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CTRP - Q4 2011 Ctrip.com International, Ltd. Earnings Conference Call

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OVERVIEW:

CTRP reported full-year 2011 net revenues of CNY3.5b or \$556m, net income attributable to shareholders of CNY1.1b or \$171m and diluted earnings per ADS of CNY7.08 or \$1.12. 4Q11 net revenues were CNY926m or \$147m, net income attributable to shareholders was CNY253m or \$40m and diluted earnings per ADS were CNY1.67 or \$0.27. For 1Q12, expects net revenue to grow approx. 15-20% YoY.



CORPORATE PARTICIPANTS

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

James Liang *Ctrip.com International Limited - Chairman*

Jane Sun *Ctrip.com International Limited - CFO*

CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the Q4 and full year 2011 Ctrip.com International Ltd earnings conference call.

My name is Walter and I will be the Operator for today. At this time all participants are on a listen-only mode. Later we will conduct a question and answer session (Operator instructions). As a reminder this conference is being recorded for replay purposes.

I would now like to hand the conference over to your host for today, Investor Relations Manager, Ms [Lin Zhang], please proceed Ma'am.

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

Thanks Walter. Thank you for attending Ctrip's fourth quarter and full year 2011 earnings conference call. Joining me on the call today we have Mr. James Liang, Chairman of the Board; Mr. Min Fan, President and the Chief Executive Officer; Ms Jane Sun, Chief Financial Officer; and Ms Jenny [Orr], Deputy Chief Financial Officer.

We may during this call discuss our future outlook and the performance, which are forward-looking statements made under the Safe Harbor Provisions of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such our results may be materially different from the views expressed today.

A number of the potential risks and uncertainties are outlined in Ctrip's [public filing] with the Securities and Exchange Commission. Ctrip does not undertake any obligation to update any forward-looking statement, except as a required and an applicable law.



Min, Jane and James will provide a business update, industry outlook, and the financial highlights for the fourth quarter and full year 2011, as well as the outlook for the first quarter of 2012. We will also have a QA session toward the end of this call.

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

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

Thanks Lynn, and thank you to everyone for joining us on the call today.

Despite a high 2010 comparison base, the Ctrip team delivered solid results in 2011. For the fourth quarter of 2011 our net revenues grew by 18% year over year and net income increased by 16% year over year.

For the full year of 2011, our net revenue grew by 21% year over year, and net income grew by 3% year over year.

We increased our sales and marketing investment to further penetrate the Asian market during the fourth quarter, with a continued focus on delivering the best product with the best service at the best price, with (inaudible) product offerings and elevated customer service to a higher level.

The Ctrip team further expanded our hotel supply network to meet growing traveler demands, reaching approximately 25,000 hotels by the end of 2011 compared to 17,000 hotels at the same time in 2010.

The number of our hotels was again (inaudible) accounting for over 70% of the total hotel supply. In addition to ongoing efforts to expand our hotel network and enrich our hotel product offerings, we launched a cash rebate key coupon program for hotel reservations to stimulate the market from the beginning of the quarter.

With precise positioning the program helped increase customer (inaudible) and drive incremental bookings. By encouraging customers to book online it effectively increases online penetration.

Ctrip has always been a pioneer in the travel market. We recently launched our new Smart Choice Hotel Channel. Ctrip's customers, especially leisure customers, will be able to enjoy great discounts and extraordinary savings without hurting hotels pricing strategy. This new innovation will offer customers a brand new booking experience.

Ctrip strategically invested in (inaudible), a hotel booking and [review] website, to explore more opportunities in the leisure travel market. With more hotels added into our network Ctrip now provides a whole range of accommodation types for customers to meet fast-growing leisure travel demands.

Ctrip group buying product saw rapid growth during the quarter. We made great efforts to ensure a range of choices and meet an increasing variety of customer needs.

In spite of last year's high comparison base, Air (inaudible) continues to outperform the market in the fourth quarter. We've further expanded our airline partnerships, working closely with them we were able to give pre-airlines promotion rate on Ctrip air ticketing channel.

We've also worked with many commercial banks to offer special promotions with special prices for popular routes. All those efforts helped us obtain the most competitive air ticket prices on the market.

Ctrip's train ticketing business brought great convenience to middle to high ended train customers. Through our efforts, we have expanded the geographic coverage of our train ticketing service to 14 provinces and cities nationwide.



Ctrip packaged-tour business has been enjoying strong growth supported by a healthy, rising market with strong market share gain. Our packaged-tour product is the most complicated of all our travel products, it requires many years of industry experience and knowledge.

A strong operation team, close vendor relationships, (technical difficulty). Featured products (technical difficulty) products in more than (technical difficulty) destinations. From short distance domestic tours, to long distance (technical difficulty) and from FIT packages to middle to high end group packages.

Just recently we upgraded the packaged-tour booking platform to enhance the online booking experience. We also linked our system with Rail Europe to sell European train tickets online. We believe this will help us capitalize on the increasing demand from other travelers and demonstrate our competitiveness in delivering comprehensive products.

We have built-up the Ctrip brands to be the most reputable and credible brand among Chinese leisure travelers. We are working hard to accelerate the service to a higher level and expand our reach to attract more latent customers to experience our offerings.

