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CTRP - Q3 2012 Ctrip.com International, Ltd. Earnings Conference Call

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OVERVIEW:

CTRP reported 3Q12 net revenue of CNY1.17b, net income attributable to Co.'s shareholders of CNY194m and diluted earnings per ADS of \$0.22. Expects 4Q12 net revenue to grow approx. 15-20% YonY.



CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the third quarter 2012 Ctrip.com International Limited earnings call. My name is Carys and I will be your coordinator for today. (Operator instructions). Later we will conduct a question and answer session. (Operator Instructions). As a reminder, today's call is being recorded for replay purposes. I would now like to hand the call over to your host for today, Michelle Qi, IR Manager of Ctrip. Please proceed.

Michelle Qi - *Ctrip.com International, Ltd - IR Manager*

Thank you Claire (sic - Carys). Thank you for attending Ctrip's third quarter 2012 earnings conference call. Joining me on the call today we have Mr. Jianzhang Liang, Chairman of the Board, Mr. Min Fan, President and Chief Executive Officer, Ms. Jane Sun, Chief Operating Officer and Ms. Jenny Wu, 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 future 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, Jianzhang, Jane and Jenny will share our business updates, operating highlights, industry outlook and financial performance for the third quarter of 2012, as well as outlook for the fourth quarter of 2012. 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 - President & CEO*

Thanks Michelle, and thank you to everyone for joining us on the call today. In the third quarter of 2012 Ctrip delivered solid results. Net revenues grew by 20% year-over-year, at the high end of our guidance. We are pleased to see a strong volume growth of 40% in our hotel business. Where it's (inaudible) strategic to gain market share across business lines in the third quarter and will continue our investment to enrich our product offering, improve customer experience and enhance brand awareness for future growth.

To build a leading one-stop travel platform in China, we aim to offer comprehensive product range that meets the needs of all kinds of travelers. The Ctrip product team is working closely with our partners to develop a wide variety of products that offer the best possible values. Meanwhile, we are also making our system more open platform, in order to work with both supply distribution partners. Through these efforts, we have become more comprehensive in terms of product coverage; more competitive in pricing; and more efficient in operations.

We are proud to see the high level of market acceptance from our partners and our customers. We are excited about a huge potential of the surge in Malaysia travel market in China, especially outbound travel. Ctrip has built up a solid foundation to capture this opportunity in the industry. In August we announced an agreement with Booking.com, the world's leading online travel reservation service provider. Under the agreement, Ctrip customers can access Booking's global hotel networks for hotel reservation services.

Our international hotel coverage is now around 200,000 hotels, far exceeding any other players in China. We are pleased to see the fast growth in international hotel volume (inaudible). International air ticketing growth has accelerated significantly since the launch of our online international air ticketing platform.

We are among the top three outbound travel agencies in China for our tour packages. We are confident that Ctrip is in the best position to make the most of the opportunities ahead. We further stepped up our sales and marketing efforts, especially online channels, to reach leisure travelers. We have partnered with the leading players in multiple verticals like search engine, social media and online radio. We will relentlessly explore different online channels and, more importantly, continue to improve the conversion and effectiveness of our online marketing.

Extending our service to Mumbai platforms is our strategic focus and the investment priority. We have released a series of travel related apps including Ctrip Wireless, Ctrip Hotels, Ctrip Travel, (inaudible) mobile city guides, Songguo, the hostel booking app and (inaudible) the train ticketing app. We actively collaborate with industry leaders to enhance app functions like mapping and locating various services.

Our core app Ctrip Wireless is now available on all major smartphone and tablet operating systems. Its latest IOS version is among the first in China to support Passbook. In the third quarter Ctrip Wireless reached over 15 million downloads. Over 10% of our hotel transactions were conducted through mobile channel.

During the recent October holiday, our booking volume is very healthy and very strong. This demonstrates that our team is prepared to handle large volumes while providing consistent quality services. We also appreciate the support we received from our partners during the peak season, which ensured the best inventory and the most cooperation for Ctrip's customers. The Ctrip teams continued to work tirelessly to provide the best value to both our customers and partners.

Now I will turn to Jane for the operating highlights.

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Thanks Min. Thanks everyone.

For hotel booking services, Ctrip further expanded our hotel networks over the past quarter. By the end of the third quarter 2012, our domestic hotel supply network covered over 46,300 hotels, compared with 21,900 hotels a year ago; more than doubled. Internationally, our hotel coverage extended to over 200,000 hotels in more than 170 countries, through the cooperation with Bookings.com; and we have signed contracts to establish direct connections with hotel groups such as Shangri-La, Hilton, Intercontinental, Marriott, Accor and Jumeirah.

We continued executing the best price strategy in the third quarter. These travelers during the summer season and October holiday make substantial contributions to our hotel volume. We are encouraged to see the fast development of our new hotel products for leisure travelers, including Smart Choice Hotels, Group Buying Hotels and a hostel website, songguo.com and our vacation rental partner tujia.com.

For instance, songguo.com has expanded its network to directly cover over 10,000 hostels and other accommodations in less than 12 months, which is a record high development in the industry and demonstrated Songguo's leadership in this area.

Air ticketing volume maintained at a higher growth rate in the third quarter thanks to our advanced IT platforms, superior service quality, reliability and efficiency. International air ticketing volumes grew approximately 50% year-over-year. Our air ticketing team worked hard to offer the richest global ticketing products, at the lowest price available, to Ctrip customers. Based on the long-term close relationships with domestic and international airlines, we are now able to offer direct sales and professional rates for many major airlines on Ctrip's website. Tickets from most low-cost carriers in China are now also available on Ctrip's platform.

Our packaged tour business delivered a solid result in the past quarter. The revenue from mainland China grew over 50% year-over-year, with outbound travel revenue up 80% year-over-year. Through years of concerted efforts, Ctrip has built up a sophisticated worldwide service network to guarantee the best resources and services for Chinese travelers. It also covers local tour products and services, car rentals and activity tickets.

Ctrip's corporate travel services once again achieved solid growth. We continued to enhance IT platforms and optimize the operating processes to improve customer experience. While our hotel and air-ticketing business are penetrating the leisure travel arena, our corporate travel business is also expanding from the top tier cities to lower tier cities and capturing more opportunities in the corporate travel management market.

