

FINAL TRANSCRIPT

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CTRP - Q3 2008 Ctrip.com International, Ltd. Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the quarter three 2008 Ctrip.com International earnings conference call. My name is Misau and I will be your operator for today.

At this time, all participants are in listen-only mode. We will conduct a question-and-answer session toward the end of this conference. (Operator Instructions).

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As a reminder, this conference is being recorded for replay purposes. I would now like to turn the call over to Ms. Jade Wei, Senior IR Manager of Ctrip. Please proceed, ma'am.

Jade Wei - *Ctrip.com International Ltd - Senior Manager, IR*

Thank you. Thank you for attending Ctrip's third quarter 2008 earnings call. Joining me on the call today we have Mr. James Liang, Chairman of the Board; Mr. Min Fan, Chief Executive Officer; and Ms. Jane Sun, Chief Financial Officer.

We may during this call discuss our future outlook and performance, which are forward-looking statements made under the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995.

Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the views expressed today. A number of potential risks and uncertainties are outlined in Ctrip's public filings with the Securities and Exchange Commission. Ctrip does not undertake any obligation to update any forward-looking statements except as required under applicable law.

Min, James, and Jane will provide business updates, industry outlook, and financial highlights for the third quarter of 2008 as well as outlook for the fourth quarter. We will also have a Q&A session towards the end of this call.

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

Min Fan - *Ctrip.com International Ltd - Co-founder, CEO*

Thanks, Jade.

Hello everyone. Thanks for joining us today on this call. As we look back, the third quarter of 2008 was a remarkable quarter for China. The Olympics and Paralympics were successfully delivered and these events increased and will continue to increase the visibility of China to the world.

This will benefit the travel industry in China and our business in the long term.

Meanwhile, the past quarter was a very difficult time for all companies who operated in the travel industry in China, from airlines to hotels and from traditional agencies to online travel service providers.

For air ticketing business, the volume for the overall airline industry decreased by approximately 5% in Q3, which was the first time of market decrease since SARS in 2003 for the China travel industry.

However, Ctrip was able to grow our peak volume by 37% taking significant shares from a tough market due to our strong execution and a superior customer service. Our market share has been growing rapidly in the past quarters of 2008.

In terms of revenue, our hotel business grew 6% year-over-year, the air ticketing business grew 21% year-over-year and the package tour business grew 37% year-over-year which all outpaced the industry growth rate significantly.

Our team demonstrated its ability to achieve a healthy growth rate in revenue and maintain a solid and profitable operation in a tough environment.

Our hotel supply network continued to expand at a rapid pace with approximately 7,600 hotels by the end of September 2008 compared to approximately 5,600 by the same period last year.

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The number of hotels with guaranteed allotment rooms increased accordingly and accounted for more than 60% of the total supply. By the third quarter of 2008, the number of cumulative active customers reached to 5.6m compared to 3.7m by the same period of last year, a fast pace new customer acquisition during the tough time demonstrated the effectiveness of our sales and marketing channels.

Our commitment to customers never wavers either in a strong or in a soft market. Call center is one of our key competitive advantages, providing the efficient platform to serve our customers.

Last month, our call center was awarded as one of the best call centers of 2008 by China Call Center and the CRM association for the second straight year. This award recognized the quality of our customer service, backed with our excellent employees, advanced IT platform and a seamless team cooperation. We have established strategic partnerships with notable leading companies in their field during the past quarter, [BOCO], Alibaba and PayPal. Working with these partners will enhance Ctrip's growing list of channels to reach out to our potential customers.

Although the market is challenging, we proactively and swiftly take actions to extend our leadership further. First, get more customers. While some of the traditional agencies are going out of business during the tough times, it is a very good opportunity for us to lock in the most strategic and efficient channels to recruit new customers.

Second, vendor relations. We are working with our vendors more closely than ever to lead through the tough environment in order to achieve our winning situation for the travel-related industries and for our business.

We will take more long-term vision to make sure that Ctrip is the most effective sales channel and the strategic partner for airlines and hotels.

Third, cost control. We have put in cost control measures to continuously improve our efficiency. And then I will let James share with you more about our long-term vision.

James Liang - *Ctrip.com International Ltd - Co-founder, Chairman of the Board*

Thanks, Min.

The past two months have been volatile worldwide. Our governments are jointly taking measures to iron the tide, more challenges they expect to come not only from financial industries but also for the world economy.

This is not the first time in our history is going through unexpected events. When the Internet bubble busted and SARS hit China at our early stage, Ctrip survived and emerged ever stronger.

Although the one-time event caused difficulties to travel into China this year, our team has demonstrated that we have the ability to grow substantially and profitably.

Our business is now isolated from the rest of the world. The travel industry in China is still growing to grow steadily. The Chinese government has released the largest economic stimulus plan in the history of China to bolster the economy. A wider range of infrastructure investment will increase, and therefore, the general economy will benefit with a sustainable growth rate.

Travel as a facilitator for business and the increasingly important leisure needs for people is going to grow and with a healthy rate. We view this tough time as our opportunity for Ctrip to gain more market share and extend our leadership in the travel industry.

Now, let me turn to Jane for the update of the financial performance.

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

Thanks, James.

