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CTRP - Q1 2011 Ctrip.com International, Ltd. Earnings Conference Call

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OVERVIEW:

CTRP reported 1Q11 net revenues of CNY765m or \$117m, net income attributable to Co. shareholders of CNY235m or \$36m, net income attributable to Co. shareholders excluding share-based compensation charges of CNY305m, diluted earnings per ADS of CNY1.54 or \$0.24, and diluted earnings per ADS excluding share-based compensation charges of CNY2.01 or \$0.31. Expects YoY 2Q11 net revenue growth to be approx. 15-20%.



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PRESENTATION

Operator

Ctrip.com International Limited Earnings Conference Call. (Operator Instructions) I would now like to turn the conference over to Michelle Qi IR Manager for Ctrip. Please proceed.

Michelle Qi - *Ctrip.com - IR Manager*

Thank you Jeremy. Thank you for attending Ctrip's first quarter 2011 earnings conference call. Joining me today on the call we have Mr. James Liang Chairman of the Board, Mr. Min Fan, President and Chief Executive Officer, and Miss Jane Jie Sun, Chief Financial Officer.

[We're with you in] this call to discuss our future outlook and performance. We have forward looking statements made under the safe harbor provisions in the US Private Securities Litigation Reform Act of 1995. Forward looking statements involve inherent risks and uncertainties. As such, our result 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 annotate any obligation to update any forward looking statements except as required under applicable law.

Min, James and Jane will provide a business update, industry outlook and financial highlights for the first quarter of 2011, as well as the [outlook] for the second 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 - President and CEO*

Thanks, Michelle. Thank you to everyone for joining us today on the call.

We are glad to report that the Ctrip team has once again delivered strong results in the first quarter, marking an encouraging start to the year 2011. Our net revenues grew 30% year over year, and net income grew 23% year over year.

With solid execution Ctrip has further enhanced its strategic partnerships, improved operating efficiency and elevated its customer service level. The Ctrip team has continued to build the brand's strength and demonstrate industry leadership.

(Inaudible) network continues to expand to satisfy the growing needs of travelers, reaching approximately 18,000 hotels by the end of March 2011, compared to 10,600 hotels at the same time in 2010. The number of hotels with guaranteed allotment loans accounted for approximately 75% of the total hotel supply.

We [load] out more options for making hotel reservations to cater for the different needs of our customers. For example, Ctrip has launched the most expensive hotel group buying platform in China, with the daily participants reaching over 100 hotels. Our hotel group buying 2.0 platform features the most (inaudible) elevating service levels industry wide.

Thanks to the great effort and strong execution on the part of (inaudible) Ctrip has continued to outpace industry growth in the (inaudible) sector, running far ahead of the industry average. [For vacation] packages, despite the fact that uncontrollable events naturally affected customer sentiment towards travel in the last quarter, our [package] towards business achieved a healthy growth.

The Ctrip team has increased market penetration, streamlined strategic alliance with local partners, enhanced results management and diversified our product offerings. As a result of the long term successful partnership between Ctrip and China Eastern Airlines, the two companies sign an exclusive co-operation agreement and initiate a joint early bird deals product at a special price, plus hotel packages, that offers [air flight] to travelers early booking discounts through the Ctrip (technical difficulty). We believe it will become one of the most popular products in the market soon.

Working closely with [Wing On] and ezTravel we have achieved great synergies in operating efficiency, service network, product development and customer acquisition. As a strong demonstration of the Company's combined effectiveness, we successfully organized and operated a [16 day] deluxe group tour last quarter.

The group, with a total of 31 tourists from mainland China, Hong Kong and Taiwan, visited 13 countries and regions across seven continents, including the Antarctic and the Arctic; a pioneering product (inaudible) influencing the great China travel industry. Following this success we will continue to develop more middle to high end products to meet the increasing demand from the combined market.

With wide coverage of hotels and airlines, high service quality and the robust system support, our [corporate] travel team provides reliable and cost effective services for clients. Our [corporate] travel business has achieved strong growth and a continued market share gain. We see great potential in this area, and are working hard to further explore and penetrate the market.

According to statistics generated by (inaudible) our main website, ctrip.com, is the most visited travel website in China. Additionally, we have achieved superior [conversion] rates as a result of optimized utilization of web traffic. Since the launch of our [mobile] platform in 2010 our booking volume has increased rapidly. The platform has received the most attention among all peer products.

For example, the (inaudible) has generated the most comments of all travel booking applications in the Chinese iPhone Apps Store. In the first quarter Ctrip released new client versions with additional features to make them more user friendly in planning and booking trips.