Internally, we continuously evaluate our processes and improve operational efficiencies across the board. Our online booking ratio reached 50% in the third quarter. In September 2012, Ctrip completed the offering of \$180 million principal amount of convertible senior notes due 2017. The notes bear an interest rate of 0.5% and may have dilutive effects on the diluted earnings per ADS.

As the offering was completed within a relative short time period -- close to the end of the third quarter -- its impact on the income statement diluted earnings per share for the third quarter of 2012 was insignificant. The cost of the offering of the notes will be amortized through the life of the notes. As of November 5th 2012, Ctrip had purchased approximately 17.2 million ADS in aggregate, with the total consideration of \$294 million under the three existing share repurchase programs adopted in (technical difficulty) 2012.

We are encouraged by the latest progress in every segment of our business. The Ctrip team remains dedicated to executing our strategy and will work diligently to bring the best value to our customers, our partners and our investors. Now, I will turn to James for the industry outlook.

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

Thanks Jane. China's leisure travel market is still in an early age. The competition in this segment is intense, yet in a premature way. Beyond the short term pressure from pricing war, we believe Ctrip's core competencies, our product offering, service quality, IT efficiencies and our highly qualified and dedicated team. We are very confident in Ctrip's position as a leader of this market and we will continue our success in this new era.

Now I'll turn to Jenny for the financial update.

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

Thanks James and thanks everybody. For the third quarter 2012 Ctrip's net revenue was RMB1.17 billion, up 20% year-on-year and quarter-on-quarter. Hotel reservation revenues were RMB457 million, up 11% year-on-year, primarily driven by a year-on-year increase of 40% in hotel reservation volume and are partially offset by a year-on-year decrease of 21% in commission per room night. The decrease of commission per room night was mainly due to promotional activities.

Hotel reservation revenues increased by 11% quarter-on-quarter, mainly due to seasonality. Air ticketing revenues were RMB478 million, up 24% year-on-year and 18% quarter-on-quarter, mainly due to an increase in air ticketing volume. Packaged tour revenues were RMB224 million, up 31% year-on-year, due to an increase of leisure travel volume, and up 67% quarter-on-quarter, largely due to seasonality.

Corporate travel revenues were RMB54 million, up 25% year-on-year, mainly driven by an increased corporate travel demand from business activities and up 10% quarter-on-quarter, primarily due to seasonality.

Gross margin was 76% versus 77% a year ago and 75% in the previous quarter. Product development expenses increased 51% year-on-year and 17% quarter-on-quarter, primarily due to an increase in product development personnel related expenses. Excluding share based compensation charges, product development expenses accounted for 18% of net revenue, up four percentage points year-on-year and remained flattish quarter-on-quarter.

Sales and marketing expenses increased 74% year-on-year and 39% quarter-on-quarter, primarily due to an increase in sales and marketing related activities. Excluding share based compensation charges, sales and marketing expenses accounted for 25% of net revenues, up eight percentage points year-on-year and four percentage points quarter-on-quarter.

General and administrative expenses was 39% year-on-year, primarily due to an increase in administrative personnel, share based compensation charges and incremental turnover tax, due to the new value added tax reform. G&A expenses increased 9% quarter-on-quarter, primarily due to an increase in administrative personnel. Excluding share based compensation charges, G&A expenses accounted for 8% of net revenues, up two percentage points year-on-year and remained flattish quarter-on-quarter.

Income from operations were RMB190 million, trending down 38% year-on-year, but going up 13% quarter-on-quarter. Excluding share based compensation charges, income from operations went down 24% year-on-year and up 8% quarter-on-quarter. Operating margin was 16%, down 15 percentage points year-on-year and one percentage point quarter-on-quarter. Excluding share based compensation charges, operating margin was 26% (sic - see press release "25%"), down 15 percentage points year-on-year and two percentage points quarter-on-quarter.

The effective tax rate was 24%, increased from 21% a year ago, primarily due to the increase in the amount of non-tax deductible share based compensation, as a percentage to our income, before income tax expenses as a whole. The effective tax rate for the third quarter decreased from 45% in the previous quarter.

Recall that that in the second quarter of 2012 we made the provision of 5% PRC withholding tax, related to the dividends that our PRC subsidiaries would pay to the direct parent, which is our Hong Kong subsidiary, to fund the share repurchase program announced in June. This was partially offset by the preferential tax treatment of certain consolidated PRC entities.

Net income attributed to Ctrip's shareholders was RMB194 million, down 14% year-on-year and up 62% quarter-on-quarter. Excluding share based compensation charges, net income attributable to Ctrip shareholders was RMB302 million, down 27% year-on-year and up 32% quarter-on-quarter.

Diluted earnings per ADS were \$0.22. Excluding share based compensation charges, it was \$0.35. As of the third quarter 2012 the balance of the cash and the cash equivalents, restricted cash and the short-term investment, was RMB5.4 billion or \$859 million. As to the (inaudible) issuance and the share buyback changes the highlighted.



Finally, for the business outlook, for the fourth quarter 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 the preliminary review, which is subject to change.

With that, operator, we are opening the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions). Your first question comes from the line of Jin Yoon with Nomura. Please proceed.

Jin Yoon - Nomura - Analyst

Hey, good morning everyone. Jenny, just on your guidance, are you providing guidance for margins for the fourth quarter or quarters beyond that? And second of all, you mentioned in your prepared remarks that \$294 million have been used for stock buy-back from various tranches in 2008, '11 and '12. How much of the proceeds remain from 2008 and 2011 tranches today and how much of the \$300 million recently announced and the \$180 million CB remain today? Thanks.

Jenny Wenjie Wu - Ctrip.com International, Ltd - CFO

Thanks for the question Jin. For the guidance, firstly for the top line guidance, the total of growth will be around 15% to 20%. For the operating margin non-GAAP, for the fourth quarter we forecast it to be around 20% to 25%. You will see it will be lower than the third quarter, because the fourth quarter is usually the lower season. So normally, during the normal business year, the fourth quarter's margin will be lower than third quarter. Plus, in the third quarter -- in the fourth quarter we see winter came earlier this year and it can affect our business and also for the year and the (inaudible) usually we will also accrue some bonus. So 20% to 25% is the range we will try our best to reach.

For the share buy-back you are right. Under the three existing Board-approved share buy-back plans, the total quota is \$415 million, and as of November 6 we already purchased back \$294 million. So we still have aggregated together we still have around \$120 million roughly left for the buy-back and for that one, we can use our existing cash to execute the buy-back.

