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CTRP - Q2 2011 Ctrip.com International, Ltd. Earnings Conference Call

EVENT DATE/TIME: AUGUST 02, 2011 / 1:00AM GMT

OVERVIEW:

CTRP reported 2Q11 net revenues of CNY833m, net income attributable to shareholders of CNY264m, and diluted earnings per ADS of CNY1.72. For 3Q11, Co. expects to continue net revenue growth YonY at approx. 15-20%.



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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to your Quarter 2, 2011 Ctrip International Limited Earnings Conference Call. My name is Denise and I'll be your event manager today. (Operator Instructions). Now I'd like to hand the presentation over to your host for today's call, Ms. Michelle Qi, please proceed.

Michelle Qi - Ctrip International Limited - IR Manager

Thanks, Denise, and thank you for attending Ctrip's second quarter 2011 earnings conference call. Joining me on the call today we have Mr. James Liang, Chairman of the Board, Mr. Min Fan, President and Chief Executive Officer and Ms. Jane Sun, Chief Financial Officer.

We may during this call discover our future outlook and performance which are forward looking statements made under the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995. Forward looking statements involve inherent risks and uncertainties. As such our results may be materially different from the views expressed today. A number of potential risks and uncertainties are outlined in such public filings with the Securities and Exchange Commission. Ctrip does not take 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 second quarter of 2011, as well as the outlook for the third 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 International Limited - President and CEO

Thanks, Michelle, and thank you to everyone for joining us on the call today. Despite the high comparison base the Ctrip team delivered strong results in the second quarter. Our net revenues grew 20% year-over-year and net income grew 12% year-over-year. As always our team worked hard to improve the customer experience in every aspect. We introduced new products, enhanced booking platforms and continued to improve our operation deficiencies.

Our hotel supply network was extended to satisfy the growing demand from travelers reaching approximately 19,200 hotels by the end of June 2011 compared to 11,400 hotels at the same time in 2010. The number of hotels with guaranteed room allotments accounted for approximately 75% of the total hotel supply. The hotel team made a great effort to meet an increasing variety of customer needs and create incremental occupancy rates for hotel partners. The hotel group buying platform has obtained significant market share in the segment since its launch in late April with extensive coverage and a solid service offering.

The air ticketing business continued to achieve strong results. During the second quarter we doubled industry growth through excellent customer services and strong execution. Packaged tour business achieved healthy growth despite the high base and negative impact of many uncontrollable events. Many regions in China suffered disasters such as flood during the second quarter. Global-wise the Japanese tsunami, earthquake and nuclear leak, the political instability in Southeast Asia and North Africa impacted traveler sentiment.

Our lines with ezTravel saw continued success as restrictions on Taiwan FIT tours for Mainland tourists were gradually softened. We are one of the first Mainland travel agencies to offer Taiwan FIT tour packages. Ctrip travelers enjoyed best coverage of hotels and the best access to other travel resources in Taiwan. The Ctrip team promoted new bids to high end leisure travel packages which have received a very enthusiastic response. For example our 66-day global luxury tour package took just 30 seconds to sell out.

Our joint initiative with China East Airlines promoted early bird deals introduced our customers to the concept of book early and save. This product offers FIT customers up to a 50% discount on one to three month's advanced booking. The concept becomes popular amongst leisure travelers.

Among other owners Ctrip was recently commended by both Consulate Generals of South Korea and Japan's National Tourism organization for our special contribution to tourism in these two countries. Five years after its official launch, our corporate travel management business became a top tier player in the market receiving many consecutive awards as best corporate travel management company from different parties.

Never content to simply rest upon our past achievements, we look to grow addressable markets by expanding our focus from large corporations to include small and medium size enterprises as well. This opens up to a large market that is currently under-served by qualified corporate travel management companies. At the end of June we launched our corporate travel management system for small and medium enterprises or CTMS for SMEs.

This program enabled SME companies to enjoy the quality and reliable services offered by Ctrip and save up to 25% on travel costs. For those clients Ctrip will help them take advantage of our nationwide resource coverage and control their travel budget. The Ctrip website remains the most visited and most reliable travel booking website in China. In addition our mobile platform developed last month has made significant progress, with another new client version released just several weeks ago.

Its interactive features attracted considerable interest among users. Features like the ability to use a mobile device to check hotel reviews before booking and to post hotel reviews after check in. Ctrip's mobile client versions were the most downloaded travel booking apps among all similar products and booking volume is increasing rapidly.

Travel arrangements are way beyond just placing an order. Fulfilling reservations using top tier service is one of our core competencies and a key to our success. For that we initiated the perfecting customer services program to ensure the best policy service and experience for travelers. Through the ongoing efforts of our sales and marketing team the number of our cumulative customers increased to 13.5 million by the end of the second quarter of 2011 compared to 10.3 million for the same period in 2010.

