

# FINAL TRANSCRIPT

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**CTRP - Q4 2008 Ctrip.com International, Ltd. Earnings Conference Call**

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## CORPORATE PARTICIPANTS

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**Min Fan**

*Ctrip.com International, Ltd. - CEO*

**James Liang**

*Ctrip.com International, Ltd. - Chairman*

**Jane Sun**

*Ctrip.com International, Ltd. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Mike Olson**

*Piper Jaffray - Analyst*

**Richard Ji**

*Morgan Stanley - Analyst*

**Catherine Leung**

*Citigroup - Analyst*

**Eddie Leung**

*Bank of America, Merrill Lynch - Analyst*

**Wendy Huang**

*Royal Bank of Scotland - Analyst*

**Cathy Chen**

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*Credit Suisse - Analyst*

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## PRESENTATION

**Operator**

Good day ladies and gentlemen and welcome to the Q4 2008 Ctrip.com International earnings conference call. My name is Keesha and I will be your operator for today. (Operator Instructions). As a reminder, this call is being recorded for replay purposes.

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I would now like to turn the call over to Ms. Jade Wei, Senior IR Manager. Please proceed, ma'am.

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

Thank you. Thanks everybody for attending Ctrip's fourth quarter 2008 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 provision 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 outlook and financial highlights for the fourth quarter of 2008 as well as outlook for 2009. 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.

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

Thanks, Jade. Welcome everybody and thanks for joining our conference. Today we will talk about our results in Q4 and for the whole year and then outline our key views for the coming year.

I'm glad to report a solid result achieved by Ctrip team. In Q4 2008, travel industry faced many challenges. Airlines reduced their ticket price to attract the travelers and hotels suffered low occupancy rates. Despite the challenges from the industry, our team achieved a healthy revenue growth rate at 11% year-over-year through our efforts in customer service and focus on execution.

Our Air-ticket volume grew at 41% year-over-year, which outpaced the industry's growth rate of 8% significantly. Our Hotel room nights grew at 11% year-over-year, despite a slow industry growth. Packaged-tour delivered a very good result during October Golden Week and New Year holidays and achieved a 38% revenue growth year-over-year in Q4.

For the full year 2008, our net line of revenues grew 24% over 2007, with Hotel business growth 13% year-over-year. Air-ticketing business grew 31% year-over-year and Packaged-tour business grew 53% year-over-year. We are very proud that our business grew at a much faster pace than the industry growth rate and our market share has been expanded significantly.

In the year of 2008, we have further expanded our hotel network to include about 7,700 hotels in China, compared to approximately 6,000 in 2007. We also strengthened relationships with hotels, with more than 60% of our hotels working with us under the guaranteed allotment agreement by the end of 2008. From customer acquisition front, we accelerated gaining customers through all channels. The total number of accumulative active customers grew to 6.2m by the end of 2008.

Ctrip's technology strengths enable us to operate a very scaleable business and offer highly-efficient customer services. We continued our investment to elevate our technology platform in 2008. We launched our [niche] website, destination website, hotel website, corporate travel website, among other upgrades, to provide our customers a friendly and smooth experience with comprehensive information and tools. Our website is ranked as the number one great website for travelers in China.

The percentage of online transactions has been increased to approximately one-third of the total volume. We also broadened the payment alternatives in 2008, including international credit cards, PayPal, [AddedPay] and the cell phone bonded payment. These payment methods provide our customers easier transactions with safety guaranteed.

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Recently, we published our very first Ctrip corporate citizen report. Ctrip has always endeavored to create both economic and social values. Being a responsible corporate citizen, we strive to provide better opportunities to our associates, protect the environment and support the community. For the past years, we have contributed Sunshine Scholarship for college students, build Hope Schools for element students and establish Ctrip Green Reward and the Ctrip Carbon Offset program with leading international partners. We believe these efforts will create a sustainable value for shareholders in the long term.

2008 was a challenging year in our history. I'm very proud that our team did a very good job strengthening our leadership in this tough market. Our relentless efforts of serving customers, serving the travel industry and serving the community, helping pay back with great brand recognition. Premier Wen Jiabao and Premier -- Vice Premier Li Keqiang visited our headquarters consecutively, within six months, praising Ctrip's leadership as innovative service provider in the industry.

For 2009, we are prudently planning for a tough year, given the global economic environment, but we intensively focus on bringing best value to our customers by exceeding customers' expectation across all our business lines. We believe our customer -- we believe our Company is well-positioned and our team is determined to perform in this tough environment.

Now I will turn to James for industry outlook.

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

Thanks Min. Although the economy is in a most difficult situation and the travel industry in China is inevitably impacted, as a strong industry leader, we feel the challenges ahead in the coming quarters and we perceive these challenges as more of an opportunities for Ctrip and for us. With sufficient cash and a strong balance sheet, we will be able to expand our existing business prudently. We are confident that when the financial crisis is over, Ctrip will emerge stronger with more success.

From a long-term perspective, China will remain to be a fast-growing country in the world. Premier Wen Jiabao just issued an insightful speech in 2009 about our China economy and a government that is taking swift and comprehensive measures to cope with the short-term challenges and boost the economy in the long run. Ctrip team will continue to work hard to capitalize these opportunities ahead of us.

Now let me turn to Jane for the financial update.