I would like to report our financial results for the third quarter of 2008. In spite of the challenges in the markets, our net revenue reached CNY370m or \$55m in the third quarter of 2008, representing a growth rate of 15% year-over-year.

Hotel reservation revenues accounted to CNY186m or \$27m for the third quarter of 2008 representing a 6% increase from the same period in 2007 primarily due to the increased hotel booking volume and a 5% decrease from the previous quarter primarily due to the decreased hotel booking volumes.

Air ticketing revenue for the third quarter of 2008 were CNY166m or \$25m representing a 21% increase from the same period in 2007 primarily due to a 37% increase in air ticketing sales volume which was offset by a 12% decrease in commission per ticket due to a decrease in the ticketing price.

Air ticketing revenues remained relatively consistent with the previous quarter.

Package tour revenue for the third quarter of 2008 were CNY28m or \$4m, up 37% from the same period in 2007 and 19% from the previous quarter, primarily due to the increased leisure travel volume.

Gross margin was 77% in the third quarter of 2008 compared to 80% in the same period in 2007 and 79% in the previous quarter.

Product development expenses for the third quarter of 2008 increased by 28% to CNY61m or \$9m from the same period in 2007 and increase by 8% compared to the previous quarter primarily due to the increased product development personnel resources.

Excluding share-based compensation charges, product development expenses accounted for 14% of the net revenue which was an increase from 13% in the same period last year and previous quarter.

Sales and marketing expenses for the third quarter of 2008 increased by 12% to CNY71m or \$10m from the same period in 2007 primarily due to the increased sales and marketing personnel resources and other marketing activity.

Sales and marketing expenses increased by 4% from the previous quarter primarily due to the increased marketing activity. Excluding share-based compensation expenses, sales and marketing expenses accounted for 18% of the net revenues, a decrease from 19% in the same period last year and an increase from 17% from the previous quarter.

General and administrative expenses for the third quarter of 2008 increased by 24% to CNY45m or \$7m from the same period in 2007 primarily due to the increased personnel resources and share-based compensation charges.

General and administrative expenses increased by 4% from the previous quarter primarily due to the increase of personnel resources.

Excluding share-based compensation charges, general and administrative expenses accounted for 7% of net revenues, which remained consistent with the same period last year, and increased from 6% in the previous quarter.

Income from operations for the third quarter of 2008 was CNY107m or \$16m, which represented a 4% decrease from the same period in 2007 and a 16% decrease from the previous quarter.

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Excluding share-based compensation charges, income from operations was CNY138m representing a 3% increase from the same period in 2007 and a 13% decrease from the previous quarter.

Operating margin was 29% in the third quarter of 2008 compared to 34% in the third quarter of 2007 and in the previous quarter. Excluding share-based compensation charges, operating margin was 37% in the third quarter of 2008 compared to 41% in the third quarter of 2007 and 42% in the previous quarter.

Net income for the third quarter of 2008 was CNY104m or \$15m, representing a 5% decrease from the same period in 2007 and a 12% decrease from the previous quarter. Excluding share-based compensation charges, net income was CNY136m or \$20m representing a 2% increase from the same period in 2007 and a 10% decrease from the previous quarter.

The effective tax rate for the third quarter of 2008 was 17%, increased from the 15% in the same period of 2007, primarily due to the application of a statutory tax rate of 25% under the new PRC enterprise income tax law effective on January 1, 2008 to domestic enterprises that are not entitled to enjoy the grandfathering provision of transitional preferential tax rate.

The effective tax rate for the third quarter of 2008 decreased from 26% in the previous quarter primarily due to the transitional tax provision of 18% applied to one of the domestic enterprise established in the Pudong New Area.

Diluted earnings per ADS were CNY1.52 or \$0.22 for the third quarter of 2008. Excluding share-based compensation charges, diluted earnings per ADS were CNY1.97 or \$0.29 for the third quarter of 2008.

As of September 30, 2008, the balance of cash and short term investments were CNY1.4b or \$207m. For the fourth quarter of 2008, Ctrip expects a year-on-year net revenue growth to be in the range of 5% to 15%.

With that, operator, we will open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

Your first question comes from the line of Catherine Leung with Citigroup. Please proceed.

Catherine Leung - Citigroup - Analyst

Hi, good morning. I have two questions please. The first one is to me, can you help us understand what measures Ctrip is taking to offset the slowdown? I know that you mentioned three measures already in your script, specifically for the cost control, which are the main areas that we can expect to see some efficiencies?

And my second question is on the commission rates, since the removal of the 3% fixed commission rate on October 1, can you help us understand how Ctrip's commission rate has trended?

Have you started negotiating with individual airlines and what is the medium term outlook for the commission rates? Thank you.

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

Sure, thanks.

Min Fan - *Ctrip.com International Ltd - Co-founder, CEO*

Okay. Regarding the past periods, I think we -- Ctrip we will take several measures to enhance our revenue and as I just said, since this is a difficult time, every company will encounter the same problem so maybe if you -- if Ctrip can deliver better service and best quality, then probably, we can grasp more customers in the market.

So I think still we will keep our service quality and efficient sales market channel to grasp more customers from different channels so this is still our major matters during this tough period.

And also, in terms of a cost control, we will have certain recruitment freezing measures during this tough period, in the short term, so I'm sure with these measures, we will try to enlarge our revenue and also decrease our costs.