In December, the China (inaudible) Academy announced the list of the top 20 China touring groups, Ctrip ranked number 2 among all the travel groups.

In February, Shanghai Tourism (inaudible) selected Ctrip Shanghai as one of the five A ranked travel agencies for top service quality. We are pleased to see our customers appreciate, and the travel industry recognize, our hard work.

Ctrip corporate travel management business has been growing fast. This is a result of China's economic growth and the rising demand for efficient corporate travel management products. We believe there will be more corporate kinds keen on taking advantage of the outstanding value offered by this service which assists business to better manage their travel expenses.

Ctrip has accumulated more than six years of experience in serving corporate clients. We have built up a reputable brand for our professional service. In December together with WTTC - Work, Travel and Tourism Council - we published the China Corporate Market Travel Report to share inside some of the industry with our kind, helping them better understand the market and can choose their travel expenses more efficiently. Our efforts were also appreciated by the industry.

In November Ctrip was honored with the best business model of 2011 for innovative corporate travel management service for SMEs, and the best business model China [Summit] 2011.

Ctrip has made great efforts to enhance IT systems to fulfill our goal of developing the most comprehensive platform for Chinese travelers. We are pleased to see online transactions have been growing significantly. Currently approximately 45%, on average, of total transactions are conducted online.

Our mobile platform is also being instrumental. The booking volume through the mobile platform is reaching new record highs every quarter and the Ctrip apps have become the most popular travel apps in China.

During the fourth quarter Ctrip also increased revenue in sales and marketing, we reached out to more new customers through various channels. By the end of the fourth quarter of 2011 our cumulative number of customers increased to 15.4 million compared to 11.9 million for the same period in 2010.

We co-operated with China (technical difficulty), one of China's top four national banks, to co-issue a joint gold and platinum credit card. Through this alliance Ctrip is able to gain access to large, high-end customer groups who have strong buying power with high demand for quality service.

Ctrip is always actively fulfilling its corporate social responsibility and our efforts have been recognized by the community. In December Ctrip was selected by the China Committee of Corporate Citizens for the China's Excellent Corporate Citizen Award. Ctrip will continue to contribute to society for many years to come.



Ctrip has always been focused on developing the best, one-stop solution platforms for travelers. In 2011 we invested more in new business development. For hotel business we launched the Smart Choice Hotel Channel to provide customers a brand new booking experience. We also introduced group buying hotel products, bringing great savings to our customers.

We invest in (inaudible) to offer more comprehensive coverage of low-end accommodation for the current (inaudible) site. Beside the core business we launched the Chinese traveler community platform, (inaudible).com and corporate travel service management for small and medium enterprises. We invested in [TU.com] to offer train ticketing services for middle to high end train customers. From the technology support perspective we upgraded packaged-tour booking channels and (inaudible) mobile booking platforms.

Ctrip is the only online travel agent in China that can offer the most comprehensive travel products with the most sophisticated service platform. In 2012 Ctrip will invest more in the competitiveness of each business line to offer the best product with the best service at the best price.

We believe that there are no shortcuts to success in the China travel market. It has taken 12 years for Ctrip to build up a loyal customer base and an enhanced supply chain to further extend our dominant position at the head of industry. We will dedicate our resources to developing our competitive advantage and the strengthening all business sectors. We will further penetrate the fast growing online and leisure markets and capture more opportunities in the long-term market, rising far above the competition.

Now I will turn to James for the industry outlook.

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

Thanks Min.

Although the forecast of China's economic growth for 2012 is lower than 2011, we have confidence in China's leadership in economic growth in the long run.

With the increasingly strong Chinese currency, consumers' buying power, and interest in travel is growing significantly.

With more relaxed visa restrictions for Chinese travelers, the visa travel market will see strong growth as we have seen in many countries like Europe, the US and Japan, and other countries relaxing visa restrictions to accommodate the increasing number of Chinese travelers. These factors will boost the demand for outbound travel.

Now let me turn to Jane for financial update.

Jane Sun - *Ctrip.com International Limited - CFO*

Thanks James. I'm pleased to report the solid results for the fourth quarter and for the full year of 2011. For the fourth quarter of 2011 net revenues were RMB926 million or \$147 million, representing an 18% increase from the same period in 2010.

Net revenues for the fourth quarter of 2011 decreased by 5% from the previous quarter, primarily due to seasonality. For the full year ended December 31 2011 net revenues were RMB3.5 billion or \$556 million, representing a 21% increase from 2010.

In 2011 Wing On Travel and ezTravel contributed 1% for the year-on-year growth for the net revenues.

Hotel revenue amounted to RMB400 million for the fourth quarter of 2011, representing an 11% increase year-on-year, primarily driven by an increase in hotel reservation volume year-on-year. Hotel reservation revenue decreased 3% quarter-on-quarter.



For the fourth - for the full year ended December 31 2011, hotel reservation revenues were RMB1.5 billion or \$236 million, representing a 16% increase from 2010. The hotel reservation revenues accounted for 40% of the total revenues in 2011, compared to 42% in 2010.

Air ticket booking revenues for the fourth quarter of 2011 were RMB378 million or \$60 million, representing an increase of 18% year-on-year, primarily driven by an increase in air ticketing sales volume. Air ticket booking revenues decreased 2% quarter-on-quarter.