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

Thanks James. I'm glad to report the solid results for the fourth quarter and for the full year of 2008. Our net revenues reached CNY396m or \$58m in the fourth quarter of 2008, up 11% year-over-year. For the full year of 2008, our net revenues were CNY1.5b or \$217m in 2008, up 24% from 2007.

Hotel reservation revenues amounted to CNY211m or \$31m for the fourth quarter of 2008, representing a 7% increase from the same period in 2007, driven by a 11% increase in hotel room nights, which was partially offset by a decrease in the commission per room. Hotel reservation revenues represented a 13% increase from the previous quarter, primarily due to increased hotel booking volumes. For the full year ended December 31, 2008, Hotel reservation revenues were CNY764m or \$112m, a 13% increase from 2007. The Hotel reservation revenues accounted for 48% of the total revenues in 2008, compared to 53% in 2007.

Air-ticketing booking volumes for the fourth quarter of 2008 were CNY166m or \$24m, representing a 7% increase from the same period in 2007, driven by a 41% increase in air-ticketing volume, which was partially offset by a decrease in commission per ticket. Air-ticketing for the fourth quarter of 2008 remained relatively the same as the previous quarter. For the full year ended December 31, 2008, Air-ticketing booking revenue were CNY659m or \$97m, a 31% increase from 2007. The Air-ticketing booking revenues accounted for 42% of the total revenues in 2008, compared to 39% in 2007.

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Packaged-tour revenues for the fourth quarter of 2008 were CNY30m or \$4m, up 38% from the same period in 2007 or 7% from the previous quarter, primarily due to the increase of travel demand in the fourth quarter of 2008. For the full year ended December 31, 2008, Packaged-tour revenues were CNY109m or \$16m, a 53% increase from 2007. The Packaged-tour revenues accounted for 7% of the total revenues in 2008, compared to 6% in 2007.

Gross margin was 77% in the fourth quarter of 2008, compared to 81% for the same period in 2007 or 77% for the previous quarter. For the full year ended December 31, 2008, gross margin was 78%, compared to 80% in 2007.

Product development expenses for the fourth quarter of 2008 increased by 19% to CNY64m or \$9m from the same period in 2007, and increased by 5% compared to the previous quarter, primarily due to the increase of product development personnel resources and the share-based compensation charges. Excluding share-based compensation charges, product development expenses accounted for 14% of the net revenue, increased slightly from 13% in the same period last year and remained consistent with the previous quarter.

For the full year ended December 31, 2008, product development expenses were CNY236m or \$35m, increased by 33% from 2007. Excluding share-based compensation charges, product development expenses accounted for 14% of the net revenues and increased slightly from 13% in 2007.

Sales and marketing expenses for the fourth quarter of 2008 increased by 12% to CNY81m or \$12m from the same period in 2007 and 15% from the previous quarter, primarily due to the increase of marketing-related activities. Excluding share-based compensation charges, sales and marketing expenses accounted for 19% of the net revenues, remained relatively consistent with the same period last year and increased slightly from 18% in the previous quarter.

For the full year ended December 31, 2008, sales and marketing expenses were CNY287m or \$42m, increased by 18% from 2007. Excluding share-based compensation charges, sales and marketing expenses accounted for 18% of the net revenues and decreased from 19% in 2007.

General and administrative expenses for the fourth quarter of 2008 increased by 13% to CNY41m or \$6m from the same period in 2007, primarily due to the increase of personnel resources and share-based compensation charges. General and administrative expenses decreased by 8% from the previous quarter. Excluding share-based compensation charges, general and administrative expenses accounted for 6% of the net revenues, and decreased from 7% in the same period last year and from the previous quarter.

For the full year ended December 31, 2008, general and administrative expenses were CNY172m or \$25m, a 24% increase from 2007, primarily due to the increase of personnel resources and share-based compensation charges. Excluding share-based compensation charges, general and administrative expenses accounted for 6% of net revenues and decreased from 7% in 2007.

Income from operations for the fourth quarter of 2008 was CNY117m or \$17m, decreased 8% from the same period last year and increased 10% from the previous quarter. Excluding share-based compensation charges, income from operations were CNY149m or \$22m, remained relatively consistent with the same period in 2007 and increased 8% from the previous quarter.

For the full year ended December 31, 2008, income from operations was CNY461m or \$68m, increased 14% from 2007. Excluding share-based compensation charges, income from operations was CNY590m or \$86m, increased 20% from 2007.

Operating margin was 30% in the fourth quarter of 2008 compared to 36% in the fourth quarter of 2007 and 29% in the previous quarter. Excluding share-based compensation charges, operating margin was 38% compared to 42% in the fourth quarter of 2007 and 37% in the previous quarter. For the full year ended December 31, 2008, operating margin was 31%, compared to 34% in 2007. Excluding share-based compensation charges, operating margin was 40%, compared to 41% in 2007.

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Net income for the fourth quarter of 2008 was CNY121m or \$18m, representing a 10% decrease from the same period in 2007 and a 16% increase from the previous quarter. Excluding share-based compensation charges, net income was CNY154m or \$23m, representing a 2% decrease from the same period in 2007 and a 13% increase from the previous quarter. For the full year ended December 31, 2008 net revenue -- or net income was CNY444m or \$65m, representing a 11% increase from 2007. Excluding share-based compensation charges, net income was CNY573 or \$84m, representing an 18% increase from 2007.