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

And Catherine, I will take your second question which is the impact of the 3% removal of the commission rate. So far, our commission rate has been maintained at a very consistent level as previous periods. We will work with our airline partners very closely to make sure that we stay as efficient as possible to support their sales.

The government is eliminating the 3% mandatory commission rate and to let the market to decide the commission rate, and that is good news for Ctrip because we believe based on our strong execution, we are one of the most efficient and effective sales channel and by doing that, I think our value proposal for the airlines remains strong.

So far, I think the rate, based on our visibility, has been maintained.

Catherine Leung - *Citigroup - Analyst*

Thank you. Sorry, if I may for the first question, can I have a short follow-up? On the recruitment freezing, which areas -- for example, in product development, sales and marketing, or the back office functions will you target to reduce or control the headcount?

Min Fan - *Ctrip.com International Ltd - Co-founder, CEO*

Normally, during the normal period, in fact, we will recruit a little bit more staff to prepare for the increased transaction. So that means, even right now, since the business is not so good as before, or maybe the volume increase is not so high as before, so in the time being, during the time being we have -- right now, we have already enough staffing here. So right now, we probably will freeze all the department recruitments unless it is a very key personnel, or is a must for our service.

So I think it is across the line freezing.

Catherine Leung - *Citigroup - Analyst*

Thank you.

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Min Fan - *Ctrip.com International Ltd - Co-founder, CEO*

Thank you.

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

Sure, thanks.

Operator

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

Mike Olson - *Piper Jaffray - Analyst*

Hi. Thanks. Good morning.

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

Good morning.

Mike Olson - *Piper Jaffray - Analyst*

Two quick questions, the first one is given the tough environment obviously you've issued guidance for Q4 revenue outlook that is cautious. Is there any reason to expect an uptick in the first half of '09 from what you're guiding for in Q4?

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

Sure. For Q4, based on the customer loading data, just published by the major airlines, we are very glad to see that the volume is picking up compared to Q3. And as long as there is volume, we will penetrate into the market and gain as much market share as possible. So that is a positive sign.

The reason we give very conservative guidance for Q4 is that the ticket price still remains at a very low level, which offsets the volume increase and the ticket price we do not have too much control of.

So that is the reason for us to give prudent and conservative guidance for Q4.

Now going forward in 2009, we will manage the market very carefully and hopefully, based on airlines yield management, the price, hopefully will increase to a healthy level and we are working on the 2009 forecast so by the time we release our Q4 number, we should have better visibility and give you a solid guidance at that time.

Mike Olson - *Piper Jaffray - Analyst*

And then, my second quick question is, Jane, can you just give us an update on the application for preferential tax treatment and what you expect the tax rate will look like in '09?

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

Sure. Let me try to walk you through the tax in four steps.

First of all, under the new tax law which took effect on January 1, 2008, companies should apply 25% tax rate unless they are qualified for high and new technology enterprise status.

Secondly, we have already submitted the high and new technology enterprise application materials for all our major entities and the government authorities will announce the results upon completion of their review.

Thirdly, in Q3, the tax bureau of Pudong province have formalized a widely adopted practice to provide for a five-year transitional reduced tax rate for companies that is incorporated in Pudong. Therefore, we applied 18% for one entity that was incorporated in Pudong for fiscal year 2008.

The transitional tax provision provides a phased-in rate from 18% to 20%, 22%, 24%, and 25% for the next five years starting from 2008. So that is the Pudong entity. Now going forward in 2008, the worst scenario is that if none of the entity within our group is entitled for the high and new technology preferential tax treatment, then our tax rate is about 24% to 25% including the stock-based compensation or 20% -- approximately 20% excluding stock-based compensation charges.

The best scenario is that if the entities we applied for are entitled for high and new technology preferential tax treatment, then our tax rate will be in the range of 19% to 20% including share-based compensation charges or 15% to 16% excluding share-based compensation charges. Does that help?

Mike Olson - *Piper Jaffray - Analyst*

Thank you very much.

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

Sure.

Operator

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

Wendy Huang - *RBS - Analyst*

Good morning, everyone. Thanks for taking my questions. First of all, could you comment on the hotel bookings commission rate change in Q3 and especially the Q-on-Q changes. And also, based on your initial observation of the Q4 what is the trend of the occupancy rate in the hotel industry right now? And what is the trend of the hotel room price and how will that impact the hotel room boarding and the commission of Ctrip's business?

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

Okay. For Q3, the hotel commission rate remained consistent with previous year and previous quarter which is about 15% and the hotel price is still within the range of 450 to 500, towards the lower end of the range. So it is very consistent.

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Going forward, I think we are monitoring the markets very carefully. Lots of companies are putting cost control measures for the travel pattern so we again are monitoring the occupancy rate very carefully.

Compared to the peak time, which the occupancy rate average was around 60% to 70%, we do see a slight decrease in the occupancy rate across the board.

Wendy Huang - RBS - Analyst

And my second question is about are you getting a commission and is Q3's commission decline mainly because of the ticket price decline or mainly because of the commission rate change?

Jane Sun - Ctrip.com International Ltd - CFO

It is mainly due to the ticket volume change. Let me walk you through the ticket price and share the best visibility we have so far.

