

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

CTRP - Q3 2011 Ctrip.com International, Ltd. Earnings Conference Call

EVENT DATE/TIME: NOVEMBER 14, 2011 / 1:00AM GMT

OVERVIEW:

Co. reported 3Q11 net revenues of CNY975m or \$153m. 3Q11 net income attributable to shareholders was CNY325m or \$61m. 3Q11 net income attributable to shareholders (excluding share-based compensation charges) was CNY416m or \$65m. 3Q11 diluted earnings per ADS was CNY2.13 or \$0.33. 3Q11 diluted earnings per ADS (excluding share-based compensation charges) was CNY2.73 or \$0.43.



CORPORATE PARTICIPANTS

Michelle Qi *Ctrip.com International Ltd. - IR*

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

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

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

CONFERENCE CALL PARTICIPANTS

Richard Ji *Morgan Stanley - Analyst*

Alex Yao *Deutsche Bank - Analyst*

Ann Chi *Cowen Group - Analyst*

Wendy Huang *Royal Bank of Scotland - Analyst*

Catherine Leung *Goldman Sachs - Analyst*

Eddie Leung *Merrill Lynch - Analyst*

George Askew *Stifel Nicolaus - Analyst*

Fawne Jiang *Brean Murray - Analyst*

Muzhi Li *Mizuho Securities - Analyst*

Andrew Connor *Piper Jaffray - Analyst*

Andy Young *Oppenheimer & Co. - Analyst*

Ming Zhao *Susquehanna Financial Group - Analyst*

Jin Yu *CICC - Analyst*

Dick Wei *JP Morgan - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to your Q3 2011 Ctrip.com International Limited earnings conference call. My name is Denise. I will be your event manager today. (Operator Instructions) Now I would like to hand the conference over to Michelle Qi. Please proceed.

Michelle Qi - *Ctrip.com International Ltd. - IR*

Thanks, Denise. Thank you for attending Ctrip's third-quarter 2011 earnings conference call. Joining me on the call today we have Mr. James Liang, Chairman of the Board, Mr. Min Fan, President and Chief Executive Officer, and Ms. Jie 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 take any obligation to update any forward-looking statement, except as are required under applicable law.



Min, Jie and James will provide business updates, industry outlooks and financial highlights for the third quarter of 2011, as well as the outlook for the fourth full quarter of 2011. 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. - President and CEO*

Thanks, Michelle and thank you to everyone for joining us on the call today. In the third quarter of 2011, the Ctrip team once again delivered solid results, with a continued focus on strong execution. In spite of the challenging comparisons base our net revenues grew 20% year over year.

During the quarter, the team further developed more product offerings and enhanced our booking platforms. The sales and marketing team increased promotion activities to stimulate the demand for travel and strengthen the Ctrip brand. The Ctrip team further expanded our hotel supply network to meet the growing demand from the public, reaching approximately 21,900 hotels by the end of September 2011, compared to 13,700 hotels at the same time in 2010.

The number of hotels with guarantee room allotments accounted for approximately 75% of the total hotel supply. Besides the ongoing efforts to expand our hotel network and to enrich the variety of hotel products available, the team also intensified sales and marketing activities during the quarter. To further extend our market leadership from this quarter and going into early next year, we will increase the budget for coupons given to end users by offering cash rebates when they book hotels online and provide hotel reviews. We believe the campaign will drive incremental demand and encourage customers to carry out more transactions online.

Our coupon program, we did the best in the hotel reservations business. By combining this coupon offering with excellent customer service and technology, we will extend our leadership in this field.

Ctrip's air ticketing business has continued to outgrow the market and gain more market share. The team went to great lengths to broaden the variety of air tickets available in order to meet a wide range of customer needs. In addition to the best air ticketing service available in China, our team manages to offer more choices of air tickets with more competitive pricing. Starting from the third quarter, via our new low price dashboard, travelers can now see and easily book tickets with the lowest price available.

The packaged tour team work hard to take full advantage of the fast growing leisure travel sector. In recent statistics published by the National Tourism Administration of China, Ctrip's overall travel traffic ranked fourth among all travel agencies. This was the first time that an online travel agency has featured in the top 10 in the outbound travel business. We are pleased to see so many customers putting their faith in Ctrip when they make travel plans.

As always, we endeavor to strengthen relationships with our partners. In September, Ctrip launched another bold initiative to partner with Garuda Indonesia, the largest airline in Indonesia. The two companies will work together to develop leisure tour packages for premier markets and specific groups in China who are interested in, for example, adventure, diving or exploring. Ctrip, today is one of the most important travel tour service organizers in many major destinations within China and beyond. We will continue to nurture our partnerships and develop more domestic and international tour packages.

Thanks to superior service and a strong implementation by the Ctrip team, Ctrip corporate travel was voted corporate travel management of the year by Travel Weekly magazine for the third year running. Building on our past success our new initiative targets small and medium enterprises which represent RMB100 billion market currently underserved by qualified company travel management companies.

We are confident that with efficient sales and marketing forces and our significant IT advantage, we will succeed in educating and attracting an increasing number of Chinese businesses. While the Ctrip website took the number one position among all travel booking websites in China, Ctrip's mobile apps were also named top user friendly travel booking apps compared to a similar product.