The effective tax rate for the fourth quarter of 2008 was 2%, decreased from 7% in the same period of 2007 and 17% in the previous quarter, primarily because certain qualified PRC subsidiaries of Ctrip obtained approval for the High and the New Technology Enterprise status in the fourth quarter. The applicable tax rate for the High and the New Technology Enterprise is 15% as compared to the general statutory tax rate of 25%. This preferential tax status is effective retroactively as of January 1, 2008. Before the High and the New Technology Enterprise status was obtained, the PRC subsidiaries of Ctrip applied the general statutory tax rate for the previous quarter in 2008. Effective tax rate for the full year ended December 31, 2008 was 19%, compared to 13% in 2007, primarily due to change of preferential tax treatment under the new PRC enterprise income tax law, effective on January 1, 2008.

The diluted earnings per ADS were CNY1.78 or \$0.26 for the fourth quarter of 2008. Excluding share-based compensation charges, the diluted earnings per ADS were CNY2.26 or \$0.33. For the full year ended December 31, 2008, the diluted earnings per ADS were CNY6.45 or \$0.95. Excluding share-based compensation charges, the diluted earnings per ADS were CNY8.32 or \$1.22, compared to CNY7.11 or \$0.97 in 2007.

As of December 31, 2008, the balance of cash and short-term investments were CNY1.3b or \$184m.

For the first quarter of 2009, the Company expects to continue the year-on-year net revenue growth at a rate of approximately 5% to 10%.

With that, Operator, please open the line for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Our first question comes from the line of Mike Olson with Piper Jaffray. Please proceed.

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**Mike Olson** - Piper Jaffray - Analyst

Thank you. Good morning.

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

Good morning.

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**Mike Olson** - Piper Jaffray - Analyst

Wondering on gross margin, it came down from 81% last Q4, as you said, down to 77%. Why is gross margin coming down? Is it a mix shift thing or something else?

And what should we expect for gross margin over the next few quarters?

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

Sure. The gross margin reflects mainly for the revenue mix. As Hotel business contributes less to the revenue pool, Air-ticket revenue contributes more to the overall total revenue. And therefore the gross margin will reflect the mix of the revenue as Air-ticketing gross margin is lower than the Hotel gross margin. So that's the first reason. The second reason is also because of the price of the Air-ticketing has dropped significantly, that will impact the gross margin directly.

Going forward, we probably expect the gross margin to be somewhere around 75% to 77%, which is fairly consistent with last two quarters.

**Mike Olson** - *Piper Jaffray - Analyst*

Okay, thanks. And then it seems -- you mentioned the pricing there. It seems that both Air and Hotel volumes were better than revenue growth and were held back, maybe due to lower pricing. What are the assumptions that you've made for Air and ticketing pricing trends in your Q1 guidance?

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

Sure. For the pricing, since we only have seen one month in the quarter, we can't share our view on the pricing with you. For the Air-ticketing, so far we have seen around 10% to 15% drop in the Air-ticketing price. For the Hotel, there is no national-wide index, but in Q4 we have seen a price drop anywhere from 4% to 5%.

**Mike Olson** - *Piper Jaffray - Analyst*

Okay. And then one last question on the tax rate, as you mentioned, in Q4 it was lower than we expected and you talked about the more favorable tax status. Will that favorable tax status continue to be in place through the remainder of '09?

And just in general, what should we expect for full year tax rate in '09?

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

Okay. For the full year '09, excluding share-based compensation charges, the tax rate should be in the range of 15% to 17%. If you include share-based compensation charges, the tax rate should be somewhere between 20% to 22%.

**Mike Olson** - *Piper Jaffray - Analyst*

Okay. Thank you very much.

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

Your next question comes from the line of Richard Ji with Morgan Stanley. Please proceed.

**Richard Ji** - *Morgan Stanley - Analyst*

Hi, Min, James and Jane. Good morning.

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

Good morning.

**Richard Ji** - *Morgan Stanley - Analyst*

Morning, yes. Obviously we are very much interested in the outlook for 2009 and can you elaborate a little more on the Hotel booking volume trend you're seeing thus far in 2009?

And also, you can -- if you can provide us with some breakdown between the tier 1 and the tier 2 market -- tier 2 cities.

And secondly, on the cost saving initiative, your Company has been really good in history in terms of containing costs. And can you shed a little more color on what kind of cost-saving measure you have been implemented thus far? Thank you.

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

Sure. For the volume growth, I think for Q1, it's relatively -- every Q1 is the slowest season during the year. And this Q1 particularly, from a year-over-year comparison perspective, is even harder because last Q1 or Q2 in 2008, we had two very strong quarters, but now the whole world is suffering from the financial crisis. So 2009 for everyone is going to be a challenging year. Therefore, from a year-over-year comparison perspective, the first two quarters represents many challenges as -- for many -- as a Company.

From a volume perspective, I think Q1 volume relatively is slower than the summer season because it's the winter season. And from a marketing perspective, I think from what we have seen, the hotels are really suffering from low occupancy rate so far. So that's what we have seen so far in the market.

Regarding the tier 1 versus tier 2 composition, right now tier 1 represents about 45% of the total Hotel revenue. Tier 2 is the rest -- tier 2, tier 3 is the rest. From a volume growth perspective, tier 2 grows faster than the tier 1 volume.