The ticket price in China is determined mainly by the airlines with some guidelines from the government. We can give our feedback to the airlines, but the final decision is made by the airlines.

We will try to do our best to share our visibility with you. The ticket price is mainly made of two components. The first one is the raw ticket price and the second one is the fuel surcharge. We take a commission based on the raw ticket price and the raw ticket price decreased significantly in Q3 by approximately 10% to 15% year-over-year.

In Q4, we haven't seen the price to be rebounded back yet. That again is the reason why we give a conservative guidance for Q4. The fuel surcharge is linked to the fuel cost and approved by the government. If the fuel cost in China was very high in Q3, the fuel surcharge was also pretty high.

So what we have seen so far is the oil price is decreasing worldwide. We hope the fuel cost in China will come down also and which will bring down the fuel surcharge accordingly.

If the airlines wants to maintain the total ticket price steady, the decrease in fuel surcharge will give more room for raw ticket price to increase in the future, so that is the best visibility we have so far.

Wendy Huang - RBS - Analyst

That is very clear. I have a final question if I may have, and that is on the gross margin. This quarter, the gross margin declined by more than 200 basis points but if we look at the revenue mix, actually, [the air again] didn't increase too much as a percentage of total revenue, so could you help us understand whether -- did you see any pressure on the gross margin of the hotel booking or whether it is mainly because of the increasing revenue contribution from the package tour this quarter.

Jane Sun - Ctrip.com International Ltd - CFO

Sure. Our cost is very much linked to the business volume such as the tickets we booked, the number of the tickets we booked. So if you look at our volume in Q3 for example, the ticket volume increased by 37%, but our cost increased by 20%.

The decrease in the margins was mainly due to the decrease in ticket price which impacted our total commission for each ticket. For example, if you have 100 people calling in, no matter what the ticket price is, we have to have staff to service these calls so the labor cost does not correlate to the ticket price but more correlate to the volume.

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That is the reason you see the gross margin decrease in Q3.

Now, going forward, as Min said, we will implement more aggressive cost control measures such as tight headcount control, improved efficiency in all business groups, and run more effective sales and marketing channel in order to improve our margin level.

Wendy Huang - RBS - Analyst

Okay. Thanks.

Jane Sun - Ctrip.com International Ltd - CFO

Sure. Thank you.

Wendy Huang - RBS - Analyst

This will help. Thank you.

Jane Sun - Ctrip.com International Ltd - CFO

Thanks, Wendy.

Operator

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

Ming Zhao - SIG - Analyst

Thank you. Good morning, everyone. Thanks for taking my questions.

Jane Sun - Ctrip.com International Ltd - CFO

Good morning, Ming.

Ming Zhao - SIG - Analyst

I was wondering if you could give us more color on your Q4 guidance? If we compare Q3 and Q4, it seems like your volume is better in Q4 so far. Hotel should -- are you forecasting Hotel will be worse than Q3 even without the Olympic event? How should we look at your guidance? That's my major question.

Jane Sun - Ctrip.com International Ltd - CFO

Okay. The market from a volume perspective, we are very glad to see the market volume has increased and again, we will be very positive to penetrate into the market and get these volumes for as much as possible.

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So we are confident that the volume growth will be very healthy for us. However, what we have seen so far, particularly in the air industry is that the average raw ticket price has not rebounded back to the prior year level.

The decrease in the raw price on a year-over-year basis will pull back the revenue growth rate. That's the main reason why we give conservative guidance.

For Hotel, I think that we are forecasting a healthy growth based on the market volume.

Ming Zhao - SIG - Analyst

So on the Hotel side, do you see some rebound after the Olympic?

Min Fan - Ctrip.com International Ltd - Co-founder, CEO

For the Hotel side, normally, I think the whole travel industry anticipate a very healthy rebound after the Olympic Games. As everybody knows, after the Olympic Games, the financial crisis across the world, so there is a certain impact on business travelers' behavior. And although most of our clients are domestic travelers, but those clients, if their companies or their businesses associated with the domestic business, probably they will travel as normal, but still would be a little bit less since every company right now is controlling their costs very tightly.

And if our clients, their business is export-oriented or JV, those companies, they are more likely to reduce their travel expense to a certain extent. So that is why we anticipate in Q4 the Hotel rebound will not be so significant as we anticipated before.

But still there was certain growth, but the growth will be, I should say, will be not so high as before since the impact of the financial crisis.

Ming Zhao - SIG - Analyst

Okay. And lastly, can you update us on the international visa issuance by the government? Is that visa restriction restricted -- lifted already into November month?

Min Fan - Ctrip.com International Ltd - Co-founder, CEO

Yes. The visa, right now, is already lifted and I think there are some after effects because of those foreigners. They travel to China. They will plan their schedule way ahead of time. So, in Q3 and even in Q4 still there will be quite some impact on the travel patterns, travel behaviors here. And also, as we know, probably some international meeting conferences, they either postponed or cancelled because of the visa around our Olympic Games period, and then after the Olympic Games, because of the financial crisis those big meetings, they postponed or canceled. So I think even the visa control is lifted but still the incoming foreigners still -- the trend is not so big as the industry anticipated before.

Ming Zhao - SIG - Analyst

Okay. Thank you very much.