For the full year ended December 31 2011 air ticketing booking revenue were RMB1.4 billion or \$228 million, representing a 19% increase from 2010. The air ticket booking revenues accounted for 39% of the total revenues in 2011 and remained consistent with that in 2010.

Packaged-tour revenue for the fourth quarter of 2011 were RMB130 million or \$21 million, representing a 29% increase year-on-year, due to the increase of leisure travel volume. Packaged-tour revenue decreased 24% quarter-on-quarter primarily due to the seasonality.

For the full year ended December 31 2011, packaged-tour revenue were RMB535 million or \$85 million, representing a 41% increase from 2010. Wing On Travel and ezTravel contributed 3% for the year-on-year growth for packaged-tour revenue. The packaged-tour revenue accounted for 14% of the total revenues in 2011, compared to 12% in 2010.

Corporate travel revenue for the fourth quarter of 2011 was RMB47 million or \$8 million, representing a 32% increase year-on-year, and a 9% increase quarter-on-quarter, primarily driven by increased corporate travel demand from business activity.

For the full year ended December 31 2011 corporate travel revenues were RMB162 million or \$26 million, representing a 25% increase from 2010. The corporate travel revenues accounted for 4% of the total revenue in 2011 remaining consistent with that in 2010.

Gross margin was 76% in the fourth quarter of 2011, compared to 78% in the same period in 2010, and 77% in the previous quarter. For the full year ended December 31 2011 gross margin was 77% compared to 78% in 2010.

Product development expenses for the fourth quarter of 2011 increased by 43% to RMB173 million or \$27 million, from the same period in 2010, and increased by 7% 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 16% of net revenues, increased from 13% in the same period in 2010 and increased from 14% from the previous quarter.

For the full year ended December 31 2011, product development expenses were RMB601 million or \$96 million, representing an increase of 33% from 2010. Excluding share-based compensation charges product development expenses accounted for 14% of net revenues, remaining consistent with those in 2010.

Sales and marketing expenses for the fourth quarter of 2011 increased by 45% to RMB185 million or \$29 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 fourth quarter of 2011 increased by 6% from the previous quarter; primarily due to an increase in sales and marketing related activities. Excluding shared base compensation charges sales and marketing expenses accounted for 19% of net revenues, increased from 15% in the same period in 2010, an increase from 17% in the previous quarter.

For the full year ended December 31 2011, sales and marketing expenses were RMB625 million or \$99 million, representing an increase of 38% from 2010. Excluding share-base compensation, sales and marketing expenses accounted for 16% of total - of net revenues, increasing from 15% in 2010.

General and administrative expenses for the fourth quarter of 2011 increased by 46% to RMB113 million or \$18 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 fourth quarter of 2011 increased by 4% from the previous quarter, primarily due to the increase in administrative personnel. Excluding share-based compensation charges general and administrative expenses accounted for 6% of the net revenue, increased from 5% in the same period in 2010, and remained consistent with that in the previous quarter.

For the full year ended December 31 2011, general and administrative expenses were RMB401 million or \$64 million, representing a 36% increase from 2010. Excluding share-based compensation charges general and administrative expenses accounted for 6% of net revenues, increasing from 5% in 2010.

Income from operations for the fourth quarter of 2011 was RMB231 million or \$37 million, representing a decrease of 21% from the same period in 2010, and a decrease of 24% from the previous quarter.

Excluding share-based compensation charges, income from operating - operations was RMB325 million or \$52 million, representing a decrease of 8% from the same period in 2010, and a decrease of 18% from the previous quarter.

For the full year ended December 31 2011, income from operations was RMB1.1 billion or \$169 million, representing an increase of 1% from 2010. Excluding share-based compensation charges income from operations was RMB1.4 billion or \$224 million, increasing by 9% from 2010.

Operating margin was 25% in the fourth quarter of 2011, compared to 37% in the same period in 2010, and 31% in the previous quarter. Excluding share-based compensation charges operating margin was 35%, decreased from 45% in the same period in 2010 and 41% in the previous quarter.

For the full year ended December 31 2011, operating margin was 30% compared to 37% in 2010. Excluding share-based compensation charges operating margin was 40%, compared to 45% in 2010.

The effective tax rate for the fourth quarter of 2011 was 23%. Increased from 19% in the same period of 2010, and increased from 21% from the previous quarter, primarily due to the increase in the amount of non tax-deductible share-based compensation as a percentage of our income as a whole.

Effective tax rate for the full year ended December 31 2011 was 20%, compared to 17% in 2010, primarily due to an increase in the amount of non tax-deductible share-based compensation as a percentage of our income as a whole.

Net income attributable to Ctrip's shareholders in the fourth quarter of 2011 was RMB253 million or \$40 million, representing a decrease of 16% from the same period in 2010, and a decrease of 22% from the previous quarter.

Excluding share-based compensation charges, net income attributable to Ctrip's shareholders was RMB347 million or \$55 million, representing a decrease of 4% from the same period in 2010 and a decrease of 16% from the previous quarter.

For the full year ended December 31 2011, net income attributable to Ctrip's shareholders was RMB1.1 billion or \$171 million, representing an increase of 3% from 2010. Excluding share-based compensation charges net income attributable to Ctrip's shareholders was RMB1.4 billion or \$225 million, representing an increase of 10% from 2010.

