

FINAL TRANSCRIPT

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CTRP - Q2 2010 Ctrip.com International, Ltd. Earnings Conference Call

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PRESENTATION

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Operator

Good day Ladies and gentlemen and welcome to your Second Quarter 2010 Ctrip.com International Ltd Earnings Conference Call. My name is Tania and I will be your event manager today. I would now like to hand the conference over to June Zhu, go ahead please.

June Zhu - Ctrip.com International Ltd - Investor relations

Hello everyone. Thank you for attending Ctrip's Second Quarter 2010 Earnings Conference call. Joining me on the call today we have Mr James Liang, Chairman of the Board, Mr Min Fan, President and Chief Executive Officer and Miss 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 U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such our results may be different from the views expressed today. A number of potential risks and uncertainties are outlined in Ctrip's public filing with Ctrip's filings with the U.S. Securities and Exchange Commission. Ctrip does not undertake any obligation to update any forward-looking statement, except as required under applicable law.

Min, James and Jane will provide business update, industry outlook and financial highlights for the second quarter of 2010 as well as the outlook for the third quarter of 2010. We will also have a Q and 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 and CEO

Thanks, June. Thank you to everyone for joining us today on the call. We are pleased that our team delivered strong results in the second quarter of 2010. In the second quarter of 2010 our net revenues grew 46% year over year and net income grew 48% year-over-year. On 27 May 2010 Ctrip successfully completed the transaction to invest 20% of the issued share capital of Wing On Travel's travel service segment a Hong Kong based travel service provider.

We are very excited about the opportunity to work with Wing On Travel to leverage the result of Ctrip Wing On Travel and ezTravel and to provide our customers with the best package for services in the Greater China region.

Our hotels prime network continued to expand as expected with 11,400 hotels by the end of the second quarter of 2010 compared to 8,900 hotels by the same time last year. The number of hotels with guaranteed allotment loans further increased and accounted for more than 75% of the total hotel supply.

During the second quarter together with hotels the Chinese version of the magazine of the world wide hotel industry Ctrip issued a list of the People's Choice, my favorite hotels. Over 100,000 customers voted on over 10,000 hotels choosing favorites in the seven categories, for example, my favorite best business hotel, my favorite luxury hotel etcetera.

In addition to the hotel room reservation services, Ctrip also provides a user friendly hotel review platform which already features over one million reviews. The reviews provide excellent customer value because they are written expressively by customers who actually booked their room type with Ctrip ensuring objectivity.

Our package tour business achieved outstanding growth in the second quarter due to stronger customer confidence and increasing disposable household income, our well designed products have become the choice of [leisure] travellers for their vacations in China and abroad.

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Through our alliance with Wing On and ezTravel we will be able to extend our leisure travel network to enhance our products and reach out to more customers in the greater China region. We will develop more middle to high end products to which the combined market has a very good response.

For example the sailing of our 60 Day Deluxe Group Tour starting Mainland, Hong Kong and Taiwan at the same time only took nine minutes for the tour to be fully booked online. In May Ctrip joined the Radius Group Network a major group travel management company as part of its network Ctrip will gain opportunities to better serve new connections and travel needs in the future and to provide existing clients with more services offered by other travel management companies within the network.

Our ITT has continued to bring innovation to our online and mobile platforms. We officially launched Ctrip's wireless mobile website m.ctrip.com in April. Ctrip.com has web and iPhone versions for different phone models. Customers can now log on to Ctrip by mobile devices to reserve hotel rooms and book airline tickets. We are seeing the booking value and booking volume increasing significantly.

We are continuing with our investment in online platforms in order to further extend our leadership in both online and offline platforms. Online bookings are growing at a rapid pace. During the second quarter online bookings exceeded 35% of the total revenue. A good harvest is the best reward for our efforts according to the statistics from Google double click ad planner, Ctrip.com is the most visited travel website in China.

Unique visitors and the picture views are part of the matrix used to scientifically extract actual web traffic. Listed as the leading travel portal in the world and number 1 in China, Ctrip is the undisputed leader in China's online travel market. Ctrip's call center service quality has always been an important factor for our success. During the second quarter we started to put our Nantong Call Center into service. This call center can accommodate up to 15,000 seats. The expansion of our call center will prepare us for the increase of volume in the next few years.

So with the concerted effort of the Ctrip Sales and Marketing team the number of our cumulative, active customers increased by 77% year-over-year to 10.3 million by the end of the second quarter of 2010.

Shanghai has become a busier city than ever recently because of the 2010 Shanghai Expo. As one of the (inaudible) travel agencies for the Expo we have made special arrangements to provide our customers with a wide range of Expo related products and services. We launched a special promotion to tap into internet users with activities and participation our Expo Great Price promotion and encouraged customers to post their own travel experience at our website to win valuable coupons for tours, with the grand prize being a car.

Ctrip has taken this good opportunity to enhance its brand from a long term perspective. Last month Forbes China together with the award leading management consulting firm Interbrand brand announced its best Chinese brand 1020 list. Selected for the first time and as the only tourism enterprise on the list, Ctrip was ranked as one of the 15 most valuable Chinese brands.

Going forward we will keep up with our solid execution, high level of customer services and diversified sales and marketing channels to continue to grow our business at a strong pace.

Now I will turn to James for the industry outlook.

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

Thanks, Min. In our view China's economy is still growing at a healthy pace. Certain adjustments to the economy will help China to grow at a more sustainable rate. We believe both business travel and leisure travel will grow significantly in the near future. According to the reports published by the China National Tourism Administration, during the first half of 2010 China's travel industry experienced robust growth in all areas.