Jane Sun - Ctrip.com International Ltd - CFO

Thanks Ming

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Operator

Your next question comes from the line of Richard Ji with Morgan Stanley; please proceed.

Richard Ji - Morgan Stanley - Analyst

Hi, James, Min and Jane. Good morning

Jane Sun - Ctrip.com International Ltd - CFO

Hi Richard

Min Fan - Ctrip.com International Ltd - Co-founder, CEO

Hi

Richard Ji - Morgan Stanley - Analyst

I have two questions and let me start with the hotel booking business. Can you help us understand a little better about the growth dynamics in tier-one cities, versus the tier-two cities? And should we expect higher growth potential in the tier-two cities going forward, despite the uncertainties in the travel market?

Min Fan - Ctrip.com International Ltd - Co-founder, CEO

Okay. Regarding the hotel revenue mix in Q3, because of the Olympic Games, we can see the revenue transaction generated from the first-tier cities, decreased a little bit because of the first-tier cities, Shanghai, Beijing. There were Olympic Games so, the volume from these two big cities decreased a little bit. And even -- especially in Beijing, as we compare the data, this Q3 the hotel bookings compared with last year, decreased. So, definitely there will be some impact on the first-tier city production.

And in the general picture, we can see the -- right now, there are more -- more production from -- more than 50% production generated from the second-tier and third-tier cities. And, regarding the gross ratio, I should say, still the gross ratio from the second-tier and the third-tiers, the hotel booking gross ratio is higher than the first-tier cities.

Richard Ji - Morgan Stanley - Analyst

Thanks Min and the other area, despite all this uncertainty, one bright spot is your leisure travel business. So going forward, should we expect this business to be more resilient and that than your business travel service -- for the time being? And what is the revenue, roughly, revenue breakdown between your leisure versus your business travel? Thanks.

Min Fan - Ctrip.com International Ltd - Co-founder, CEO

For the leisure and business travelers, the line-up still, I think 80% and 20%, this kind of scenario is still, almost, not -- without big changes. Still, we have more business travelers generating our productions and -- but we are working very hard to try to enlarge our leisure travelers business and especially by our vacation packages business line, and we can anticipate that there will be more high gross ratio from the leisure travel side than the ratio from the business travelers side.

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Richard Ji - Morgan Stanley - Analyst

Okay. Great. Thanks

Operator

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

Eddie Leung - Merrill Lynch - Analyst

Hi. Good morning James, Min and Jane. The question is could you guys share with us more insights in the industry trends you have observed so far in the fourth quarter, in October, as well as so far in November? In particular, I want to understand more about the relative strength between the business travelers and the leisure travelers in these two months.

And, how much, roughly or qualitatively speaking with the so-called pending demand, and how much do you think is actually still we are looking at some organic growth for the industry as a whole? Thanks.

Jane Sun - Ctrip.com International Ltd - CFO

Yes. The industry for Q4 so far, I think, in terms of the volume growth it has been better than Q3. Based on the Air China data and also Southern Air, I think the volume growth has been very healthy. So we are confident that as the volume in the market is growing, we will be able to increase our volume accordingly.

However, I think we -- also there is also some uncertainty in the market, just as many of you have already experienced that many firms have implemented cost control measures to reduce unnecessary travel, or to reduce the fare from business travel class to economy travel class for the air tickets. So the cost measures across the board, we still need to monitor very carefully to get a full picture of it. But overall, in general, I think the pent-up demand for Q4 looks better than Q3. That's how we see it right now.

Eddie Leung - Merrill Lynch - Analyst

Yes -- Go ahead Min, thanks

Min Fan - Ctrip.com International Ltd - Co-founder, CEO

Yes, sorry -- also, if you're talking about the leisure travelers I think the consumer behavior from leisure travelers, they are very heavily, you can see, linked with the estate market and the stock market in China. So that's why even the Golden Holiday of this October 1, the travel industry did not come up with a very, very high rebound after the Olympic Games. But, in the other hand, I think if the China economic growth still can be growing at a high digit gross ratio, let's say 8% or 9% next year, I think that will give more confidence to those leisure travelers. But this still depends on the macroeconomic growth trend, so we're still waiting -- waiting some time to see the afterwards effect.

Eddie Leung - Merrill Lynch - Analyst

So is it fair to say that so far the observation seems to point to the fact that it seems like the leisure travelers have -- are less sensitive to the economic headwinds than the business travelers?

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Min Fan - *Ctrip.com International Ltd - Co-founder, CEO*

Yes. Both. Both, they are sensitive

Eddie Leung - *Merrill Lynch - Analyst*

Oh. Okay. And one last question is about the conferences in the fourth quarter. Do we see any major conferences, say, in December or later parts of November in China?

Min Fan - *Ctrip.com International Ltd - Co-founder, CEO*

You mean big conference?

Eddie Leung - *Merrill Lynch - Analyst*

Yes, business conferences.

Min Fan - *Ctrip.com International Ltd - Co-founder, CEO*

Yes, I think there are some conference reviews and, yes, -- but still there will be a -- still, big conferences or exhibitions were still held during this season last -- this week there will be an international travel event in Shanghai and -- but I think those medium size or small size international conferences will be cancelled or postponed. But for those very big conferences, because they have set up maybe one year ago or more than six months ago. So still some quite big conferences still will be in Shanghai and Beijing. But the visitors or even the participants sometimes will be decreased.