The location based service enables customers to position themselves easily to search for and book nearby hotels and to post hotel reviews as soon as they have checked in. Users can also find up to date flight departure and arrival status reports. With its advanced technology and a high quality execution, Ctrip was elected as one of the top 10 innovative companies in China's contemporary service industry by China's Ministry of Commerce.

Following the adoption of our service 2.2 (inaudible) model, that has revolutionized its travel -- China travel industry, Ctrip is further upgrading its systems with its perfecting customer service initiative. [Derived from the] manufacturing industries' lean management philosophy, Ctrip's perfecting customer service initiative is a customer oriented approach designed to make the customer experience perfect by reducing or eliminating (inaudible) throughout the operating process; such as waiting time, (inaudible) and the work.

The Ctrip team has implemented the perfecting customer service philosophy in all aspects of operation, covering product development, process improvements, technology, innovation, knowledgement -- knowledge management and marketing and promotions. The ultimate goal is to pursue the art and science of customer service with an unceasing drive to improve. With that, Ctrip's call centre is actually a customer [contact] centre that's always only one call away.

Through the continuous efforts of ourselves and the marketing team; the number of our cumulative active customers increased to 12.7 million by the end of the first quarter of 2011, compared to 9.6 million for the same period in 2010.

Following the successful launch of the website, [Leepin].com, we spin off the brand and the independent company, inheriting over 12 million hotel reviews, 20,000 travel destinations, 200,000 travel guides and two million Q&As generated by Ctrip users. Leepin.com is dedicated to enabling travelers to plan the perfect trip and to share their travel experience and advice on the best place to visit, play and stay.

Leepin.com offers a comprehensive platform for authentic travel reviews from travelers, and works hard to bring a wide variety of travel choices and [planning] futures through partnerships with a full range of travel service providers.

Partnering with Dining Secretary, we recently launched a new restaurant reservation channel. The channel enables each members to search and reserve restaurants (inaudible) by location, cuisine style and budget in Shanghai and Beijing. For such value-added services Ctrip has built and interpreted [value chain] of transportation, accommodation and dining. In the future Ctrip will expand the service coverage geographically according to the demand.

As one of the many (inaudible) of Ctrip's contribution to the travel industry, Ctrip was named one of China's exemplary e-commerce enterprises by the Ministry of Commerce for having successfully introduced e-commerce to the traditional travel industry and for its continued innovation in operations, products and services.

Looking ahead, we believe that the Ctrip team's dedication and execution in delivering optimal value to customers and partners will ensure continued market leading growth in that [business].

Now we turn to James for the industry outlook.

James Liang - *Ctrip.com - Chairman of the Board*

Thanks Min. The recent analysis published by the Boston Consulting Group shows that China will be the second largest travel tourism market by 2013, and the largest by 2020. The report also predicts China's domestic travel to grow at an annual rate of 16%. I think Ctrip is very well positioned to capture this very exciting growth opportunity, going forward.

Now let me turn to Jane for the financial update.

Jane Jie Sun - *Ctrip.com - CFO*

Thank you James. I'm very pleased to report the solid results for the first quarter of 2011. For the first quarter of 2011 net revenues were RMB765 million or USD117 million representing a 30% increase from the same period in 2010.



Net revenues for the first quarter of 2011 decreased by 3% from the previous quarter due to the seasonality. In the first quarter Wing On Travel and [ezTravel] contributed 7% for the year on year growth for net revenues.

Hotel reservation revenues amounted to RMB310 million, or USD47 million, for the first quarter of 2011.

We're presenting a 23% increase year on year, primarily driven by an increase of 20% in hotel reservation volume and an increase of 3% commission per room night year on year.

Hotel reservation revenues decreased by 14% quarter on quarter due to seasonality. Air ticket and booking revenue for the first quarter of 2011 were RMB326 million, or USD50 million.

We are presenting a 23% increase year on year, primarily driven by a 20% increase in air ticketing sales volume and a 3% increase in commission per ticket year on year. Air ticket booking revenues increased 2% quarter on quarter. Package tour revenues for the first quarter of 2011 were RMB125 million, or USD19 million.

We are presenting a 74% increase year on year due to the increase of [Asia] travel volume. Wing On Travel and ezTravel contributed 54% for the year on year growth for package tour revenue.

Package tour revenue increased 24% quarter on quarter, primarily due to the increase in travel demand in the first quarter of 2011.

Corporate travel revenues for the first quarter of 2011 were RMB31 million, USD5 million.

We are presenting a 20% increase year on year, primarily driven by increased corporate travel demand from business activities. Corporate travel revenue decreased to 12% quarter over quarter due to the decreased business activity during the Chinese New Year.

Gross margin was 78% in the first quarter of 2011, remaining consistent with that in the same period in 2010 and in the previous quarter.