For the CB, our total offering is \$180 million and the net proceeds is \$115 million. On the CB issuing day, JP Morgan helped us to purchase back about \$42 million. So for the CB proceeds, we will still have around \$110 million left.

Jin Yoon - Nomura - Analyst

So Jenny, just to clarify. That \$120 million remaining is excluding the CV. So including the CV, it's more like \$230 million. Is that correct?

Jenny Wenjie Wu - Ctrip.com International, Ltd - CFO

Yes. For the \$115 million net proceeds from CB, our top priority usage is for the share buy-back. So the total quota (inaudible) could be up to \$270 million. You are right.

Jin Yoon - Nomura - Analyst

Okay, perfect. Great, thanks Jenny.



Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

Thanks.

Operator

(Operator instructions). Your next question comes from the line of Richard Ji, Morgan Stanley. Please proceed.

Richard Ji - *Morgan Stanley - Analyst*

Hi, good morning James, Min, Jane and Jenny. I have two questions--

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

Morning.

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Morning.

Richard Ji - *Morgan Stanley - Analyst*

Morning. First of all, your hotel booking volume, indeed a surprise on upside on price promotion. Can you comment on the sustainability of the volume expansion in hotel bookings? And especially, we are curious to find out the booking trends in the recent months, especially around the Golden Week Holiday. Thank you.

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

Hotel bookings volume has grown very healthy. Our goal is to aggressively to gain market share. Whatever it takes, how long it takes; we are very determined to penetrate into the market. So 40% demonstrated our ability to gain market share through the first tier, second tier and undeveloped area.

Going forward, we will still maintain very strong marketing activities and make sure our price is the best in the market and the product is the most comprehensive in the market. So hotel volume going forward is forecasted between 30% to 40% for the next quarter.

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

Regarding the Golden Holiday, I think we are working very good in terms of the leisure market. So you can see for this year and even the last year, during those big Golden Holidays, Golden Week, Ctrip enjoyed a very healthy and very strong volume during this time period. So we are anticipating in the coming years we will maintain this momentum.

Richard Ji - *Morgan Stanley - Analyst*

Yeah, very good. My second question is regarding your longer term strategy as a one-stop travel service shop and can you comment on the feedback so far you have received from your service partner, regarding your open platform and what is the status there? Also, regarding your outbound



traffic and can you comment on the total revenue contribution and how should we look at the margin trend for outbound travel service? Thank you.

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

I think Ctrip is very open to work with the various partners in the travel industry and including the traditional agency and also other OTAs. Our open platform will bring in more service providers to meet customers' needs, particularly to travelers' increasing demand for more comprehensive and practical product offerings. I think -- in fact Ctrip's [start out] business with a very open model and platform will have the right infrastructure and technology to support the open platform to service partners with more effective and smoother solution.

More importantly, I can see that most experienced team in the network and industry knowledge to be innovative and at the same time to really implement the model and have better executions than our competitors. As you know, we have big travel traffic and largest base of customers, so I think for the open platform, definitely will give us more ability to contribute more to our partners and the more traffic and better service, these are the fundamental values for partners they will appreciate.

Just for a simple example, with Ctrip's open platform, our packet customers can find probably all the products and prices when you need to plan or book a business or leisure travel, as well as travel tips or even the 3G apps. So I think this will up Ctrip's advantage over other players and in the market, I think there's no other players that do this kind of one-stop solution, travel service solution for customers.

In terms of the international travel market, I think open travel is growing very fast in China, along with the increased household income, RMB appreciation and also relaxed visa restrictions. According to BCG report, open travel will be growing at a CAGR of 17% between 2010 and 2020. So for Ctrip, we will provide the most comprehensive product offerings and also high service quality for open travel in China. We have been very actively expanding the international travel products to service the fast growing open travel demands. As we just said, we have cooperated with global leading partners and also we have very good -- we have also signed strategic contracts like the Accor, Hilton International, Intercontinental, Jumeirah, Marriott, Shangri-La and those major hotel groups where we capture direct connection with those hotel groups, definitely we will more effectively boost our international hotel coverage to a great extent.

Also, only this year, we launched our new international air ticketing channel. This booking engine by far is the best online international air ticketing booking app in China and no other OTA has this kind of functionality. Also, for leader travel, we are best positioned in the greater China region. We have ezTravel in Taiwan and Wing On Travel in Hong Kong and also recently we were working very hard in the major destinations in Asian regions. We have a very good strategic (inaudible) with partners in different major destinations.

So by far I think Ctrip is very -- right now is in a very good position in this market and according to the recent government statistics, Ctrip right now is among the top three online players in China.

Richard Ji - *Morgan Stanley - Analyst*

Very helpful, thank you.

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

Thank you.

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Thank you.



Operator

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

Andy Yeung - Oppenheimer & Co - Analyst

Hi, thank you for taking my questions. First, let me apologize for the audio quality as we are still dealing with the impact of Hurricane Sandy here in New York. My first question is about your outbound travel business, I think you just mentioned there was some focus on that area. Can you give some color on the percentage of your air ticketing, hotel bookings and tour business right now that's related to international travel and what's the longer term goal for that international business?

Jane Jie Sun - Ctrip.com International, Ltd - COO

Approximately 10% of the volume is outbound, but we forecast the outbound business will grow faster than the domestic ones, particularly for Ctrip customers, I think most of them are very high end and the income level is increasing and visa restrictions have been lifted. Therefore I think there will be more volume going abroad. So in the future, this volume percentage can increase to about 20% or even beyond 20%.

Andy Yeung - Oppenheimer & Co - Analyst

Okay, great and then my next question is about your pricing strategy. I think you have launched or acquired different online brandings to cater to different market segments. With your recent partnership with booking.com and platform, what's your view on offering different pricing strategies such as name your price type of offering?

Jane Jie Sun - Ctrip.com International, Ltd - COO

Two things; first of all, Ctrip is the largest OTA within China, so legally a Ctrip customer should be entitled to enjoy the best price as OTA customers in the market. So whatever is available online, Ctrip customers should be able to enjoy that. So our product development team works very hard with all the hotel and airline partners to make sure our customers enjoy the best price in the market.

Secondly, we also have talked with bookings which are the international players, also make sure that it's a mutual beneficial relationship when we drive Ctrip customers by using these inventories and meanwhile our customers are offered the most comprehensive coverage worldwide.

Andy Yeung - Oppenheimer & Co - Analyst

Great, that's helpful, thank you.