Although last year's high levels of bookings due in part to the Shanghai Expo have created a challenging base line our team will increase the sales and marketing promotions to stimulate the demand and to strengthen future breadth. As a one stop travel service provider we always try to offer more travel options for Ctrip members. With the launch of the Beijing Shanghai high-speed railway train we have started to offer a high-speed train ticketing service. Through Ctrip's train ticketing channel customers in several cities and provinces can now book nationwide high-speed train tickets online.

In order to continue delivering the best available services we will increase our geographic range state by state. We recently obtained an insurance agency license from the China Insurance Regulatory Commission. This enables us to extend our travel-related insurance offering. We are excited to move one step further towards building a one-stop travel insurance service platform.

Along with our extraordinary business development Ctrip has as always endeavored to fulfill its corporate, social responsibilities in presenting the commitments into daily activities but continued our ongoing support for social value through our volunteer program, caring trips, the Company actively organizes various events to help people in need. Our employees voluntarily devoted their time delivering care and support to the community including regular visits to a local autistic children's caring center. Now joining caring trips has become a great honor for Ctrip employees, their families and friends.

Looking ahead we will still place utmost importance on the quality of our products and the value for customers alongside the development of the China travel market. We have a long way to go. We are pleased with the balance we have achieved between delivering profit and ensuring future growth and we are (inaudible) every possible effort to ensure continued success.

Now we turn to James for the industry outlook.

James Liang - *Ctrip International Limited - Chairman*

Thanks, Min. China's second quarter GDP was reported at 9.5 gross year-over-year exceeding market expectations. We believe the Government is making the right adjustments to keep the economic growth healthy and sustainable and creating a favorable macroeconomic environment for both business and leisure travel.

According to the recent report published by Focus, China is already the third largest travel market in the world and in a year or two will overtake Japan to become the second largest travel market in the world. As a market leader in this fast growing market we are excited about our opportunities and will work hard to fully meet the future challenges and to take advantage of the future opportunities ahead.

Now let me turn to Jane for the financial update.

Jane Sun - *Ctrip International Limited - CFO*

Thanks, James. I'm pleased to report the solid results for the second quarter of 2011. For the second quarter of 2011, net revenues were RMB833 million or \$129 million, representing a 20% increase from the same period in 2010. Net revenues for the second quarter of 2011 increased by 9% from the previous quarter. In the second quarter, Wing On Travel and ezTravel together contributed 4% for the year-on-year growth for net revenues.

Hotel reservation revenues amounted to RMB366 million or \$57 million for the second quarter of 2011, representing a 16% increase year-on-year and 18% increase quarter-on-quarter, primarily driven by an increase in hotel reservation volume.

Air ticketing booking revenues for the second quarter of 2011 were RMB347 million or \$54 million, representing a 13% increase year-on-year, primarily driven by a 21% increase in air ticketing sales volume and partially offset by a 7% decrease in commission per ticket year-on-year. Air ticket booking revenues increased 6% quarter-on-quarter.



Packaged tour revenues for the second quarter of 2011 were RMB108 million or \$17 million, representing a 62% increase year-on-year due to the increase of leisure travel volume. Wing On Travel and ezTravel together contributed 40% for the year-on-year growth for packaged tour revenue. Packaged tour revenue decreased 13% quarter-on-quarter, primarily due to seasonality.

Corporate travel revenue for the second quarter of 2011 were RMB40 million or \$6 million, representing an 18% increase year-on-year and a 26% increase quarter-on-quarter, primarily driven by the increased corporate travel demand from business activities.

Gross margin was 77% in the second quarter of 2011, compared to 78% in the same period in 2010 and in the previous quarter. Product development expenses for the second quarter of 2011 increased by 25% to RMB137 million or \$21 million from the same period in 2010, primarily due to an increase in product development personnel and share based compensation charges. Product development expenses increased by 5% from the previous quarter, primarily due to an increase in share-based compensation charges. Excluding share-based compensation charges, product development expenses accounted for 14% of net revenues, remained consistent with that in the same period in 2010 and in the previous quarter.

Sales and marketing expenses for the second quarter of 2011 increased by 33% to RMB141 million from the same period in 2010, primarily due to an increase in sales and marketing related activities and an increase in sales and marketing personnel. Sales and marketing expenses for the second quarter of 2011 increased by 13% from the previous quarter, primarily due to an increase in sales and marketing related activities. Excluding share-based compensation charges, sales and marketing expenses accounted for 16% of net revenues, increased from 14% in the same period in 2010 and increased from 15% in the previous quarter.

General and administrative expenses for the second quarter of 2011 increased by 37% to RMB97 million or \$15 million from the same period in 2010, primarily due to an increase in administrative personnel and share-based compensation charges. General and administrative expenses for the second quarter of 2011 increased by 18% from the previous quarter, primarily due to an increase in share-based compensation charges. Excluding share-based compensation charges, general and administrative expenses accounted for 5% of the net revenues, remained consistent with that in the same period in 2010 and in the previous quarter.