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Further many local governments have initiated beneficial policies in response to the State Council's Guidelines for accelerating the development of the tourism industry released last December. In addition, transportation infrastructure becomes more accommodating which makes travel destinations more acceptable.

Lastly more countries will further relax visa requirements for Chinese travellers. As the market leaders Ctrip will continue to invest in product development, to innovate our technology and to enhance our capability. Ctrip has further established its presence in the Greater China area through our investments in Wing On and ezTravel.

We are well positioned to capture the new opportunities and to bring our company to the next level. Now I will turn to Jane for the financial update.

Jane Sun - Ctrip.com International Ltd - CFO

Thanks, James. I am very pleased to report the solid results for the second quarter of 2010. For the second quarter of 2010, Ctrip reported total revenues of RMB742 million or USD109 million, representing a 46% increase from the same period in 2009 and an 18% increase from the previous quarter.

Hotel reservation revenues amounted to RMB316 million or USD47 million for the second quarter of 2010, representing a 42% increase year-on-year, primarily driven by an increase of 34% in hotel reservation volume, and an increase of 5% commission per room night year-on-year. Hotel reservation revenues increased 26% quarter-on-quarter.

Air ticket booking revenues for the second quarter of 2010 were RMB307 million or USD45 million, representing a 42% increase year-on-year, primarily driven by a 22% increase in air ticketing sales volume, and a 17% increase in commission per ticket year-on-year. Air ticket booking revenues increased 16% quarter-on-quarter.

Packaged-tour revenues for the second quarter of 2010 were RMB67 million or USD10 million, representing an 88% increase year-on-year, due to the increase of leisure travel volume, and a 7% decrease quarter-on-quarter, due to seasonality.

Corporate travel revenues for the second quarter of 2010 were RMB34 million or USD5 million, representing an 83% increase year-on-year, and a 28% increase quarter-on-quarter, primarily driven by the increased corporate travel demand from business activities.

For the second quarter of 2010, net revenues were RMB695 million or USD103 million, representing a 46% increase from the same period in 2009 and an 18% increase from the previous quarter. In the second quarter, Wing On Travel and ezTravel contributed 2% for the year-on-year growth for net revenues.

Gross margin was 78% in the second quarter of 2010, compared to 77% in the same period in 2009, and remained consistent with that in the previous quarter.

Product development expenses for the second quarter of 2010 increased by 43% to RMB109 million or USD16 million from the same period in 2009, primarily due to an increase of product development personnel and share-based compensation charges. Product development expenses for the second quarter of 2010 increased by 9% from the previous quarter, primarily due to an increase of product development personnel. Excluding share-based compensation charges, product development expenses accounted for 14% of net revenues and remained consistent with that in the same period in 2009 and in the previous quarter.

Sales and marketing expenses for the second quarter of 2010 increased by 29% to RMB107 million or USD16 million from the same period in 2009, and increased by 13% from the previous quarter, primarily due to the increase of sales and marketing related activities. Excluding share-based compensation charges, sales and marketing expenses accounted for 14% of the net revenues, decreased from 17% in the same period in 2009 and 15% in the previous quarter.



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General and administrative expenses for the second quarter of 2010 increased by 55% to RMB71 million or USD10 million from the same period in 2009, primarily due to an increase of administrative personnel and share-based compensation charges. General and administrative expenses for the second quarter of 2010 increased by 6% from the previous quarter, primarily due to an increase of administrative personnel. Excluding share-based compensation charges, general and administrative expenses accounted for 5% of the net revenues, decreasing from 6% in the same period in 2009, and remained consistent with that in the previous quarter.

Income from operations for the second quarter of 2010 was RMB257 million or USD38 million, representing an increase of 57% from the same period in 2009 and an increase of 31% from the previous quarter. Excluding share-based compensation charges, income from operations was RMB316 million representing an increase of 66% from the same period in 2009 and an increase of 21% from the previous quarter.

Operating margin was 37% in the second quarter of 2010, compared to 34% in the same period in 2009, and 33% in the previous quarter. Excluding share-based compensation charges, operating margin was 45%, compared to 40% in the same period in 2009 and 44% in the previous quarter.

Net income attributable to Ctrip's shareholders for the second quarter of 2010 was RMB235 million or USD35 million, representing a 48% increase from the same period in 2009, and a 24% increase from the previous quarter. Excluding share-based compensation charges, net income attributable to Ctrip's shareholders was RMB293 million or USD43 million, representing an increase of 58% from the previous period in 2009, and an increase of 15% from the previous quarter.

The effective tax rate for the second quarter of 2010 was 19%, increased from 18% in the same period of 2009 and 12% in the previous quarter, primarily due to the normalization of the tax rate in the second quarter of 2010.

Diluted earnings per ADS were RMB1.55 or USD0.23 for the second quarter of 2010. Excluding share-based compensation charges, diluted earnings per ADS were RMB1.93 or USD0.29 for the second quarter of 2010.

As of June 30, 2010, the balance of cash, restricted cash and short-term investment was RMB2.7 billion or USD404 million.

For the third quarter of 2010, the Company expects to continue the net revenue growth year-on-year at a rate of approximately 35% to 40%. This forecast reflects Ctrip's current and preliminary view, which is subject to change.

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

QUESTIONS AND ANSWERS

Operator

Our first question will come from the line of Richard Ji with Morgan Stanley. Please proceed with your question.

Richard Ji - Morgan Stanley - Analyst

Hi, James, Min and Jane and June. Good morning and congratulations on a very strong quarter.

Jane Sun - Ctrip.com International Ltd - CFO

Thank you.

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

Good morning.

