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# EDITED TRANSCRIPT

CTRP - Q1 2012 Ctrip.com International Ltd Earnings Conference Call  
and Webcast

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## OVERVIEW:

CTRP reported 1Q12 net revenues of CNY911m or \$145m, net income attributable to Co.'s shareholders of CNY169m or \$27m and diluted earnings per ADS of CNY1.11 or \$0.18. For 2Q12, expects to continue net revenue growth YonY at approx. 15-20%.



## CORPORATE PARTICIPANTS

**Lin Zhang** *Ctrip.com International Ltd - IR Manager*

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

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

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

**Jenny Wu** *Ctrip.com International Ltd - Deputy CFO*

## CONFERENCE CALL PARTICIPANTS

**Philip Wan** *Morgan Stanley - Analyst*

**Jin Yoon** *Nomura Securities - Analyst*

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

**Wendy Huang** *RBS - Analyst*

**Chenyi Lu** *Cowen & Company - Analyst*

**Xiang Zhao** *Macquarie - Analyst*

**Alex Yao** *Deutsche Bank - Analyst*

**Mike Olson** *Pipe Jaffray - Analyst*

**Catherine Leung** *Goldman Sachs - Analyst*

**Fawne Jiang** *Brean Murray Carret & Co - Analyst*

**Alicia Yap** *Barclays Capital - Analyst*

**Tian Hou** *TH Capital - Analyst*

## PRESENTATION

### Operator

Good day ladies and gentlemen and welcome to the first quarter 2012 Ctrip.com International Ltd earnings call. My name is Amanda and I'll be your coordinator for today.

At this time all participants are in a listen-only mode. We will facilitate a question and answer session at the end of today's presentation. At this time I'll turn the call over to your host for today Ms. Lin, IR Manager, please proceed Ma'am.

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### Lin Zhang - *Ctrip.com International Ltd - IR Manager*

Thank you Amanda. Thank you for attending Ctrip's first quarter 2012 earnings conference call. Joining me on the call today we have Mr. James Liang, Chairman of the Board; Mr. Min Fan, President and the Chief Executive Officer; Ms. Jane Sun, Chief Financial Officer; and Ms. Jenny Wu, Deputy 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 the 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 statement except as required under applicable law.

Min, James and Jane will provide a business update, industry outlook and the financial highlights for the first quarter of 2012, as well as the outlook for the second quarter of 2012. We also have a Q&A session toward the end of this call.

With that I will turn to Min for our business update.

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

Thanks Lin. And thank you everyone for joining us on the call today.

Through solid execution on our business strategies, the Ctrip team has continued outperforming the industry in the first quarter of 2012. Our net revenues grew by 19% year over year, and the high end of our guidance of 15% to 20% year over year growth. Our net income decreased by 28% year over year. We strengthened all business sectors, expanded into more new business areas, and intensified sales and marketing campaigns.

We further expanded our hotel supply network which covers about 30,900 domestic hotels as of the first quarter of 2012, compared with 18,000 hotels a year ago. The number of hotels with a guaranteed allotment accounted for about 70% of the full hotel supply.

Our hotel reservation e-coupon program has received positive user feedback, helped us attract more leisure customers and further strengthened our leading position in the hotel reservation sector. We will continue to closely monitor the development of competition and adjust our strategies accordingly.

As a part of our innovative product offer effort we upgraded the Smart Choice hotel platform in the first quarter. Compared with other discount hotel booking models the Smart Choice hotels are more suitable to Chinese customers. The transparent price and information model makes it easy for customers to find a great deal that meets their expectations. The Smart Choice hotel product has been growing healthily since its launch, covering about 2000 hotels already. With more hotels to join the network, we expect to see its increasing popularity among leisure shoppers.

Tujia.com is another new initiative to explore the opportunities in the leisure accommodation market. It is a vacation rental business that offers customers a great choice of accommodations with more flexibility and lower cost than traditional hotels. Tujia.com targets leisure customers traveling with families and friends. We believe the vacation rental business offers a brand new travel experience for Chinese travelers and Tujia.com has the expertise and technology to lead the growth in China for this new segment.

In order to offer a full range of hotel accommodations through different travel needs, Ctrip invested in [Sooncorp.com], a hotel booking aggregate site. Sooncorp.com provides a high quality, online booking service for the fragmented hotel market with more than 5000 hotel listings, including smaller boutique hotel chains, boutique hotels and hotels in historic and scenic sites. As an independent plan, Sooncorp.com targets the young generation who want advantage - adventure but have limited spending power. We believe Sooncorp.com will help Ctrip further penetrate a younger demographic.

To accommodate the fast growing demand for international travel we upgraded our international air ticketing channel in the first quarter. The upgraded channel provides users with more online searching and booking options including complex multi-destinations tickets. It also offers intelligent feature to help customers find the most suitable flight. In addition, it provides for the most transparent and competitive prices.

This upgraded international air ticketing platform is a revolutionary breakthrough in the international air ticketing market. We believe it will help us extend our leadership into international air ticketing.

Featured packaged-tour business delivered another strong quarter with revenue from mainland China to grow 51% year over year. The high end travel market is growing fast in China. The Chinese Luxury Consumer White Paper 2012, jointly published by the Industry Bank and the Hurun, indicates that there are nearly 3 million Chinese people who earn over RMB6 million of personal assets.

To capture this rising demand of high end travelers, in March Ctrip launched [airtriptravel.com](http://airtriptravel.com), a new travel brand primarily serving high end travelers of the [greater] China with personalized super deluxe tours. We successfully tested high end market with our Group deluxe tours three years in a row, the results overwhelmingly beating the industry's expectation. Our 80 Days Group Tours which cost over RMB1 million per person were sold out within just 17 seconds in March.

In April, Ctrip invested in a high quality Chinese travel company, Trip TM. Through the integration of Trip TM's unique result base, HHTravel.com is well positioned to bring China's high end travel market into a new era.

After years of effort Ctrip has built a premier brand name and a leading position in China's corporate travel management sector. With superior service quality and extensive resources, Ctrip has achieved solid expansion of client base and revenue growth in this business. In the first quarter of 2012, our revenues from corporate travel increased 23% year over year.