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

Regarding the cost, I think still we will keep very tight monitoring on our cost structure. And also for this Q1, we'll still freeze our personnel hiring and to decrease our costs. And also, we will monitor our sales and marketing channels to be more efficient and try to be lower cost.

**Richard Ji** - *Morgan Stanley - Analyst*

Thank you, and I have one last question regarding your 2009 guidance. And you guided for only 5% to 10% net revenue growth for this year and obviously it looks quite conservative. And historically, we know that your Company has been quite prudent in providing guidance and yet you have been consistently growing faster, anyway between three to five times faster than the industry through this year. And so far, should we expect -- do you expect in your Company to outpace the industry growth? And if you can elaborate a little more on that, that would be superbly helpful.

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

Sure. The guidance of 5% to 10% is based on our current visibility of the market. We provide this guidance based on a couple of factors. First of all, as we discussed before, Q1, Q2 are very challenging for the whole travel industry and we are comparing

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two weak quarters to relatively -- to very strong quarters in 2008. So that's the first reason. The second reason is the visibility is still limited because our customer most often start to book within the last week of their travel schedule. So the visibility is limited.

And certainly, I think the price for Air-ticketing -- tickets still has not rebounded yet. We still have seen 10% to 15% decrease in pricing. And hotel occupancy rate is very low in Q1. So with all that, we give a guidance of 5% to 10% increase year-over-year.

Now talking about outpace the industry growth, we -- all our revenue is driven by three factors. The first one is the volume. The second one is average price for tickets and average price for hotel rooms. The third one is commission rate.

Now the first element, volume, we have confidence that based on our strong execution, we will be able to outpace the market by delivering very high customer service level and expand into the market and outpace the market growth. So from a volume perspective, we're confident we will be higher than the market average rate.

The second element is the pricing. Unfortunately, the pricing, we do not have final control on these. So we will work very hard with the airlines, with the hotels to give feedback from the market to our suppliers. And hopefully everyone will stay rational in the tough market.

The third one is commission rate. So far, commission rate has been holding within the normalized range. So these are the three elements we monitor very carefully.

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**Richard Ji** - Morgan Stanley - Analyst

Okay, thank you very much.

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

Thank you.

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**Operator**

Your next question comes from the line of Catherine Leung with Citi. Please proceed.

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**Catherine Leung** - Citigroup - Analyst

Hi. Good morning.

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

Good morning.

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**Catherine Leung** - Citigroup - Analyst

I have two questions. Hi, Jane. Firstly, could you share with us, please, any color on your budgeting process for 2009 and how important it is to preserve operating margin, considering the Company is still investing in growth?

So related to that, which are the main levers that the Company may consider adjusting if the revenue growth were to continue to slow more than expected, say, in the second half of '09?

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And secondly, could you please update us on Ctrip's market share? What is your estimate of the Company's current market share in the hotel and air-ticketing markets?

And to what degree has the Company been able to accelerate market share gains? And are you continuing to see smaller travel agencies closing down? Thank you.

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

Thanks. For the cost control measures, I think our Company is always very prudent in controlling the costs. Every dollar we spend in a channel has to be carefully measured in terms of investment to return. So, so far, I think the majority of our costs are headcount-related. What we have done is to freeze the headcount. Therefore, any headcount-related cost is -- will be under control, such as salary, benefits, travel, all the headcount-related cost is under control.

Secondly, all the discretionary spending is being reviewed very carefully. Our philosophy is, if we have to spend \$1, let's spend it very prudently. And if we do not have to spend \$1, let's cut it. So in this environment, the discipline for the team becomes even more important. So we are looking into every corner in the Company to have a route -- course for cost-cutting and we will implement it very tightly.

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

Regarding the market share, I think for the past year Ctrip is still gaining more market share from the existing market from other players and I think the general competition landscape has not changed a lot. Also from the third party research, Ctrip still has a dominating online travel market share as per their statistics and in fact the gap between Ctrip and our competitors has been extended further. And so I think for the competition landscape-wise, our leadership of over 80% market share is enhanced and we don't feel any big change so far.

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**Catherine Leung** - *Citigroup - Analyst*

Okay, thank you.

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

Thank you.

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**Operator**

Your next question comes from the line of Eddie Leung with Bank of America, Merrill Lynch. Please proceed.

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

Hi, good morning everyone. I have a couple of questions regarding the balance sheet and the cash flow statements. The first one is could you elaborate more on the use of cash in the fourth quarter? We saw some of the cash could be used up for Home Inn investments and what else? Thanks.

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

The major usage of the cash is in Home Inn shares purchase and some of them also is used for the PP&E, fixed assets, because we're still building the Nantong call center.

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

And then could you tell us about the CapEx for the fourth quarter and perhaps for the full year as well?

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

Sure. For the fourth quarter the CapEx mainly is, majority of the CapEx is about 60m for the PP&E purchase. And for other investments, as we discussed, it's the Home Inn purchase.

Going forward into the next year, we expect the Nantong call center will cost us about \$20m a year, and plus the regular purchase. But our capital acquisition is very light. Every employee gets a computer, a chair and a desk. So it's very capital light for the normalized capital acquisition. The building will cost us around \$20m a year.

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

Got that. And my final question is regarding the decrease in accounts receivable and accounts payable. Should we expect these decreases would be seasonally driven?

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

Accounts receivable, we have very tight control on the credit for our customer so that's driven by two items. The first one is our efforts to collect AR. And as we discussed before mainly our AR has three components.