Income from operations for the second quarter of 2011 was RMB268 million or \$42 million, representing an increase of 4% from the same period in 2010 and an increase of 2% from the previous quarter. Excluding share-based compensation charges, income from operations was RMB356 million or \$55 million, representing an increase of 13% from the same period in 2010 and an increase of 7% from the previous quarter.

Operating margin was 32% in the second quarter of 2011, compared to 37% in the same period in 2010, and 34% in the previous quarter. Excluding share-based compensation charges, operating margin was 43%, decreased from 45% in the same period in 2010 and 44% in the previous quarter.

The effective tax rate for the second quarter of 2011 was 16%, decreased from 19% in the same period in 2010 and 21% in the previous quarter, primarily due to certain tax benefits granted by the local tax bureau in the second quarter of 2011.

Net income attributable to Ctrip's shareholders for the second quarter of 2011 was RMB264 million or \$41 million, representing a 12% increase from the same period in 2010 and from the previous quarter. Excluding share-based compensation charges net income attributable to Ctrip's shareholders was RMB351 million or \$54 million, representing an increase of 20% from the same period in 2010 and an increase of 15% from the previous quarter.

Diluted earnings per ADS were RMB1.72 or \$0.27 for the second quarter of 2011. Excluding share-based compensation charges, diluted earnings per ADS were RMB2.29 or \$0.35 for the second quarter of 2011.

As of June 30, 2011, the balance of cash, restricted cash and short-term investment was RMB4.1 billion or \$640 million. For the third quarter of 2011, the Company expects to continue the net revenue growth year-on-year at a rate of approximately 15% to 20%. This forecast reflects Ctrip's current and preliminary view, which is subject to change. With that, Operator, we are opening the line for questions.



QUESTIONS AND ANSWERS

Operator

Your first question comes from the line of Richard Ji from Morgan Stanley, please proceed.

Richard Ji - Morgan Stanley - Analyst

Hi, good morning, Min, James and Jane. Thanks for taking my call.

Jane Sun - Ctrip International Limited - CFO

Sure.

Richard Ji - Morgan Stanley - Analyst

I have some questions and let me start with your top line growth and obviously in the past quarter as well as looking at the guidance we see for the third quarter and we are seeing some topline slowdown especially related to the growth rate of last year.

Can you give us a little more color on whether that is due to the high base effect and related to the World Expo last year or the competition in the market or unfortunately the nature incidents that happened during the previous quarter? Also going forward when should we expect your topline growth start to re-accelerate?

Jane Sun - Ctrip International Limited - CFO

Sure, I think the top line growth, compared to last year, is about 20% for Q2 and we guided at the similar rate for Q3 for a couple of reasons. The first reason is last year the World Expo really made the growth rate for the previous year very high. So the high base is the main reason for the slowdown of the percentage of the growth for current Q2 and Q3.

The second reasoning is also last year we acquired Wing On so in last year's number we have approximately 5% to 7% contribution from the acquisition, which in this year, particularly in Q3, will not be there.

The third reasoning is also there are non-controllable onetime events that's going on. Particularly in Q2, I think the Japan tsunami really impacted our vacation package business and also what's going on in the -- around the world. These things we will monitor and better prepare our team to react to these non-controllable events very swiftly. However, they do impact our year-over-year growth.

So these are the three main reasons for us to give a conservative guidance for Q3.

Richard Ji - Morgan Stanley - Analyst

Thanks, Jane. My second question is regarding impact around high speed railroad and initially we expect some negative impact on your air ticketing business and -- but what we noticed recently, and again after the recent incident, the air ticketing prices start to rebound and come back, mostly to full price. Can you comment on air ticketing commission rates now and going forward, and also given that you will sell railway tickets going forward, should we expect any material revenue contributions from that business?



Min Fan - *Ctrip International Limited - President and CEO*

Okay, for the high speed rail, I think right now what we can see its impact is very limited to our air ticketing business right now and recently the air ticketing airfare is going a little bit up, I think it can be a kind of normal situation. Because right now it's kind of the high season for the summertime and I think in the near future the high speed rail revenue will contribute very small, insignificantly, to our total revenue.

Other reasons we have already provide high speed rail ticketing reservations on our Ctrip website and we provide several cities with the high speed rail ticketing service. In the future I think we will cover more cities to provide this service to cater for our customers' needs.

Richard Ji - *Morgan Stanley - Analyst*

Thank you.

Operator

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

Catherine Leung - *Goldman Sachs - Analyst*

Hi, morning. My first question is on your sales and marketing activities. Could you discuss a little bit where the increased advertising expenses are going and whether we should expect customer acquisition growth to accelerate in the remainder of the year as a result? And secondly, is whether you could walk us through some of the mechanics of the high speed rail booking system and how we should think about the margins for this segment? Thank you.