To demonstrate our commitment to delivering the best service to our customers, in early May Ctrip and China Call Center and BPO Association jointly announced the launch of Ctrip.com 4PS contact centers evolution process. Ctrip is the only online travel service company to initiate a 4PS evolution in China.

In addition to our industry leading hotel service, Ctrip also achieved robust growth in its online transactions. Currently Ctrip's about 45% of total transactions conducted online. Our mobile platform is gaining strong momentum. Booking volume has been reaching record highs every quarter, and Ctrip apps are among the most popular travel apps in China. In March, we upgraded the mobile apps for ROF and NJOY systems. The number of Ctrip travel app downloads has exceeded 10 million. Ctrip now offers a mobile website and much -- multiple apps for mobiles and tablet computers, and we are elevating them to seamlessly integrate our wireless, online and call center services.

During the first quarter Ctrip enhanced the investment in sales and the marketing. We reached out to more new customers through various channels. By the end of first quarter of 2012 our cumulative number of customers has increased to 16.4 million compared to 12.7 million at the same time in 2011.

Contribution to society is Ctrip's mission that will never end. In November 2012 Ctrip started construction of another Hope School in Guangzhou province was completed. This is the sixth Hope School founded by Ctrip's senior management since 2008, and we will continue to increase our efforts and demonstrate our commitment to society.

Based on our deep understanding of China market we have clear strategies to execute our strategic growth initiatives. Looking back on our growth so far, every move we have made has kept Ctrip in the lead of industry growth trends. Amid the booming online travel industry in China, Ctrip will continuously strive to deliver the best product, with the best service, at the best price to our customers.

Now I will hand to James for the industry outlook.

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

Thank you Min. China's economy grew 8.1% in the first quarter of 2012. The World Bank has projected, in April, that the prospects for a soft landing in China remains high with GDP to grow of 8% in 2012. Although a slower growth than in the previous years for China, it implied China will continue outperforming most leading nations in the world in economic growth.

As one of the major consumption industries, China travel industry will continue to deliver robust growth, aided by the increase of household incomes and enhanced paid vacation systems. According to the China Economic Impact Report 2012, issued by the World Travel Tourism Council, China is ranked number two globally in the growth of travel revenues, or a compounded annual growth rate at about 10% for the next 10 years.

We believe leisure travel will be the major industry growth driver, especially China travel services, which is still in its early stage of online migration. Escalating online penetration will create more opportunities for all the players in the industry. Our strategy is to offer a rich diversity of products and best value for money with leading service quality for our customers. In addition, to continue to enhance our business travel offerings, Ctrip is

also putting more efforts towards capturing the great sector growth of the leisure travel sector. We believe, given extensive experience in the China travel industry and the solid execution team, Ctrip is well positioned to lead the industry in the future.

Now I will turn to Jane for financial update.

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

Thanks James. I'm pleased to report the solid results for the first quarter of 2012. For the first quarter of 2012, net revenues were RMB911 million, or \$145 million, representing a 19% increase from the same period in 2011. Net revenues for the first quarter of 2012 decreased by 2% from the previous quarter. Hotel reservation revenue amounted to RMB367 million, or \$58 million, for the first quarter of 2012, representing an 18% increase year over year, primarily driven by an increase of 21% in hotel reservation volume and partially offset by a decrease of 3% commission per room night year on year. Hotel reservation revenues decreased by 8% quarter on quarter, primarily due to seasonality. Air ticketing booking revenue for the first quarter of 2012 were RMB360 million, or \$57 million, representing a 10% increase year on year, primarily driven by a 17% increase in air ticketing sales volume and a 5% decrease in commission per ticket year on year. Air ticketing booking revenues decreased 5% quarter on quarter. Packaged-tour revenue for the first quarter of 2012 were RMB166 million, or \$26 million, representing a 33% increase year on year, due to the increase of leisure travel volume. Packaged-tour revenue increased 28% quarter on quarter, primarily due to the increased travel demand during Chinese New Year. Corporate travel revenue for the first quarter of 2012 were RMB39 million, or \$6 million, representing a 23% increase year on year, primarily driven by the increased corporate travel demand for business travel activities. Corporate travel revenue decreased 18% quarter on quarter, due to fewer business activities during Chinese New Year. Gross margin was 75% in the first quarter of 2012, compared to 78% in the same period in 2011, and 76% in the previous quarter.

Product development expenses for the first quarter of 2012 increased by 51% to RMB196 million, or \$31 million, from the same period in 2011 and increased by 14% 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 18% of net revenue, increased from 14% in the sales - in the same period in 2011, and increased from 16% in the previous quarter.

Sales and marketing expenses in the first quarter of 2012 increased by 47% to RMB183 million, or \$29 million, from the same period in 2011, 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 first quarter of 2012 decreased by 1% from the previous quarter. Excluding share-based compensation charges, sales and marketing expenses accounted for 19% of net revenues, increased from 15% in the same period in 2011, and remained consistent with that in previous quarter.

General and administrative expenses for the first quarter of 2012 increased by 57% to RMB129 million, or \$20 million, from the same period in 2011 and increased by 14% from the previous quarter, primarily due to an increase in administrative personnel, share-based compensation charges and the incremental turnover tax due to the new value-added tax reform. Excluding share-based compensation charges, general and administrative expenses accounted for 8% of the net revenue, increased from 5% in the same period in 2011, and increased from 6% in the previous quarter.

Income from operations for the first quarter of 2012 was RMB177 million, or \$28 million, representing a decrease of 33% from the same period in 2011, and a decrease of 23% from the previous quarter. Excluding share-based compensation charges, income from operations was RMB277 million, or \$44 million, representing a decrease of 17% from the same period in 2011 and a decrease of 15% from the previous quarter.

Operating margin was 19% in the first quarter of 2012, compared to 34% in the same period in 2011 and 25% in the previous quarter. Excluding share-based compensation charges, operating margin was 30%, decreased from 44% in the same period in 2011 and 35% in the same period of previous year.

