efficiencies and to decrease the cost among -- between -- among the corporations.

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**Martin Ji ClearBridge Advisors - Analyst**

So it sounds like it is more of getting into that attractive market segment versus trying to integrate a supplier. Is that right?

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**Min Fan Ctrip.com International Ltd - CEO**

Yes,

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**Martin Ji ClearBridge Advisors - Analyst**

Okay, thank you.

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**Min Fan Ctrip.com International Ltd - CEO**

Thank you.

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**Operator**

And ladies and gentlemen, our final question comes from the line of Paul Keung with Oppenheimer.

Go ahead.

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**Paul Keung Oppenheimer - Analyst**

I think this has been asked but I think it's the other one. One of the themes today is obviously the strength of leisure travel and weekend travel, I was wondering if you see any difference in behavior in terms of how those customers are booking?

In other words, historically in terms of how your bookings are done online (inaudible) a call center, has that percentage changed? Are you finding that more and more customers are trying to book online independently, self-booking?

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**Min Fan Ctrip.com International Ltd - CEO**

Yes, we do see the different booking behaviors among our business travelers, major travelers. And for our leisure travelers -- for our leisure customers, they are more tending to book online. For leisure product booking mix, we have more than 60% customers they will book online versus more than 30% business travelers who will book online.

So in that way, I think we can attract our customer in that position because with our -- the better well known travel website in China, Ctrip enjoys the very complete travel information. So this will help our customer to surf online and also they will intend to book online. And we hope, when the scale increase, we will try to decrease our costs in the [past year] business line. And I think in the years to come, if we can see the 3G and those new technology will be more mature, we will see the online booking ratio of leisure products will still be increased.

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**Paul Keung Oppenheimer - Analyst**

Okay. And how fast did your web traffic grow this quarter and how fast did your views grow -- in terms of customer views growth this quarter?

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**Min Fan Ctrip.com International Ltd - CEO**

In the traffic, page view traffic?

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**Paul Keung Oppenheimer - Analyst**

Yes, page view traffic. And also, were you able to get -- with your customers were you adding more users this quarter? You said that they were growing quite quickly -- much faster than your overall (inaudible).

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**Min Fan Ctrip.com International Ltd - CEO**

In Q1, our page view, year-on-year increased very significantly. And as you know we talked with different tourism bureaus, each of our page view peak is historic higher among certain days.

So we do see with our very comprehensive contents that page view is -- page view volume is increasing very significantly.

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**Paul Keung Oppenheimer - Analyst**

Great, okay. Thank you.

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**Min Fan Ctrip.com International Ltd - CEO**

Thank you.

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**Operator**

Ladies and gentlemen, that does conclude the time that we have available for question and answers, does management have any closing remarks?

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**Jane Sun Ctrip.com International Ltd - CFO**

Thanks for everyone for attending this conference call and we will see you next quarter.

Thank you very much.

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**Min Fan Ctrip.com International Ltd - CEO**

Thank you.

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**Jane Sun Ctrip.com International Ltd - CFO**

Bye-bye.

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**Operator**

Ladies and gentlemen, thank you for your participation in today's conference. That does conclude the presentation, you may disconnect. Have a wonderful rest of the day.

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