The first one is from the hotels. The second one is from our corporate travel customers which we control the AR agent very tightly. Thirdly is the accounts receivable. When we issue the air-ticket, we need to get the money from the customers' credit card company and that's about two to three days. So our effort is important.

And also it's the timing. For example if the bank has a national holiday during quarter end, the accounts receivable will not be settled until after the holiday. That's what impacted the AR. But if it is normalized working day, we have no problems at all on these ARs with our customers and with our banks.

On the accounts payable the airlines had made a change during Q4. In the old days they required all the agencies to settle the payment with them once in a week and now they changed the rule to settle the payment twice a week. So that [AP] amount should be decreased. That's a sustainable decrease.

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

Got that. Thank you.

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

Sure.

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**Operator**

Your next question comes from the line of Wendy Huang with RBS. Please proceed.

**Wendy Huang** - *Royal Bank of Scotland - Analyst*

Hi. Thanks for taking my question. First I just want to clarify that -- 5% to 10% year-over-year growth is the guidance you gave just for first quarter. And given that you mentioned that first quarter is usually a slow season and last year's first quarter was very strong, so should we expect the year-over-year growth in the second half of '09 to pick up? So the full year, year-over-year revenue growth should be higher than the current guidance for the first quarter.

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

Thanks Wendy. I think you are correct. The 5% to 10% guidance is only applicable for Q1 2008. Regarding the second half of the year, we obviously will work very hard to deliver a strong result as possible. But the visibility of the market is very limited right now and therefore we would rather to wait until we have a better visibility until we give the guidance for the second quarter of the year.

**Wendy Huang** - *Royal Bank of Scotland - Analyst*

I see. And you just mentioned that the ticket price will decline 10% to 15%. Is this quarter-over-quarter decline or year-over-year?

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

Year-over-year.

**Wendy Huang** - *Royal Bank of Scotland - Analyst*

So this actually means, by my calculations, that first quarter '09's commission per ticket actually improved from the fourth quarter level, right?

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

It's possible if you take last quarter's. But I think what we did is, we take Q1's number of last year and compared to what we have seen in January, the price has been around 10% to 15% decrease. Now we do not know what's the average price for February and March yet. We will know it as we move further into the quarter.

**Wendy Huang** - *Royal Bank of Scotland - Analyst*

Okay. And on the Hotel side, Min Fan just mentioned in his prepared remarks that hotel occupancy rates were slow according to your observation. And he also mentioned that you expect 4% to 5% price drop. So how should we expect the hotel revenue in the next few quarters, especially where the low hotel price gives a pressure on the revenue?

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

For Hotel business what we have seen the Hotel business is very fragmented in China and therefore it's not like Air-ticketing business. You can take a look at major airlines and get a feeling as to how the industry is. So we have to survey certain hotels in different cities and get a general feeling. From what we can see the hotels have really suffered the drop in occupancy rate in various cities. So that's very challenging.

In terms of price I think there are two factors. The first factor is that five-star hotel stayers to four star and three star hotel fares. Therefore the migration from high end hotels to the lower end hotels will impact our average hotel price. And on top of it, the hotels also make certain adjustment in hotel price. And that will impact our overall revenue pool also.

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**Wendy Huang** - *Royal Bank of Scotland - Analyst*

Thank you. And I think, on one hand, probably your cash flow generation ability would not be as strong as in the good economy situation, but on the other hand, you still have CNY1.3b on the balance sheet. So how will you change your, for example, dividend policy or the expansion plan?

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

Sure. I think our model, our business model is very cash-generating business model because we do not require too heavy capital investment up front. So in this environment this model has its strengths. And you're correct, we still have CNY1.3b cash on hand and we will use it very prudently in order to maximize the investment return. So if you look at the usage of the cash, we mainly have four general usages.

First of all, we need to reserve enough cash for working capital because our market expansion is still fast and we need to make sure our core business is sufficiently funded for their further expansion. The second one is our North Nantong call center still will cost us about \$20m per year for the next couple of years. And thirdly I think if there are good targets, M&A targets, I think we will very prudently look at it. And fourthly, whatever is left on our hand, we will give it back to our shareholders either through stock buyback or cash dividend. So this year our AGM just approved a stock buyback of \$15m and we will continuously make sure our cash is being utilized in a most careful way to maximize the return.

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**Wendy Huang** - *Royal Bank of Scotland - Analyst*

I recall that in previous two years you gave out like 20% to 30% of net profit as dividend. So will this change this year?

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

I think, instead of cash dividends, our AGM has approved the similar level as last year in terms of dollar amount to have a stock buyback program.

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**Wendy Huang** - *Royal Bank of Scotland - Analyst*

Okay. Finally I just want to get a sense about you mentioned that online transaction accounted for one-third of the total transaction volume. So how this number percentage compared with last year?

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

I think for the last year our online transaction portion accounts for around 30%. So we do see there's a few points increase on the online transaction volume. I think this is mainly because of the way we upgrade our online booking platform and we get quite good feedback and quite good recognition from our users.

**Wendy Huang** - *Royal Bank of Scotland - Analyst*

Okay. Thanks.

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

Thank you.

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

Thank you.

**Operator**

(Operator Instructions). Your next question comes from the line of Cathy Chen with Goldman Sachs. Please proceed.