Jane Sun - *Ctrip International Limited - CFO*

Okay, so for the first question on sales and the marketing. I think despite of the high base from last year, our team is prepared to increase our sales and marketing efforts to stimulate the hidden demand and so far the result is very good so we'll keep it up with a balance of generating more revenue but also maintain cautious and prudent on the investment to return. So we do plan to increase the sales and marketing efforts with a more balanced view.

The second way is on the mechanics for the high speed rail. We have opened the channel, our website, during the quarter and so far I think it's very well received. Right now the site is very small because we only started with Shanghai and gradually we will try to develop a network similar to air ticketing business. Make it more convenient for our customers.

Catherine Leung - *Goldman Sachs - Analyst*

So what are the commission rates that you're charging for the rail tickets, please?

Jane Sun - *Ctrip International Limited - CFO*

The commission rate for each issuance, each ticket issuance, you can charge RMB5 and then for your delivery you can charge a reasonable delivery fee, depending on the distance.

Catherine Leung - *Goldman Sachs - Analyst*

Okay, thank you.



Jane Sun - Ctrip International Limited - CFO

Sure, thank you.

Operator

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

Jin Yoon - Nomura - Analyst

Hi, good morning everyone. Jane, I think in the past you mentioned the whole Japan issue, the issues in the Middle East and Egypt, have impacted your travel and travel plans from among your customers. Now that was approximately five or six months ago. The guidance that you provided and in the results that we saw tonight, have you seen some of the remnants of that come through now where you've seen some of those delayed travels actually kicking in and how do you account for that?

If someone actually booked a vacation package and decided to cancel, is that a credit on your balance sheet under liabilities, and do you recoup that when they do travel or do you just give their money back?

Jane Sun - Ctrip International Limited - CFO

Okay. So first, your first point is the Japan, the impact. Yes it does impact our vacation package, I think Japan, North Korea, all these Asian related countries in the Asian, north Asia area, account for approximately 15% of the total revenue for vacation package. So they do impact our revenue. If there is a natural disaster that took place, we'll refund the customer and the net net impact on revenue should be zero.

Jin Yoon - Nomura - Analyst

But Jane, have you seen some of those customers now come back because they delayed their trip or the fact that we have not seen any of those customers come back in the guidance that you gave?

Jane Sun - Ctrip International Limited - CFO

For Japan, I think the recovery is taking place gradually and slowly. I think if it is just a tsunami the recovery would be much faster but now you have the nuclear leak so people tend to be more cautious going back to the affected area.

However, what we are hoping is that the customers who have the ability to spend, they either will go back to Japan in some region or they will change their destination to other regions.

So our sales and marketing effort is intended to stimulate these delayed demands so that they can go somewhere with us.

Jin Yoon - Nomura - Analyst

Thanks, Jane.



Jane Sun - Ctrip International Limited - CFO

Thanks, Jin.

Operator

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

Wendy Huang - RBS - Analyst

Thanks for taking my question. Jane, can you give us a comprehensive outlook for your Q3 guidance, including the actual volume for each segment and also your operating margin?

Jane Sun - Ctrip International Limited - CFO

Sure. For the aggregate, guidance is 15% to 20% so let me walk you through each segment. For hotels, the revenue guidance is also somewhere around 15% to 20% which is mainly driven by the volume growth. We forecasted the commission rate as well as the price remain consistent on the year over year basis.

For air ticket, we forecast that volume growth is somewhere around 10% to 15% and a price increase is about 5%. And a commission rate on the year over year basis is flat and if you add these three elements together, the revenue growth will be somewhere around 15% to 20% as well.

Packaged tour and corporate travel, we also forecast the revenue to grow at about 15% to 20%.

Wendy Huang - RBS - Analyst

Okay, then my second question is although the high speed railway between Hangzhou and Beijing was operating for just one month, but it seems that airline ticket price has been very sensitive to the operational condition of the high speed railways, so have you seen the airlines adjusting the commission rate based on the ticket price over the past few months and how would you look at the commission rate changes for the agency? Thank you.

Jane Sun - Ctrip International Limited - CFO

For the air ticketing commission, so far we have seen very stabilized year over year commission rate. The airlines and it's very sensitive to the operation for the high speed railway which is good for our customer. I think if there are two alternatives for customers to choose, the qualities for these two service providers will improve going forward.

Wendy Huang - RBS - Analyst

Does that mean that your aggregate commission would be under pressure in the near term given that the air ticket price is so sensitive?

Jane Sun - Ctrip International Limited - CFO

So far it's very stable on the year over year basis.



Wendy Huang - RBS - Analyst

By the way, for the Q3 outlook, I guess you haven't provided the operating margin guidance yet?

Jane Sun - Ctrip International Limited - CFO

Yes, for gross margin, I think somewhere around the 75% to 76% is very much achievable. Operating margins before staff compensation at a rate of 40% to 41% is achievable.

Wendy Huang - RBS - Analyst

Okay, thank you very much.

Jane Sun - Ctrip International Limited - CFO

Thank you.