Eddie Leung - *Merrill Lynch - Analyst*

Understood. Thank you very much.

Min Fan - *Ctrip.com International Ltd - Co-founder, CEO*

Thank you.

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

Thanks Eddie.

Operator

Your next question comes from the line of Marisa Ho with Credit Suisse. Please proceed.

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Marisa Ho - *Credit Suisse - Analyst*

Oh good morning. You were alluding to rapid market share increases during the third quarter. Would you be able to give us a little bit more color and perhaps also quantify the market shares you now have across the hotel booking and also the air ticketing sites?

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

Sure. The market share, sometimes depending on the data you use is very hard to calculate. Based on our calculation right now we're above 5%.

Marisa Ho - *Credit Suisse - Analyst*

That is for air ticketing?

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

Yes. For air ticketing. For hotel, probably we're still at around 2% to 3%.

Min Fan - *Ctrip.com International Ltd - Co-founder, CEO*

2% to 3%, but I think, although we encounter very hard time here but still we can see our market share is quite strong and also, we can see, we still grasp more clients, more customers from those small players in the market. So I think we are very confident, even in the difficult times we can still grow, still get more new customers from the market.

Marisa Ho - *Credit Suisse - Analyst*

Right. And I know it's somewhat early to talk about the visibility going into 2009 but would it be realistic to expect a rebound? I mean compared to what you're looking at in the third quarter and also the fourth quarter of 2008? Or are we likely going to be looking at just about 10% growth -- I mean for the full year of 2009?

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

Yes. I think, Marisa, I think we are still rolling up our 2009 forecast. When we look at our forecast there are a couple of things we need to monitor. The first one is the volume. And so far the volume in the market has been increasing and we are very confident that as long as there is volume in the market, we will get as much as possible the market share from these volumes.

The second element we look at is the price for hotels and the price for the air tickets and that we do not have control of. We can give the feedback to our suppliers and they will make the final decision. So that is something we are anxiously waiting for and monitoring. By the time we announce our earnings, hopefully, we will have better visibility on that element.

And the last one is the commission rate. Again, that is depending on the market and again, we will keep you updated throughout the process, to make sure our guidance appropriately reflects the commission rate as well.

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Min Fan - *Ctrip.com International Ltd - Co-founder, CEO*

Yes. I would like to add one point. If the government, they can carry out their stimulus plan in China, later this year and next year very efficiently, I think the travel market will -- there will be quite healthy growth next year, if all those plans can carry out very efficiently and on time.

Marisa Ho - *Credit Suisse - Analyst*

Excellent. Thank you.

Min Fan - *Ctrip.com International Ltd - Co-founder, CEO*

Thank you.

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

Thank you Marisa.

Operator

Your next question comes from the line of Chris Zee from BNP. Please proceed.

Chris Zee - *BNP Paribas - Analyst*

Hi guys. I just have several follow-up questions. Most of the questions have been answered already. First of all, for the air ticket commission, per ticket being issued, in the 3Q it dropped by 12%. Do you foresee it to go sideways in the fourth quarter and in the first quarter next year or do you see more downside? That's the first question.

And the second question basically pertains to your second upcoming call center. Can you provide us an update, particularly now that you are imposing the hiring freeze, so any tractions or potential delays on that one please? Thank you.

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

Sure. On the commission, if you look at the commission per ticket for dollar amount, there are two components that need to be taken into consideration. The first one is the commission rate. The second one is the price for each ticket. The commission rate has been maintained at consistent level, as previous quarters. However, the price has decreased by 10% to 15% on the raw ticket price. That is the main reason why the commission on the dollar amount decreased year over year by around 12%.

Now, going forward in Q4, we still see the ticket price on the raw ticket price is still very low. That again was the reason why we gave the guidance we have in the press release.

Now, your second question on the call center. The call center we have currently, the first call center we have currently will sustain our growth for the next one year or two and then we need a new space to accommodate future growth. We will take a very conservative and prudent way to construct the Nantong call center. The building is going to be built in two phases so there is no P&L hit until the building is ready to be put in service. So no P&L hit until 2010.

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Chris Zee - BNP Paribas - Analyst

So the -- sorry, the second call centre, the Nantong, won't be ready for operations until 2010?

Jane Sun - Ctrip.com International Ltd - CFO

Perfect. That is correct.

Chris Zee - BNP Paribas - Analyst

Okay. Can you just remind us what is the CapEx going to be involved for --?

Jane Sun - Ctrip.com International Ltd - CFO

Sure.

Chris Zee - BNP Paribas - Analyst

That project for this year and next year?

Jane Sun - Ctrip.com International Ltd - CFO

Sure, it's around \$20m a year for this year, next year and the year after.

Chris Zee - BNP Paribas - Analyst

Thanks very much.

Jane Sun - Ctrip.com International Ltd - CFO

Sure. Thank you.

Operator

The next question comes from the line of Elinor Leung, please proceed.

Elinor Leung - CLSA Ltd - Analyst

Hi, thank you, I just have a follow-up question; it's regarding the hotel rate. Can you give a little bit picture on how is the hotel price in the market right now? Do you see a downward trend going on, which could potentially depress your commission rate?