Product development expenses for the first quarter of 2011 increased by 29% to RMB130 million, or USD20 million, from the same period in 2010; an increase by 8% 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 net revenues, remaining consistent with that in the same period in 2010; an increase from 13% in the previous quarter.

Sales and marketing expenses for the first quarter of 2011 increased by 32% to RMB125 million, or USD19 million, from the same period in 2010, primarily due to the increase in sales and marketing related activities.

Sales and marketing expenses for the first quarter of 2011 decreased by 2% from the previous quarter. Excluding share-based compensation charges sales and marketing expenses accounted for 15% of net revenues, remaining consistent with that in the same period in 2010 and in the previous quarter.

General and administrative expenses for the first quarter of 2011 decreased by 23% to RMB82 million, or USD13 million, around the same period in 2010, primarily due to an increase in administrative personnel.

General and administrative expenses for the first quarter of 2011 increased by 6% from the previous quarter due to the increase in share-based compensation charges. Excluding share-based compensation charges general and administrative expenses accounted for 5% of net revenue, remaining consistent with that in the same period in 2010 and in the previous quarter.



Income from operations for the first quarter of 2011 was RMB263 million, or USD40 million. Representing an increase of 34% from the same period in 2010 and a decrease of 10% from the previous quarter. Excluding share-based compensation charges income from operations was RMB333 million, or USD51 million, representing an increase of 28% from the same period in 2010 and an increase of 5% from the previous quarter.

The operating margin was 34% in the first quarter of 2011 compared to 33% in the same period in 2010 and 37% in the previous quarter. Excluding share-based compensation charges the operating margin was 44%, remaining consistent with that in the same period in 2010 and a decrease from 45% in the previous quarter.

The effective tax rate for the first quarter of 2011 was [21%], increased from 12% in the same period in 2010, primarily due to the certain tax benefit granted by the local tax bureau in the first quarter of 2010.

The effective tax rate for the first quarter of 2011 increased from 19% in the previous quarter, primarily due to the increase in the amount of non-tax deductible share-based compensation charges as a percentage to our income as a whole.

Net income attributable to Ctrip's shareholder for the first quarter of 2011 was RMB235 million, or USD36 million, representing a 23% increase from the same period in 2010 and a 22% decrease from the previous quarter, excluding share-based compensation charges. Net income attributable to Ctrip's shareholder was RMB305 million representing an increase of 20% from the previous quarter in 2010 and a decrease of 16% from previous quarter.

Diluted earnings per ADS were RMB1.54 or USD0.24 for the first quarter of 2011. Excluding share-based compensation charges, diluted earnings per ADS were RMB2.01 or USD0.31 for the first quarter of 2011.

As of March 31 2011 the balance of cash, restricted cash and short term investment was RMB3.6 billion or USD546 million. For the second quarter of 2011 the Company expects to continue the next 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 Instructions) Our first question comes from Richard Ji with Morgan Stanley. Please proceed.

Richard Ji - Morgan Stanley - Analyst

Hi James Liang and Jane Jie Sun good morning.

James Liang - Ctrip.com - Chairman of the Board

Good morning.

Jane Jie Sun - Ctrip.com - CFO

Good morning.



Richard Ji - Morgan Stanley - Analyst

Morning. I have two questions, let me start with your online initiatives. We have noticed that you have been putting in a lot of effort to ramp up your online transactions and so far what percentage of your total transactions come from online? Going forward, and obviously given an online [platform] tends to be a lot more (inaudible), what kind of margin impact should we expect? In particular recently you have launched the Group buying service what kind of offer should we anticipate? Thank you.

James Liang - Ctrip.com - Chairman of the Board

Thanks. For online percentage of work to production, I know online percentage is close to 40%. You can see this percentage has a significant increase from last year and even compared two years ago, three years ago, you can see our growth is there.

And regarding the online promotion and online products, the Group buying model as you can see on (inaudible) slide, we think this can meet quite some of our users' needs. This can bring supplementary demand to drive up our [occupancy] rate for some hotels. So I think this model can bring some (inaudible) to both our hotel partners and their customers.

But still I think the Group buying model is still only a stage and that we will monitor this trend.

Richard Ji - Morgan Stanley - Analyst

Thank you. Secondly - hello yes? Secondly, if you look at your [Q2] 2011 guidance and you are conservatively guided for roughly 15% to 20% year on year growth and how much of that and what it comes from impact of high speed of (inaudible) or (inaudible) what exposition impact?

Jane Jie Sun - Ctrip.com - CFO

Sure. The guidance is prudent for a couple of reasons. First of all, in Q2 of last year we acquired Wing On Travel so starting from Q2 this year we're comparing apples to apples. There is no additional percentage from Wing On. That's the first reason.