In addition to providing reliable and convenient hotel and air ticketing information and booking services, Ctrip's latest iPhone app also helps users book local excursions and provides the latest train ticketing information. With over six million downloads so far, Ctrip mobile apps are the most



downloaded travel apps in China. Ctrip's platforms extend from smart phones to tablet computers. Shortly after its release in early October, the Ctrip iPad app has become the most popular iPad travel app in China.

Alongside the increasingly popularity of our wireless apps we are pleased to see a rapid increase in booking volumes from mobile devices and are inspired to see similarly unique demographic and booking habits of mobile users.

Ever since it was established, Ctrip has been committed to providing the best quality service to its customers. This quarter our contact centre was awarded China's best contact centre by the China Call Centre and CIM Association. This is the fifth time Ctrip has achieved this award. The Ctrip call centre also won the Golden Headset award for the Best Contact Centre in China for the fifth consecutive time. We believe that unparalleled service is a key force behind that expanding loyal customer base that drives our continued supply success. We will keep up the hard work and strive to improve service levels even more.

So with the continued efforts of the sales and marketing team our number of cumulative customers increased to 14.4 million by the end of third quarter of 2011, compared to 11.1 million for the same period in 2010. Ctrip launched various marketing activities such as the first ever Ctrip Miss Tourism contest held in cooperation with the Miss World Organisation. The first Miss Tourism will become a Ctrip ambassador to help promote tourism and the Ctrip brand. In the coming quarters Ctrip will invest more in sales and marketing activities in order to take advantage of the under-penetrated markets and to further expand our market share. By closely monitoring the efficiencies of every sales and marketing channel, and effectively managing our resources, we will maintain the balance between short-term returns and long-term growth.

Good IT platforms need good products to make them great. To maintain our competitive edge in today's marketplace, we will focus on offering the best products and meet the diverse needs of our customers and to penetrate new markets. Ctrip will increase investment in hotel network expansion, international air ticket search and booking engines; international and domestic leisure destination development; and the cruise and corporate clients for the SME corporate travel management business. These investments will result in an increase in operating expenses. However, we consider this to be a rewarding investment that will extend our competitiveness advantage and bolster long-term growth.

Taking a closer look at some of our new initiatives we have been inspired by their preliminary progress. For example, Ctrip's train ticketing channel is growing rapidly. Beating our fast growing demand, we are breaking records almost daily. We expanded the geographic coverage of our train ticketing service from Shanghai and the surrounding areas for 14 provinces and cities nationwide within three months of launch of the platform. With this geographic coverage ticketing service available for all high-end trains, including the high-speed rail, multi units and in-city train networks.

The Company was again selected as one of the China's most admired companies by Fortune Magazine as voted by 25,000 managers from 280 companies. Ctrip are the only company in the travel service industry to win this honor. In addition to our commitment to maximize volume for shareholders by delivering strong business growth, the Company recently announced two stock buyback programs with a total amount of up to \$115 million.

The travel industry is growing fast in China. There are many players in the market, but only those with a sustainable business model and a solid execution can be profitable. Over the next couple of quarters we will execute more sales and marketing promotions and invest more in technology to deliver the best products, the best service, and the best prices to our customers and achieve even greater success in the long-term. Now I will turn to James for the industry outlook.

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

Thanks, Min. Despite the prevalent concern of a slowdown and stagnation in the global economy, we believe that China's domestic consumption will continue to be healthy, gradually replacing exports as China's growth driver. According to forecasts by Boston Consulting Group, China will be the second largest consumer market in the world by 2015, growing from its current 5% of global consumption to 14%. The percentage in private consumption in China's GDP is expected to increase to 45% by 2015 from the present 36%. Compared with the export-oriented companies, companies like Ctrip - which target domestic markets - will do very well.

Ctrip has a proven track record of success in the different market conditions throughout the last 12 years. In favorable markets we try to capitalize on every opportunity; at less favorable times we turn challenges into opportunities and gained even more market share. Our goal is to be one of the top travel agencies in the world and our team will work hard to elevate the business to a higher level. Now I'll turn to Jane for financial updates.

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

Thanks, James. I am pleased to report the solid results for the third quarter of 2011. For the third quarter of 2011 net revenues were RMB975 million or \$153 million, representing a 20% increase from the same period in 2010. Net revenues for the third quarter of 2011 increased by 17% from the previous quarter.

Hotel reservation revenues amounted to RMB410 million or \$64 million for the third quarter of 2011, representing a 17% increase year-on-year and 12% increase quarter-on-quarter, primarily driven by an increase in hotel reservation volume.

Air ticketing booking revenues for the third quarter of 2011 were RMB385 million or \$60 million, representing a 22% increase year-on-year, primarily driven by a 16% increase in air ticketing sales volume and a 6% increase in commission per ticket year-on-year. Air ticketing booking revenues increased 11% quarter-on-quarter.

Packaged-tour revenue for the third quarter of 2011 were RMB171 million or \$27 million, representing a 22% increase year-on-year due to the increase of the leisure travel volume. Packaged-tour revenues increased 58% quarter-on-quarter, primarily due to the seasonality.

Corporate travel revenues for the third quarter of 2011 were RMB43 million or \$7 million, representing a 28% increase year-on-year and a 10% increase quarter-on-quarter, primarily driven by an increased corporate travel demand from business activities. Gross margin was 77% in the third quarter of 2011, compared to 78% in the same period in 2010 and remained consistent with that in the previous quarter.