Operator

Your next question comes from the line of Yu Jin from CICC. Please proceed.

Yu Jin - CICC - Analyst

Good morning and thank you for taking my question. I have a quick question on ICC (inaudible). It seems that in the second quarter the ICC accounted for around 10% of the net revenue so I'd like to know or understand how the ICC are distributed. Such as what percentage is through stock options and what percentage is through restrictive shares. Thank you.

Jane Sun - Ctrip International Limited - CFO

Sure, the ICC has remained at a very consistent percentage of total revenue, which is about 10%. The majority are stock options. I think most of the number related to share base compensation i.e. stock options.

Yu Jin - CICC - Analyst

Okay, thank you and how much (inaudible) have you acquired then (inaudible)?

So my question is do you have any strategic plan to offset those potential impacts and then further strengthen our future of (inaudible)?

Jane Sun - Ctrip International Limited - CFO

Sure.



Min Fan - *Ctrip International Limited - President and CEO*

Recently some big portals being some travel related online companies and I think it's good because if the market, they are more (inaudible) in the market, then customers can have more choice and they will definitely will speak to the best service company if they compare among different peers.

I think for, by (inaudible) I think Ctrip and [Chenai] are operating differently, we have different business models and while Ctrip is a travel service for human company and [Chenai] more about search engines which normally they will not fulfill orders. So I think the competition matters another thing. I think for Ctrip, our competitive advantages are still centralized standard fulfillment system with high quality control which will give more support and more one stop solutions for our customers.

So I think the competition is definitely there but anyhow I think most of the clients will choose one stop solution to fulfill their booking needs. For (inaudible) they invest in eLong. I think eLong is -- this model is quite similar to Ctrip but I think Ctrip will have a more competition advantage compared with eLong. We'll provide more product lines and I think we have a very good service blending among our customers.

So, so far we don't think there's any big change in terms of the competition landscape.

Yu Jin - *CICC - Analyst*

Thank you.

Min Fan - *Ctrip International Limited - President and CEO*

Thank you.

Operator

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

Eddie Leung - *Merrill Lynch - Analyst*

Hi, good morning everyone. Thank you for taking my question. I have a couple of questions, to start with, I'm just wondering if Jane Sun, can you give us the AFP of hotel and air in the same quarter?

Jane Sun - *Ctrip International Limited - CFO*

Sure, AFP is very consistent from previous quarter, which is around 450 to 500 range. The air ticket price is similar between 900 to 1000.

Eddie Leung - *Merrill Lynch - Analyst*

I have a follow up question of Jane. Because you mentioned that the commission rate was stable in the second quarter, however also we see a drop in commission in the second quarter and then you also mentioned that the AFP count consistent. What's the reasons for the decrease in commission? Is it because of a mix shift to lower priced tickets?



Jane Sun - *Ctrip International Limited - CFO*

I think if you are talking about the air ticketing revenue, the volume growth was about 21% compared to the industry growth was only 8%. However, it's partially offset by the commission per ticket of 7% decrease in commission per ticket. So the decrease in commission per ticket is mainly driven by the commission rate decrease from last year to this year.

If you remember Q3 of last year, the commission rate decreased and ever since then the rate has been on a quarter over quarter basis, has been very consistent.

Eddie Leung - *Merrill Lynch - Analyst*

Got that. That was very helpful and then one last question on your online transactions as percentage of total.

Jane Sun - *Ctrip International Limited - CFO*

It's hitting 40%.

Eddie Leung - *Merrill Lynch - Analyst*

Thank you.

Jane Sun - *Ctrip International Limited - CFO*

Sure.

Operator

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

Chenyi Lu - *Cowen and Company - Analyst*

Thank you. I have two questions. The first question regarding your growth margin this quarter. This quarter probably is the weakest amount probably over the last six or seven quarters. Can you give us the reason why this quarter is relative weak and also can you tell us as to going forward what you think the gross margins could be?

Jane Sun - *Ctrip International Limited - CFO*

Sure. Gross margin last quarter was about 78%, which is very high, and this quarter it decreased modestly by 1%, mainly due to the increase in the labor cost. I think in relative terms, our team probably is very well preparing ourselves by establishing the second call centre in Nantong, which is outside of Shanghai, but I think the increase in labor cost is impacting every company. We will control it to the extent we can, to the best we can.

Going forward, conservatively I think a growth margin of somewhere between 75% to 76% is very much achievable and operating margin between 40% to 41% is achievable.



Chenyi Lu - Cowen and Company - Analyst

Okay, so just between these second and third quarters (inaudible) do you think it is going to be a relatively similar level compared to the second quarter?

Jane Sun - Ctrip International Limited - CFO

I think there are positive and negative factors. The positive factor is as our volume is growing stronger there is more scale we can achieve and efficiency will improve. The negative factor is first the labor cost in China is impacting every company. The second thing is also in order to stimulate certain hidden demand we plan to strengthen ourselves in a marketing campaign but we're doing it in a very disciplined way.