Diluted earnings per ADS were RMB1.67 or \$0.27 for the fourth quarter of 2011. Excluding share-based compensation charges, diluted earnings per ADS were RMB2.30 or \$0.37 for the fourth quarter of 2011.

For the full year ended December 31 2011, diluted earnings per ADS were RMB7.08 or \$1.12, compared to RMB6.97 or \$1.06 in 2010. Excluding share-based compensation charges, diluted earnings per ADS were RMB9.33 or \$1.48 compared to RMB8.59 or \$1.30 in 2010.

As of December 31 2011, the balance of cash and cash equivalents, restricted tier of cash and short-term investments were RMB5 billion or \$795 million.

In September 2011 Ctrip announced a plan to execute up to \$15 million share repurchase program approved by the Board of Directors and shareholders in 20 - in 2008.

In September 2011, Ctrip announced a new share purchase program up to \$100 million approved by the Board of Directors.

In the fourth quarter of 2011, Ctrip purchased approximately 1 million ADS with a total consideration of \$25 million from open-markets under these two plans.

To support future business expansion, Ctrip acquired a land use right to a piece of land in the city of Chengdu in Sichuan Province in November 2011. Ctrip plans to build its regional head office in Sichuan Province, which is enjoying a robust increase in tourism and offers plentiful labor resources.

In addition, in December 2011, Ctrip entered into an agreement to acquire an office building in Shanghai to expand its headquarters, in order to satisfy increasing travel demands from the Shanghai traffic hub. This forecast - the forecast for the two projects is approximately RMB700 million.

In February 2012, Ctrip entered into an agreement to purchase the remaining 10% of shares of Wing On Travel at a consideration of \$9 million. Upon completion of this share purchase Ctrip will hold 100% of the share capital of Wing On Travel. For the first quarter of 2012, the company expects to continue the net revenue growth year on year at a rate of approximately 15% to 20%. This forecast reflects Ctrip's current and preliminary review which is subject to change. With that, operator, we are opening the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions) Your first question comes from the line of Richard Gee with Morgan Stanley. Please proceed.

Richard Gee - Morgan Stanley - Analyst

Thank you. Min, James, Jane and Jenny. Good morning. Thank you for taking my call. Let me start with the first question regarding your coupon program. So far can you comment on the feedback from your customers regarding your coupon program? Also, have you seen your company gaining traction at the expense of your competitors and should we expect hotel revenues to re-accelerate going forward?

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

For our coupon program I think was launched the last quarter. As you know it could be the largest OTA in China. We are entitled to best price policy. If someone starts any illusionary marketing which diverts the market to compete on prices, we have to match the offerings. I think the launch of the coupon program last quarter and we do see the positive feedback from the market. I think Ctrip's coupon program works our expectations so far. It was one of our strategies to penetrate the long term market. Also as you know we encourage our clients to redeem their coupons online so it will also encourage to book online. We expect the coupon program takes two to three quarters to show the effect on volume. Of course we will evaluate the market carefully and we will see the future response.

Richard Gee - Morgan Stanley - Analyst

The follow up question is regarding your margin trend and obviously due to the rising labor costs and also this marketing initiative, and we are seeing some emerging pressure in the near term. When do we expect this margin to normalize? Can you also comment on your internal cost saving measures, particularly given that you are expanding aggressively online. Can you also shed some color on the margin profile and the full online transactions given it tends to be more scaleable longer term.



Jane Sun - *Ctrip.com International Limited - CFO*

We believe 2012 is the year for Ctrip to make certain investments. For every dollar we spend into product development, we carefully measure the investment return. However, in order to compete effectively with all the other players, we have to make further investment in sales and marketing as well as the product development areas. So for 2012 we expect our operating margin before stock compensation is about 30% for the full year. For Q1, because it is the slowest season than the other quarters, the operating margins before stock compensation is about 27% to 28%. The decrease in the margin is mainly due to two areas. The first one is about 5% due to the people related cost across the line. The second one is the sales and marketing, specifically very much driven by the coupon program. To add to (inaudible) comments earlier, we do see some pick up on the volume in hotel revenue. In the future quarters we intend to keep up with the efforts we have made on the coupon program to make sure we further gain market share in the competitive landscape. So that's the margin. In terms of the cost saving, I think Ctrip internally is a very disciplined company. We use all kinds of measurements to control our costs and measure our efficiency. We use (inaudible) to measure almost every key business process. So we keep up with efficiency we can control internally and save these monies to further invest in our marketing efforts.

Richard Gee - *Morgan Stanley - Analyst*

Thank you.

Jane Sun - *Ctrip.com International Limited - CFO*

Thanks.

Operator

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

Alex Yao - *Deutsche Bank - Analyst*

Hi, good morning everyone and thank you very much for taking my question. My first question is how do you evaluate the competitive landscape in the leisure travel market specifically in the mid to low end leisure travel market? Also what will Ctrip do to drive the growth in this area?

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

I think right now in China the online leisure market is quite fragmented and Ctrip is definitely the leading company in this field. As you know we are the biggest single venue for supplies, for both hotel reservations and we are in the best position to provide leisure products online for our customers. I think right now for the competitive landscape, although there are some small players in the field, Ctrip is definitely the nationwide one stop solution platform. We do see from last year to now our leisure business is growing healthily and with this momentum I think we will still keep the leading position in the market.