Secondly, the base due to the World Expo is pretty high. It's hard to quantify but we know last year we had an excellent year due to the fast growing market.

Certainly also in Q2 the whole travel industry has suffered from a couple of uncontrollable events, such as the earthquake in Japan and what happened in Africa. So all these elements combined were the reasons why we gave a prudent guidance as we did.

Richard Ji - Morgan Stanley - Analyst

Yep thank you Jane.

Jane Jie Sun - Ctrip.com - CFO

Sure, thanks.

Operator

Our next question comes from Chen Ye Lu of Cowen & Company. Please proceed.



Chen Ye Lu - Cowen & Company - Analyst

Thank you. I have two questions - first can you give us a view as to the (inaudible) segment in terms of growth rate? Thank you.

Jane Jie Sun - Ctrip.com - CFO

Sure. Let me walk you through each line item. For hotel business we forecasted the revenue growth would be in the range of 15% to 20%. For air ticket the volume growth will be around 20% to 25%. Price will be 5% down. On the commission rate from quarter over quarter basis it's stabilizing, but if you compare on a year over this year basis, it's approximately 10% down. So if you aggregate volume times price times commission rate, we forecast a year of revenue is somewhere around 5% to 10%.

For package tour we forecasted the revenue to grow about 40% to 50%. Corporate travel, similar to [here]. If you add them all together our total revenue will grow around 15% to 20%.

Chen Ye Lu - Cowen & Company - Analyst

Great thank you and then my next question regarding your gross margin. Again you lead a very strong gross margin in the first quarter. I just want to get a view as to what you think about gross margin going forward and if you can please give us a gross margin by segment as well. Thank you.

Jane Jie Sun - Ctrip.com - CFO

Sure. Gross margin conservatively from a long term perspective somewhere around 75% is very much achievable. In terms of the gross margin by product, [Air Ticket] hotel has the highest of gross margins, somewhere around 85% to 90% is achievable.

Air ticket has a gross margin about 65% to 70% and packaged tour is a combination of hotel plus air, so its gross margin is ranged from 70% to 80% and corporate travel is close to the air ticket gross margin.

Chen Ye Lu - Cowen & Company - Analyst

Okay, thank you, appreciate it, thank you.

Jane Jie Sun - Ctrip.com - CFO

Thanks.

Operator

Our next question comes from Aaron Kessler with Think Equity. Please proceed.

Aaron Kessler - Think Equity - Senior Research Manager

Yes, thank you, I have just a couple of questions. First, can you expand a little bit more on the corporate travel, I think your growth was approximately 20% which is a little below the last few quarters, if you can expand there. Then for the travel review site, do you have plans to monetize that through advertising or what method do you plan to monetize that site? Thank you.

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

Yeah for corporate travel this quarter I think why the growth rate is a little bit lower, I think the first reason is that (inaudible) 2010 our corporate travel delivered very strong growth to almost close to 100% growth year over year. So this will give us a very high comparative base.

And secondly in this Q1, because of the seasonality and also because of some one-time events happening in the world probably will give the corporate travel some slow down factors. So I think this is the main reason for our corporate travel growth at a relatively low growth rate.

Aaron Kessler - *Think Equity - Senior Research Manager*

Got it, thank you.

Jane Jie Sun - *Ctrip.com - CFO*

Then for the travel sites, I think it's still in the infant stage, so our team works very hard to make sure that website is very well-built, generates lots of traffic, but from a long term perspective we do have high hopes for the website. The revenue model will be very open. I think the advertisement model is not model we will adopt. But again I think whether it's open to test all the good opportunities for this website.

Aaron Kessler - *Think Equity - Senior Research Manager*

Can you give a sense for the tax rate for the remainder of the year?

Jane Jie Sun - *Ctrip.com - CFO*

For tax rate 20% to 21% [full year] model is reasonable.

Aaron Kessler - *Think Equity - Senior Research Manager*

Good, thank you.

Jane Jie Sun - *Ctrip.com - CFO*

Thanks.

Operator

Our next question comes from Catherine Leung with Goldman Sachs, please proceed.

Catherine Leung - *Goldman Sachs - Analyst*

Hi, morning, I have two questions --

Jane Jie Sun - *Ctrip.com - CFO*

Morning.



Catherine Leung - *Goldman Sachs - Analyst*

My first question is whether you could comment on, additionally, on the general travel demand trends in the first quarter, other than some of the temporary issues you mentioned on the last call, which had affected travel sentiment.

Do you believe that there was any weakening in the general economic environment? Secondly, if you could comment on your new customer acquisition, are you seeing more customers coming through from your online or your call centre channels? Thank you.