Richard Ji - Morgan Stanley - Analyst

Sure, let me start with a question regarding the commission rates. You have earned a better commission on both hotel bookings as well as air ticket bookings. In the hotel segment are we seeing a revenue mixture for four star and five star hotels as customers trade up?

Also what is your current thinking about the long term commission trend as we venture into the budget hotel segment.

Jane Sun - Ctrip.com International Ltd - CFO

Thanks, Richard. In terms of the commission rate as China is having the World Expo I think the consumers' confidence and travel interests are increasing. So lots of people are travelling to Shanghai and the hotel prices are increasing. People tend to trade up in the good economy. So we do see on the per room basis commission per room has increased.

Going forward I think into the future we still feel that commission rates can be stabilized at a normalized range anywhere between 14% to 16% depending on the hotels it is very much achievable. Our focus is looking at two elements. One is hotel prices, the second one is the percentage of commissions. As we move towards second tier cities and third tier cities the price probably will be a little bit lower than the first tier cities. But commission percentage is also holding very strong.

Also in a normal year when the economy is holding very strong we have been seeing hotels increase their average price in the first tier cities as well as in the second tier cities. So the increase in these areas can well upset the decrease when we penetrate into the second tier cities.

So all in all if you add all the elements together probably we will see a very stabilized condition going forward.

Richard Ji - Morgan Stanley - Analyst

Great thank you. Secondly, you have been making a lot of effort for your online initiatives and currently you are making more revenue from your online operation than ever. Can you elaborate a little more on the margin profile for your online transaction? Should we expect better scalability going forward? Plus can you also give us some color on your wireless initiative and what is your expected revenue contribution and hopefully the margin profile when things stabilize?

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

I would like to answer the wireless mobile question first. In this quarter we officially launched our m.ctrip.com mobile reservation platform. So far I think the feedback is quite encouraging and we have also different web and iPhone versions for different phone models. The website can automatically jump to the corresponding page according to different models when users log onto Ctrip via their mobile phone.

Also our mobile phone website has already started co-operation with our major mobile phone manufacturers and larger mobile portals to give our current site application for downloads. Since the launch of our m.ctrip.com the booking volume is growing significantly.

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Also I think for the China market right now the mobile market is just starting. So we will anticipate the volume will be growing steadily. Also in terms of the online market I think for Ctrip by now, Ctrip is definitely the leading player. We have much more online volume than any other players.

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

Yes. In terms of the margin, Richard, I think online will reduce the pressure on our labor requirements and the online platform obviously requires less help from our call center staff. So the margin will improve if we move more onto the online platform.

Richard Ji - *Morgan Stanley - Analyst*

Okay, that is very helpful. Congrats again.

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

Thank you.

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

Thank you.

Operator

Our next question comes from the line of James Mitchell with Goldman Sachs. Please proceed with your question.

James Mitchell - *Goldman Sachs - Analyst*

Great, thank you very much for taking the question. One on volume and one on margins. On the volume side are you surprised that Ctrip's hotel volume growth is so much faster than Ctrip's air ticket volume growth? How do you think your air ticket volume growth compares with the overall air industry?

Then on the margin side, if I look at sales and marketing costs, and I think in the past that the normalized range was about 17% to 20% of revenue, and now it seems to have come down to about 14% to 15% of revenue for a couple of quarters. Is that a structural change and how do some of the changes in the China search market in terms of Baidu's Phoenix Nest and Google leaving impact your sales and marketing? Thank you for taking my questions.

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

Sure, thanks, James. In terms of the volume, we grew 22% year-over-year for Q2 for a couple of reasons. I think in Q2 Shanghai started towards its Expo and there are lots of traffic volumes which are attributable by group tours. So in the group tours searches currently are not focusing on the group tours so that's why the market grew for more than 15% and we grew 22%. That's the first reason.

The second reason is also the base. If you look at last year when the market was growing somewhere around 10% to 15% we were able to grow more than 40%. This year if you add two years together I think the two year average for the market is around 10% to 15%. But the two year average for Ctrip is around 33% to 35%. So still I think we are outpacing the market quite significantly. When the group tour decreases I think our volume will pick up more. So that's the first question.

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The second one is hotel volume. Hotel volume has grown very well mainly because our competitiveness in the hotel market, our ability to get the guaranteed allotment during the economic upturn has generated very good results. So that's to address your question on the volume.

The second question you had is on the sales and marketing. Our team has been trained very well to make sure every dollar we put in the sales and marketing channel generates very good returns. The normal life investment we are targeting is somewhere around 17% to 20%. In Q2 I think our brand has become very strong so the efficiency for sales and marketing has increased.

Also the Government has put in lots of PR effort to promote the World Expo so we leveraged the Government's efforts as well. On a going forward basis we think with the leverage in sales and marketing we do have some scalability there. Secondly because our market share is still very small I think in order for us to penetrate into the second tier cities and third tier cities we still need to maintain a certain level of investment in order to achieve long term success.

James Mitchell - Goldman Sachs - Analyst

Okay, thank you very much for those answers.

Jane Sun - Ctrip.com International Ltd - CFO

Thanks.

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

Thank you.

Operator

Our next question comes from the line of Alicia Yap with Citigroup. Go ahead with your question.

Alicia Yap - Citigroup - Analyst

Hi, good morning everyone. My first question is on the hotel volume growth. Was the solid 34% year-over-year growth this quarter, is it mainly due to higher demand from Shanghai hotel rooms. And while most of the room demand probably comes from the lower tier hotels, so on the blender basis your ASP only grew like 5% this quarter. Can you give us some more color on that?

The second question is regarding your Q3 guidance if you can give more details about the ticket and hotel volume growth versus the ASP? Thank you.