Operator

Your next question comes from the line of Fei Fang with Goldman Sachs. Please proceed.

Fei Fang - Goldman Sachs - Analyst

Hi Min, Jenny and Jane, thank you for taking my question and congratulations on a strong set of results. My question is if you can comment on how the competitive landscape has trended in the last quarter, especially after August and how should we think about the coupons' impact on your 4Q margin guidance given the low seasonality. Thank you.



Jane Jie Sun - *Ctrip.com International, Ltd - COO*

First of all, I think Ctrip always encouraged the healthy competition. I think the healthy eco environment for the travel industry is good for every player in the market and good for the consumers as well. Secondly, if we see irrational competition in the market, Ctrip will also match up dollar for dollar, percentage for percentage, to make sure we do everything we can to gain market share. So our marketing campaign, our e-coupon program is very much matching up with any competitors in the market to ensure Ctrip's customer enjoys the best price in the market. So whatever it takes, how long it takes, Ctrip is very determined to run an effective campaign to gain market share, to make sure we capture all the opportunities in this fast growing market.

So in Q4, we will keep up with our matching strategy to make sure whatever is in the market, Ctrip's team will match up to any kind of price competition or e-coupon or sales marketing campaign. We are very determined and we have all the resources behind us to run this active campaign.

Fei Fang - *Goldman Sachs - Analyst*

I see. Just a quick follow up question, just regarding your 40% hotel volume growth versus a 21% commission decline, so if the commission trajectory is the new trend that we should expect from the hotel segment going forward and for the 3Q commission decline, how much of the decline was due to the coupon program and how much was due to the organic commission trend? Thanks.

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

Hi Fei, this is Jenny. For that one, the hotel volume growth is 40% in 3Q and the commission per room night is down by 21% year-on-year. So that one is composed three parts. Firstly, for the listing price, that one trend down about 5% year-on-year and the second one is listing commission, the nominal commission rate; so that one is largely flat. The last one is due to the promotional activities largely due to this e-coupon, its costs declined about 15% year-on-year.

Regarding the trend for 4Q and probably I can here give you some guidance for 4Q overall, for the hotel the volume growth for 4Q will be about 30% to 40%. Clearly you see the good momentum carried over from 3Q to 4Q. For commission per room night, again firstly for this listing price, we see it would trend down about 5%. Again, it's largely due to the increasing contribution from lower tier cities and lower star hotels. For the nominal commission rate, again it would be flattish. Lastly for this e-coupon related promotional activities, the impact will be about a 10% to 15% year-on-year decline. So for the hotel, in 4Q total revenue will be about 15% to 20% year-on-year.

Fei Fang - *Goldman Sachs - Analyst*

Thank you Jenny.

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

Thanks, Fei.

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Thanks.

Operator

Your next question comes from the line of Jiong Shao, please proceed.



Jiong Shao - *Macquarie - Analyst*

Good morning. Thank you so much for taking my questions. I have two questions as well. Firstly, you mentioned the 4Q hotel volume is going to be up 30% to 40%, revenue going to be up 15% to 20%. Could you please provide the expectations for the other segments of your business?

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

Sure. For air ticketing business, the total volume will be about 15% to 20% year-on-year increase and for the commission per ticket will trend down about 5 percentage points. 50% of decline is due to the pricing and 50% is due to the commission per ticket decline. So the revenue for air ticketing will grow about 10% to 15% year-on-year. For the package tour business, first quarter is lower still than in 3Q, so we expect about a 25% to 30% year-on-year growth. And for the corporate travel it usually grows in line with air ticketing business, so we expect it will grow about 10% to 15% also. So combine everything together for the fourth quarter, the top line growth will be about 15% to 20% year-on-year.

Jiong Shao - *Macquarie - Analyst*

Okay, great. Thank you and my second question is on the margins. You talked about the Q4 because of the seasonality, operating margin is going to be 20% to 25%, but I was wondering, just structurally, how you feel about the margins for 2013 and beyond. Are we a point towards the end of your marketing campaign or your investment cycle now perhaps margins may be the bottom and here for the next couple of years? Any comments would be helpful, thank you.

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

Sure. I think for Q4 margin is forecasted at about 20% to 25%. For 2013 our team is working very hard to finalize the forecast for the next year, so by the time when we announce next quarter, we will be able to give you a very insightful guidance for the next year. So for us strategically in the market, we want to make sure Ctrip is very aggressively gaining market share, either through a self-marketing campaign, through best price strategy, whatever it takes, we will make sure Ctrip gain market share from this fast growing market. But internally, our team historically has been very disciplined. So every dollar we can save, we'll save it for the sales and marketing campaign and we want to make sure for next year we keep up with this disciplined philosophy and strategy to save every penny for our sales and marketing campaign.

Jiong Shao - *Macquarie - Analyst*

Thank you very much.

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

Sure.

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Thanks.

Operator

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



Alex Yao - Deutsche Bank - Analyst

Good morning everyone and thank you very much for taking my question. My first question is on the coupon competition in the quarter. Is there any operating metrics you can share with us, for example redemption risk (technical difficulty) or perhaps what percentage of coupon redemption is booked as contra revenue and what percentage is operating expense. Any color would be helpful, thank you.

Jenny Wenjie Wu - Ctrip.com International, Ltd - CFO

Thanks Alex and for that one, we are not ready to disclose such kind of details yet due to the competition reasons, but you see, as Jane mentioned, we are very determined to gain market share and we will try our best to stop the irrational competition in the market. For the e-coupon wise, we will continue to carry on the matching strategy and we will match dollar by dollar and percentage by percentage versus our competitors. What I can provide you is probably the margin breakdown and you'll see in 3Q our margin, non OP margin non-GAAP is 25% and it's trended about 15 percentage points year-on-year. For that one, we have already communicated with you before, 4 percentage points can relate to the new business development and 2 percentage points due to this labor cost increase. Now we have 9 percentage points, so that one we can safely say for this quarter roughly half is due to our sales and marketing campaigns and half due to these e-coupon programs.

Alex Yao - Deutsche Bank - Analyst

Got it, that's helpful. Then in relation to the air ticket business, one of your major competitors recently started to offering coupons on the air ticket as well. Should we expect you guys to follow the coupon on air tickets soon?