Product development expenses for the third quarter of 2011 increased by 31% to RMB162 million or \$25 million from the same period in 2010, and increased by 18% from the previous quarter, primarily due to an increase in product development personnel and share-based compensation charges. Excluding share-based compensation charges, product development expenses accounted for 14% of the net revenues, increased from 13% in the same period in 2010 and remained consistent with that in the previous quarter.

Sales and marketing expenses for the third quarter of 2011 increased by 39% to RMB174 million or \$27 million from the same period in 2010, primarily due to an increase in sales and marketing related activities and an increase in sales and marketing personnel. Sales and marketing expenses for the third quarter of 2011 increased by 23% from the previous quarter, primarily due to an increase in sales and marketing-related activities. Excluding share-based compensation charges, sales and marketing expenses accounted for 17% of the net revenues, increased from 14% in the same period in 2010 and increased from 16% in the previous quarter.

General and administrative expenses for the third quarter of 2011 increased by 37% to RMB109 million or \$17 million from the same period in 2010, primarily due to an increase in administrative personnel and share-based compensation charges. General and administrative expenses for the third quarter of 2011 increased by 13% from the previous quarter, primarily due to an increase in administrative personnel. Excluding share-based compensation charges, general and administrative expenses accounted for 6% of the net revenues, increased from 5% in the same period in 2010 and in the previous quarter.

Income from operations for the third quarter of 2011 was RMB304 million or \$48 million, representing a decrease of 1% from the same period in 2010 and an increase of 13% from the previous quarter. Excluding share-based compensation charges, income from operations was RMB395 million or \$62 million, representing an increase of 7% from the same period in 2010 and an increase of 11% from the previous quarter.

Operating margin was 31% in the third quarter of 2011, compared to 38% in the same period in 2010, and 32% in the previous quarter. Excluding share-based compensation charges, operating margin was 41%, decreased from 45% in the same period in 2010 and 43% in the previous quarter.

The effective tax rate for the third quarter of 2011 was 21%, increased from 17% in the same period of 2010, primarily due to the normalization of the tax rate in the third quarter of 2011. The effective tax rate for the third quarter of 2011 increased from 16% in the previous quarter, primarily due to a certain tax benefit granted by the local tax bureau in the second quarter of 2011.

Net income attributable to Ctrip's shareholders in the third quarter of 2011 was RMB325 million or \$51 million, representing an increase of 2% from the same period in 2010 and an increase of 23% in the previous quarter. Excluding share-based compensation charges, net income attributable to Ctrip's shareholders was RMB416 million or \$65 million, representing an increase of 9% from the same period in 2010 and an increase of 18% from the previous quarter.

Diluted earnings per ADS were RMB2.13 or \$0.33 for the third quarter of 2011. Excluding share-based compensation charges, diluted earnings per ADS were RMB2.73 or \$0.43 for the third quarter of 2011.

As of 30 September 2011, the balance of cash and cash equivalents, restricted cash and short-term investments was RMB4.2 billion and \$664 million. For the fourth quarter of 2011, the Company expects to continue the net revenue growth year-on-year at a rate of approximately 15% to 20%. This forecast reflects Ctrip's current and preliminary view, which is subject to change.

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

QUESTIONS AND ANSWERS

Operator

(Operator's instructions) Your first question will come from the line of Richard Ji from Morgan Stanley. Please proceed.

Richard Ji - Morgan Stanley - Analyst

Hi. Good morning, Min, James and Jane. Thanks for taking my call. Let me start with two questions. First of all, first and foremost, your top-line growth which have moderated due to the large base last year related to the Expo in Shanghai. Going forward, especially from 4Q onwards, we confirm that we see revenue at re-acceleration and so far can you comment on the trend? Thank you.

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

Sure. I think Q2, Q3 the comparison base is very high due to the World Expo. In Q4 we still have one month's worth of the World Expo, which was very high last year. Secondly, I think for Q4 mainland China market to grow very strong, so in terms of growth rate, Q4 versus Q3, for mainland business it's growing faster.

However, outside of mainland China in the Greater China area, including Hong Kong and Taiwan, the GDP growth rate in these regions are relatively a little slower than the GDP growth rate in mainland China. That's why we maintain our guidance at about 15% to 20% year-over-year.

Richard Ji - Morgan Stanley - Analyst

Understood. Thank you. And secondly, regarding your sales and marketing program, obviously, you have stepped up your marketing initiatives very significantly recently, especially for the coupon program. Can you comment on effectiveness of your coupon program in terms of customer retention and the new customer acquisition? And going forward, should we see a margin rebound in the coming quarters?

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

Recently we launched a coupon promotion where a customer book by Ctrip they can get coupon and which can be redeemed via casual base. And I think with the Ctrip's scale, we launched this promotion in order to bolster travel demand. And also I think our customers say they have different kinds of levels customers. We always want to get more and more customers and we try to choose the right time to launch promotion. As you know, year 2011 is a kind of cool down year compared to 2010, so we hope this coupon promotion can attract in more and more new customers as well as the old customers.

I think with Ctrip's scale, high profitability and strong execution, we will -- we can afford the investment in sales and marketing to attract more customers and to maintain higher loyalty customers to extend our leadership in the market. So simply coupon is just launched a short time ago, so we monitor the effectiveness carefully.

Richard Ji - *Morgan Stanley - Analyst*

That's very helpful. Thank you.