So a very consistent margin is still achievable.

Chenyi Lu - Cowen and Company - Analyst

Okay. So given this quarter's relatively weak gross margin also you plan to spend a little bit more on sales marketing, can you give us a view in terms of your operating margin in 2011, also 2012? Thank you.

Jane Sun - Ctrip International Limited - CFO

2011, last quarter was about 43% in operating margin before stock comp and this quarter it is 42%. Still maintained at very healthy and high level. Next quarter, I think we forecast it at about 40% to 41%. So for the full year somewhere around, if you take four quarters average, I think about 40% is very much achievable and going forward that is our goal as well.

Chenyi Lu - Cowen and Company - Analyst

Okay, great, thank you.

Jane Sun - Ctrip International Limited - CFO

Thank you.

Operator

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

Alex Yao - Deutsche Bank - Analyst

Good morning everyone and thank you very much for taking my question. I have two questions. The first one is regarding the sales and marketing strategy. Can you elaborate more on your general sales and marketing strategy? What are the main channels you leverage to promote the product and to acquire the new users? Also, can you talk about the sales and marketing activities in the second half? How we should think about the financial impact and also the impact from cooperation between Qunar and the Baidu? Would that affect your decision to leverage a general changing of the marketing channel? Thank you.



Jane Sun - *Ctrip International Limited - CFO*

I think historically we always take a prudent approach to diversify the sales and marketing channel to a very balanced level. So if you go to the airport you will see our sales and marketing employees. If you work with big corporations you also have a joint alliance with big corporations and we also run PR efforts, radio ads, TV ads, newspapers and also online ads.

So every channel contributes positively to our sales and marketing efforts and we will maintain a very balanced view when we increase our sales and marketing efforts.

Regarding Baidu Qunar's alliance, I think it's always our goal to work with every supplier and to maximize the investment to return for our sales marketing strategy. So we're very open to work with all the players in the market.

Alex Yao - *Deutsche Bank - Analyst*

Okay, got it and second question is regarding the marketing share according to some third party research house. The marketing share of the smaller Telco operator call centers, such as the 12580 or 114, is gaining market share in the online travel market. How do you think about the competition from these guys?

James Liang - *Ctrip International Limited - Chairman*

I think, in fact, 114 and 12580 they are offline players. They are not really OTA players and I think the volume from those players, they have some goals but we don't think the goals is far ahead of other OTAs. I should say the overall landscape is not changed (inaudible) and as we just said for our online, attrition recently we still see very healthy growth. And I think for the whole market, while there more and more players emerging from the market, from the industry, but still the total, the whole picture has not changed that much.

Alex Yao - *Deutsche Bank - Analyst*

Got it. Thank you very much.

James Liang - *Ctrip International Limited - Chairman*

Thank you.

Operator

From Oppenheimer, your next question comes from the line from Andy Yeung. Please proceed.

Andy Yeung - *Oppenheimer - Analyst*

Hi, good morning and thank you for taking my question. My first question is regarding your Group buy business. Can you provide some colors on your user matrix, perhaps your current run rate and also how you currently account for the Group buy sales in your reporting segments?

Min Fan - *Ctrip International Limited - President and CEO*

After the launch of our Group buying channel in our website, we do see it's going very well and so far we have achieved significant market share and I think that for Group buying, our model is one of the supplemental products we offer to help our hotel partners to get incremental margins.



Meanwhile, we contrast the needs of price sensitivity of leisure customers and for Ctrip we do have quite -- our hotel coverage are quite unique and those hotels, they have very good locations and also very good price to cater for customer needs. Also it's growing well but I think the market is still not that big and also production and revenue generated from this channel is still a very small portion of our total revenue.

Andy Yeung - *Oppenheimer - Analyst*

Just a quick follow up. So do you account for the sales in your hotel segments and do you only account for the commissions not the whole sales revenue?

Jane Sun - *Ctrip International Limited - CFO*

Yes, the accounting is similar if we make some commission on the Group buy product. We only account for the commission part and it's aimed on the hotel line, which is very immaterial at this stage.

Andy Yeung - *Oppenheimer - Analyst*

Got it and my next question is regarding your insurance license. Can you help us understand what this license allows you to do in the insurance, or the travel insurance fund, and also in the long run what's your goal in this business?

Min Fan - *Ctrip International Limited - President and CEO*

I think for Ctrip we definitely need to provide a one stop solution for our customers so among those needs definitely people will tend to care more about the insurance requirements, so recently we were happy to get the insurance (inaudible) license. I think Ctrip will try to provide more insurance products for customers and we will cooperate with insurance companies to design relative insurance products for our business travelers as well as the leisure travelers.

For example, recently we cooperate with one big insurance company to provide those airline delay insurance and the market feedback is very good. So in the near future we will try to provide a few new insurance products for our customers and I think this part of the business will be growing very steadily and will contribute to our total revenue in the near future.