Jane Jie Sun - Ctrip.com International, Ltd - COO

Air ticketing business is a very complicated business. We do not believe by just issuing coupons customers will be attracted to the services because there are lots of details behind the scene. So we will be very open minded to make sure technically, service wise, Ctrip spend far beyond any competition and we will monitor the situation very closely. But right now, we do not have any plans. We will monitor the situation very carefully.

Alex Yao - Deutsche Bank - Analyst

That's helpful, thank you very much.

Jane Jie Sun - Ctrip.com International, Ltd - COO

Thanks.

Operator

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

Eddie Leung - BofA Merrill Lynch - Analyst

Good morning, thank you for taking my questions. I would like to follow up on your air ticketing business, just to get more color. Could you share with us the pricing trend of air tickets you have seen in the third quarter, as well as the commission rate trend in the third quarter? Thank you.

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

In the third quarter, the pricing is actually flattish and also this commission rate trended down by 1 percentage point, but we think it is still largely flattish. What we see is that in the first half of this year the nominal commission rate trended down by 2 to 3 percentage points and in Q1 we see it's about 4% trend down. In 3Q it end up only about 1%. So you see it's very normal to us and so far what we see is that for the commission rate we still can gain about 4% to 5%, that level can be sustained, I think at least for the next several years. Just to the airlines, they will adjust their compensation to us based on the timing and on the demand so quarter-on-quarter, month by month, there will be some fluctuation.

Even we look at the 4Q based on our current visibility, the pricing will probably trend down by 2 to 6 percentage and for the nominal commission rate, again about 2 to 3 percentage points and I think it's also this last hour, judgment about last year, the similar period of last year, is a high base. Also the airlines will also adjust that based on the demand. But overall, I think this 4% to 5% is still the kind of range we can still achieve in the next several years.

Eddie Leung - *BofA Merrill Lynch - Analyst*

Very useful, thank you.

Operator

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

Michael Olson - *Piper Jaffray - Analyst*

All right, thanks a lot, good morning. Just one quick question, you mentioned you're doing anything to match pricing, even with irrational competitors. Smaller competitors certainly won't be able to last long in that kind of environment, so are you seeing this strategy effectively removes smaller competitors from the market and then what about new competitors entering the market? Have you seen any significant change as far as new competitors in recent months? Thanks.

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Sure Mike, I think you're right with this kind of e-coupon, probably only the companies who have very strong financial bandwidth can afford doing that. Ctrip by far, every quarter, every year, we generate approximately RMB1 billion cash on the bottom line. So we're very much equipped and prepared to run any campaign it takes for us to gain market share. The other players, depending on their financial bandwidth, they can either match or they do not match. If they do not match, I think the market share will be lost. So we monitor the different competitors. If we keep up with this strategy, I think Ctrip's momentum to gain market share will remain to be very strong.

Michael Olson - *Piper Jaffray - Analyst*

Okay, one other quick one actually. As far as the revenue growth rate, the implied guidance suggests at the mid-point the revenue growth would slightly decelerate this quarter. I think you have an easier revenue comp in Q4 than you did in Q3. Can you just talk about any reasons why revenue growth would decelerate in Q4 compared to Q3?

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

Sure and you know Michael, when we give the guidance we want to be prudent, but also be realistic and firstly our business has a very high correlation with GDP growth and the fourth quarter we did not really see any additional macro catalyst to boost the demand. Secondly, for this hospitality industry, it's inherent the way of some uncertainties. As I always mentioned to you, even the weather can affect our business and clearly

this year winter came earlier than last year and we need to accept some impact. Also, I think for Ctrip team, we give them guidance and a target and we will push the team and our team will indeed try their best to deliver the best. That's what we always do and we will still carry on that attitude.

Michael Olson - *Piper Jaffray - Analyst*

Thank you.

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Thanks, Mike.

Operator

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

Alicia Yap - *Barclays Capital - Analyst*

Hi, good morning, thanks for taking my questions. My question is regarding the air travel. I just wanted to understand a little bit more, was the strong performance in the air travel and corporate travel helped by the domestic business travel rebound or is it mainly because the international travel picks up during the summer holidays?

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

International travel accounts for about 10%, so the majority of the volume are still from the domestic ones. In Q3 the volume was very strong, 25% year-over-year. That's the main driving force for us to enjoy the high growth in Q3. I think normally our volume doubles the industry level at least and we'll keep up with the momentum.

Alicia Yap - *Barclays Capital - Analyst*

Okay, can I just get a sense, is the business travel rebound a little bit in 3Q or we haven't seen too much? Is it mainly because of the cheaper pricing that has encouraged people to travel more?

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

In Q3 I think we see both volume growing very healthy. Leisure during Q3 is a strong driving force because the kids are off school and parents take them for vacation travel. Also, the Q3 is the summer months. Normally business travelers during that month is also very strong as well. So we see both business and leisure volume growing very healthy.

Alicia Yap - *Barclays Capital - Analyst*

I see. Then lastly on the technical terms on the share buy-back, just wanted to make sure on the 17.2 million is aggregate year to date and not just during the 3Q, right?



Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Right.

Alicia Yap - *Barclays Capital - Analyst*

So that means you actually only bought back 6.2 million during the 3Q?

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Yes, I think the--

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

I think, you know, we give the guidance, latest guidance every quarter and last year, as of July 26th, we purchased back about \$202 million and as of November 5th, we buy back about \$294 million. Therefore 3Q specifically I think we purchased back about \$150 million, something like that. So we will continue to monitor the stock market change and execute our plans accordingly.

Alicia Yap - *Barclays Capital - Analyst*

Sure and just one more on the EPS for 2013, during your convertible call, I think you mentioned that it will be an accretive EPS for the offering.

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

Sure, it goes like that, firstly you'll see as of 3Q this year, we will have about [\$136 million] ADS outstanding and for the CB, we issued about \$180 million, and that's the proceeds, and the conversion price is \$19.37. That implies it will be about additional 3.9 million. So that's according to the GAAP accounting rule. For the CB, it would be classified under the traditional if converted accounting basis and this 9.3 million will be added to the share account when we calculate EPS. So it will be about 7% dilution for 4Q.

If we consider the CB plus the combined cost brand we purchased, then the earning could be the accretive because firstly for the CB alone it will be about 7% dilution. But for the cost spread it actually consists of two core options. First core option is the struck price against -- matched with the strike price, \$19.37. If CB holders exercise their conversion at that price, we can activate this first core option and then buy back the same amount of shares. So the dilution is net off; it's zero.