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

I think for this past quarter we believe that the Chinese Government is taking some (inaudible) to balance the GDP growth and inflation rate. Also for the past quarter is usually a slower season for the travel industry due to the seasonality, such as Chinese New Year and also you can see some special weather conditions happened during the past quarter.

I think for this year, only this year, uncontrollable events around the world, such as major disasters in Japan, political instabilities in the African area, et cetera, this also will affect the macro-economic situations. Also I think normally for the first quarter of the year it's a slow season.

So we do see the diminished business activities in this quarter is relatively slow and if you compare the airline passenger data you can also see this information. Also the year on year growth, passenger rate, this past quarter the growth rate is much lower than the same data last year. But we think as soon as the impact from one-time events is gone and the economy in China is growing healthily, China's travel industry should get back to the track of healthy growth.

Regarding the acquisition of the new customers, I think for (inaudible) channels we're still working very efficiently to acquire new customers, not only offline, in our outside distribution channel, but also in our online platform. So I think those trends are still very healthy (technical difficulty) for us.

Catherine Leung - *Goldman Sachs - Analyst*

Thank you.

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

Thank you.

Operator

Our next question comes from Eddie Leung with Merrill Lynch, please proceed.

Eddie Leung - *Merrill Lynch - Analyst*

Good morning, yes, thank you for taking my questions. The first one is about your strategy. We have seen quite some acquisitions in the past 18 months, should we expect these trends to continue? Or should we expect this year will be more like a consolidation year for you guys to integrate the business and generate [synergy]?

Jane Jie Sun - *Ctrip.com - CFO*

As for our acquisition strategy we are very disciplined, although in a way very open for all the opportunities in the market and very alert with all the movement.

But we have been very focused, unless the acquisition will bring us great synergy or bring us a new expertise that Ctrip currently does not have, normally we would not consider. In terms of the target, normally we are target at the leader in the industry. So we are open-minded but very prudent in terms of executing our asset M&A strategy.

Eddie Leung - *Merrill Lynch - Analyst*

Got that. Then my second question is on [high speed] (inaudible). Have you guys started to contact the Ministry of (inaudible) to talk about whether you can be a distributor of [high speed] tickets? Or is it still, you know, something that you will consider in the future, but at the moment there is nothing [done]? Thanks.

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

Of course we are working very hard to explore any opportunities to provide this service and also we have contacted different sources and even the Government. And I think [inaudible] we will do our best to help our customer to use [high] fast (inaudible) product and so far I think we are in a preparation period, so we will definitely try our best to take forward customers' needs.

Eddie Leung - *Merrill Lynch - Analyst*

Finally, what's the percentage of non-cash payment for the quarter?

Jane Jie Sun - *Ctrip.com - CFO*

Eddie, let me clarify the question. Cash payment, what do you mean cash payment?

Eddie Leung - *Merrill Lynch - Analyst*

Probably non-cash, like credit card, debit cards [or mobile] payment.

Jane Jie Sun - *Ctrip.com - CFO*

Oh, I see, for our customers, about 60% to 70% of our customers are using credit cards.

Eddie Leung - *Merrill Lynch - Analyst*

Thank you.

Jane Jie Sun - *Ctrip.com - CFO*

Sure, thanks.



Operator

Our next question comes from Alex Yao with Deutsche Bank, please proceed.

Alex Yao - Deutsche Bank - Analyst

Hey, good morning everyone and congratulations--

Jane Jie Sun - Ctrip.com - CFO

Morning.

Alex Yao - Deutsche Bank - Analyst

--on a good quarter.

Jane Jie Sun - Ctrip.com - CFO

Thank you.

Alex Yao - Deutsche Bank - Analyst

I have a question on the Group buy business, given that there are already some first movers in the hotel group buy market out there in the market, what's your strategy to differentiate your group by product offerings and how would you leverage the existing user base and expand usage of this? What's your long term view on this business? Thank you very much.

Min Fan - Ctrip.com - President and CEO

Yeah, frankly speaking, I think the hotel group buying model existed quite some time ago. For example, for the [FIT] tour group (inaudible) a kind of group buy -- hotel group buy model and also you can notice our -- we have our [best deal] channel before. In that channel we have quite a very deep discount hotel room rate promoted there.

It's also a kind of group buy in model and of course right now the Group buy model is quite popular and in some ways is a kind of fashion for, especially among young customers. So for Ctrip, although we are not the first ones to present discount of group buy hotel model, but we prepared very carefully and also we tried to differentiate future position from other players.

So for our hotel group buy product providing we have our own features. First is we not only can provide the Group buy hotel selections on our website, you also can use the Group buy model to reserve your hotel, check-in [date] right away.