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

Okay regarding the hotel volume I think the Shanghai Expo definitely has a very good impact on our hotel volume growth. Also we see the volume growth in Shanghai and also along the Shanghai area, that means China's Eastern area the hotel volume has grown very rapidly compared with last year.

Also since we penetrated into the second tier and third tier cities in the last few year years we still get positive volume growth, so that is why in this quarter we enjoyed very good growth on hotel volume.

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

Okay, Alicia, I think the volume growth definitely with Expo helps, but I think our investment in the second tier and third tier cities in the previous years also generated very good results. So it's on both sides we have seen healthy growth.

What is your second question?

Alicia Yap - *Citigroup - Analyst*

Oh yes, the second question is on the Q3 guidance. So if you can give more detail regarding the ticket and hotel volume growth versus the ASP?

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

Sure. Our guidance is comprised of four elements. For hotels volume growth is targeted at 25% to 30% for Q3 and commission per room is targeted at a 5% increase. For air, volume growth is 25% and commission per room night on a year-over-year basis is flattish.

In package tours the total Group growth should be more than 100%. Corporate Travel is somewhere around the 30% to 35%. If you add them all together that gives us around 35% to 40% year-over-year growth.

Alicia Yap - *Citigroup - Analyst*

Okay, thank you so much.

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

Sure, thanks, Alicia.

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

Thank you.

Operator

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

Mike Olson - *Piper Jaffray - Analyst*

All right, thanks very much and good morning.

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

Good morning.

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Mike Olson - Piper Jaffray - Analyst

A couple of quick questions. You talk a lot about the Shanghai Expo. Is there any way to quantify that as a driver in Q2? Like is there any way to estimate approximately how much the Shanghai Expo added to your year-over-year corporate in Q2?

Jane Sun - Ctrip.com International Ltd - CFO

The Shanghai Expo, it's very hard to isolate how much volume is for the Shanghai Expo. Because when a customer travels we do not ask them what are their reasons for their travel. But anyhow our feeling is that the Shanghai Expo is very good for China and very good for Shanghai. Because we are headquartered in Shanghai, our brand has been strengthened through the Shanghai Expo from a long term perspective.

In terms of the dollar amount increase I think based on our survey, some families if they determined to come to Shanghai to attend the World Expo they will reduce their travel budget to other cities such as Beijing or Hangzhou. Therefore if you add them all together I think that the pool remains consistent, probably with a marginal increase of 1% to 2%.

But again that's a very rough estimate. It's hard for us to isolate the impact for the Shanghai Expo on our business.

Mike Olson - Piper Jaffray - Analyst

Yeah that makes sense, I can see how that would be difficult to estimate, but I appreciate you giving it a try and 1% to 2% makes sense. Regarding acquisitions, if you were to do any additional acquisitions, what would be kind of a key criteria in looking at acquiring a company?

Would it be focused on getting into new geographies, and if so which geographies are you focused on getting into?

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

We are always open to any good opportunities in terms of the acquisition and mergers. But we take very prudent steps to evaluate them. Regarding M&A opportunities we always focus on whether the target company is a travel related business. Whether the company can bring Ctrip a new business line or penetrate into a new geographical area. Whether the company has the right valuation and also whether the target company is a major player in the segment.

Most important we also will see if the target company can share the same philosophy in management service and the culture with Ctrip. So we will keep an eye out on the future opportunities but also we will be very prudent.

Mike Olson - Piper Jaffray - Analyst

All right, thanks very much.

Jane Sun - Ctrip.com International Ltd - CFO

Thanks, Mike.

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

Thank you.



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Operator

Our next question comes from the line of James Lee with CLSA. Please proceed with your question.

James Lee - CLSA - Analyst

Thank you for taking my questions. Congratulations on a very good quarter. My first question is regarding more a follow-up question on your air business. Pricing was much stronger than expected and can you guys maybe talk about what factors were attributing to that? Is it because you are seeing more long haul travel or is the pricing increase year-over-year due to what we see in the market place in terms of increasing in pricing.

Also can you guys comment about the Wing On acquisition, the Wing On contribution for the third quarter of 2010 to see what the contribution is like? Lastly if you guys can talk about the Starway Alliance and give us an update a little bit? It's a kind of way for you to consolidate the economic segment of the hotel market and I was wondering what is the update on that. Thank you.

Jane Sun - Ctrip.com International Ltd - CFO

Thanks. Air ticketing prices are increasing very nicely due to two main reasons. The first one is the city growth in China is growing very well. I think the strong economic growth requires business people to fly around the country to conduct their business activities, so that's one of the main reasons driving up the price.

The second one obviously is also the Shanghai route has increased quite a lot just because there are so many people who want to come here and visit the World Expo. So that is the second reason.

Your question on Wing On. The Wing On acquisition was closed on 27 May. We have consolidated Wing On's worth of their financials. The contribution by Wing On is going to be approximately 5% on the top line, but I think the real value for the Wing On team to bring to us is their experience and their customer services and also their network for the leisure travel business. So our two teams are working very closely with each other to leverage every trend.

Now I will turn to our CEO for comments on the Starway Alliance.

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

Okay, regarding the Starway Alliance, I think the Starway Alliance is working very smoothly so far. Right now there are over 70 Starway hotels in more than 20 cities currently in the network. The market response is positive. By the end of last year and from the first half of this year, Starway Alliance repositioned itself as the leading middle-end hotel alliance in China. Right now it is going very stably and we were also very selective when we selected our Starway hotels into the Alliance to make sure the quality is secured. So we will see the future is promising for Starway Alliance.