But either way, only by these core options it can be super extensive. So the normal practice of the CB market is that we will concurrently buy -- sell additional core options. That struck price is about 15% premium versus the CB. That implies stock price about \$26.34. If stock price reaches that level we can ask JP Morgan, our brokers, to buy back about the similar amount of the shares, which is about 5% of total shares, from the market so that we can -- in this way we can buy back this additional 5%, so net-net they are only about 2% dilution from the CB plus this cost spread.

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Yeah, so Alicia, in short it's accretive because you are issuing -- you are buying back stock at approximately \$17.00 -- \$19.00 But when we really issue and convert the stock it will be about \$26.00. So CB itself will have accretive to EPS. Also if you take into consideration of buying back stocks by using these proceeds, the shrinkage for the shares outstanding up until now is about 12% because we bought back about \$300 million and our market share right now is about \$2.5 billion; that's about 12% outstanding shares already being bought back. So in total, the purpose for us to issue the CB and buy back stock is shrink the total pool, therefore the EPS is accretive.



Alicia Yap - *Barclays Capital - Analyst*

Okay, great, thanks for the explanation.

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Great, thanks.

Operator

Your next question comes from the line of Wendy Wong with CIMB. Please proceed.

Wendy Huang - *CIMB - Analyst*

Thank you. I have some housekeeping questions. First I want to get more color on the air ticketing commission rate. So despite of the commission rate decline Jenny, were you saying that air commission rates in Q3 were still about 4%?

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

Yes.

Wendy Huang - *CIMB - Analyst*

Also if I remember correctly, historically there are two components of your air ticketing commission rate. One is a 3% fixed rate, the other is 1 to 2 percentage points based on the volume rebate. So you mentioned earlier that airlines would actually adjust commission rates based on market demand, et cetera. So is the adjustment mainly coming from the 1 to 2 per cent volume rebate -- i.e. the 3% fixed rate from airlines actually didn't change?

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

Yes you're right. This has actually affected the volume driven rewards and for this 3% is still largely fixed.

Wendy Huang - *CIMB - Analyst*

Okay. My second housekeeping question is on the outbound travel volume that you mentioned in the beginning of the Q and A session. So you were talking that 10% of the volume coming from the outbound -- are you saying that outbound contributed 10% of total travel volume at Ctrip, or 10% of the total leisure travel volume?

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

10% of the total air ticketing volume.

Wendy Huang - *CIMB - Analyst*

Okay, great. Lastly on the competition front. So you mentioned that you were match up the coupon offered by your competitors. So I wonder how has coupon spending from your competitors trended month over month in October and November so far? Also how has Ctrip's coupon spending trended in the past one and a half months? Thank you.

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

I think our competitor's strategy -- I think it's a question for you to ask our competitor. For us, we just monitor the market very carefully. Whatever is available in the market, we just match up to it. So, so far in the last quarter it was about 15% of the total hotel revenue and going forward again, it's about 10% to 15%, but we are equipped by our financial strength to run any marketing. If our competitors enlarge their offering, we will match it up. If they reduce, we'll reduce accordingly. So currently it's forecast at about 10% to 15%.

Wendy Huang - *CIMB - Analyst*

So are you saying that coupon spending actually are kind of coming down a little bit in Q3 so far? Or in Q4 so far?

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

Q3 we already announced about 15%. In Q4 I think it's fairly static. I think we forecasted about 10% to 15%.

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

For that we also observed that -- if you check online you see some of the hotel chains they already jumped off this e-coupon program like (inaudible)Hilton and Shangri-La. We are very positive on that in that we feel that's a good trend. For competitors we have no control of that. For us, well we'll continue to match. From our guidance as you know the year-on-year in decline in 3Q -- about this e-coupon -- caused about 15% decline. In fourth quarter we guide about a 10% to 15% decline again. So it implies a certain kind of scale back. But it's still there are a lot of uncertainties here, and for us our strategy is we'll continue to match it.

Wendy Huang - *CIMB - Analyst*

Thank you. I will go back to the queue.

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Thanks.

Operator

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

Fawne Jiang - *Brean Capital - Analyst*

Good morning. Thank you for taking my question. Just one follow-up question on the margin front for 4Q. You guide the margin 20% to 25%. That seems to be a pretty wide range. So I just want to get a bit of color on the margin guidance. Just wonder what are the key factors that could potentially swing the margin more towards lower and versus higher? Also I think Jenny just gave the guidance for the margin breakdown for 3Q,



so which factor could be -- what is the incremental net impact of 4Q from R&D labor or the coupon level? Is in fact overall coupon promotion seem to track slightly down from 3Q.

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

Thank you for the question. For 20% to 25% non-GAAP OP margin is still our present day forecast. I think based on the current visibility it's probably towards to the lower end. It's still impacted by the factor we just talked about. Like for this year overall, the GDP -- product development -- will cost about 4 percentage points (inaudible) and 2% is from labor. The rest of the impact will continue from the e-coupon and our sales and marketing campaigns.

This kind of trend will continue to trend in 4Q and I think that will still be the major effects to affect our margins.

Fawne Jiang - *Brean Capital - Analyst*

Jenny, just to follow up on that one. When you say the margins of 4Q trend towards the low end of the 20% to 25%, that's incrementally 3% to 4% is right there. So you're basically saying in 4Q overall your promotion, whether it's your sales and marketing effort, or it's the coupon overall should be pretty (inaudible) compared with 3Q.

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

So that's why you know the spending for each items will vary from quarter to quarter. For fourth quarter, for all the factors that I mentioned, we would also consider in a normal year that 4Q's margin would be lower than 3Q. Based on my estimate it can tend to be lower than about three percentage points quarter-on-quarter. So I think that if we achieve the 25% non-cap OP margin in 3Q, 22% is the normal round rate. On top of that we still have, like I mentioned, these certain marketing campaigns still going on and e-coupon still going out, and often we have some year-end bonus accrument here. So I think this 20% to 25% will be made out of all of the combined efforts together.

Fawne Jiang - *Brean Capital - Analyst*

That's very helpful. Just one last point on the sales and marketing campaign, if I remember correctly you were pretty much balanced, offline versus online sales marketing. But as of now are we seeing the shift of sales and marketing more towards online, as well as going forward? Is that a right assumption?

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

We will have Jim take the question.