**Cathy Chen** - *Goldman Sachs - Analyst*

Hi. Thanks for the call. I have a few questions as well. Firstly can you just follow up in terms of the comments given so far about hotel occupancy? Can you give us a more specific number on what the occupancy levels were in the fourth quarter and what you're seeing so far year-to-date?

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

Okay, on the hotel occupancy rate I think for the last quarter, among first tier cities, the occupancy rate decreased compared year-on-year and especially for the high-end hotels and they faced a quite low occupancy rate. And I think for 2009 and for the beginning of this year, quite some high-end hotel also faced the same problem. So I think this is mainly because of the economic crisis, there is certain impact on the travel behaviors among those big companies and also medium-sized companies.

**Cathy Chen** - *Goldman Sachs - Analyst*

Okay, thanks. And then you gave some gross margin guidance earlier. Could you also give us guidance on operating margins for the first quarter and perhaps for the full year as well, '09?

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

For the first quarter the growth, we will control the operating expenses very tightly. So the operating margin should be somewhere between 33% to 35%, excluding share based compensation charges.

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**Cathy Chen** - Goldman Sachs - Analyst

Okay, thanks. And the other question is on other income. It looks like it dropped quite a bit in the fourth quarter. I assume that was because there were no government subsidies. Could you give us guidance for 2009 or first quarter '09?

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

Sure. For government subsidies, the timing of the payment as well as the amount of the payment is totally depending on government's decision. So for that reason we prudently use cash basis to record the income. We will not record any subsidy income until cash is in our bank. So for the fourth quarter we did not receive any significant payment from the government in terms of subsidies.

Going forward into next year, obviously we will always apply for the qualified amount. But again, how much the government will pay us and when they will pay us is up to them. So therefore we normally cannot provide a very clear guidance as to how the subsidy will be [lending] for the next year, but as soon as we have any clear visibility we will update our investor as quickly as possible.

**Cathy Chen** - Goldman Sachs - Analyst

Okay, thank you. And my last question is if you could talk a little bit more about the Home Inn stake purchase in the fourth quarter and what your plans are going forward with this stake?

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

Sure. Home Inn right now have about 8.9% of the shares. So we stay as a passive investor as of now. And going forward, we don't have a solid plan, one way or the other. I think it's really depending on the industry, how the market is going to be, how the leaderships they will be and also how expensive, or how valuable, their stock is. So we will monitor them very carefully, but no direction as to one way or the other.

**Cathy Chen** - Goldman Sachs - Analyst

Okay. Thank you.

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

Thank you.

**Operator**

Your next question comes from the line of Ming Zhao with SIG. Please proceed.

**Ming Zhao** - Susquehanna International Group - Analyst

Thank you. Good morning. Jane, I wonder if you could give me the year-over-year growth in the Hotel volume in the third quarter, just for comparison to the fourth quarter. You mentioned 11% growth in the fourth quarter. What's the growth rate in volume for Hotel in the third quarter?

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

The third quarter revenue growth, if I remember clearly, it's mainly driven by the volume growth.

**Ming Zhao** - *Susquehanna International Group - Analyst*

So you mean the Hotel volume growth in the third quarter would be same as the revenue growth, which is about 6%, right?

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

Yes, very consistent, very consistent.

**Ming Zhao** - *Susquehanna International Group - Analyst*

Okay. And also on the Air-ticketing pricing side, the major airlines have lowered, have reduced their fuel surcharge. Can you comment on the impact on the raw ticket price and the commission per ticket?

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

Sure. So airline has -- the government has eliminated the fuel surcharge, which gives more room for airlines to potentially increase their air-ticket. However there is -- the airlines has to make the final decision. The elimination of the fuel surcharge makes the ticket more affordable so that's one of the measures the government has taken to encourage people to travel more, and that's positive for us. But really how much they will increase or stabilize the air-ticket price is up to the airlines to decide and we will monitor it very carefully.

In terms of commission rate, the overall commission rate, it is within the normalized range, which is for the total ticket between 4% and 5%. And if you compare to the raw ticket price, it's between 5% to 6%, within that range.

**Ming Zhao** - *Susquehanna International Group - Analyst*

But Jane can we say this also, from Q4 to Q1 the fuel surcharge has come down already and the 10% to 15% year-over-year drop in the air-ticket price is for the whole price, right, it's the whole ticket price?

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

The air-ticket.

**Ming Zhao** - *Susquehanna International Group - Analyst*

The air-ticket price.

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

The air-ticket price.

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**Ming Zhao** - *Susquehanna International Group - Analyst*

Okay. But --

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

Because the fuel surcharge doesn't really impact our revenue. We don't get a commission on the fuel surcharge. So the air-ticket has dropped to 10% to 15% so far. \

**Ming Zhao** - *Susquehanna International Group - Analyst*

You mean excluding the surcharge, you see the raw ticket price down by 10% to 15%?

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

Correct.

**Ming Zhao** - *Susquehanna International Group - Analyst*

Okay. But normally in the month before the Chinese Lunar New Year the ticket price is very strong and the volume is also strong because of holiday travel. How come the volume is still down by 10% to 15%? That seems very different than what we saw -- what we heard.

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

I think volume is strong. Volume we can still outpace the market by a great distance, but the ticket price compared to last year was low.

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

You compare with post golden holiday, compare with golden holiday. Normally before, previous years, during the golden holiday and during the peak travel season air-ticket price will be increased a lot. But this time just a few days you can see the air fare was -- go high price, but the other days the price dropped down.