The effective tax rate for the first quarter of 2012 was 28%, increased from 21% in the same period in 2011 and increased from 23% in the previous quarter, primarily due to the increase in amount of non tax-deductible share-based compensation as a percentage of our income as a whole.

Net income attributable to Ctrip's shareholders for the first quarter of 2012 was RMB169 million, or \$27 million, representing a decrease of 28% from the same period in 2011 and a decrease of 33% from the previous quarter.

Excluding share-based compensation charges, net income attributable to Ctrip's shareholders were RMB270 million, or \$43 million, representing a decrease of 12% from the same period in 2011 and a decrease of 22% from the previous quarter.

Diluted earnings per ADS were RMB1.11, or \$0.18, for the first quarter of 2012. Excluding share-based compensation charges, diluted earnings per ADS were RMB1.77, or \$0.28, for the first quarter of 2012.

As of March 31 2012, the balance of cash and cash equivalents, restricted cash and the short-term investment was RMB5.2 billion, or \$819 million.

For the second quarter of 2012 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.

As of May 16 2012, Ctrip cumulatively purchased approximately 2.6 million ADSs with a total consideration of \$58 million from open market under two existing share re (technical difficulty) in 2008 and 2011, respectively.

Now I will turn to Min for management promotions update.

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

Today we announce the promotion of Ms. Jane Sun, Ctrip's Chief Financial Officer from December 2005 to May 2012, to be the Chief Operating Officer of the Company. Jane played an important role in building Ctrip into a leading internet travel company. Jane was awarded the Best CFO of 2011 All-Asia Executive Team by Institutional Investor Magazine. Jane is well-respected for her expertise in financial operations, merger and acquisitions, investor relationship, operating and managing the OTA business over the years as the CFO of the Company.

We also announced the promotion of Ms. Jenny Wu, Ctrip's Deputy CFO since December 2011, to be the Chief Financial Officer of the Company. Prior to joining Ctrip, Jenny was an equity research analyst covering China internet and the media industry in Morgan Stanley Asia Limited and in Citi Investment Research & Analysis from 2005 to 2011. Prior to that, Jenny worked in the Department of Enterprises Operations and Management in China Merchants Holdings International, one of the largest SOEs in China listed in the Hong Kong Stock Exchange, for three years. Jenny has a PhD degree in finance from the University of Hong Kong, a Master's degree in philosophy and finance from the Hong Kong University of Science and Technology, and both a Master's degree and a Bachelor's degree in economics from Nan Kai University, China. Jenny has been a Chartered Financial Analyst since 2004.

We hold a high - a great appreciation to Jane's significant contribution to Ctrip during her tenure with us as the CFO, and we trust she will play an even greater role in our Company for the years to come. We are very pleased to have Jenny succeed the CFO position. Jenny's extensive experience and knowledge in capital markets, internet industry and large corporate operations make her an excellent choice for our CFO position. We believe that Ctrip will achieve great success under the leadership of our expanded senior management team.

Jane and Jenny, would you like to say something?

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

Thanks. I would like to take this opportunity to thank all of our investors, analysts and everyone who has supported Ctrip throughout the years. I will work very hard with our team, in my new role, to further strengthen our operations. With your support, the Ctrip team will work diligently to capitalize the tremendous opportunity within the China travel industry. Jenny.



**Jenny Wu** - *Ctrip.com International Ltd - Deputy CFO*

Hi everyone, this is Jenny. I would like to thank James, Min Fan and the Board for offering me this fantastic opportunity to be a part of this good organization. I feel very excited to work with this superb management team to embrace all the opportunities and challenges ahead. In addition, I look forward to working even more closely with all of you in the investment analyst community. Thank you.

And with that Operator, we are opening the line for questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you Ma'am. (Operator Instructions) Your first question comes from the line of Philip Wan of Morgan Stanley, please proceed sir.

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**Philip Wan** - *Morgan Stanley - Analyst*

Good morning James, Min, Jane, and Jenny. Thank you for taking my questions, first of all congratulations on a very good quarter, and also Jane and Jenny's promotion. And my first question is about your margin which came in better than expected. I wonder if you could share with us any particular reason for that, and also how should we look at the emerging trend for the coming quarter? Thank you.

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

Sure. First of all, I think for this year Ctrip is very committed to invest in our product and also invest in the sales and marketing campaign which will strengthen our branding. Having said that, our Ctrip team is always very disciplined, to an extent we can save costs and run very efficient operation and run a very efficient sales and marketing campaign, we will.

Going forward, I think for this whole year, we will continue to invest in the product line that will strengthen our comprehensiveness of the product offering and also in the sales and marketing channels we will strengthen our presence in all the channels that will reach out to our new customers.

So for Q1, our operating margin before stock comp was about 30%; after stock comp, it was about 19%. Going forward in Q2, depending on market condition, we're still very committed to our new product investment and sales and marketing, so on the top line our guidance is about 15% to 20% year over year growth.

On the operating margin it will be, on GAAP basis, somewhere around 15% to 17% -- I'm sorry it's about 17% to 18% -- on the operating line. But that's a very prudent guidance taking into consideration of our campaign and new investment.

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**Philip Wan** - *Morgan Stanley - Analyst*

Alright. Thank you Jane. And then my second question is about your hotel booking business, the hotel booking volume actually came in softer than expected, any reason for slower than expected acceleration? And also if you could share with us any updates about the coupon program, for example, do you plan to further offer the discount to boost customer acquisition? That would be very helpful. Thank you.

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

Sure. When we give our guidance in February I think that the January number came in very strong due to the Chinese New Year. But February and March the number was not as strong, so that was the reason. However, from a year over year comparison, and also from previous quarter, we believe the coupon product has been very effective.



In Q4, if you remember, our hotel volume growth was about 10% year over year, and in Q1 the volume has doubled to 21% year over year growth. And we will continuously monitor the market condition to match up to any coupon program that's available in the market.