So this is, I should say, a kind of new initiative we can provide to those [price sensitive] customers to try to [check-in on a specified check-in base], so this is one part that we are quite different from the others. Also for the hotel group buy coverage, we are much wider than any other players.

You can see on our website, our advertisement is we provide more than 100 hotels per day for group buy selection. So this is also, I think, is also quite different or quite unique from other players.



For the long term trend I think hotel group buy model is supplementary sales channel and somewhat is a kind of [marketing] channel for those new hotels or for those hotels with a high peak and the low season and try to [adjust] their occupancy rate. So I think this market is definitely existent and we will try our best to cater for our customer needs and also for our hotel partners' needs.

Alex Yao - Deutsche Bank - Analyst

Got it, thank you very much.

Min Fan - Ctrip.com - President and CEO

Thank you.

Operator

Our next question comes from Ming Zhao with SIG, please proceed.

Ming Zhao - SIG - Analyst

Thank you, good morning everyone. Two questions here, first, Jane, in your second quarter guidance, have you baked in some assumptions about, you know, the impact from the high speed train between Shanghai to Beijing being in use? So that's the first question. The second question is we saw that Tencent has just invested in eLong, you know, could management comment on this event and how you're going to cope with this? Thank you.

Jane Jie Sun - Ctrip.com - CFO

Okay, I will respond on your first question and our CEO will talk about the second one. Yes, in our guidance we take into consideration (technical difficulty) of the potential impact of the high speed railway and we will monitor it very carefully and let all the investment community know the real impact when it is placed in service.

Min Fan - Ctrip.com - President and CEO

Yeah, I think since eLong is a public company, so it's easy for them to seek for strategic investors and also I think more than one year ago eLong had already got one strategic players investors, it's called the (inaudible) Group to invest in eLong and also of course they bought eLong's shares in the open market.

And also they would try to get (inaudible) among their investment. I think [Emarket is there that if any players, any] (inaudible), any players in the market want to cooperation with Ctrip or eLong, I think it's a kind of [market of] choice. So we will see how the situation will be there in the future.

Ming Zhao - SIG - Analyst

Thank you.

Jane Jie Sun - Ctrip.com - CFO

Thank you.

Operator

Our next question comes from Mike Olson with Piper Jaffray. Please proceed.

Michael Olson - Piper Jaffray - Analyst

Alright, thanks, good morning. A couple of quick questions, can I just follow on what you said earlier regarding Wing On Travel, when exactly did the acquisition close last year? I believe it was late May, is that correct? Then how much did Wing On Travel specifically contribute in Q1?

Jane Jie Sun - Ctrip.com - CFO

For Wing On we closed in May of last year. In Q1 Wing On and ezTravel contribute approximately 5% to the total revenue.

Michael Olson - Piper Jaffray - Analyst

Okay, and then as far as - I appreciate all the detail on Q2 guidance - but just one other question, what hotel pricing assumptions are built in the guidance for Q2 hotel revenue growth of 15% to 20%?

Jane Jie Sun - Ctrip.com - CFO

In the 15% to 20% we assume the main driving force is from volume growth. We assume hotel price is [flattish] and the [commission] rate is [flat].

Michael Olson - Piper Jaffray - Analyst

Alright, thanks very much.

Jane Jie Sun - Ctrip.com - CFO

Thanks.

Operator

Our next question comes from Wendy Huang with RBS, please proceed.

Wendy Huang - RBS - Analyst

Hi, thanks for taking my questions, just some housekeeping questions. First, Jane when you said that you already took into consideration of the impact from the high speed train in your Q2 guidance, are you talking about a negative impact or a positive impact included in your guidance?

Jane Jie Sun - Ctrip.com - CFO

For Q2 I think the high speed railway we will put in place during the end of Q2, so the impact is immaterial for Q2. Once it is in rail services are in Q3, then we have a clear vision at to, you know, the actual impact and when we give the Q3 guidance I think it will be more meaningful. But for Q2 the impact should be immaterial.

Wendy Huang - RBS - Analyst

Okay, but based on your current assessment do you think there will be a positive or negative impact in the [medium term]?

Jane Jie Sun - Ctrip.com - CFO

Ah, pretty neutral, because some of the travelers probably will take train instead of flight, so there is some movement there. But for vacation package in a hotel, hopefully we will pick up some additional revenue due to the high speed rail, so (inaudible) we assume it's a very neutral position.

But in the long term I think if people can access to the most popular travel destination by many means, including high speed railway, plus air, plus car, that is very good for travel industry and [people] who will benefit from it.