Andy Yeung - *Oppenheimer - Analyst*

Right. Thank you.

Min Fan - *Ctrip International Limited - President and CEO*

Thank you.

Operator

Your next question comes from the line of Eric Wen from Mirae Asset Management.

Eric Wen - *Mirae Asset Management - Analyst*

Hi, good morning. Thanks very much for taking my question. I have three questions. The first question is, Jane, the hotel volume if I remember that during your first quarter guidance you were predicting a pricing increase of about 3% and the second quarter actually we are seeing volume being the biggest driver where price seems to be flattish in the second quarter.

Can you comment on if there are any competitive dynamics that are changing in the hotel business that lead to that the pricing seems to be a little bit soft in both second quarter and third quarter? Thanks.

Jane Sun - *Ctrip International Limited - CFO*

Sure. I think last year the price is very high due to the World Expo. So for this year the price to remain to be very consistent with last year I think the market is still holding at a very healthy level. When we went into the quarter the number was -- some area the hotel price had some increases but I think for Shanghai related and nearby Shanghai the prices also compared to last year have modestly decreased as well.

So if you net net every region together, at the end of the quarter, the price is very flattish compared to last year.

Eric Wen - *Mirae Asset Management - Analyst*

Okay, got it. My second question is a clarification regarding the insurance business. My understanding is that our license right now allows us to sell third party insurance policies. Does it allow us to underwrite our own policies or in the future underwrite our own policies and how far are we to be able to do that in the future?

Min Fan - *Ctrip International Limited - President and CEO*

This license will enable Ctrip to work with major insurance companies to design and design appropriate insurance products for our customers and also will authorize Ctrip to sell different kind of travel related insurance to our customers. So I think this is very good as a supplementary service to our customers.

Eric Wen - *Mirae Asset Management - Analyst*

So do we actually get to keep the premium or we only charge agency commission for selling those policies?

Min Fan - *Ctrip International Limited - President and CEO*

Yeah, for this travel insurance company we are only agency not an underwriter.

Jane Sun - *Ctrip International Limited - CFO*

We are not underwriters.

Eric Wen - *Mirae Asset Management - Analyst*

But do we plan to be an underwriter at any time soon or not?

Min Fan - *Ctrip International Limited - President and CEO*

No. No.

Eric Wen - *Mirae Asset Management - Analyst*

Okay, got you. My third question is, my last question, is the package tour business given that we have incorporated WingOn going forward, does it have a different business model to our organic package tour business that is going to lead to a lower growth rate than before?

Jane Sun - *Ctrip International Limited - CFO*

I think WingOn is one of the best players in Hong Kong. So in Hong Kong they are very dominant but the Hong Kong market and the mainland China market is very different. I think mainland China's GDP growth rate is 9.5% year over year. Hong Kong probably is somewhere below 5%. So that determines the growth rate for each player. However I think Hong Kong is a very strategic region for us. To have WingOn as our regional player will strengthen our presence as well as our branding and image and product offering in the region.

Eric Wen - *Mirae Asset Management - Analyst*

Thanks, very helpful.

Jane Sun - *Ctrip International Limited - CFO*

Thank you.

Operator

Your next question comes from the line of Mike Olson from Piper Jaffray.

Mike Olson - *Piper Jaffray - Analyst*

Hey, good morning. Just a couple of questions. Is there anything you can say about your acquisition strategy kind of following on that WingOn question? Are there additional kind of peripheral markets that you'd like to enter that could come from acquisitions similar to WingOn or ezTravel?

Jane Sun - *Ctrip International Limited - CFO*

I think for our acquisition strategy we have to remain very prudent and very disciplined. I think the first target we have is always travel related business and normally we look at the leaders in the industry and also we are very disciplined financially as to the price we can offer.

I think we already took a move into the Great China area. So Taiwan we have ezTravel, Hong Kong we have WingOn, that's very strategic for us. So our first priority is domestic China and the second priority is Great China area and in the next maybe three, five years if we move to Great Asia area that's our third priority. So we have to move very methodically and very prudently with a disciplined approach.

Mike Olson - *Piper Jaffray - Analyst*

Okay. Thanks for that and then you mentioned that online was 40% of total transactions in Q2. Would you be willing to share your view on what you expect online will be as a percent of transactions in 2012?



James Liang - *Ctrip International Limited - Chairman*

The online portion right now we have stayed very close in the past years and I think for the year to come we will still work very hard to try to promote more online transactions from our customers and we hope for it to reach even higher percentage in the years to come.

Perhaps several years later we can see half and half can be -- half of the total production can be generated online.

Mike Olson - *Piper Jaffray - Analyst*

Thanks very much.

James Liang - *Ctrip International Limited - Chairman*

Thank you.

Jane Sun - *Ctrip International Limited - CFO*

Thank you, Mike.