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

For sales and marketing we are consistently investing in different channels and do you know we have the best brand awareness in the industry? Recently we are working very hard on the online marketing channels and we do see very good feedback and very good results from those online marketing channels. We cope with changing and also with the portals, social media and including also what we call the Long Tail website. So we see very positive. Also in the coming quarters we will still invest in those channels.

Fawne Jiang - *Brean Capital - Analyst*

Got it, thank you very much.

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

Thank you.

Operator

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

Tian Hou - *TH Capital - Analyst*

I have two questions. One is regarding your old promotion program. What goes to against revenue? What goes to against your marketing dollars?

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

If you are talking about the e-coupon, about two thirds will be the contra- revenue and one third will go to sales and marketing expenses.

Tian Hou - *TH Capital - Analyst*

So, what about the cash rebate?

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

Cash rebate, that is also -- you mean for the e-coupon? I think that's the cash rebate.

Tian Hou - *TH Capital - Analyst*

I think on your -- you have several promotions program.

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

I got it. You mean for this e-coupon, cash? Probably can you elaborate the question more?

Tian Hou - *TH Capital - Analyst*

So you have multiple promotion program, like cash rebate (inaudible). There is several on your website, three at least.

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

Customers can choose, either they want cash back or they can choose the gift -- like also we have some points kind of thing to charge your mobile by using card so there's a few options for our customers to choose.



Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

Yeah, so from the customer side we want to make sure our marketing campaign provides as many alternatives as possible. So it's the most attractive promotional activities in the market.

From accounting side, if it is directly related to our product we should record it as contra-revenue. For example, if you can use this cash to buy our hotels it's contra-revenue deducted from top line right away. If it is accessories, gifts, according to GAAP, you record it as sales and marketing expenses. In total amount, two thirds of these activities is contra-revenue. One third is below the line as sales and marketing.

Tian Hou - *TH Capital - Analyst*

Okay, I got it. The other question is related to the competition. So beyond the obvious competitors you know, there are lots of smaller guys. Also lots of smaller guys are actually businesses on top of platforms. There's some wholesalers actually selling hotels at much cheaper price. So what do you think about that?

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

First of all, we always compete with all the players in the market, regardless of whether you're on platform or you're on the roadside or you are in the shopping mall. I think the critical thing for us is really a couple of elements; your product coverage, your service level, your IP strategy and your total solution for the customer's request.

So regardless of whether they are in the shopping mall or they're on a platform, I think as long as in these key elements we are standing above and beyond the other competitors, I think so are we. So this has always been our strategy and going forward that will be our strategy going forward as well.

Secondly on the wholesale platform, again as we discussed, as the largest OTA in the market, Ctrip customers should be enjoying the best price in the market because we have the largest volume. Ctrip customers legally should enjoy these prices. So whatever it is online that is available, our product team will make sure Ctrip customers get these prices.

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

I think, in short, we will stick very much to best product offering and coverage and to best pricing in the market, and also we will stick to better commitment for high service quality.

Tian Hou - *TH Capital - Analyst*

I see your determination. The last question would be your Q3 volume growth is really quite impressive. I just wonder how much of that is with the results of the holidays starting much earlier this year than in previous years.

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

It's the same. Immaterial, because we already compare year over year, so the seasonality should be taken out mostly.

Tian Hou - *TH Capital - Analyst*

Okay, thanks so much. That's all my questions.



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

Thank you.

Operator

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

Elinor Leung - *CLSA - Analyst*

Hi, thank you for the call. My question is regarding your international air ticketing business. Can you compare the margin with the domestic air ticketing business and do they collect a similar commission range? Also for your open platform, you have attracted some of the small travel agents on the platform, how do you recognize the revenues on that platform?

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

For air ticketing, mainly similar. But air ticketing price is higher than the domestic tickets, so absolute dollar amount air ticketing for international routes we make more money.

In terms of platform, I think it's on the discussion with our customers and our partners who work with us on the platform. We want to make sure it's a win, win, win situation. From a customer perspective, they get the best price. From our partner's perspective they gain money and profit from the profit. And also Ctrip, because we put in lots of investment we also make money. So depending on the situation we want to make sure the arrangement is a win, win situation.

Elinor Leung - *CLSA - Analyst*

So the platform is free right now, or are you charging a listing fee on the platform?

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

We don't charge a listing fee. We charge commission.

Elinor Leung - *CLSA - Analyst*

Commission on the transaction?

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Correct.

Elinor Leung - *CLSA - Analyst*

What is the percentage? Can you share with us?



Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Right now we are just developing it. Again, as we discussed, depending on the discussion we have with our partners it varies from one person to another.

Elinor Leung - *CLSA - Analyst*

I see. How about your partnership with Booking.com? How do you share the profits?

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Again, I think both parties, depending on the region, depending on the volume, we have certain arrangements. So we want to make sure Booking has a winning strategy through this cooperation and Ctrip has a winning strategy on that too.

Elinor Leung - *CLSA - Analyst*

Thank you.

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Sure, thanks.

Operator

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

Wendy Huang - *CIMB - Analyst*

Thank you for taking my follow-up questions. Firstly, how has increased tension between China and Japan affected the outbound travel to Japan? Also how has the recent hurricane in the US affected outbound travel demands to the US? What percentage of your leisure travel may be coming from these two countries?

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Yes, Japan is a very popular travel destination for Chinese travelers because it's very close to China. So we hope the situation is evening out. So far there is some impact, but it is already taken into consideration into our guidance.

Wendy Huang - *CIMB - Analyst*

How about US?

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

I think for the US we do see the volume -- the outbound travel volume to the States is growing very steadily, especially as you and me know, last year we have the charter flight from China to Hawaii. This also boosted our outbound travel volume to the States. We do see there is very healthy and strong demand in this field.

Wendy Huang - *CIMB - Analyst*

Can you share the percentage of the travel coming from these two countries if possible?

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Right now it's very small because outbound only accounts for, volume-wise, approximately 10%. 10% is allocated to many, many foreign countries. So none of the countries account for more than 1% in the total volume.

Wendy Huang - *CIMB - Analyst*

My last question is on your call centers. So how many staff do you have for the call center right now? Also I notice that some of the players in the travel market, they actually cut back their call centers very aggressively in the past two quarters. Also as a result they actually have seen the revenue per headcount increased significantly. I wonder how well Ctrip may be changing or keeping your strategy in the call center.