Operator

Your next question comes from the line of Alex Yao from Deutsche Bank.

Alex Yao - *Deutsche Bank - Analyst*

Hi, good morning, Min, James and Jane. Thank you very much for taking my questions. My first question is can you help us understand how business traveler and the leisure traveler reacted to macro uncertainty? And also can you give us an update on the percentage of business traveler versus leisure traveler so far? Thank you.

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

I think the business traveler versus leisure traveler percentage remains very consistent, which is about 70% to 80% of business-related travelers for Ctrip. These customers are high-end users; and the rest, 20% to 30%, are leisure travelers.

How they reacted to the market, I think so far in mainland China both segments are growing fast I think with our best product and best price strategy. These customers who compare the price as well as looking for good services are still very loyal to Ctrip's services.

Alex Yao - *Deutsche Bank - Analyst*

The second question is, can you help us to understand more about your sales and marketing strategy in relation to (1) the competitive environment and (B) macro environment? And also what should be a more normalized level of sales and marketing expense as a percentage of total revenue? When would that take place?

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

Okay. First of all, for sales marketing, Ctrip normally carefully calculates the investment return to make sure every dollar we put into the market achieves the best return in the market. Secondly, we're always very happy to work with our suppliers, our customers and also the other players in the market to make sure the marketing activities are being conducted at a healthy levels.



Thirdly, if however, there is irrational promotions in the market, based on Ctrip's profitability, Ctrip can afford to match any sales marketing campaigns to make sure we further expand our leadership in the marketplace very rapidly. So the recent coupon program is under very careful monitoring of the market. That's the marketing campaign we believe will further expand our leadership in the hotel business very quickly and also into the [unpenetrated] -- the market.

So these are our principles we adhere to. Ctrip's target has always been to maintain very healthy market, but if there is underpenetrated markets that we see have great opportunities based on our financial bandwidth and profitability, we will be in a position to match any promotions in the market to further expand our leadership.

In terms of the margin impact for Q4, we conservatively guide the operating margin for Q4 will be at about 35% before stock compensation. So compared to 41% of this quarter in Q3, there is a 6% decrease in the market that we're willing and we are prepared to take.

Including in the 6% drop, 2% is related to the labor costs because we need to hire more people to penetrate into the market. The other 2% to 3% are coupon related programs, which if you translate to hotel-related revenue, that's about 8% to 10% of the hotel revenue we're willing and we're prepared to match up with any sales promotions in the market. The rest is new development in the market and other sales and marketing channel.

Alex Yao - Deutsche Bank - Analyst

Got it. Thank you very much.

Operator

Your next question comes from the line of Chenyi Lu from Cowen. Please proceed.

Ann Chi - Cowen Group - Analyst

Hi this is [Ann Chi] calling in on behalf of Chenyi. I was wondering, for your gross margin this quarter, it was lower year-over-year and quarter-over-quarter. I was wondering what your outlook is for fourth quarter and 2012 and also what you expect for gross margin by segment.

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

Sure. As we discussed, for Q4, we guide the growth margin as 35% before stock compensation -- compared to operating margin at 35%, before stock compensation, compared to Q3 which was 41%. There will be another 6% drop that we are prepared to take in order to match up with any promotions in the market. For 2012, we're still rolling out our plan so we'll be able to give a more detailed guidance when we announce our Q4 numbers.

Ann Chi - Cowen Group - Analyst

Your gross margin by segment this quarter?

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

Still within the range, but towards the lower end of the range. So hotel business is about 85% to 90% but towards the lower end of the range. Air ticketing is 65% to 70%, package tours 70% to 80%.



Ann Chi - *Cowen Group - Analyst*

Okay, thank you.

Operator

Your next question comes from the line of Wendy Huang from Royal Bank of Scotland. Please proceed.

Wendy Huang - *Royal Bank of Scotland - Analyst*

Thanks for taking my question. First of all you guided 15% to 20% of year-over-year growth, so do you expect this kind of year-over-year growth to be the channel and also do you expect higher growth in 2012?

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

I think in terms of mainland China the growth rate in Q4 is higher than Q3. But we add the greater China in because the GDP growth rate in direct of the greater China area is relatively slower. That's why if you add them together, we guided at the same range as Q3. In 2012, we're still monitoring the market. If the GDP growth rate in China maintains healthily and if our sales and marketing campaign is strengthened, we will grow very aggressive our top line.

Wendy Huang - *Royal Bank of Scotland - Analyst*

Just to follow up on that, so what's your contribution from mainland China revenue?

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

I'm sorry.

Wendy Huang - *Royal Bank of Scotland - Analyst*

What's the relevant contribution from the mainland China area, since you kept the nation in debt, mainland China seems to be the only region that's still growing robustly?

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

More than 90%.

Wendy Huang - *Royal Bank of Scotland - Analyst*

Okay. Second question is still regarding your coupon program, so just to clarify that all the coupon program related costs will be booked in the sales and marketing, so there will be no cash rebate booked in the top line; you won't book anything net of revenue, right?

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

It is going to be net of rather if it is a cash rebate.



Wendy Huang - *Royal Bank of Scotland - Analyst*

So in that case will it affect the commission per hotel room night?

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

Commission per hotel room night from the hotel side remains the same, but we won't give out the coupon as a cost of goods sold -- as a net revenue, contra revenue account.

Wendy Huang - *Royal Bank of Scotland - Analyst*

Okay, thanks, Jane.