Jane Sun - Ctrip.com International Ltd - CFO

For Q3 what we have seen is the hotel price has been maintained at a very consistent level, which was in the range of 450 to 500 -- towards the low end but still within the reasonable range.

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Elinor Leung - CLSA Ltd - Analyst

How about in Q4, have you seen any downward trends going forward?

Min Fan - Ctrip.com International Ltd - Co-founder, CEO

For the Q4 I think, right now still those high end hotels they were low down a little bit but a very small percentage. And, on the other hand, those budget hotels, they maintain their prices across the board, so we don't see a significant decrease on these room rates right now.

Elinor Leung - CLSA Ltd - Analyst

Thank you.

Jane Sun - Ctrip.com International Ltd - CFO

Okay. Thanks.

Operator

Your next question comes from the line of Dan Cheng with [Carrion] Capital. Please proceed

Dan Cheng - - Analyst

Yes, I just wanted to ask a question about your package tours. I just want to know can you distinguish your package tour revenue in Q3? How much percentage of them contributed to the only one long weekend holiday and can we expect Q-on-Q growth for the fourth quarter in this sector?

Jane Sun - Ctrip.com International Ltd - CFO

Oh, the one long holiday, which holiday do you mean? The October holiday is going to be in Q4.

Dan Cheng - - Analyst

Yes. I mean before that do you see any -- okay, sorry, I just mean post-Olympic, the related package tours, just right before October 1.

Jane Sun - Ctrip.com International Ltd - CFO

Oh. Normally in Q3 it's the summer season so the students are out of school, so normally Q3 kids would go out and have tours with their parents. This Q3 though, I think because of the Olympic Games it's distorted in some levels. Q4 October holiday was in line with our expectations.

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Dan Cheng -- Analyst

Okay. Thank you

Jane Sun - Ctrip.com International Ltd - CFO

Sure. Thank you

Dan Cheng -- Analyst

When can we see your -- the business travel to a meaningful revenue contribution to --?

Jane Sun - Ctrip.com International Ltd - CFO

Oh, you mean the corporate travel, right?

Dan Cheng -- Analyst

Yes.

Jane Sun - Ctrip.com International Ltd - CFO

Sure, sure, the corporate travel this year is growing at a very fast level. So, hopefully, by the end of next year when the revenue is exceeding 5% we will be able to break it out to help you to see exactly how much money they are making. So next year we will probably break it out.

Dan Cheng -- Analyst

You just mentioned there will be more increase from the air ticket volumes in fourth quarter. So, comparing to the commission rate; so can we expect the same GP margin comparing to the third quarter for fourth quarter?

Jane Sun - Ctrip.com International Ltd - CFO

Yes. Pretty much. We -- probably the gross margin will be at a level between 77% to 78% and, operating margin, before stock compensation, will be at around 37% to 39%. We will do our best to control the cost and hopefully we'll be offsetting the margins by increasing our efficiency in operating level.

Dan Cheng -- Analyst

Okay. Thanks. That's swell.

Operator

(Operator Instructions), the next question comes from the line of Marisa Ho, with Credit Suisse. Please proceed.

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Marisa Ho - *Credit Suisse - Analyst*

I just have two quick follow-up questions. The first one is about the cost control measures that you were talking about. In your current budget, I mean, are you now expecting the cost to rise at a slower rate compared to the revenue line or are you actually budgeting the cost to perhaps stay flat or even decline in an absolute dollar basis?

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

Because the market has uncertainty we will take a very prudent and careful steps. So, currently, our target is try to control the costs so that it stays relatively flat. But, obviously, there are certain costs that need to go with the revenue. For example, if the volume grows to a certain level we need people to service them, but for other costs we will try to reduce them, to increase the efficiency. So, hopefully, we will as a percentage of total revenue, the costs will grow at a lower level compared to the revenue growth.

Marisa Ho - *Credit Suisse - Analyst*

Right. Thank you. And my second question is about the Starway alliance; I mean, do you have an update on how that one is going?

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

Sure.

Min Fan - *Ctrip.com International Ltd - Co-founder, CEO*

For the Starway alliance I think right now we do not expect Starway alliance to generate significant profits for Ctrip in the near future and the objective of the Starway alliance is to establish a neutral and a good brand for those quality, low-end hotels to provide good service to travelers and also to provide more choice to price-sensitive travelers and for those low-staff hotel travelers. And, right now, Starway is operating independently and meets our expectations so far.

Marisa Ho - *Credit Suisse - Analyst*

My feeling is, I mean, this could be an initiative you want to push in 2009, because if the overall travel market becomes difficult your customers may actually want to economize, so they may actually want to trade down to the lower grade hotels.

Min Fan - *Ctrip.com International Ltd - Co-founder, CEO*

Yes. They may be helpful.

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

Yes, I think the Starway alliance, from a revenue contribution perspective, it will remain to be insignificant because the other revenue pool is so huge. But it's a meaningful way to provide value added services to both our customers and our suppliers because quality is -- if the quality is guaranteed that will offer more choices for our customers. And for the hotel side, if we add some branding power to promote quality of the hotel I think that's good for our suppliers too. So it's really a value-added service for our customers as well as our vendor. So the business meaning exceeds the financial income, as of this moment.