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

In terms of call center, half of our employees are in the call center. The call center from a cost side takes more manpower. However the customers who are using call centers normally are very high end users. So in terms of net margin, call center and online platform generates very similar growth margins. So for us it's not a one-sided equation. We don't just look at the cost. We also look at how much volume and what kind of loyalty customers have from these platforms.

So internally we work very hard to improve efficiency of the call center by running Six Sigma projects to monitor every business process in the market. Externally I think our call center still offers the highest service level to our customers. So Ctrip's efficiency in the call center is a very important competitive advantage we will have. So we will again improve the efficiency and also generate more revenue from the high end customers.

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

Sure. You know, we have about 9000 people in call centers and we are very disciplined in cost control and we usually never allow the headcount to growth to exceed the top line growth. As Jane mentioned, we are continuously improving our IT infrastructure to improve our work flow to make sure we can continue to improve our operations efficiency so we will still be able to run the business very cost efficiently.

Wendy Huang - *CIMB - Analyst*

If I recall correctly, actually the number of staff you had in the call center in Q2 was already 9000. So does that mean you actually haven't added any staff for the call center materially in Q3? Also are you going to keep the call center staff at current site or further expand?

Jenny Wenjie Wu - *Ctrip.com International, Ltd - CFO*

I think there are two elements we need to take into consideration. First of all, every year we invest a lot into IT systems. These investments should enable us to run a more efficient operation in the call center that helps us to reduce the headcount. Secondly, our business volume is increasing. So that will require more staff to serve our high end customers. So if you net these two elements together hopefully the growth in the call center headcount will be below the revenue growth on the top line, therefore the margin should be ensured.

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

We did see some increase in the headcount in the call center, but it was much less than -- the growth rate itself is much less than the top line growth. Now it's over 9000. In second quarter it's about 9000. I think we only add about 200 additional people here. But we can (inaudible) the record high volume in 3Q. So hopefully you can see that it's a good improve -- demonstration of our operations efficiency improvement and our cost control efforts.

Wendy Huang - *CIMB - Analyst*

Thank you very much.

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Thanks.

Operator

Your next question comes from the line of Jiong Shao. Please proceed.

Jiong Shao - *Macquarie - Analyst*

Thank you for taking my follow up questions. Just a follow up on your open platform. As you go through your planning phase, how do you address the potential channel conflict information -- situation -- i.e. some of your partners selling the same tickets and hotel rooms as yours and they are priced at below or above your price. How have you thought about that?

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Again as we discussed, whatever is available in the market that is good for Ctrip's customer, Ctrip should legally get it. So again we will have a matching principle to get the best price in the market available for OPA customers.

Jiong Shao - *Macquarie - Analyst*

Okay, so even if some of these partners selling for the same room, below yours, you are going to do it also?

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

I think for -- if you check for room rates, some different room rates, probably you will see some lower prices will be a kind of pre-pay model which is quite different from the check-in model. So the price is different and also the payment method is also different. So there are certain -- you can certainly differentiate your operation method in this kind of practice.

Jiong Shao - *Macquarie - Analyst*

Okay. Do you have a rough timeline for launching that meaningful offerings on open platform?



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

In fact you can check our website. There are already some pre-pay room rates on our website. Also I think we are working prudently in this field. We try to see the very good feedback from our customers as well as our partners.

Jiong Shao - *Macquarie - Analyst*

Okay, thank you very much. Very helpful.

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Thank you.

Operator

Your next question comes from the line of Muzhi Li with Citigroup. Please proceed.

Muzhi Li - *Citigroup - Analyst*

Hi. Thank you very much for taking my questions. I have a follow up question regarding the hotels that stopped the coupon program. I don't understand why this is good for Ctrip and OTA if the hotel comes out to stop it, because isn't that an aggressive coupon program to take the market share from the hotels, and that's why the hotels started? If they start then the growth rate will go back to the previous level and so is this not a positive thing? I just don't understand the math and can you help me -- what do I need?

Jane Jie Sun - *Ctrip.com International, Ltd - COO*

Sure, sure. I think the coupon program is very unique in China market. If you look at the whole world, there is very few companies in the whole world offers coupons. In order for the industry to grow in a very sustainable level, we always support a very healthy eco-system. So hotel, OTA, customers, all the partners in this eco-system have to have a winning strategy. Then the industry will grow.

If somebody starts to have irrational competition to distort the market, we do not think it is a sustainable strategy. So that is why for coupon we didn't match immediately, because we wanted to make sure the eco-system is protected. However if somebody do still keep up with this strategy we have to match up to it. But I think we already see the industry leaders have voiced their concerns. So we support the healthy eco-system to go back and everyone have their own balanced sales channel for it. So either way, I think if you issue coupons, volume will be higher but the commission rate would be a little bit lower. Or if the hotels do not want you to issue coupons, volume might be a little bit lower, but commission rates will be higher.

So whoever can win needs to win on service, on product, on the IT system. Price is never going to be a higher barrier of entry competitive strategy, because whoever has the most money will win in a price war.

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

Also if you check -- just to give you an example -- if there's no e-coupon product we don't enjoy the high growth. But if you check when our competitors promote the e-coupon, Ctrip's (inaudible) growth year-on-year. 30%, 40% I think it's mainly -- a company's growth will rely on your service quality and your product and your IT structure. Price war will not decide everything.

Muzhi Li - Citigroup - Analyst

I see. Thank you very much. Also, I would like to ask about the -- another follow up question regarding the convertible bond. You mentioned that the convertible bond has received the proceeds of \$180 million and now they have \$111 million left over. So can I assume that you spend the \$70 million to buy back the ADS from the bond holders as privately negotiated prices?

Jane Jie Sun - Ctrip.com International, Ltd - COO

Yes I think it's -- \$180 million, that's the total gross proceeds. After we pay professional fees and this cost grad as I explained before, net proceeds is about \$150 million. On the issuance day we purchased back from the CB holders about \$42 million. So we still have about \$110 million net proceeds from the CB alone. Was that the question?

Muzhi Li - Citigroup - Analyst

Okay, thank you very much.

Jane Jie Sun - Ctrip.com International, Ltd - COO

Thanks.

Operator

At this time there are no further questions in the queue.

Jane Jie Sun - Ctrip.com International, Ltd - COO

Thank you everyone for joining us on the call today. A replay of the call will be available on our website shortly after the call is completed. We appreciate your interest in Ctrip and look forward to convening with you again next quarter. Thank you very much.

Operator

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

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