James Lee - CLSA - Analyst

Thank you.

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

Thank you.

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

Thank you.

Operator

Our next question comes from the line of Aaron Kessler from ThinkEquity. Please proceed with your question.

Aaron Kessler - *ThinkEquity - Analyst*

Okay, thank you, a good quarter. Just a couple of questions. First on the Wing On acquisition if you can give us a little more color just in terms of the revenues, will those primarily be in the packages segment going forward here? Also and I have heard on the call about the air and hotel pricing in Q2 and what you're expecting in Q3 in general? Thank you.

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

Yes, thanks, Aaron. The Wing On acquisition I think we are starting to consolidate their four quarters' revenue into our financials starting in Q3. We expect they will contribute approximately 5% of the total revenue into our revenue pool. The main contribution is going to be in the package tour business, so that's the first question.

The second one is the pricing for Q3. We still expect the pricing to hold very steadily compared to Q2 because the economy is holding strong and also the travel volume is holding very strong. So pricing wise still similar to Q2 levels.

Aaron Kessler - *ThinkEquity - Analyst*

Great, and just a quick follow up on the air commissions. Any more clarity in that, now you've had maybe a few weeks of major discussions with airlines just to see any new trends or do you think it's just really a short term issue of higher demand and therefore they're adjusting the commission rate to essentially pay you more of a fixed fee?

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

I think similar to what happened in Q2 when the routes were very well demanded. Normally the suppliers will reduce the commission a little bit just because the demand is so strong they need less promotion from the sales channel. So in our forecast we assume air price will increase 10%, which were offset by the decrease of 10% in commission percentage. So on a per ticket basis, the dollar amount is holding steady from the prior year.

Aaron Kessler - *ThinkEquity - Analyst*

Great, thank you.

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

Thanks.

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

Thank you.

Operator

Our next question comes from the line of Eddie Leung with Bank of America-Merrill Lynch. Please proceed with your question.

Eddie Leung - *Bank of America-Merrill Lynch - Analyst*

Hi, good morning everyone. I do have a question on your balance sheet. Could you comment on the increase in pre-payment and customer balances as well as the decrease in cash plus short term investment? Thanks.

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

Sure, on the balance sheet you will see the pre-payment to our vendors' increases and also customer advances were increased as well. Because during the second quarter when the travel season started, customers started to book the packages and we received payment from them.

However, our revenue policy is very conservative. We do not recognize revenue until they finish the tour, so that's why the deferred revenue - the advance payment from the customer is booked in customer advances as a liability. On the other hand we also need to put down certain deposits and pre-payments to our vendor in order to block the package tours for our customers. So you will see both sides of the balance sheet are increasing.

Eddie Leung - *Bank of America-Merrill Lynch - Analyst*

Understood.

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

Okay. Your second question on the cash, the main cash usage in Q2 are - the first one is the Wing On acquisition where we paid about USD88 million to close the deal. The second one is also in April we closed the deal on investment in HanTing. So if you add these two together that's about RMB1 billion in the investment area.

Then in order to maximize the return on investment we also moved some cash from CD to a little bit longer term CD deposit for maybe 6 months or 1 year to maximize the investment return.

Eddie Leung - *Bank of America-Merrill Lynch - Analyst*

Got that. Thank you very much.

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

Sure, thanks, Eddie.

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

Thank you.

Operator

Our next question comes from the line of Yu Jin with CICC. Please proceed with your question.

Yu Jin - *CICC - Analyst*

Okay, thank you for taking my question and good morning, James, Min and Jane and June. I have two questions, one question is simply a modeling question. So will you mention some operating data that I have of the hotel reservations, volume or ASP. Are we talking about the business in Mainland only or are we already including the leisure travel or Wing On? That's the first question.

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

Okay, for your modeling I think the hotel business is mainly driven by the organic growth for Ctrip on the Mainland. The main contribution from Wing On is in the package tour business.

Yu Jin - *CICC - Analyst*

So I mean just for aggregate data when we talk about like in the earnings release talking about the operating data we are only talking about the Mainland business already--

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

Consolidated. All the information, yes all the data we give you should be on a consolidated basis but if you want to dig deeper into the consolidated number in the hotel growth rate the majority of the growth is driven by our organic growth. Because for Wing On their main business is package tour business for leisure travellers.

The hotels they do have some but very minimal compared to our volume.

Yu Jin - *CICC - Analyst*

Got it, so that is similar for the air ticket business?

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

Yes, exactly.

Yu Jin - *CICC - Analyst*

Yes, my second question is kind of it proves that we are right on track to consolidate the travel in the China market. So my question is from the management perspective what kind of training is there that we should be aware like in the mid to long term and we talk about like industry-wide or do we talk about a [competitive] landscape. What kind of strategies that we are going to take to deal with those (inaudible) so I think that is more of a broad and long term question? That's all from my side.

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

Okay I think in the middle to long term to establish a well experienced management team and to maintain our service quality branding it is very important for Ctrip's long term development. So starting from only this year we put more effort to include more experienced, skilled managers from the market and also internally we enhance our training program and as well, as you may know, that we have our Ctrip university, our corporate university to put more training effort make our management team more concrete for the future growth.

So I think the team and the quality of our service as well as our technical platform are very important for our future growth.

Operator

Our next question comes from the line of Chenyi Lu from Cowen and Company. Please proceed with your question.

Chenyi Lu - *Cowen and Company - Analyst*

Great, thank you. My phone got dropped so I hope that the question is one people have not asked before. So the first question I have regarding your gross margin. The gross margin this quarter and last quarter is actually stronger compared to 2009. Can you give us a view in terms of gross margin going forward over the next couple of quarters?