Secondly, also in the market we have to be smart to work which area we will invest our money in. So when we look at the hotel market there are regular and mainstream hotel market and there is also Groupon market. The mainstream hotel market is our focus because that promotes our branding and also that promotes our customers loyalty. For the Groupon market that doesn't carry Ctrip's brand and therefore we do not focus too much on that area. So if we put all our efforts and investment in the product that will win the customers loyalty to us, that's our investment focus. So going forward that will still be our strategy.

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**Philip Wan** - Morgan Stanley - Analyst

Thank you, that's very helpful. Maybe a very quick follow-up, what kind of volume expectation are you looking at for second quarter for hotel booking?

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

Okay. Can you hear me okay?

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**Philip Wan** - Morgan Stanley - Analyst

Yes.

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

Okay, great. Maybe I can take this opportunity to walk you through the volumes for all product lines. For hotel volume growth we expect is 15% to 20% growth, and the price is about 5% up. And the commission rate, due to the e-coupon program, will be 5% down. So overall, revenue growth is forecasted at 15% to 20% year over year growth. Air ticket volume is going to be 10% to 15% year over year growth, and the price and commission remain to be flat, so that gives us the revenue 10% to 15% growth. Corporate volume is 10% to 15% year over year growth, and the price and commission remain flat, and the revenue is going to be growing at about 10% to 15%.

So if you add these three items - and also packaged-tour, our forecast is about 25% to 35% year over year growth. If you add all four of them together that gives us 15% to 20% year over year growth for Q2.

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**Philip Wan** - Morgan Stanley - Analyst

Alright, thank you Jane, that's very helpful.

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

Sure. Thanks Philip.

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**Operator**

Your next question comes from the line of Jin Yoon of Nomura, please proceed.

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**Jin Yoon** - *Nomura Securities - Analyst*

Yes. Good morning everyone. So just kind of piggybacking on that question regarding hotels, you know like your sales and marketing cost it seems to be, it was down a little bit, is that - is there any correlation between sales and marketing and hotels? As we expect volumes to increase to the second half of the year, should we also expect sales and marketing costs to incrementally go up?

And the 30% kind of margin that you talked about in the past, can we expect that to be a ceiling or is that a floor, when you look out over the next couple of quarters? Thanks, I'll stop there.

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

Sure. I think the sales and marketing campaign will be kept on for this year to promote our products. In order to be very successful in the product line I think both products need to be very strong and also sales and marketing campaign needs to be kept up.

So on the product line I think as Mr. Fan discussed, we have extended our product line into all dimensions, including our small hotel hostel model, our Smart Hotel choice, and also we're testing the water for the vacation rental market. So I think our product is the strongest in the market. With that, that gives us a very strong base for running our sales and marketing campaign, so we're prepared to spend money into online - both online and offline channels to strengthen our branding this time.

So 30% operating margin before stock comp is for the full year; that gives us a baseline. So somewhere around 30% is what we're shooting for. Depending on the quarterly number and the seasonality sometimes it will be a little bit higher, sometimes it will be a little bit lower. And also depending on the timing of the sales campaign, so it can be 1% to 2% higher or lower. But on average for this year that's our target number.

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**Jin Yoon** - *Nomura Securities - Analyst*

Perfect, thank you Jane, I appreciate that.

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

Good. Thanks Jin.

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**Operator**

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

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

Hi. Good morning. Many congratulations to Jane and Jenny --

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

Thank you.

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

-- and thank you for taking my questions. I've got two questions. The first one is about the decline in commissions, particularly room nights. So could you guys give us more color on the reasons behind it? While we know that the pricing of tickets and hotels are in general are going up year on year.

And then secondly, I also curious on Jane's comments about -- that was by group buy or big discount hotel offerings by some of your competitors. So just wondering, on the strategy side, why you think consumers would not be attracted by these discounted offerings, while branding would still be important to most consumers? Thanks.

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

Sure. Let me ask -- answer these two questions separately. The first one is the commission rate in air tickets. Dollar -- if we look at per ticket basis, dollar amount per ticket decreased about 5%, so that's about RMB2 per ticket. RMB1 was due to the price decrease, another RMB1 was due to the commission rate. So these two elements are not within our control, from quarter to quarter, sometimes it can be up sometimes it can be down. So it's very moderate when we look at the past quarter.

The second one is on the hotel. I think the majority of the hotel are very -- would like to get -- maximize their hotel yields. So, to an extent, if they can get more money for every hotel room they will, and Ctrip helps hotels very much to maximize their revenue streams.

On the consumer side obviously the coupon is attractive to the consumer, so Ctrip's rebated cash to the consumers to match up with the market. And then the comments on the Groupon is that when the Groupon company sells these hotels it's sold under the Groupon's name. At the backend, although it's provided by OTA, the backend name is not presented to the customer. So you're branding, your brand is not rooted in these consumers' hearts, so you don't get any credit in the sales and marketing.

Secondly, on the profit you don't get any credit on that either because Groupon, as you all know, is a low margin business. So last year, I believe, the market had thousands of different Groupon companies and this year in the market the number of the Groupon company has reduced to half. So that already sets the trend. Most of the Groupon products probably is not sustainable; that is why we do not want to spend too much effort to products that neither give us the branding nor give us the customers loyalty or give us the bottom line. So that's where the comment was coming from.

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

Yeah. I would like to add some color for your question. I think for the hotel side, the Groupon model is kind of a supplementary sales channel for some hotels, but would not be the main channel or the mainstream for hotel sales marketing practice.

And also in terms of most of the international branding, international brand hotels or those well established local brand hotels, Groupon model is just a very small supplementary sales channel for them. So I think for -- in fact, Ctrip will also have one of our Groupon buying products in our website, but this we mainly consider as a very good supplementary for those -- for example, new hotels, or for those hotels when they are at their low season. So we view this as just a supplementary sales channel for hotels and also can bring value to those very price-sensitive customers.

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

That's very helpful, thank you.

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**Operator**

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



**Wendy Huang** - RBS - Analyst

Good morning. Please allow me to add my congratulations on the promotions of Jenny and a great team set up. I look forward to communicating with both of you more closely in the future. My first question is about the hotel market. It seems that Ctrip has now been trading into almost all the hotel segments and hotel distribution channels. So how will these initiatives change your hotel margin profile for Ctrip in the long-term? Also, I record that Ctrip's market share in the hotel booking market was about 2% to 3% now, so what percentage of the hotel market model that Ctrip aims for in three years' time? Thanks.