Alex Yao - *Deutsche Bank - Analyst*

Thank you. Secondly can you help us understand the margin deterioration in the fourth quarter? So the operating margin went down by 4% and growth margin is down 1%, product development 2%, sales 2%. To what extent is the margin's decline due to the coupon program, and to what extent is it due to extra investment and also the labor cost increase? Thank you.



Jane Sun - *Ctrip.com International Limited - CFO*

If we compare Q3 versus Q4, margin decrease from Q3 41% to 35%, which is about 6% decrease. Included in the 6% I think 2% is related to sales and marketing, 1.5% of this 2% is the coupon program. The rest is mainly for the headcount related cost across the line.

Alex Yao - *Deutsche Bank - Analyst*

Got it, thank you.

Operator

Your next question comes from the line of (inaudible) with Cowen and Company. Please proceed.

Unidentified Participant

Thank you. I have two quick questions. First question, can you give me the gross margin breakdown by each product statement.

Jane Sun - *Ctrip.com International Limited - CFO*

The gross margin is still within the range. For hotel business it's about 85% to 90%. For air tickets it's 65% to 70% and leisure travel package is in between, so 70% to 80%. May I ask you to repeat the second question again?

Unidentified Participant

Not yet. So question is for the coupon, does that hit the cost of goods sold? I think it hits the net revenue right? So that impacts the gross margin, right?

Jane Sun - *Ctrip.com International Limited - CFO*

Sure. If the coupon is cash rebate or if it is to redeem our existing products, then it's a contra-revenue, net against the net revenue. But if it is a small gift, for example a lamp or a small item of luggage, then it's classified as sales and marketing cost. So it's in both lines. The ratio is about two to one, two in the costs and one in the sales and marketing.

Unidentified Participant

My next question is regarding the hotel revenue. This quarter the hotel revenue was about 11% year over year in RMB terms. So can you give us a view in terms of the hotel reservation business in 2012. That would be great, thank you.

Jane Sun - *Ctrip.com International Limited - CFO*

Sure, let me start with Q1 first for each line of business. For the full year we probably have to wait a little bit longer. When we have better visibility we'll give a full year pipeline break for you. For Q1 hotel revenue has three elements. For volume growth it's going to be 25% to 30% which accelerates from the previous year, partially due to the program. Price is flat and commission rate is about 5% down. Again it's because of the contra-revenue driven by the coupon program. So the net revenue for hotel is going to be 20% to 25% up on a year over year basis. For air tickets, volume growth is expected to be 15% to 20%. Price is expected to be down 10% and the commission rate is flat. So that gives us a revenue increase



of 5% to 10% increase year over year. Package tour is 25% to 35%. Corporate travel, 5% to 10%, which if you ever get everything, that gives us about 15% to 20% year over year gross Q1 revenue.

Unidentified Participant

Thank you.

Jane Sun - *Ctrip.com International Limited - CFO*

Sure, thanks.

Operator

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

Catherine Leung - *Goldman Sachs - Analyst*

Hi, good morning. I was wondering if you could help us understand how you determine the reasonable returns for your customer acquisition costs? In particular for the hotel coupons, I think you increase the level of rebates in December from October. Have you seen a proportional acceleration in your hotel revenue growth since? The follow up is if you could disclose how much of your sales and marketing cost growth was from advertising cost versus headcount. Thank you.

Jane Sun - *Ctrip.com International Limited - CFO*

Sure. Customer acquisition cost -- regular customer acquisition costs remain very consistent. The coupon is on top of it. The growth rate, although we just started in Q4, we are already seeing the pick-up in low end hotels. That is why in Q1 the volume growth re-accelerated to about 20% to 25%. So we intend to keep up with the coupon program to match any campaign in the market to make sure that the pricing, everyone is the same, so everyone will come back to compete on product and service. So that's our game plan. Catherine, did you have the second question?

Catherine Leung - *Goldman Sachs - Analyst*

Yes, yes, the second question is if you can disclose how much of your sales and marketing cost was related to advertising versus headcount cost increase?

Jane Sun - *Ctrip.com International Limited - CFO*

Sure. The headcount increase for this quarter in terms of percentage is about 0.5%. The rest is all coupon related or China sales and marketing channel increase.

Catherine Leung - *Goldman Sachs - Analyst*

Okay, great thank you.



Operator

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

Eddie Leung - *Merrill Lynch - Analyst*

Good morning and thank you for taking my question. The first question is related to your fourth quarter pricing trend. Just to follow up on your guidance in the first quarter, could you also share with us the pricing trend of your hotel and ticketing business in the fourth quarter as well as the commission rates? Secondly we have seen quite an increasing advances from customers in the fourth quarter sequentially. So could you also comment on that one as well? Thank you.

Jane Sun - *Ctrip.com International Limited - CFO*

Sure. For the fourth quarter, all the revenues are mainly driven by the volume. We see price and commission remain very consistent from previous quarters and previous years. For customer acquisition, yes I think we increased our sales and marketing efforts. Customer acquisition is increasing very significantly and we intend to keep up with our efforts.

Eddie Leung - *Merrill Lynch - Analyst*

Thank you.

Jane Sun - *Ctrip.com International Limited - CFO*

Thanks

Operator

Your next question comes from the line of Mike Olson with Piper Jaffrey. Please proceed.