Operator

From Goldman Sachs, your next question comes from Catherine Leung.

Catherine Leung - *Goldman Sachs - Analyst*

Hi, morning. I have a follow-up related to the coupon program and do you believe the program is attracting more of your business or leisure travelers? My second question is, regarding the duration of the more intensive sales and marketing strategy and your reference to increasing spend during the weaker underlying travel market, what type of conditions would lead you to eventually dial back the marketing spend? Is it a recovery in the macro or is it some sort of assessment of the competitive landscape?

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

I'd say regarding coupon promotion, in the China market still we do have quite a lot of business travelers, high end travelers and whatnot, price sensitive and still in the market there are still quite some customers that are still quite price sensitive. So I think in order to attract more customers, this coupon promotion can attract more customers in the market. In the meantime, why in the market, in the competition landscape we would have to match the competition with other competitors, so this means I think we can maintain -- get more and more new customers while maintain the loyalty of the older customers.

Catherine Leung - *Goldman Sachs - Analyst*

Maybe just a quick follow-up, in terms of the coupons attracting more price-sensitive customers, do you envision that this would require an ongoing promotional expense, because these customers presumably would be comparing prices quite frequently when they book.

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

I think customers -- first of all I think Ctrip will never start any irrational campaigns on the pricing. However, if there is irrational promotions in the market started by other players, in order to rapidly extend our leadership in the market share, we will make strategic decisions to extend our leadership by matching them up. So it's a combination of market conditions as well as the competitive landscape.



Catherine Leung - *Goldman Sachs - Analyst*

I see. Thank you.

Operator

Your next question comes from the line of Eddie Leung from Merrill Lynch.

Eddie Leung - *Merrill Lynch - Analyst*

Good morning, everyone. Thank you for taking my questions. My first question is related to your ticket commission. There was an increase in the ticket commission related to the same time last year, so do you think this is as a result of the increase in ticket prices, or more about a recovery in commission rates?

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

I think the commission per ticket increased by about 6%, mainly driven by the commission rate on the year-over-year basis has increased. If you remember Q3 of last year, the commission rate for the airlines dropped quite significantly, so this year on a year-over-year basis, there is somewhat of a recovery.

Eddie Leung - *Merrill Lynch - Analyst*

Understood. And then my next question is about your labor costs, you mentioned that we would be seeing the labor costs going up; so how big is the staff force at the moment, and what's your headcount plan for the rest of the year?

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

Headcount right now is about 30,000 staff. I think we control our costs very tightly. We normally do not allow - for existing business lines we do not allow the headcount to exceed the volume growth in the market. However, as you already know, in China the labor costs per employee are increasing. So we also have to stay competitive on that.

Eddie Leung - *Merrill Lynch - Analyst*

Got that, thank you.

Operator

The next question comes from George Askew from Stifel Nicolaus.

George Askew - *Stifel Nicolaus - Analyst*

Thanks, good morning. You've referred several times to irrational programs in the marketplace. What have you seen from competitors? It sounds like you've seen programs in the last month or two or quarter or so. What are you seeing from competitors that might be irrational?



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

I think in a healthy environment we should compete on service and products. Price income increasing in a way is not the best strategy, but if we do see price competition in the market, I think Ctrip probably has the best financial potential to match up with any sales and marketing promotions in the market. So coupon program is one of the strategies that we made a strategic decision to match up with the market practice.

George Askew - *Stifel Nicolaus - Analyst*

So does that mean you're not yet seeing the irrational activity, but you anticipate that you will?

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

Yeah, I think if everyone is doing the same thing, maybe after a while the market should be rebalanced.

George Askew - *Stifel Nicolaus - Analyst*

Okay. You referenced, you know the global economy before, but just kind of drilling into China specifically, with real estate prices for example in Shanghai rolling over a bit the last couple of quarters are you seeing a wealth effect impact on your business?

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

Yes; I think for the real estate those macro economic factors do have some impact on the macro travel patterns. We do see even among those high-end hotels the year-on-year comparison is not so high. I think the quite some big activities can be a little bit slowed down because of the little bit slowdown in GDP growth and also as those kind of real estate situations. But I think this kind of situation, this kind of impacts are not so significant to impact the Ctrip's growth. I think even in a mild economy the travel industry in China we do see this industry can be more resilient than other industries since the China travel industry just entered the golden era.

In the meantime I think during the tough market probably gives the strong players more opportunities and we think Ctrip can do better in tough times than small players, even when the total macro situation is not so good as before.

George Askew - *Stifel Nicolaus - Analyst*

Okay, great. And just one last question -- you've referenced your share buyback programs. Can you give us some kind of a -- you know we're half way through the quarter. Can you give us a sense of what's gone on in the past six weeks or so? And how do you look at share buybacks versus dividends as a way of returning value to shareholders? Thanks very much.

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

Sure. We just started our share buyback program. The board has authorized \$150 million in total for the share buyback program. We monitor the market conditions very carefully and executed with great prudence. So, so far we are setting different price targets to execute this program very methodically. In terms of cash dividends versus stock buybacks, I think we always talk with our investors as well in terms of their preference.

I think when the market has dropped due to reasons that are not related to the Company's execution, probably the best way to return shareholders' value is through a stock buyback program. So we are very open to listen to our shareholders' opinion in terms of what's the best way to return the value to them.