Wendy Huang - RBS - Analyst

Okay, it sounds like it will have a negative impact on the air volume but a positive impact on hotel (inaudible). If this is the case, given that the latter's gross margin is higher than air, so should we expect that this (inaudible) to the earning [accretive] in the medium term?

Jane Jie Sun - Ctrip.com - CFO

Yeah, if the hotel and air, hotel and package definitely has a higher margin, but I think in terms of the [volume shift] because this is the first try for the high speed railway, we are very careful in monitoring the progress and will update you accordingly, when it's put in place.

Wendy Huang - RBS - Analyst

Okay and secondly, a follow up on your corporate travels, you mentioned the Q1 low growth was due to the last year's more than 100% yearly growth. But while you're still guiding just at 15% to 20% year on year revenue growth for corporate travel in Q2?

Jane Jie Sun - Ctrip.com - CFO

I think the last year's Q2 number is also very high, so conservatively we guided to be very conservative in Q2 as well.

Wendy Huang - RBS - Analyst

Okay, [next] you mentioned in your prepared remark that you have some exclusive relationship with Eastern Airlines right now. So do you have any plan to extend that type of the corporation to other airlines?

Min Fan - Ctrip.com - President and CEO

Yeah, in fact we have very good cooperation relationship with all the major airlines in China (technical difficulty) and for Eastern Airlines this product is a kind of, you know, designed product, especially for [FIT] kind. So I think this product definitely will give us some new trial to explore the market and also we will work very hard with other major airlines to promote more products to cater for our customer needs.

Wendy Huang - RBS - Analyst

Okay, last one on your tax rate, Jane, you tell about 20% to 25% tax rate for Q2, but in Q1 the tax rate is just 17%. So can you explain all that?

Jane Jie Sun - *Ctrip.com - CFO*

Yeah, sure, so a more sustainable tax rate on a GAAP basis is about 20% to 21%. In Q1 we did last year - of last quarter, we had a one-time tax benefit from the local tax bureau, so that is on the one-time basis.

Operator

(Operator Instructions) Our next question comes from Andy Yeung with Oppenheimer, please proceed.

Andy Yeung - *Oppenheimer - Analyst*

Hi, good morning, thank you for taking my question. My first question is a follow up question regarding the high speed train. Can you give us some insight into, you know, the percentage of your air travel coming from the Beijing-Shanghai route and also your hotel booking along the Beijing-Shanghai [route], but potentially for the (inaudible)?

Jane Jie Sun - *Ctrip.com - CFO*

For air ticket in terms of volume it's about 10%. If you take 10% times the air ticketing volume as a weighting to our overall revenue that is 4% maximum impact for the Shanghai Beijing [route], assuming everyone on that route takes the train. So probably it's something below 5%, oh below 4%.

Andy Yeung - *Oppenheimer - Analyst*

Got it. How much of your hotel booking right now is along the Beijing Shanghai route, which potentially could benefit from the high speed train activities?

Jane Jie Sun - *Ctrip.com - CFO*

That number is hard to (inaudible) because depending on the square miles you get different numbers.

Andy Yeung - *Oppenheimer - Analyst*

Okay, got it. My next question is about your geographic footprint right now. Can you give us some sense, you know, what's the percentage of air tickets [are generated] from second and third tier cities versus the first tier cities? That would very helpful.

Jane Jie Sun - *Ctrip.com - CFO*

You mean the revenue expenditure first tier cities versus the second and third tier cities?

Andy Yeung - *Oppenheimer - Analyst*

Yeah, that's right, yeah.

Jane Jie Sun - *Ctrip.com* - CFO

Okay, that number is - we normally [track it] by the departure cities. So if you look at people who are departing from the first tier cities, that is still the majority of the traffic volume, which accounts probably for 80%, because most of the people have to switch flights in the first tier cities, including Shanghai, Beijing, Guangzhou, Shenzhen.

Andy Yeung - *Oppenheimer* - Analyst

Got it, okay, thank you so much.

Jane Jie Sun - *Ctrip.com* - CFO

Thanks.

Operator

Our next question comes from Fawne Jiang with Brean Murray, please proceed. (Technical difficulty) Fawne Jiang, with Brean Murray, your microphone is now open.

Fawne Jiang - *Brean Murray* - Analyst

Hi, good morning. Thank you for taking my questions. First one is actually regarding the coupon program you offer on your hotel products, just wonder what's the percentage of hotels you provide, you have, you know, the coupon program associated with it?

Also, if I understand correctly the coupon is actually applied to your [package tour] business. Just wonder whether it helped you to drive up either your hotel growth or drive up your package tour business so far?