Mike Olson - *Piper Jaffrey - Analyst*

Good morning, I just have one quick question. You talked about difficult comparisons that you experienced in 2011. But your guidance for Q1 revenue growth of 15% to 20% doesn't necessarily suggest that we'll see an acceleration versus the growth rates that we were seeing in 2011. Do you expect growth - I understand you're going to be spending more and the margins are going to be impacted - but just on the revenue growth side, do you expect revenue growth later in 2012 will be higher than what your outlook for Q1 suggests?

Jane Sun - *Ctrip.com International Limited - CFO*

Obviously I think with all the marketing efforts we have put in we will go very aggressive on the top line. However in the first quarter of last year I believe we still grow at a very high rate, more than 30% year over year. So the base for Q1 was still very high and normally for Q1 the travel season is relatively lower. So hopefully with all the marketing efforts we have put in, we will give 100% efforts to generate as good a number as we can going forward.

Mike Olson - *Piper Jaffrey - Analyst*

Okay, thanks very much,



Jane Sun - *Ctrip.com International Limited - CFO*

Thanks.

Operator

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

Alicia Yap - *Barclays Capital - Analyst*

Hi, good morning. Thanks for taking my questions. My question is related to, can you actually help us to have a little bit more color that when we start to see effect of your start up investment in the R&D and sales and marketing to start contributing to the top line growth. In other words, when can we expect the top line growth to grow faster than the operating expenses?

Jane Sun - *Ctrip.com International Limited - CFO*

Yes, this year I think we increased our investment in both sales and marketing and product development. So for the new product that we believe which has the potential to explode in the future. This year we increased our investment. Normally it takes one to two years for business lines to become [matured] and generate growth for us. So hopefully after one year or two we should see these products become more mature and generating more revenue.

Alicia Yap - *Barclays Capital - Analyst*

I see. My follow up question is regarding your new office in Chengdu. Can you explain a little bit more, is that for the call centre or is it just for the regional sales, and your total headcount that you plan to increase by year end 2012. Thanks.

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

I think the new ops building in Chengdu will be used as the regional office for southern and western China. As you know in China right now, the economic growth and also the market is very strong in that part of China. This new office building will serve as the operations centre for western China. I think Ctrip will further penetrate the market over there and further utilize the valuable resource by setting up a regional operations centre in Chengdu. I think in the near future we will get more and more market share. Also that part of China is growing very fast and also with a very large population. Also quite top travel resources among that region. So we definitely also will see that part of - the new office set up will also enhance our leisure product development in that region.

Alicia Yap - *Barclays Capital - Analyst*

Can I ask when is the office expected to be completed and your headcount for your year end for 2012.

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

One and a half years. Expecting one and a half years to be completed.



Alicia Yap - Barclays Capital - Analyst

Okay, thank you.

Operator

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

Wendy Huang - RBS - Analyst

Thanks. My first question is I want to get more clarification on the Q1 guidance. You mentioned that the hotel commission rate will be down 5% due to the coupon program. But my understanding is that most of the coupon cost goes to the cost of sales and also the sales marketing cost. Why is it still affecting the commission rate? Also you said the corporate travel will only grow 5% to 10% year over year. Given that there is still great potential for the corporate travel in China, why will your growth slow down so dramatically?

Jane Sun - Ctrip.com International Limited - CFO

The first question is the coupon. The coupon is recorded as a contra-revenue instead of a cost of goods sold. So it's in the contra-revenue which also impacts the gross margin. When you try to break it out it's not volume related or price related. So it is mainly treated as a commission related item. That's why our commission rate will show about a 5% decrease. Corporate travel -- our corporate travel clients normally give us their ticketing business. So when we look at our forecast, whatever the ticketing business can grow is mainly going to be similar growth trend for corporate travel. Volume growth it still outpaced the market quite a lot. The market is only about 5%, below 10%. But the volume growth for Ctrip is about 15% to 20% growth. However we saw in the first quarter due to the slower season, price is down by about 10%. That's why if you add these two factors together we see about 5% to 10% increase in the overall revenue for air tickets and also corporate travel.

Wendy Huang - RBS - Analyst

Thank you. My second question is regarding your strategic investment in the hostel booking and review website. I checked that website. It says that the website is still under construction. So why are you investing in a new website? Why don't you just establish a new website yourself?

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

You mean the (inaudible) website?

Wendy Huang - RBS - Analyst

Yes.

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

This website I think is just launched and right now they cover quite some areas and also this website will mainly provide similar like hostel, hotel accommodation. I think the team at Sungco they are still working with the different departments and trying to provide more and more product offerings in their website. Also I think for the whole market, still need a little bit time to educate the market, to welcome more and more partners and also get more exposure among the customers.

Wendy Huang - RBS - Analyst

Do you mind sharing the amount of the investment in this website?

Jane Sun - Ctrip.com International Limited - CFO

The total investment so far is not significant. We intend to -- there are lots of new investments we are making for this year. So the total for this specific project though is not material.

Wendy Huang - RBS - Analyst

Also I noticed that Ctrip made an investment, or strategic alliance with the holiday housing leasing website (inaudible) as well. So can you help me to understand your future investment priorities? Why are you spending money here and there to invest in some newly established business instead of using your internal resources to start this website or business?