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

Sure. I think if you look at our revenue component the gross margin is mainly driven by a couple of things. One is the price on the per ticket and a per room basis. the second one is the commission percentage. These are on the per room per ticket basis how much money we can make. Then we need to deduct our cost. So if you look these three elements the gross margin was enhanced in Q2 because the price is holding very strong and the increase in the price will offset the decrease in the commission percentage.

The second component is also we continuously invest in our IT platform, so that our cost is contained.

Chenyi Lu - *Cowen and Company - Analyst*

So but you are running about 78.1% and 78.3% so do you expect you are going to go about 78% going forward or do you think it's going to be slightly lower?

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

I think on each business line the gross margin can be held very steady. Hotels we expect to be maintained at around 85% to 90%, air ticketing 65% to 70%, package tours is in between. So each line we will do our best to maintain a very steady commission rate.

However if the revenue mix is changed then that will reflect in our gross margin at the blended level.

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Chenyi Lu - Cowen and Company - Analyst

Okay, great, thank you. The next question will be in terms of operating module also going forward. I know the Wing On came in around May of this year. So can you give us a view in terms of the operating margin going forward because the operating margin was very strong last quarter. So I just want to get a view of what's the operating margin going forward.

Jane Sun - Ctrip.com International Ltd - CFO

Sure, I think in Q2 we delivered a very strong operating margin, 1% is mainly due to the improvement in the gross margin on a year-over-year basis. The full percentage on the operating expenses we controlled our costs very well and we also leveraged the peer efforts and the marketing strengths during the World Expo to best utilize every dollar we put in the sales and marketing channel.

However going forward I think our teams still need to maintain a certain level of the investment in order to maximize our growth strategy in the long term. So the sustainable growth margin at the current level probably is somewhere around 40% to 42%.

Chenyi Lu - Cowen and Company - Analyst

So that would be excluding the staff based compensation?

Jane Sun - Ctrip.com International Ltd - CFO

Correct.

Chenyi Lu - Cowen and Company - Analyst

Okay. One last question I know this quarter you and the company delivered a strong in the hotel and also for the airline. A portion of it is probably contributed by the World Expo. So the question will be, once the World Expo is over do you see the margin, do you see the ASP get dropped both on the hotel side and also on the airline side?

Jane Sun - Ctrip.com International Ltd - CFO

I think as we discussed before it's very hard to isolate what percentage in our business is solely related to the World Expo. What we have seen is because of the World Expo, people's interest in travelling into Shanghai has increased. However I think the main driving force in the long term is going to be the Chinese economy and the business activities and the leisure activities in China.

If the Chinese economy is holding strong we feel business travellers will continue to travel in order to conduct their business activities. If people are making more money more leisure travellers will go around the country or go abroad to travel. So if these fundamentals have no change we still believe China's travel industry has a very good future.

As the leading player in this market we will work very hard to capitalize on the opportunities.

Chenyi Lu - Cowen and Company - Analyst

So would that imply that once the Expo is over in about October of this year, over the December quarter and March quarter next year there won't be much impact?

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

We feel - we haven't announced our official guidance for Q4. I think again from a long term perspective we are very positive. From a short term perspective we would prefer to wait until we get closer in order to issue our official guidance.

Chenyi Lu - *Cowen and Company - Analyst*

Great, thank you, that's all my questions.

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

Thanks.

Operator

Our next question comes from the line of Paul Keung with Oppenheimer. Please proceed with your question.

Paul Keung - *Oppenheimer - Analyst*

Yeah, hi, thanks for taking my question. The question is to deal with the long term (inaudible) landscape, I think recently we saw the acquisition of ITA Software from Google. If you look at your local landscape I think you (inaudible) acquisition where I think (inaudible) international travel. You just mentioned now again about the importance of growing with your customer base and (inaudible).

So my question is more if you have a platform today, you know you don't really have a lot of investments other than Hong Kong and Taiwan as it relates to finding (inaudible). But where do you see yourselves from a value standpoint. Do you think there are things that are happening out there that the Google ITA is (inaudible) investment in the long term?

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

Paul, I think your voice for some reason was cut up. We will do our best to address your questions.

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

I think you talked about the Google acquisition of ITA, yes? I think in China right now Ctrip's deal has a more volume than other players and also as you can notice that our online booking ratio is growing at a rapid pace. During the second quarter our online booking is over 35% after total volume, which is I think higher than before. Also we will maintain strong investment in online where we will make Ctrip the number 1 online player in China's travel industry.

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

Yes. Paul, we couldn't hear you very clearly, but I heard you talk about the international expansion. I think for international expansion we are always very prudent in terms of how and when we expand into the other regions. Our first priority is domestic China because this is the fastest growing area in the whole world. We are very strong in domestic China, so that's our first priority.

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The second step is the Greater China area because the people in the Greater China area share the same language, same culture, so we already strategically made the investment in Wing On and ezTravel. In the next few years, five years or so, if our demand to Asia becomes so strong then we probably can look at the Greater Asia area.

But from a very long term perspective in the next 10 or 20 years I think if our travellers are going abroad then I think our team will also be exploring opportunities globally. But every step we make we have to make it very prudently.

Paul Keung - *Oppenheimer - Analyst*

I agree. One final question and it relates to the same topic, if you look at some of the other (inaudible) out there, there's a number of companies looking at some mergers' perspective, others much more focused on having separate sites, to generate content, again very online focused and not transaction based.

Currently everything you do is really, seems to be focused on your core website. I was curious at what point would you consider making a (inaudible) investment in platforms that are not (inaudible transaction (inaudible).