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

Coupon model right now we will have hundreds of hotels can provide this [gift] coupon model in our website. But total volume right now is still very small compared to our mainstream production. Also for the (inaudible) for hotels we provide (inaudible) hotels with coupon issue when you book our hotels in different cities.

Those customers will receive a certain amount of coupons after they check in the hotel. So for those part of promotion I think it's a kind of a one-time promotion so far and we will try to encourage more and more, especially new customers to try our service. We will monitor the situation.

Operator

Our next question comes from Eric Wen with Mirae Asset, please proceed.

Eric Wen - *Mirae Asset* - Analyst

Hi, good morning, thanks for taking my questions. I have just a simple question. Jane, as we head into the (inaudible) of Beijing Shanghai (inaudible) of high speed rail, do you foresee the airline to preemptively slash the flight ticket price in order to compete and would that [negatively affect] your business in second quarter? Thanks.



Jane Jie Sun - *Ctrip.com* - CFO

Sure, I think that we and the airlines are working very closely to make sure the (inaudible) management is well monitored. A high speed railway is very good for the travel industry. It provides another alternative for the travelers, so we look forward to it.

In terms of the pricing, I think it's going to be a supply demand [drive]. So airlines will adjust it according to their capacity, according to the volume. We monitor it very carefully, but so far we haven't seen any major impact yet.

Eric Wen - *Mirae Asset* - Analyst

Okay, on the second question is actually a follow up on Ming's question. I'm not sure [I catch that], it's regarding Tencent's acquisition of eLong. Do you see that being anywhere material in any of your business lines in (inaudible) competitors against you, or not? (Inaudible).

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

Yeah, I think for future, in fact we cooperate with many portals, many big enterprises and also with almost all banks, all airline companies in China. So I -- so far, I do not see any major impact can be happened if Tencent invests a certain (inaudible) percent of the stakes in eLong and also I think for - Tencent is a very big company and for travel is a very small segment of its total production. So we will monitor the situation very carefully.

Eric Wen - *Mirae Asset* - Analyst

Thanks very much.

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

Thank you.

Operator

(Operator Instructions) We have a question from Wendy Huang with RBS. Please proceed.

Wendy Huang - *RBS* - Analyst

Thanks for taking my follow up questions. Just one question on your inventories and hotels [price]. When you were launching several initiatives, how can you make sure that your new products will not cannibalize the volume for your existing mainstream products?

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

Yeah. I think, for example, if you talk about group (inaudible) model and also if you are talking about the - some other promotions, those promotions we try to target for those price sensitive, much much price sensitive customers.

Perhaps those very price sensitive customers are not Ctrip users before. So this is one of our initiatives and for our mainstream users, I think normally for those customers, they mainly will be [sensitive] on our service, as well, of course we will try to provide them with very competitive prices.

So we don't think those promotions will have a negative impact on our mainstream production.



Wendy Huang - RBS - Analyst

I guess apart from the Group buy that you recently launched, you also have -- the [Star Alliance] targeting low end hotels and also recently, as far as I know, you launched a very successful product called the Secret Hotel, which is using opaque pricing systems, which is also targeting low end customers and price sensitive customers. So, can you maybe elaborate a little bit more? How can you -- just to maintain a balanced relationship among these products?

Min Fan - Ctrip.com - President and CEO

Yeah. I think for customers, for each of -- most of the customer will think about [features] at a middle to high end service providers and product providers where the market is growing very fast.

We do see that we have the need to also to cater for those sensitive -- price sensitive customers. So that's why we will try to provide more products to our customers, like the (inaudible) models and also for those Secret Hotels. [In fact] this part of business is very small right now. It is at its early stage and it's very interesting when you book with certain hotels and you will get certain deep discounts. So it's still in its early stage. We will monitor how we can use this kind of service providing to attract more customers.

Wendy Huang - RBS - Analyst

Thanks for color and my second follow up is your major competitor, eLong, has already built a strategic relationship with (inaudible) and Tencent. So, will you consider to maybe tie up with other major internet companies, such as [Athena], to leverage (inaudible) micro-blocks, for example?

Min Fan - Ctrip.com - President and CEO

Yeah. We are open to see any strategic cooperations with any big portals and big companies. So I think this is our strategy for many years. So I think it's good for the market if we can have more cooperation among this market.

Wendy Huang - RBS - Analyst

Thank you very much.

Min Fan - Ctrip.com - President and CEO

Thank you.

Operator

This time there are no more questions and I would like to hand it back to Michelle.

Michelle Qi - Ctrip.com - IR Manager

Thank you everyone for joining us on the call today. A replay of the call will be available (inaudible) on the IR website shortly 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.

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

Thank you.

Jane Jie Sun - *Ctrip.com - CFO*

Bye bye.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.

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