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

I think for the past ten years, Ctrip has a well-positioned as a very good hotel distribution platform and for those middle to high end hotel consumers. I think in the past years and also in the years to come, Ctrip will have much more coverage, not only on those middle to high end but also cover all the product signs, all the hotel product signs, like wages allowance system, new product lines like the Smart Choice -- it's quite similar like the [hot Y] model and also the (inaudible) model and also something like the HomeAway model.

So I think this -- definitely we can provide a very good variety of products for our target customers. I think in China, still as you know, our membership hotels right now have more than 30,000. But still in the market, there are a lot of hotels. Probably they have a very good potential for Ctrip to cooperate with in the near future. So definitely we will have more coverage to provide more varieties to our customers.

So, in terms of the percentage wise, I think still right now Ctrip, the total market share in terms of our whole hotel and hotel marketing in China, this is a very small percentage. Still, right now only allows 3%. So I think in the year to come, we will try to significantly increase our market share.

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**Wendy Huang** - RBS - Analyst

Thank you. My second question is to try and get a better color on the second half travel demand and also Ctrip's year over year growth. I guess reading across information I got from other internet companies' resulting guidance so far is that for some cyclical internet subsectors, such as online advertising and online recruitment, they have all seen the increasing uncertainties in advertising demand or recruitment demand. But, on the other hand, they are expecting the revenue to be more second-half loaded. So they expect better second-half outlook.

So Ctrip has operated in also similarly cyclical travel -- online travel segments. Should we expect your year over year revenue growth to be higher in the second half? Not only, I guess, given the potential high demand but also given the easier comp versus 2011. Thank you.

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

Yeah, I think our team works very hard, obviously, to deliver as high a number as possible. But to be prudent, I think our visibility right now probably only allows us to give you the second quarter of the guidance. But we'll work very closely with our partners to make sure when we give third quarter and fourth quarter guidance it is as insightful as possible. But I think the plants and also the seeds we have planted in the previous year and in Q1 will generate very good results in the years to come.

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**Wendy Huang** - RBS - Analyst

Okay, thank you Jane.

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**Operator**

Your next question comes from the line of Chenyi Lu of Cohen & Company.



**Chenyi Lu** - Cowen & Company - Analyst

Thank you. I have a question. The first question regarding the gross margin trend going forward. This quarter, we have gross margin about 75.2%. Can you give us the view over the next few quarters, and if you can, can you please provide us the fourth margin broken down by segment? That would be great, thank you.

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

Sure. The gross margin for Q1 is about 75%. In Q2 it's probably around 73% to 74%, mainly due to our efforts and determination to keep up with the e-coupon program. Going forward, I think in the long, long term, 70% gross margin is very sustainable in our business. So that's how we forecast our gross margin.

In terms of product line break up, hotel is the highest in terms of gross margin, 85% to 90%. Air ticket is the lowest, 65% to 70%. The vacation package is in between, because it's a combination of ticket plus hotel. So the gross margin is about 70% to 80%. So, depending on the seasonality and depending on the market condition, it can be on the high end of the range or the low end of the range.

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**Chenyi Lu** - Cowen & Company - Analyst

Okay, and my second question regarding the operating expense. I can see this quarter, the product development and also G&A coming a little bit higher. Can you give us a view as to, are you expecting that you will continue to invest these two areas over the coming two quarters? Thank you.

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

Sure, sure. For product development, yes, I think we have lined up all the new business development, including the ones we have already talked about, the vacation rental program, the hostel model, smart hotel choice, our team platform, our 3G product line. So we will keep up with our efforts in these new investments. So although this year the margin will take a hit, we believe in the upcoming years all these new product lines will generate very good results for us. So, the effort will be kept up.

In terms of the G&A, that is the line we control very tightly. This time you see about RMB7 million in the G&A was due to a VAT tax reform. As a result of this VAT tax reform, there is about RMB7 million to be reclassified from the business tax line to G&A. On a neck and neck basis, there is minimal impact on the bottom line, but between the line, there is a reclassification. That's the main reason why you see G&A has a pick up.

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**Chenyi Lu** - Cowen & Company - Analyst

Okay, I just want to add one more thing. You just talked about tax rates, right? This quarter, the tax rate -- effective tax rate is about 28%. Would you (inaudible) higher over the last eight or nine quarters. Can you give us a view what effective rate going forward?

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

For Q2 we forecast about 28% as well. The tax rate, depending on which entity received these incomes, and different entities have different tax rates. Obviously our team will work very hard to get as much tax benefit as possible within the law. But for Q2 we forecast for about 28%.

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**Chenyi Lu** - Cowen & Company - Analyst

Thank you, that's all my questions.

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

Thanks.

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**Operator**

Your next question comes from the line of [Xiang Zhao] of Macquarie. Please proceed.

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**Xiang Zhao** - *Macquarie - Analyst*

Thank you very much for taking my questions. Again, congrats to both Jane and Jenny. I have two questions as well. First, it's more like a follow-up operating margin question. I think Jane you mentioned earlier the GAAP, operating margin guidance for Q2 is 17% to 18%. I was wondering, could you give us the non-GAAP? I also want to make sure I heard you right, that the 30% non-GAAP operating margin is for the full year, and that by the end of the year the target is 35%. That's our first question, our margins.

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

Thanks for your question. First of all, for the full year, Non-GAAP operating margin is targeted at 30%, not 35%. Obviously we'll work very hard to deliver a good margin, but so far 30% is our guidance. Secondly, our GAAP basis of breaking margin for Q2 is about 17% to 18%. Non-GAAP basis, if you add back 11%, for share-based compensation charges, you will get about 28% to 29% for operating margins on a non-GAAP basis.