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

Paul again, I think we can only guess from your question. I think your question was there are lots of other platforms in the format of online and some of them are not revenue generating but user generating. I think we are very close to the market, so over the movement in the industry we pay close attention to it.

So far I think our fulfillment platforms bring us the majority of the revenue. The user generated content (inaudible) of community is the most active platform online where you can see lots of users are posting their travel journals, their pictures and their experience onto the platform. So we will maintain very strong investments in both platforms to make sure that we penetrate into both online and offline markets. Right now, the online market in China still is the minority of the market share, so if you only invest, only focus online that's just not enough. I think both platforms need to grow, both investment in these areas needs to be continuously (inaudible).

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

You're talking about the [UZC], you can check our Ctrip website. Recently we launched our community and destination channel, which is more [UZC] oriented and also the full format layout is a change according to the needs of the [UZC] and also we'll consider into the needs of the SAS functionalities. So I think for Ctrip, although our online travel communicate is leading in China, we are still working very hard to upgrade our quality and also we will do our best to generate highest volume, highest online page views and the unique visitors among those kind of travel communities.

Operator

Our next question comes from the line of Alex [Yeo] with Deutsche Bank. Please proceed with your question.

Unidentified Participant

Hi, good morning everyone and congratulations on a very strong quarter. I have a question regarding the air ticket commission. It seems the revenue per - particularly for the growth of the revenue per ticket in second quarter is slower than the general industry pricing growth in the second quarter. So my question is, is that because of the commission rate drop? If that's the case, did that impact our air ticket gross margin in second quarter? Thank you.

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

Sure. I think in our press release we stated that commission on the per ticket basis increased by about 15-17%. If you look at commission per ticket, there are two elements in it. The first one is the price. The second one is the commission percentage. In Q2 we do see the commission per ticket decreased, which is offset by the increase in the price. So if you add these elements together, on the per ticket basis dollar amount increased by 17%. So if you take the net of these two elements it increased our gross margin.

Operator

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

Wendy Huang - *RBS - Analyst*

Thanks for taking my question. The first part of my question is mainly - is related to the operation. I noticed that Ctrip recently launched some cruise travel package and in my understanding, the cruise travel has become an important part of the travel agencies revenue in the developed travel market. So what's your plan in that business? Also for your hotel business, based on your observation on the hotel market, have you seen a lot of newly opened hotels in Shanghai area? Because what I recalled from the Beijing Olympic experience is during those periods there are a lot of newly opened hotels, which actually caused an oversupply post the Olympic event and put a lot of pressure on the hotel price as well. So do you expect to see a similar thing, I mean, post the Shanghai Expo?

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

Regarding the cruise products, I agree with you that the cruise products is very popular recently in China and also we do see our cruise products production increase very rapidly. We have already cooperated with all the major cruise line companies in China as well as those overseas companies, also they will visit Ctrip. We organized a special panel to specially develop the cruise part and - but also I think the products - cruise products will be growing still very fast in the near future. But so far the total volume in China, the cruise products are still very small, accounts for a small portion of the total travel market. We can see this part of - this portion of the market where we're growing very fast.

Wendy Huang - *RBS - Analyst*

When do you expect it to become a meaningful revenue contribution and what should be the long term margin of these cruise products?

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

Yeah, I think for the cruise products should become meaningful revenue contributor still take time. I think still we need to - we need to develop more products and also where we need to have the more (inaudible) needs and also the change there, but the market so far is not big enough to become a major market - major business contributor.

Regarding the hotels in Shanghai, certainly there are quite some new hotels opened before Expo and even during the Expo in Shanghai. If you compare the situation with Olympic in Beijing, I think there would be some difference. For Olympics in Beijing the market expectation is to attract more and more overseas visitors but alas, this did not finally happen. In this Shanghai Expo I think the major visitors are the local travellers and also I think in Shanghai the economic growth is very fast and new hotels,

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so far I don't see there is an over-supply situation in Shanghai. I think even after the Shanghai Expo the government will still remain a few major (inaudible) a few major hosts in Shanghai, so I think the travel needs will still maintain for us in the period.

Wendy Huang - RBS - Analyst

Okay. My second part of the question is related to some numbers. Jane, you mentioned your guidance for the corporate travel in the next question is 30% to 35%. However, the previous quarter actually the year over year growth for the corporate growth was quite strong, where it was way above your actual second quarter corporate travel guidance, 35% to 45%. So how should we look at your corporate travel guidance for Q3 and year over year growth in 2010? What do you think the long term potential in the corporate travel business?

Jane Sun - Ctrip.com International Ltd - CFO

I think our efforts in corporate travel need to be very persistent. If you look at our growth last year, Q1/Q2 had a very low base, just because the whole world had a financial crisis, so lots of business activity last year was withheld in order to cut back business cost so we are comparing to a very low base. However, Q3/Q4 of last year we started to pick up volume so although on absolute dollar amount we will still generate very strong growth but mathematically if you are comparing to our higher base, that's why the guidance for corporate travel needs to be - reflect the higher base as well. So my long term perspective I think our team has invest a lot in travel system, into our team and also into our quality of the services. There are still lots of companies need to be serviced well in the China market so in the long term, I think a 30% to 40% growth rate is sustainable.

Wendy Huang - RBS - Analyst

Okay. But your 30% to 35% year over growth seems to imply the sequential decline in Q3. Was that mainly due to the weak seasonality?

Jane Sun - Ctrip.com International Ltd - CFO

Yes. Weak seasonality is one thing. Also when we look at our number, year over year probably gives you a better comparison, just because year over year number takes out the seasonality already.