**Ming Zhao** - *Susquehanna International Group - Analyst*

But can you comment on the quarter-over-quarter change about the pricing?

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

Quarter-over-quarter we are still only one month into the quarter. So we can only share with you what we have seen so far quarter-to-date. And that's the price what we have seen, it's 10% to 15% decrease on air-ticket.

**Ming Zhao** - *Susquehanna International Group - Analyst*

Sorry to ask, what about month-over-month, January versus December month?

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

January versus when?

**Ming Zhao** - *Susquehanna International Group - Analyst*

December month.

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

January versus December month it's relatively stable, relatively stable with slight decrease.

**Ming Zhao** - *Susquehanna International Group - Analyst*

Really? Okay. Thank you very much.

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

Sure.

**Operator**

Your next question comes from the line of Martin Ji with ClearBridge Advisors. Please proceed.

**Martin Ji** - *ClearBridge Advisors - Analyst*

Thank you very much. I've got two questions. First I want to drill down into the pricing a little bit further. If I look at the press release, it says in the fourth quarter for the Air-ticketing the volume is flat and also the revenue is flat. Does it mean from the third quarter to the fourth quarter the pricing also remained flat?

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

We normally provide a year-over-year comparison. So from a revenue perspective, Air-ticket increased about 7% increase.

**Martin Ji** - *ClearBridge Advisors - Analyst*

Right.

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

And if you break down to our revenue, again there were three elements. The first one is the volume which we increased by 41%. The second one is the pricing. The price has decreased between 10% to 15%. And the third one is commission rate.

The commission for us in Q4 is still within the normalized range, which is 4% to 5% overall ticket price, or if you compare it to the raw ticket price, it's 5% to 6%. However if you compare to Q4 of 2007, Q4 of 2007 airlines had a very good year and Ctrip

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delivered very strong results so at the year end the airlines gave us extra incentives. Therefore in 2007 the commission rate was on the high end of the range, versus Q4 of this year the commission rate is in the middle of the range.

**Martin Ji** - ClearBridge Advisors - Analyst

Okay. And on Hotels side, what about the pricing trend from the December to the January month?

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

For the Hotels side, I think if you compare year-over-year, the hotel room rate price -- the hotel room rate decreased a few points among first tier cities. And because in China we don't have official data for hotels, all the hotel performance, not like the airline industry, so what we can see is the compare among the major cities and major hotels. And still for January this year we still see a few points drop compared year-over-year.

**Martin Ji** - ClearBridge Advisors - Analyst

Okay. But I mean from the quarter-over-quarter or month-over-month, do you see it kind of flat or continue to weakening or what? Any color, maybe December-wise but --

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

Because right now because we just have one month so visibility is not so clear. And also because this January is a very special month because it's golden holiday month. And normally during golden holiday those high-end hotels, even the middle-end hotels, they will give low prices, give low room rate because they got the business travelers.

**Martin Ji** - ClearBridge Advisors - Analyst

Okay.

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

So you can hardly compare January with December or November.

**Martin Ji** - ClearBridge Advisors - Analyst

I see. That's fair. The other question I have is on the tax for this year -- I mean for this quarter. What will be the EPS impact if we assume normalized tax rate for the quarter? I know the GAAP EPS is \$0.26. How many cents of that is due to this catch up of tax benefit?

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

Sure, sure. The catch up for the tax benefit for this quarter is about \$0.06.

**Martin Ji** - ClearBridge Advisors - Analyst

\$0.06?

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

\$0.06.

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

\$0.06, correct.

**Martin Ji** - *ClearBridge Advisors - Analyst*

Okay, okay. And then going forward you guided the tax rate. That will be normalized rate given what you have (inaudible) in terms of (inaudible), right.

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

That's correct. That's correct.

**Martin Ji** - *ClearBridge Advisors - Analyst*

Okay, alright. Thank you.

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

Sure, thank you.

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

Thank you.

**Operator**

Your next question comes from the line of Elinor Leung with CLSA. Please proceed.

**Elinor Leung** - *CLSA - Analyst*

Thank you. I have two questions. The first question is regarding the personnel. You're mentioning you're freezing the headcount, but in the previous call you also mentioned, because of the increase in volume, you need more sales and customer service people. How do you -- how are you going to resolve that problem?

Second is regarding the air-ticket prices. Do you see further pressure on the air-ticket prices in the coming quarters?

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

For the personnel, in fact last year in Q3 and early Q4 we did reserve some service force at that time according to our budget. And in Q4 we freeze our hiring process so -- and also in Q4 we did not see the high growth rate. So in that sense I think we, right

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now, we, for the service team, we can handle the growth rate what we have. So for this Q1 we still will freeze our personnel hiring and so I think for the service-wise we don't have problems so far.

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

Yes. Regarding your question on the ticket price, yes we do see the pressure. As we discussed, the year-over-year price decreased. So far it's between 10% to 15% decrease on the Air-ticketing.

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**Elinor Leung** - *CLSA - Analyst*

So do you see further pressure on the Air-ticketing prices going forward? Given your conversation with the airlines, do you feel they have more pressure to cut prices?

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

The airline decide their price on very last minute. What we have seen so far, from January 1 up until now, is a price decrease between 10% to 15%. So hopefully the airlines will stabilize their price, but they're the ones who'll make the final decision on the air-ticket. We do not have any control on the air-ticket price.