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**Xiang Zhao** - *Macquarie - Analyst*

Okay, thanks for the clarification. My second question is on competition. Obviously in recent years, players like [Powerball] and others have got into the market. Most recently even [Soonyin] started to sell tickets in hotel and online. Could you just elaborate a bit just to us on the call, how you think about competition going forward? What's the competitive advantage feature we have against all these competitors? Thank you.

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

Yeah, I think the reason they are emerging quite some players try to provide a travel solution to their customers, and like you said, Powerball, even Soonyin is also entering this market. I think Ctrip is still the very prominent leading OT in China and I think the business model of Ctrip is quite different from those Powerball or Soonyin or other -- sort of changing what they are doing. We are the most comprehensive travel product platform and we provide our service and products through three major platforms, websites, call centers and mobile. We can deliver you a reliable service from online to offline. So I think this is quite different and also this is our competition edge over other players.

I think if you were talking about the competition advantage of Ctrip, Ctrip has full key features, what you can see there are a big difference from other players. Ctrip offers a one-stop solution for customers. Although customers may find some products on other websites, either it's hotels or air ticketing or other products. But all these platforms lack this after sales service. Ctrip is the only one-stop comprehensive travel solution platform in China right now, versus other players. So this is one big difference. Also, secondly, Ctrip has our three major service platforms, which is quite different from other previous operations.

For our customers, our customer can reach Ctrip by website or by call center or by mobile device. Those channels operate 24/7 and our service quality is the best among the industry, with very high standards, while other websites or other players probably can provide different products, but most of them will rely on third party agencies to fulfill the orders. While Ctrip we will sell our customer from the very beginning to the after sales service.



Thirdly, I think Ctrip already has very good centralized and standard processing systems. Probably Ctrip is the first company to apply quality control mechanism in the industry. So people -- customers will not just try to find certain products but they will try to get the heightened consistent service quality with the lower cost. So this is what we can provide, why other players is very hard to provide.

Also I think for the travel industry, not just a website can do everything. You still rely very much on whether you have very well-experienced, skillful management team and service delivery team. This is, I think, where Ctrip has the strongest results in the travel industry.

So I think where we will come all the competition in the market and also if there are more online players, in fact all these players can educate customers in more efforts. But at last, the customer will - finally the customer will choose the most reliable and the most high quality player in the market.

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**Xiang Zhao** - *Macquarie - Analyst*

That's very helpful. Thank you very much.

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**Operator**

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

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**Alex Yao** - *Deutsche Bank - Analyst*

Hello and good morning everyone. Thank you very much for taking my call. Firstly and probably most importantly is congratulations to Jane and Jenny's promotion.

I have two questions. Number one is, can you help us understand how the coupon program is helping the hotel volume growth in 1Q and your expectation for Q2? Secondly, regarding your hotel business addressable market, we heard on some local news that suggested that you guys are moving into the hotel market. Does it reflect your changes on strategies, basically tapping into the business-oriented marketing, on top of our existing consumer-oriented ending market? Thank you very much.

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

So maybe I can talk about the first question. Second question our CEO will answer. The first one is the coupon impact on the volume. Yeah, we have seen the coupon has helped to attract customers that is price sensitive. So if you look at Q4, our volume growth was about 10% year over year. In Q1, we doubled, it's 21% year over year. We will keep up our efforts to an extent that we match up with any coupon program that is available on the market. So that is our strategy.

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

I think for the hotel market for our target customers, we will target not only the business travelers, but also the leisure travelers as well. So for hotel products, providing we're working very hard to cover all the different product lines, right now, as you know, our hotel model is still the agency model, is the mainstream model in China and most of our customers will like that model. But still, some hotels can deliver some prepayment rate which is significantly lower than the agency lower. So also we worked on these fields. So we will include those hotels who would like to provide those prepayment model and we will provide those products to our customers. So in that way, I think, like the Smart Choice hotel is somewhat very close to this model. Also, group buying is close to this model.



Also, we will have some only booking discount for some special hotels, can be used this model. Also, in the near future we will definitely try to provide more different product lines to our customers to fulfill their different needs. So I think probably this is what you knew about the Ctrip will have more hotels, different hotel room rates structure.

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**Alex Yao** - Deutsche Bank - Analyst

Got it. Thank you very much.

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**Operator**

Your next question comes from the line of Mike Olson of Piper Jaffray. Please proceed, sir.

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**Mike Olson** - Piper Jaffray - Analyst

Yes, good morning. Somebody asked earlier about the easier comps in the back half of the year. I wanted to ask about Q2. I believe your Q2 revenue growth comp. is a bit easier than last year. So would you say that your Q2 revenue guidance is suggesting that you're seeing more headwinds for growth in Q2 compared to Q1, or would you say it's just conservative given it's the same range of 15% to 20% on an easier comp.?

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

Q2; obviously our team will work very hard to deliver as strong results as possible but there are a couple of things that we cannot control. First of all, James has talked about the GDP growth rate has been revised down a little bit. So we need to take that into consideration. There is also some obstacles in the southern part of China that make travelers a little bit concerned.

So there is always certain uncontrollable events that we need to consider -- take into consideration when we give our guidance. That is why we give a number at about 15% to 20% range.

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**Mike Olson** - Piper Jaffray - Analyst

Okay. Good.

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

Also, based on the April number, I think Southern Air was growing at about 5%, but Air China had a negative growth, so net effect to the market is flattish. So we also took that into consideration.

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**Mike Olson** - Piper Jaffray - Analyst

Okay. That makes sense. Then, are there other attractive travel verticals beyond -- you guys talked about vacation rentals and hostels and things like that. Are there other attractive verticals that you could talk about that you're looking at making acquisitions or investments in?

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

I think we are always very active in the market. But we are also very focused. Anything that is related to travel business we have our eyes on it. But we need to wait until the market is ready. So some of them probably we still need a few years to cultivate it, but when it's matured enough we will



invest heavily into the market and then hopefully within one to two years these investments will generate very good yields for us. The items we have disclosed have been cultivated for -- in the past, and now we spend quite some money in the product development line to further strengthen it. So hopefully these items will generate very good results in the upcoming years.

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**Mike Olson** - *Pipe Jaffray - Analyst*

Okay. Thanks a lot.