George Askew - *Stifel Nicolaus - Analyst*

Thank you.

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

Thanks.

Operator

Your next question comes from the line of Fawne Jiang of Brean Murray; please proceed.

Fawne Jiang - *Brean Murray - Analyst*

Good morning; thank you for taking my questions. First question, actually a couple of housekeeping items. I was just wondering what are the Government subsidies for the quarter, and also what is your online penetration as of 3Q?

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

If you look at the other income line the majority of the other income line is related to the Government subsidy.

Fawne Jiang - *Brean Murray - Analyst*

And how about online penetration as of third quarter?

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

It's more than 40% to 45%.

Fawne Jiang - *Brean Murray - Analyst*

Got it. My second question is actually related to your call center business. I just wonder what is the current head count for call centers. Also, what is the Company's plan for the head count update for 2012 on the call center business? Also, Jane mentioned that you do see labor increase as a per employee basis. I just wonder what the Company is budgeting for on a per call center staff basically compensation increase for 2012? And how does that impact your gross margin going forward?

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

Sure. The call center employee represents about 50% of the total head count. So the total head count is about 13,000 right now, half of them are call center-related.

In terms of salary increases I think we will maintain a competitive strategy with the market. So whatever the market level is we will match up to it. In terms of the impact on the margin, about 1% to 2% in gross margin.

Fawne Jiang - Brean Murray - Analyst

Got it. That is actually for 2012 from the current level, right, Jane? I just want to clarify?

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

Correct.

Fawne Jiang - Brean Murray - Analyst

Okay, got it. Thank you very much.

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

Sure, thank you.

Operator

And your next question comes from the line of Muzhi Li from Mizuho Securities.

Muzhi Li - Mizuho Securities - Analyst

Hi, thank you for taking my questions. Would you please give me -- share some prospects for the growth in the different segments like the percent of growth in the hotel, air ticket and package tours? Thank you.

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

Sure, are you talking about the guidance or past quarter?

Muzhi Li - Mizuho Securities - Analyst

Yes, guidance.

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

Guidance, okay. Let me walk you through, line item by line item. For hotel business we forecast revenue growth will be 15% to 20% on a year-over-year basis, mainly driven by the volume growth.

Secondly on air tickets, the growth will be around 10% to 15% on the revenue side, which is driven by 15% to 20% for the volume and partially offset by a slight price decrease of 5%. And similar for corporate travel because corporate travel is mainly air ticketing related business. And for package tour we forecast a 30% to 40% increase on a year-over-year basis.

Muzhi Li - Mizuho Securities - Analyst

Thank you; very helpful.

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

Sure, thanks.

Operator

And from Piper Jaffray, your next question comes from Mike Olson.

Andrew Connor - *Piper Jaffray - Analyst*

Good morning, this is Andrew Connor calling on behalf of Mike.

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

Hi, Andrew.

Andrew Connor - *Piper Jaffray - Analyst*

Hi could you repeat the number of hotels in your network at quarter end versus prior year? Then would you say that room nights booked through Ctrip per hotel customer are increasing or decreasing?

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

Hotels in our network in Q3 of this year is about 21,900, which represents about 60% year-over-year growth. So last year, same period we will add 13,700. In terms of the bookings, I think it remains very consistent.

Andrew Connor - *Piper Jaffray - Analyst*

Okay, great. And could you give us an update on Wing On? What was Wing On's growth during the quarter and percentage of total net revenue?

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

As we discussed because of the GDP growth rate in the Hong Kong area and the rest of the Great China area is below the Mainland China, so the growth rate is lower than the Mainland China. Their contribution to the revenue Wing On Easy Travel together is about 8% to 9% of the total.

Andrew Connor - *Piper Jaffray - Analyst*

Okay, great. And a quick housekeeping, operating cash flow and capital expenditures in the quarter, thank you?

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

Operating cash flow is about \$250 million from operating activity. Capital expenditure is about \$25 million.



Andrew Connor - Piper Jaffray - Analyst

Thank you.

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

Sure, Thanks.

Operator

Andy Young from Oppenheimer is on the line with your next question.

Andy Young - Oppenheimer & Co. - Analyst

Morning, thank you for taking my questions. My first question is regarding your train ticketing business. You mentioned that you know that business is growing really fast. We also noticed that there was some news reports that consumers in China would be able to purchase train tickets online by year end. So can you give us some color on your strategy regarding online train ticketing? Also can you also provide some user metrics regarding your online train ticketing presence right now?

Min Fan - Ctrip.com International Ltd. - President and CEO

For the train ticketing, we right now provide the online train information and also train booking services. The growth is quite healthy and I think we will gradually cover more and more departure cities and we will cover more and more delivery services. I think the train business has great potential. Although right now the revenue impact is insignificant but we think with the train booking service for our customers this will be very effective to help the loyalty of our customers.

In the meantime, we are also working hard to combine train tickets with our leisure packages' business. I think in this regard definitely we will try to design more products for those leisure travelers in the near future. I think although right now the train business -- this high speed rail business right now accounts for a very small portion of our total business, but this gives very good potential for our future growth.

Andy Young - Oppenheimer & Co. - Analyst

Got it, okay. My next question is regarding the hotel business. You mentioned that you would be prepared to be more aggressive if need be in terms of sales and marketing and coupon programs. So can you give us some color on your view on the competitive landscape of the hotel business? Particularly regarding some of the traditional agencies and online travel agencies and meta search engines, and also you know group buying operators?