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

I think, as you know Ctrip is the one stop booking platform in China. Probably three or five years ago most people would view Ctrip mainly as the business travelers' website. But as you know, we are working very hard during this year. We try to provide more and more leisure products to acquire more leisure market share. Also the business travelers are leisure product users as well. So we want to provide more product coverage, not only for those business and hotel style products, but also the more leisure product coverage. So start from last year we advance to the (inaudible) model and (inaudible).com model. They are also quite similar to that hostel model abroad and also (inaudible).com which is a kind of mixture, home and away and B&B. So I think those products they have very good potential in the near future. So as we can see, those investments they are very well connected with our core business. Also those investments will definitely enrich our product providing and also to increase and enhance the (inaudible) of our customer. So I think although right now those investments are not so significant, and also right now those financial returns so far is not so significant, but in the near future we do see that there is a very good potential for a very good complementary product providing in our revenue model.

Wendy Huang - RBS - Analyst

Thank you.

Operator

Your next question comes from the line of Andy Yeung. Please proceed.

Unidentified Participant

Hi, good morning. Thank you for taking my questions. In terms of your customer channel, can you give us some breakdown for your customer transactions to your website today and also to your call centers and your mobile apps.

Jane Sun - Ctrip.com International Limited - CFO

The website is exceeding 45% including mobile. Mobile is still very small. About 55% on average is conducted online.



Unidentified Participant

Great, just one follow up on that. You have spent, from November your investments in R&D for 2011 and the trends seem to be continuing in 2012. Can you give us some insight into (inaudible), in particular which areas are your focus? Is it mobile trading or (inaudible) offering?

Jane Sun - *Ctrip.com International Limited - CFO*

You're right. I think the investment in new business development is still kept which is going to be fruitful for us in the next two years. The main area are the areas in which we have already seen the potential in the market. Obviously 3G is a very important area and anything that is complementary to our core business is very important. When our CEO just talked about (inaudible), it's very important. Anything related to our hotel, air ticketing, that's very important. Also anything that increases our product offering such as our train products is important to us as well. Also the travel - writing the travel journal (inaudible) is also another site. So the whole focus of our new business development is travel related sites that make our product stronger, make our offering more comprehensive. So that's the focus for our investment.

Unidentified Participant

Great, thank you.

Operator

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

Elinor Leung - *CLSA - Analyst*

Hi, thanks for the call. I have a follow up question. I want to know, what is the percentage of hotel that you're offering right now are entitled to discount under the coupon promotion and what percentage of your users are using those discounts at the moment? What do you think the long term, or the trend for this year, what percentage these numbers can reach?

Jane Sun - *Ctrip.com International Limited - CFO*

I think for the coupon program, all the customers are entitled to use the coupon. However if they are five star hotel users, normally the conversion rate is lower. If they, most of the customers stay at economic hotels then the conversion rate is higher. The coupon so far looks like it's tailored more for price sensitive customers.

Elinor Leung - *CLSA - Analyst*

Sorry, do we have a conversion rate percentage?

Jane Sun - *Ctrip.com International Limited - CFO*

Different customers are different.

Elinor Leung - *CLSA - Analyst*

Okay, and what percentage of your hotels are entitled to these discounts?



Jane Sun - *Ctrip.com International Limited - CFO*

I think the hotels, we probably don't calculate it by percentage. It's very market driven. So in the market, other players have coupon programs and we'll match instantly.

Elinor Leung - *CLSA - Analyst*

Okay, thank you.

Operator

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

Ming Zhao - *SIG - Analyst*

Thank you. Good morning. I have two questions. First congratulations to Jenny on getting on board. The first question is on the management. So is there any change to the management role? James are you more focusing on the operations? We also hear that James has finished something on the academic side. Is James going to be more active in strategy and the operations of the company? My second question is a housekeeping question. So we look at the advance for customers. There was a big jump at the end of the quarter. What's the reason behind that?

Jane Sun - *Ctrip.com International Limited - CFO*

I think our company focus has always been we're a very efficient operation. The travel business is growing very fast. So whether James spends more time in operations or we recruit Jenny to strengthen our company, that's a reflection of how our team is very much focused on recruiting good candidates to strengthen our team, and also bring all the talents to the management team. So I think all four of us will spend a lot of time on both operations as well as keep up with good communication with the investment community. So we are very determined to do that. Your second question, Ming, do you mind repeating it?

Ming Zhao - *SIG - Analyst*

Yes, if you look at the balance sheet, you know the advance on customers had a big jump at the end of the quarter.

Jane Sun - *Ctrip.com International Limited - CFO*

Oh okay.

Ming Zhao - *SIG - Analyst*

I guess that's related to the package tour business?

Jane Sun - *Ctrip.com International Limited - CFO*

Correct.



Ming Zhao - *SIG - Analyst*

But I just want to hear from you anything behind that?

Jane Sun - *Ctrip.com International Limited - CFO*

Sure, the advance from customers is mainly related to the Chinese New Year. So it has major increase in the year. It also has something to do with the timing depending on when we receive the cash and when we pay, you know the customer takes the tour. So that's the reason for the increase.

Ming Zhao - *SIG - Analyst*

So just a clarification on that, the coupon program really does not hurt the package tour business right? It's only for the hotel business?