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Operator

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

Wendy Huang - RBS - Analyst

Thanks for taking my follow-up questions. First, could you give me some guidance on the Q4 tax rate if [I mix it] and I think you mentioned before that you expect some tax reversal in Q4. So should we expect a big drop in Q4's tax rate?

Jane Sun - Ctrip.com International Ltd - CFO

Sure, the worst the tax rate we have is the same as -- for the full year, because we did a true-up for the Pudong province, so if the other entities did not get the high and the new technology status, our full year tax rate will be the same as the nine months tax rate. If the entities we applied for high and new technology gets their status approved, then we will reduce these entities' tax rates to a 15% tax rate, excluding share-based compensation costs.

Wendy Huang - RBS - Analyst

I see, and, second, could you help me understand about the gross margin between the high-end hotel booking and low-end hotel booking? My understanding is that actually the cost is very much fixed and similar for both types of hotels. So, with the increasing revenue contribution from the low-end hotels will you see any pressure on the gross margin?

Jane Sun - Ctrip.com International Ltd - CFO

Sure, for the gross margin, it's very difficult to segregate a certain level of the cost to one -- from one to the other but we will do our best to help our investors to understand the gross margin. Roughly, the gross margin for the hotel business is somewhere around 85% to 90%. And for high-end hotels, it is towards the high end of the range, and economy hotel is towards the lower end of the range.

Wendy Huang - RBS - Analyst

I see. Thanks.

Jane Sun - Ctrip.com International Ltd - CFO

Sure. Thank you.

Operator

Your final question comes from the line of Huang Candy with Nomura. Please proceed.

Candy Huang - Nomura - Analyst

Hi Jane. On your balance sheet can you explain why there's almost a double increase in the advance room customers?

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

Sure. October holiday is -- it's a big holiday, Golden Week holiday for China. So we book a lot of package tours for October holiday. And when we book it, the customer will pay us up front and we will realize our revenue upon return and completion of their tour. So, before they come back, the money they give to us is recorded as customer advance.

Candy Huang - *Nomura - Analyst*

Okay. So, you mean that the huge increase in the package tours by the end of the third quarter -- because I see the increase is very sharp compared with the previous few quarters.

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

Yes. If you compare quarter over quarter that number should increase quite significantly because if you are comparing June number, there is no national holiday in June or in July so you will not receive the customer advance for these two months versus, in September, you do receive advance payment from the customer for the deposit of the package tour they are going to use in October.

Candy Huang - *Nomura - Analyst*

Okay, how --?

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

But if you look at the historical trend, September -- in every year, September, you should see an increase in customer deposits.

Candy Huang - *Nomura - Analyst*

Okay, so now, is it normalized to a normal level or still a very high level in your liability (inaudible)?

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

Yes, once the holiday is over, once they come back from their package tour that balance should be reduced.

Candy Huang - *Nomura - Analyst*

Okay. Another two questions on your accounts receivable. Also, the balance has increased by over 60% year on year, versus your revenue growth, I think, is 28%, yes, 29% so --

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

Sure.

Candy Huang - *Nomura - Analyst*

So is the airline companies payable to you or is there any other issues?

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

Sure. It's similar to what we explained before. If you look at our AR balance, there were three components. The first one is the hotel commission and we normally confirm the hotel commission with hotels before we book it and we normally collect the AR between one to one and a half months.

The second part of the AR is corporate travel customers, which is also one third of our AR, and we control the AR very tightly and collect the AR between 45 days to 60 days. And the rest of the AR are mainly due to the AR from the credit card banks, because when we issue a ticket for example, when a customer calls to book a CNY1000 ticket, we will increase the AR from the credit card company for CNY1000 and also increase the AP to the airlines for CNY950 and the difference of CNY50 is our commission.

And normally, within two to three days the credit card bank will pay us the CNY1000 and then we will reduce our AR for CNY1000 and increase our cash for CNY1000. So, if you look at AR and AP for this quarter, they both increased because we received the payment from the customer's credit bank company but we also need to submit the ticket price to the airline company. So the AR and the AP both increased.

Candy Huang - *Nomura - Analyst*

Okay. Last question on your fourth quarter, you forecast 5% to 15%, top line -- given that you are taking some cost control measures plus you may receive some effective -- lower effective tax rate in the fourth quarter; so can we expect flat net margin or operating margin in the fourth quarter, year on year?

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

The gross margin probably will be -- it's reasonable to assume it's probably at a range of 77% to 78% and operating margin, probably is between 37% to 40%, excluding share-based compensation charges.

Candy Huang - *Nomura - Analyst*

Okay. Thank you.

Operator

Ladies and gentlemen, this concludes the question and answer session. I would like to now turn the call back over to Miss Jade Wei for any closing remarks. Please proceed.

Jade Wei - *Ctrip.com International Ltd - Senior Manager, IR*

Okay. Thanks everyone for participating in our conference call. So it was nice to conclude the conference call here and hope to talk to you next quarter. Thank you very much.

Min Fan - *Ctrip.com International Ltd - Co-founder, CEO*

Thank you.

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James Liang - *Ctrip.com International Ltd - Co-founder, Chairman of the Board*

Thank you.

Operator

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

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