Min Fan - Ctrip.com International Ltd. - President and CEO

I think for Ctrip, we focus very much on providing the best service and the best product and the best prices. In the competition landscape there are many players in terms of the hotel bookings, this area. And Ctrip for the past two years and also for the future we will focus very much to be a one-stop solution for those hotel booking customers. And we will cover more and more hotels nationwide. And also we will match more efficient promotion activities in the market. Also we will consistently provide the best booking service in the market. In that regard I think definitely we intend to maintain our market leading position, not only for the past years but also in the years to come.



Andy Young - *Oppenheimer & Co. - Analyst*

Got it and one quick follow up. So in terms of competitive pressure, which area, do you feel most competitive pressure? Is that coming from the online travel agencies or meta search engines or the new group buying business?

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

Yes, I think for Ctrip, we will try to focus on our own products and services. And of course they are very -- you can say there are quite fierce competition in the market. But still I think, as long as you can provide the best service and the best products and you will still keep very high, you can still keep your leadership in the market.

Andy Young - *Oppenheimer & Co. - Analyst*

Got it, thank you.

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

Thank you.

Operator

Your next question comes from Ming Zhao from SIG.

Ming Zhao - *Susquehanna Financial Group - Analyst*

Thank you. Good morning, everyone. So some follow-up questions still on this coupon program. So in the past you have done some seasonal promotions, like issuing similar coupons. Basically you are turning that into a permanent policy. Is this understanding correct?

Secondly, based on the past experience, what's redemption like for these coupons among the business travelers? Do they do that a lot? When it impacts your P&L, only when redemption happens you will have this top line impact going through to the operating margin impact, right?

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

Zhao Ming, you are right. In the past, based on the seasonality we will stimulate the market using seasonal promotions. This coupon program is mainly to match up with what's going on in the market. It's not permanent. We believe that if everyone is doing the same thing, gradually the effectiveness probably is not as strong as only one player or two players doing the same thing. So, hopefully, the market will have a very rational rebalance very shortly, so that's what our goal is. But if it takes longer, we are prepared to do that, because based on our profit and margin and a strong execution, I think Ctrip is in the best position to match with any promotion in the market.

Secondly, in terms of the calculation and the bookings of the coupons, yes, before the coupon is converted, we have to assess the conversion rate, based on the best analysis and then when the coupon is turned in we will compare the actual numbers with assessment and adjust accordingly. So, at the end of the day, what hits the P&L should be the actual converted coupon.

Ming Zhao - *Susquehanna Financial Group - Analyst*

Thank you.

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

Sure.

Operator

(Operator Instructions) Your next question comes from the line of Wendy Huang from Royal Bank of Scotland.

Wendy Huang - *Royal Bank of Scotland - Analyst*

Thanks. I have some housekeeping questions. Your earlier comment regarding the air ticketing pricing trend, you seem to be happy with the current demand in the market and also pricing trend. However, Air China just released their October traffic data which actually shows signs of a gradual slowdown and also a decline in their load factors. So I just wonder, if we are heading towards another travel slowdown in China, how will you weather through this particular downturn better than the last one in 2008? Thank you.

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

Sure. Wendy, I think if you compare -- different sources give us this different data. When we look at the three major airlines' data, their average for Q3 is about 2.5% year-over-year growth. However, Ctrip delivers 16% year-over-year growth in terms of volume, so that's why I think our strong execution, our initiative, the best service at the best price, really helps us to gain market share.

Going forward, I think normally during the tough market, even when the market slows down, customers trust the reliable service provider. And when the economy is slowing down, I think the big players normally can offer better services and offer more reliable services. That's the best time for us to even more rapidly grow our market share.

Wendy Huang - *Royal Bank of Scotland - Analyst*

Maybe I ask this question again a different way. I think Ctrip has always been delivering the higher growth in overall industry and also solid execution, but still in 2008, your yearly growth declined from 47% in Q1 to 10% in Q4, so that's actually a very dramatic decline. So what has changed recently or what will be different going forward in the next round?

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

I think when we plan our growth rate, we look at two factors. The first one is what's the baseline for the whole industry. The second one is, in addition to the baseline, how much we can outpace the market by gaining market share. So if you look at 2008, the beginning of 2008 the industry was growing very fast so on top of maybe 15%, 20% of the market growth Ctrip add another 20% to gain market share. At the end of 2009, we have industry slowdown. The industry had a decline in the market. We still managed to outgrow the market by growing 10%. So regardless if it's healthy market or low market, these two elements are the key for us to plan how much resources we need to hire, how fast we can grow.

Obviously, in terms of absolute growth rate, in a healthy market the absolute number might be higher, but in terms of the gap between Ctrip's performance versus market performance, normally the gap widens when it is in a tough market.

Wendy Huang - *Royal Bank of Scotland - Analyst*

Thank you, Jane. My second housekeeping question is regarding your guidance. So just to confirm that your (inaudible) guidance suggests the commission rate to remain flat year on year, right?

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

Correct.

Wendy Huang - *Royal Bank of Scotland - Analyst*

Also, I don't get your breakdown guidance for the corporate travel revenue.

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

Corporate travel, total volume is about 20% to 25%. Price is similar to (inaudible) which is slightly down by 5%. Commission rate is flat.