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**Elinor Leung** - *CLSA - Analyst*

Thank you.

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

Sure.

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**Operator**

Your next question comes from the line of Marisa Ho with Credit Suisse. Please proceed.

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**Marisa Ho** - *Credit Suisse - Analyst*

Hello. I just have a very quick follow up question on the fourth quarter '08 airline ASP. Did you mention that the airline ASP was down by 10% to 15% on a year-on-year basis?

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

Yes, correct, Marisa.

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**Marisa Ho** - *Credit Suisse - Analyst*

Right. So it sounded like it's a better number compared to what you were talking about three months ago at the end of the third quarter results.

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

Correct.

**Marisa Ho** - *Credit Suisse - Analyst*

Okay, excellent. Thank you.

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

Sure. Thanks.

**Operator**

Your next question comes from the line of Gary Yang with UBS. Please proceed.

**Gary Yang** - *UBS - Analyst*

Thank you for taking my question. My question -- I have two questions. Number one, can you explain a little bit more on the impact on your business of the elimination of fuel surcharges? In the sense that, do you mean that basically you don't really benefit from the airlines apart from lower fare that drives up volumes?

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

The elimination of the fuel surcharge makes the ticket more affordable for the travelers. It implies that more people are willing to fly. So potentially we can benefit from that, but it's very hard to quantify how much volume is due to the elimination of the fuel surcharge, how much volume is for the natural growth from the market. But overall I would think the elimination of the fuel surcharge is positive for the tourists in China and business volume in China. That's the measures the government has taken to encourage people to travel more.

**Gary Yang** - *UBS - Analyst*

Thank you. And also can you share more detail on the level of air fare discounting in first quarter of '09?

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

Air fare discounting for the -- we have monitoring the ticket price. And so far from January 1 until now it's about 10% decrease, based on our visibility.

**Gary Yang** - *UBS - Analyst*

I see. Just one more question. What is the revenue mix between corporate and leisure travel in Q4 and your outlook in 2009?

And within corporate, what do you see is the current mix between small/medium enterprises, versus multinational and large national enterprises?

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

I think the mix does not change a lot and we still have our business travelers around the 80%. And others we can see as the leisure travelers. And we do see the leisure travelers increase during the golden holidays. I think for the total, mix still remain quite same.

**Gary Yang** - *UBS - Analyst*

Thank you.

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

Thank you.

**Operator**

Your next question comes from the line of [Tammy Huang] with Nomura. Please proceed.

**Tammy Huang** - *Nomura Securities - Analyst*

Hi. Hi Jane and James. Two questions. First of all, your volume increase in the Air-ticket and Hotel room, how about the full year '08 and the fourth quarter especially?

Secondly you were talking about the air-ticket ASP decline of 10% to 15% in January this year, but that's January this year, Chinese year, versus the last year, February, the Chinese New Year last year. So if you're just talking about golden week, the Chinese New Year, can we assume that the ASP decline is even more than 15% this year? These are the two, yes, questions.

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

Yes, the price drop so far is 10% to 15%. We haven't got our February number yet so it's hard to say, if you compare the January number to February number, what it is going to be. I think we have to wait until the quarter folds out and we have much more color on the quarter. Then we can give you better guidance on that. But so far what we have seen, year-over-year comparison, it's 10% to 15% decrease.

And [Wendy], what's the first question again?

**Tammy Huang** - *Nomura Securities - Analyst*

What's the volume increase for the Air-ticket and the Hotel in fourth quarter last year and the full year of last year?

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

Yes. For the full year the volume growth is also more than 40%.

**Tammy Huang** - *Nomura Securities - Analyst*

For the Air-ticket?

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

Right.

**Tammy Huang** - *Nomura Securities - Analyst*

And for the Hotel, how about that?

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

For the Hotel mainly it's driven by the volume growth.

**Tammy Huang** - *Nomura Securities - Analyst*

Thank you.

**Operator**

Your next question comes from the line of [San Cheng] with Baring Capital. Please proceed.

**San Cheng** - *Baring Capital - Analyst*

Hi. I just wanted to know, ask a question, about this week, just past, the golden holiday week, the air traffic, the data, and also the hotel occupancy rate trend. Do you have the last week data? Because this is the latest week just after the spring festival so it may show some trends which is helpful for us to predict first quarter and the future.

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

Sure, sure. The air-ticket data is published by the three major airlines and I believe they normally publish it in the following month. So if you go to the website of the three major airlines you can get a sense as to year-over-year what their increase is. For hotel segment it's highly fragmented so there is no national data we can rely on.

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

And also I think for this golden holidays, the air volume will be increased if you compare with last year's golden holiday because last year we had the snow disaster. So if you compare the volume increase, I think that does not really reflect the whole trend, full year trend, yes.

**San Cheng** - *Baring Capital - Analyst*

Okay.

**Operator**

Mr. Cheng, are you finished with your questions?

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**San Cheng** - *Baring Capital - Analyst*

Yes. I'm finished. Thanks.

**Operator**

Thank you. There are no further questions in queue. I would now like to turn the call back over to Ms. Jade Wei, Senior IR Manager, for closing remarks.

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

Thank you Sharon. Thanks for your participation for our conference call today. We look forward to talking to you next quarter. Have a good day.

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

Thank you.

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

Thank you very much. Bye, bye.

**Operator**

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

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