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

Sure. Thanks.

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**Operator**

Your next question comes from the line of Catherine Leung of Goldman Sachs. Please proceed.

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**Catherine Leung** - *Goldman Sachs - Analyst*

Hi. Good morning. I wanted to add my congratulations to Jane and Jenny. Firstly, in terms of the coupon program, how do you view the level of competitive activity now in terms of the possible rationalization that you might have expected when you launched the program?

Then, secondly, in terms of the acceleration in product development cost growth, which I understand is for a lot of the product initiatives, to what extent are you able to leverage your existing business development teams and just repackaging some of your, for example, the hotel inventory, and how much is actually building separate teams for these new initiatives? Thank you.

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

I think for the e-coupon program we launched, I think we did see the positive feedback from our customers and we will -- for this e-coupon program we will match all players in the market and I hope maybe sometime later than all the players can be more rational on this promotion. So we will monitor the market very closely. Yeah.

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

In the new [TV] program you are right, some of the items we can leverage our infrastructure. For example our Smart Hotel choice, it's a new team within our big hotel group. So, to an extent they can leverage the personnel -- people's relationship, we're fully leveraging that. Some of them are very new, so we have a separate team to work on it. So, for example, the vacation rental team, they execute very strongly. It's a separate team. So, depending how much overlap and synergy we have, either it is a small team within our existing infrastructure or it's a separate entity which gives them more flexibility, more efficiency to execute into a new business area.

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**Catherine Leung** - *Goldman Sachs - Analyst*

Okay. Got it. Thank you.



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

Sure. Thanks.

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**Operator**

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

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**Fawne Jiang** - *Brean Murray Carret & Co - Analyst*

Good morning. Thank you for taking my questions. The first one is actually regarding your hotel. It seems like you have very nice expansion of your overall hotel network in the quarter. I just wonder, given your network is expanding, whether the hotels that are under the coupon program will increase with your hotel network's growth as well. Also seems that for the first quarter the coupon impact on your revenue -- revenue per room night only declined 3% year over year, and seeing that you guided second quarter 5% year over year, just wondering whether the 5% is something we should look forward in the coming quarter as well, or do you expect that could potentially go further? Thank you. That's my first question.

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

For the first question, I think for the -- when we enlarge our hotel (inaudible) the main purpose is we try to provide more options for our customers. But for e-coupon definitely we will still match the market. Of course we will not start a price war but if in the market there is a certain big discount or other players they have very big discount over our hotel -- providing then we definitely we will match them. But in fact we don't calculate the percentage because the -- it's changing. Yes, it's changing. So I think -- yes, we will forward strategy we will still enlarge our hotel pool in the next quarter and also we will match our e-coupon program with major competitors.

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

Regarding the marketing impact, we guided 5% down for Q2, again, just as Min says, if our -- in the market the coupon is scaled back we will. But if anybody steps up we will also match them. So we budgeted enough to handle any kind of e-coupon program in our guidance.

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**Fawne Jiang** - *Brean Murray Carret & Co - Analyst*

Okay. Got it. Second question is actually regarding your recent investment in the vacation rental as well as the hostel business. Just whether you could give us a little bit more color in terms of format of your investment. Also whether we will potentially see any financial impact from those investments, like basically whether they will somewhere fall into your financials in the coming quarter. Also whether those hotels are counted as your hotel network and also the room nights booked, whether it's also part of Ctrip or just a pure investment purposes.

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

These two investments, Ctrip is majority shareholder, so all the performance in terms of the expenses, the investment is fully consolidated into our numbers already. So that's the first thing. The second thing is, in terms of top line, since they're so new, the impact is immaterial. But we have already picked up all their expenses in our product development line items.

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**Fawne Jiang** - *Brean Murray Carret & Co - Analyst*

Got it. Jane, just to follow up on that. So when did you -- what is the date for the investment for Sooncorp and what's the date for the investment for Tujia? So, like since when do we pick up the expenses?



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

I think it's Q1 -- mainly from Q1. We have been planning for this last year, but the majority expense start in Q1. Late last year but early this year.

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**Fawne Jiang** - *Brean Murray Carret & Co - Analyst*

Got it. Thank you very much.

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

Sure. Thanks.

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**Operator**

Your next question comes from the line of Alicia Yap of Barclays Capital. Please proceed.

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**Alicia Yap** - *Barclays Capital - Analyst*

Good morning. Thanks for taking my questions and congratulations to Jane and Jenny. First question is that -- one and two is housekeeping questions. How many employees that you have on call center by the end of first quarter, and any wage inflations or salary adjustment that already happening or expected to implement.

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

Yeah. We have about 8000 to 9000 employees in the call center. The wage inflation is already reflected in our number and guidance. So I think with a moderate growth rate the inflation will be better controlled this year as well. So that's our visibility. But we definitely will make sure the salary structure match up to the market condition.

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**Alicia Yap** - *Barclays Capital - Analyst*

I see. Then second is just that wanted to get a view from management how we see the OTA agency model going forward for the industry and will Ctrip have any plan to take more initiative to be growing closer to the merchant model?

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

Yeah. I think for the merchant model -- merchant model and agency model is both popular models among the international OTAs. In China right now most practices are the agency model. But I do see the merchant model the need is there and also the growing is there. So for Ctrip right now we -- our mainstream is still the agency model but we will add more products, providing especially in the hotel side we will provide the merchant model for targeted customers, especially those leisure customers and also -- in fact, as you know, in China during the peak season probably you have to do the merchant model in some significant areas. So I think this is an ongoing process right now.

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**Alicia Yap** - *Barclays Capital - Analyst*

I see. So can we just get a general sense, let's say, for China, what will be the margins difference on the merchants versus agency model?

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

Yeah, the marketing difference is almost same -- probably the same, because even though the -- even for the hotel side they will view these two models as normal practice so there is no need to raise one margin and decrease another margin.

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**Alicia Yap** - *Barclays Capital - Analyst*

I see. Got it. Thank you so much.

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

Thank you.

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**Operator**

Your next question comes from the line of Tian Hou of TH Capital. Please proceed.