Wendy Huang - *Royal Bank of Scotland - Analyst*

Also, your balance sheet, prepayments in other current assets increased from RMB382 million into RMB744 million in Q3, so what has caused this big jump sequentially? Thank you.

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

Yes, before the October holiday, we put down deposits with the airlines to make sure we have sufficient funds to issue the tickets during the seven days' holiday.

Wendy Huang - *Royal Bank of Scotland - Analyst*

So this is just a seasonal impact. This has nothing to do with a policy change of airlines?

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

No.

Wendy Huang - *Royal Bank of Scotland - Analyst*

Okay, and also your equity income has also increased quite dramatically sequentially, so is it purely because of the Home Inns income pick up?

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

Yes, equity income is our portion to pick up our share in the Home Inns equity income.

Wendy Huang - *Royal Bank of Scotland - Analyst*

But this number has increased by fivefold in Q3 but I assume that you pick up the Home Inns Q2 2011 income which should be around \$33 million, so that should translate to, I think, less than \$6 million equity income but you're booking \$20 million in this quarter. Can you clarify on that?



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

Sure, we will walk you through the details offline, Wendy. Normally, as you said, we look at Home Inns' bottom line in the last quarter and we book it in the next quarter, so we will walk you through the details after the conference call.

Wendy Huang - *Royal Bank of Scotland - Analyst*

Okay, thank you very much, Jane.

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

Sure, thanks.

Operator

As a reminder, we do ask that you please limit your questions to two questions per person and if you have any further questions you are encouraged to queue up again.

Your next question comes from the line of Fawne Jiang from Brean Murray. Please proceed.

Fawne Jiang - *Brean Murray - Analyst*

Hi, I just have a few quick follow up questions. The first one is regarding your coupon program. Just to get a sense regarding the scale of this program, I just wonder what's the percentage of hotels in your portfolio that have participate in the program. That's one.

Secondly, regarding the cash back you gave to the customers, basically what's the average cash give back as a percentage of your revenue per hotel? Basically, I think your revenue per hotel is (inaudible) so how much average do you give back on percentage basis?

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

To answer your first question, the majority of our hotels have joined this promotion and the purpose is to - we definitely want to match the competitors' efforts in the market and also we will, in the near future or in the future, adjust according to the competition landscape.

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

In terms of the dollar amount, I think we were prepared to spend about 2% to 3% of the total revenue which equals about 8% to 10% of the hotel revenue to match up with any promotions in the market for this program.

Fawne Jiang - *Brean Murray - Analyst*

Okay, that's very helpful. Last question is, actually I just want to get clarification on your air revenue guidance for Q4. Jane, you mentioned that the air, you're expecting 15% to 20% volume growth offset by 5% revenue predicated decline. I just want to get clear specification here. I thought that you get pretty low commission rates for Q4 given the World Expo impact. I would think that the commission rate will flow up as of this Q4. Why would we still see revenue coming up, I should say pricing coming down, year over year?



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

I think if you remember, Q3 was during the peak season of the World Expo so the commission rates came down. After Q3, on the quarter over quarter basis for the past couple of quarters, commission has remained very consistent. So Q4 we still see a very flattish commission rate on a year over year basis.

Fawne Jiang - *Brean Murray - Analyst*

Got it. Basically the commission rate floated back after World Expo in Q4 last year, right?

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

Correct.

Fawne Jiang - *Brean Murray - Analyst*

That's very helpful. Thank you very much.

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

Thanks, Fawne.

Operator

Your next question comes from Jin Yu from CICC.

Jin Yu - *CICC - Analyst*

Hi, thank you for taking my questions. Just a quick follow up question in regard of your hotel business. Just could you give us an idea about what is the taking rate of Ctrip's hotel volumes in China?

My second question will be your package tour. Can you provide an explanation about what causes such a significant moderation on the package tour growth rate in Q3? Thanks.

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

The hotel commission rate for us is very consistent, somewhere around 14% to 15%, very sustainable, very consistent commission rate.

On the package tour, I think mainland China the growth rate is about 50%, but as we discussed, outside of mainland China, the overseas growth is not as strong as mainland China. That's why if you add them together it becomes somewhere around 20% to 25% growth rate for (inaudible).

Jin Yu - *CICC - Analyst*

And then the last questions is what do you see the package tour in Q4? I think I missed the guidance. You mentioned it before, could you mention it again?



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

About 30% to 40% year over year growth.

Jin Yu - *CICC - Analyst*

Okay, thank you.

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

Sure, thanks.

Operator

Your next question comes from the line of Dick Wei from JPMorgan.

Dick Wei - *JP Morgan - Analyst*

Hi, thanks for taking my question. I just wonder, the future plan to grow the coupon programs to other (inaudible) as well beyond hotels? In addition, currently for the hotel coupons, how much, is there any difference between online versus offline booking? Thank you.

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

We do not provide a coupon promotion as a line of business and for those coupons when you want to redeem you have to redeem online and in (inaudible) we can also help our online booking business.

Dick Wei - *JP Morgan - Analyst*

Thank you.

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

Thank you.

Operator

We have no further questions in the queue.

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

Okay.



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

Thank you everyone for joining us on the call today. A replay of the call will be available on our website after the call is completed. We appreciate your interest in Ctrip and look forward to convening with you again next quarter. Thank you very much for your time. Bye bye.

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2014, Thomson Reuters. All Rights Reserved.