Jane Sun - *Ctrip.com International Limited - CFO*

Correct, I think a coupon program is very much again a response to the market conditions. So the hotel is the only area a coupon is applicable.

Ming Zhao - *SIG - Analyst*

Okay, thank you.

Jane Sun - *Ctrip.com International Limited - CFO*

Sure, thanks.

Operator

Your next question comes from the line of Ida Yu with CICC, please proceed.

Ida Yu - *CICC - Analyst*

Hi, good morning thank you for taking my questions. Just a quick question about the product development and the SMS, sales and marketing expenses. So in Q4 we see a growth of these two items either in a year over year growth and also as a percentage of the total revenue. So can you give us guidance about how say those two items are going forward in coming quarters?

Jane Sun - *Ctrip.com International Limited - CFO*

Sure, in the coming quarter we expect the people related costs mainly in product development to increase about 4%. Then the other is sales and marketing related costs. So margin guidance in Q1 dropped from 35% to about 28% which is a 7% drop mainly due to 4% in product development and the rest in sales and marketing related activities.

Ida Yu - *CICC - Analyst*

Okay thank you.

Jane Sun - *Ctrip.com International Limited - CFO*

Thanks.

Operator

Your next question comes from the line of Aaron Kessler with Raymond James, please proceed.

Aaron Kessler - *Raymond James - Analyst*

Morning, first on the hotel performance for Q4 I believe you report about 11%, I think the guidance was 15% to 20%. If you can clarify maybe what the impact of the coupon was? I think you originally said it was a cost, but now it's contra revenue, it's maybe just the impact of coupons on the Q4. Also how do hotels feel about the couponing program, because you might actually be pricing below the hotel rate. In the US it's gone more to pricing parity. So just curious what the hotel reaction has been to the coupon program as well? Thank you.

Jane Sun - *Ctrip.com International Limited - CFO*

Sure, first of all I think for the hotel side they are not impacted at all. The price is still the same. What we do is for every booking the customer makes they will be entitled for a coupon which they can apply for the next stay and to deduct their payment. So the hotel is not impacted, it's just between the Ctrip end the consumers. The second one is for Q4 hotel revenue grew more than 10%. For Q1 guidance we guide hotel volume to accelerate to bet 25% to 30% which will be offset partially by a commission rate of 5%. If you add these two elements together then the hotel revenue growth will be around 20% to 25% for Q1.

Aaron Kessler - *Raymond James - Analyst*

Can you just clarify for Q4 what the impact of the coupons was on Q4 revenues for us also?

Jane Sun - *Ctrip.com International Limited - CFO*

Very minor, because we started the coupon program during the later part of the quarter so very minor.

Aaron Kessler - *Raymond James - Analyst*

Okay great. Do you say a 2012 operating margin is that about 30% just to clarify?

Jane Sun - *Ctrip.com International Limited - CFO*

30% before stock compensation, you are correct.

Aaron Kessler - *Raymond James - Analyst*

Okay great, thank you.

Jane Sun - *Ctrip.com International Limited - CFO*

Thanks.



Operator

Your next question comes from the line of (inaudible) with Brean Murray, please proceed.

Unidentified Participant

Hi, good morning thank you for taking my question. I have a follow up on the coupon program, so what kind of the region are you looking in now for the coupon program? Also like you mentioned that the coupon program has increased your online penetration. What is your online penetration as of 4Q? Thank you.

Jane Sun - Ctrip.com International Limited - CFO

Yes the coupon program again is very much in line with the other coupons by the other players. So whatever we see in the market we will match to it. Online, yes because coupon is only applicable for online bookings. So yes it increased coupon the online percentage.

Unidentified Participant

So what is your online penetration as of 4Q?

Jane Sun - Ctrip.com International Limited - CFO

Average right now is 45%, hotel is a little bit higher.

Unidentified Participant

Okay thank you. My second question is regarding group buying programs. Like how many hotels right now participate in your group buying program for the first quarter? Can you provide some useful metrics on the group buying, such as average ADR or commission rates? Thank you.

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

Yes we have around 100,000 or around 1,000 hotels with the group buying model in our website. We do see this group buy model, group buying model is quite welcome among those low end customers as well as the very price sensitive customers. But so far the total production is still very small compared with our total hotel production in terms of low nights. But we think it's a value added channel so we seek to offer this product to help our customers to find more suitable products as well as to help our hotel partners to get incremental margins. I think this is a supplemental product to address the needs in the market.

But as we can see the coupon buying model is still not a mainstream product in the hotel whole business. We view this as a supplemental channel to cater for our customer needs.

Unidentified Participant

Okay thank you.



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

Thank you.

Unidentified Participant

So what kind of growth do you see on the group buying from last quarter?

Jane Sun - *Ctrip.com International Limited - CFO*

Oh this number is really immaterial I think in line with our growth.

Unidentified Participant

Okay, thank you very much.

Jane Sun - *Ctrip.com International Limited - CFO*

Thanks.

Operator

There are no further questions at this time I would like to turn the conference back over to Ms Lin Zhang for closing remarks. Please proceed.

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

Thank you very much everyone for joining us on the 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 communicating with you again next quarter. Thank you.

Jane Sun - *Ctrip.com International Limited - CFO*

Thank you very much.

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

Thank you.

Operator

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



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