Operator

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

Ming Zhao - *SIG - Analyst*

Thank you. I have a question about the guidance, Jane. So if you look at your 3Q guidance you maintained the year over year growth at 15% to 20% but the third quarter actually has tougher comparisons than the second quarter. So I was wondering why the guidance is not lower than the second quarter given the soft comparison? What makes you maintain that steady level?

Jane Sun - *Ctrip International Limited - CFO*

Yes, you are very observant, Ming. That's right, last quarter in Q3 we grow 49% in RMB terms. In USD terms it's more than 50% year over year. So the base is 5 percentage higher than Q2 but our team has put a lot of effort in making sure we can deliver what we promised in our guidance.

Ming Zhao - *SIG - Analyst*

Okay, so it sounds like the reason is mainly the execution?

Jane Sun - *Ctrip International Limited - CFO*

Correct, correct.

Ming Zhao - *SIG - Analyst*

Okay, thank you.



Jane Sun - *Ctrip International Limited - CFO*

Thanks.

Operator

(Operator Instructions). Your next question comes from the line of Wendy Huang from RBS.

Wendy Huang - *RBS - Analyst*

Thanks for taking my follow up questions. One is regarding your tax rate guidance for Q3. I notice there was a tax benefit in Q2 which caused the tax rate to be especially low so what will be the tax rate you would like for the remainder of the year?

Jane Sun - *Ctrip International Limited - CFO*

I think in Q2 we received certain tax benefits from local tax zero but for your model in Q3 and Q4 a tax rate of 21% is the reasonable rate to use.

Wendy Huang - *RBS - Analyst*

Also historically you received certain government subsidies which you put in the other incomes. So which quarter will you receive these kind of subsidies in 2011?

Jane Sun - *Ctrip International Limited - CFO*

For subsidies the timing and amount is hard to predict. That is why we took a very prudent and conservative approach. We were not to record the subsidy income until we received cash. So that is why we normally do not provide any guidance in terms of amounts and timing. It's not in our control.

Wendy Huang - *RBS - Analyst*

I see and finally if I look at your past few quarters the top end growth is somewhere around 20% and earnings growth actually even a bit below 20% for a while but on the other hand, Jane, you actually seem very confident to the 30% paid over the next 10 years in the top line. So when do you think you can re-gain the growth and accelerate to about 30% level and when can we see you guys to reconnect between this kind of near term growth and long term target and if this is the case then what should be the [trigger] for this? Thank you.

Jane Sun - *Ctrip International Limited - CFO*

I think prior to Q2 and Q3 of this year our growth rate has always been somewhere around 30% to 50% year over year. Q2 and Q3 of this year just had a very challenging high base comparison. If you use a CAGR calculation I think we -- normally our growth rate has two elements. One is the market development, so how much the natural growth is in the market.

The second one is through our strong execution how much market share we can gain. So to answer your question the 30% CAGR rate going forward if the market is healthy and if it is a normalized year our team will give 100% effort to deliver the results as high as possible.



Wendy Huang - RBS - Analyst

It says that the recent new products you launched could be one of those drivers in the long term. Now when do you expect those new businesses you launched this year to become meaningful to the top line? Will it be as soon as 2012?

Jane Sun - Ctrip International Limited - CFO

Yeah, I think the reason after 10 years Ctrip can still maintain a strong growth is because every year we think about the new things we can do and we move into these new product lines with a very prudent approach but it takes some time to nurture these products. So for example the train I think we need to develop a network similar to the airlines and we'll do it as quickly as possible and also for insurance I think we've just got the license which is positive but it takes us some time to develop the product but I think everything we can do in order to strengthen our customers' users experience and provide one stop shopping more as the concept we will give our efforts to develop that platform.

Wendy Huang - RBS - Analyst

Thanks, Jane.

Jane Sun - Ctrip International Limited - CFO

Thanks.

Operator

(Operator Instructions). Your next question comes from the line of Alex Yao from Deutsche Bank. Please proceed.

Alex Yao - Deutsche Bank - Analyst

Hi, thank you very much for taking my follow up question. Just one very quick follow up question. What is the exposure to Shanghai and adjacent region hotel booking business? I mean around the hotel booking revenues how much in percentage is from Shanghai and adjacent regions? Thank you.

Jane Sun - Ctrip International Limited - CFO

Sure. I think we normally classify first tier versus second tier and third tier. First tier cities include Shanghai, Beijing, Guangzhou, Shenzhen and currently the revenue contribution for these four cities is somewhere around 40% of the total hotel revenue.

Alex Yao - Deutsche Bank - Analyst

I've got it, thank you.

Jane Sun - Ctrip International Limited - CFO

Thanks.

Operator

We have no further questions at this time.

Jane Sun - *Ctrip International Limited - CFO*

Thank you everyone for joining us on call today. A replay of the call will be available as usual 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 and efforts.

Min Fan - *Ctrip International Limited - President and CEO*

Thank you.

Operator

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

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