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**Tian Hou** - *TH Capital - Analyst*

Thanks for taking my question. The question is really related to your product development. So I saw a jump in the product development investment. So I wonder what other area have you invested and is this any -- can you give us some color on your (inaudible) about the potential revenue contribution from your investment?

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

Sure. As we discussed, I think the increase in product development is mainly for the new business development. In the hotel business we have put a lot of effort in the variety of different model. For example, the Smart Hotel model is targeted at leisure middle to high end customers. The hostel model is targeted at our budget customers. Vacation rental is a new market; nobody has done it before. So that's on the hotel side.

Then on the -- 3G is also a future trend for our business so we spent quite heavily to invest in that area. Also on the train ticket, I think, again, that's also a very important area. So anything that is helpful for a customer that is traveling Ctrip will have it. But we will do it in a very methodical way, in the sense that when the market is ready, when the customer has that requirement, when the industry has the infrastructure we will pull the trigger and make the investment, make sure Ctrip's platform provides the most comprehensive product in the market. So that's our strategy. That's why the PD -- product development line increases.

But we believe the future revenue for these items will be very good to generate good yields from these investments.

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**Tian Hou** - *TH Capital - Analyst*

Okay. That's helpful. Regarding the package tour, I believe the package tour market is actually quite crowded. So what's the differentiation between a Ctrip package tour and the other guys in the market, like [Toonil]?

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

Toonil?

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

Yeah. I think right now our package tour business enjoys very high quality and also we enjoy the very wide coverage on different destinations, not only domestic but also abroad. I think the model of Toonil and other online players, I think their positioning and features are a little bit different. For Ctrip positioning we mainly put it on the middle to high end leisure customers -- I mean the package tour business -- and also we have a very big portion -- big percentage of product generated from the FIT business. That means hotel plus air ticketing plus ground service packages, ground service options while other players -- it's very hard for other players to provide this kind of FIT packages, which can be very flexible and also close to seamless connection with the real inventory of the hotels and the airlines.

So I think in terms of the coverage of destinations, in terms of the flexibility and also in terms of service quality, Ctrip definitely is among the number one -- is number one of all these players in the market.

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**Tian Hou** - *TH Capital - Analyst*

Okay. Thank you. That's very helpful. That's all my question.

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

Thank you.

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

Yeah, you're right. Package tour growth in mainland China for our Group is holding very strong. It's above 50% year over year growth so we will keep up with that momentum.

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**Operator**

Your next question -- your final question is a follow up question from Wendy Huang of RBS. Please proceed, ma'am.

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**Wendy Huang** - *RBS - Analyst*

Thanks. First, I just want to double check on the operating expenses for Q1 because you said that non-GAAP operating margin is better than what you guided three months by 2 percentage points to 3 percentage points. So, which part of cost came in less than you expected three months ago?

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

I think some of the sales and marketing expenses we put it in during the later part of the quarter so there is partial quarter expense there. But depending on the marketing conditions I think it's necessary with (inaudible) investment in certain channels.

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**Wendy Huang** - *RBS - Analyst*

Okay. Also, can you give me some update on your travel review website [Reping]. How has the traffic grown and also what's the progress on the advertising revenue and also its business model?

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

Yeah. I think (inaudible) is still going very well and it -- if you check our website, it recently upgrade the website to optimize user experience and we will still focus very much on the hotel comments and also we will focus very much on the travel reviews which is a [UDC] model from our users.

Also Reping with most other major OTAs in China and also if you -- if you log on Reping independently you will see other online players on Reping's website and also Reping will provide hotel comments for other players and also more independent travel communities in the market, not just only work for one OTA. So I think that for Reping we do see the very good growth trend there and Reping will aim to build a platform of the user generated travel guide and also if you check Reping's page view and unique user base, it grows very healthily and strongly. I think Reping right now is another top one -- travel community in China in terms of the review quality and in terms of the travel coverage.

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**Wendy Huang** - *RBS - Analyst*

Is there anything that you can share with us about revenue movement of Reping?

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

The revenue compared to Ctrip's revenue is still insignificant as it's still in the early stage but it's their goal to make sure its user content becomes so robust that it will attract more advertisers.

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**Wendy Huang** - *RBS - Analyst*

Okay. Finally, among your four key operating metrics, hotel volume, hotel commission per room night, ticketing volume and commission per air ticket, so which variable is most uncertain for the rest of the year in your view?

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

Yeah, sure. So if you look at our revenue stream there are three main factors we need to take into consideration. The first one is volume. The second one is price. The third one is commission rate. The first one we -- our competitiveness will reflect in the volume because no matter if it's a strong market or a slower market, as long as we run the efficient and strong execution we should outpace the market based on the baseline. So that number, I think, reflects our competitiveness.

On the pricing, normally hotel and airline sets the price and that is going to be determined in the market condition. Supply and demand drives the pricing structure. We can monitor it but we cannot control it.

On the commission rate, again, that is also determined by the hotel and by the airline. So far it looks like very stable, so that's the best visibility we have on these three items.

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**Wendy Huang** - *RBS - Analyst*

Okay. Thanks Jane.

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

Sure, thanks. Wendy, I know most of the analysts will do a model. So one reminder is, for this quarter, we will pick up RMB18 million loss from the investment in Home Inns because Home Inns is doing our integration with Motel 168. They have a loss in Q1 and we will pick up our share of their loss of RMB18 million. So when you work on your model please take into consideration of that item.



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**Wendy Huang** - RBS - Analyst

Thank you for the heads up. That's very helpful. Thank you.

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

Sure. Thank you.

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**Operator**

This concludes the question and answer session for today. I'll now turn the call back over to Lin for closing remarks.

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**Lin Zhang** - Ctrip.com International Ltd - IR Manager

Thank you everyone for joining us on the call today. I replay of the call will be available as usual on the IR web page shortly after the call is completed. We appreciate your interest in Ctrip and look forward to communicating with you again next quarter. Thank you.

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

Thank you very much.

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

Thank you.

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**Operator**

This concludes today's presentation. You may now disconnect. Have a good day.

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