Wendy Huang - RBS - Analyst

Okay. Also, can you give the easy revenue breakdown into the different segment as you provided in your (inaudible) two quarters?

Jane Sun - Ctrip.com International Ltd - CFO

What breakdown?

Wendy Huang - RBS - Analyst

EzTravel breakdown. You used to provide the breakdown among the hotel, air ticketing and [package tour]?

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

Sure, sure. I think in the past two quarters ezTravel revenue was isolated because we didn't have the Wing On Travel. In every quarter ezTravel contributed to about 5% to the revenue. Starting Q2 I think we are comparing apples to apples because we invested in ezTravel in Q2 of last year, so it's an apple to apples comparison without any additional pick up in the comparison.

Wendy Huang - *RBS - Analyst*

Okay. The [RMB60 million] in other income, was that mainly due to the (inaudible) subsidy in Q2?

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

That's correct.

Wendy Huang - *RBS - Analyst*

My very final question. What's the percentage of the outbound travel contributed to your total revenue or volume? What do you think the long term target opportunity of the outbound travel can contribute to your total volume?

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

Sure. I think if you aggregate all the business lines, are going to contribute approximately 10% to our total revenue. As people are making more money and as more countries are lifting their travel restrictions for Chinese travellers, we do expect more people will go abroad and travel, so through the next few years, that percentage should gradually increase.

Wendy Huang - *RBS - Analyst*

Was that many from the [package tour] spread out in the air ticketing, hotel booking as well as the [package tour], that 10% of the--

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

I think the majority is in the tour related business. We also book some hotels and air tickets abroad.

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

Yeah, not only package tour, we also have the group tour for [outbound] travel and also we have overseas hotel booking.

Wendy Huang - *RBS - Analyst*

Okay, great. That's very helpful. Thank you.

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

Thank you.



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Operator

Our next question comes from the line of Chris Zee with BNP. Please proceed with your question.

Chris Zee - *BNP Paribas - Analyst*

Good morning everyone. Congrats on a strong set of results and completion of Wing On Travel. I have a question on Wing On Travel. Can you confirm - you mentioned it contributed more or less about 5% of top line in - should the contribution reflected in the full second Q. Should we also expect the same for 3Q? I just want to confirm this.

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

Yes. For Q2 we only pick up one month's worth of their revenue. Starting from Q3 we will pick up three months' worth of their revenue. If you pick up three months and compare to our overall revenue pool that is about 5% of our total revenue.

Chris Zee - *BNP Paribas - Analyst*

Okay. Also on Wing On Travel, should we expect any restructuring charges or provisions by [UN] for the consolidated basis?

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

No, I don't think we have any restructuring plan. The company is running very well. We just need to motivate our team and to make sure the two teams integrate as one entity and move forward very quickly, so no restructuring plan is planned.

Chris Zee - *BNP Paribas - Analyst*

Okay, very well. I just have a couple more very quick follow up questions. I just wanted to clarify for the airline commission rate structure. So in my understanding there is still no update whether this cut in commission rate will be temporary or long lasting after the Shanghai Expo expire?

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

Yeah, I think the commission rate, airlines normally adjust it based on the supply and demand. Our forecast has contemplated that commission rate will have a decrease Q3.

Chris Zee - *BNP Paribas - Analyst*

I see. Okay, one final question is on CapEx. For full year 2010 can you provide a CapEx estimate for the full number and also splitting between the maintenance CapEx as well as for the Nantong Call Centre please.

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

For the Nantong Call Centre we expect [RMB]250 million to be paid in the year. For the whole company I think every quarter we probably have about USD10 million CapEx for the maintenance costs.



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Chris Zee - *BNP Paribas - Analyst*

Okay. That's all for my questions. Thanks.

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

Thanks.

Operator

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

Ming Zhao - *SIG - Analyst*

Thank you very much for my questions. If I look at the metrics you provide in the quarter, the volume pricing for the hotel and air ticketing. It sounds like this includes ezTravel and Wing On, which is different than the previous quarters and appears closer - the metrics do not include ezTravel. Is my understanding correct here?

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

That's correct. When we give our guidance it's on a consolidated level. If you compare ezTravel I think we're already on an apple to apple basis, because we invest in ezTravel into two of 09 and when you compare to two of 10 with last year it's comparable already so there is no need to isolate that number. So for Wing On though, Q3 it's a pick up on our top line, which for the total revenue it's about 5% of our total revenue.

Ming Zhao - *SIG - Analyst*

Okay, understood. So my follow up question to that is if I look at the air ticket volume growth, it's 22% in the second quarter. This has been - the fourth quarter that you see the deceleration in air ticket volume and if you take out the ezTravel volume, it's probably even lower than 22%, which is pretty close to the airline industry's growth in the second quarter. You've mentioned that group tour is the reason for the airline industry scores but not for your growth. So trying to understand that a little bit better here, why is that group tour business not reflected in your air ticket volume? Is that because that's reflected in your package tour business or is this deceleration due to higher air ticket price? I just want to understand better about this metric going forward.

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

Sure. If you take out the contribution on the air ticketing volume by Wing On and ezTravel, our volume growth is about 21%, because these two entities contribution on hotel and air ticket is the [minimum] compared to our total volume. Their main contribution is in the leisure travel package tour, so it's very similar. The percentage didn't change with or without them. On the group tour, I think group tour has many formats. For example, there are lots of government officers travelling to Shanghai to visit Shanghai Expo and currently we're not targeting in doing that business and there are lots of institutions, official institutions and the schools organizing tours for the travel. Again, we are not into that business either. When our CEO talk about the group tour, it's mainly the abroad, when you travel to a certain country, the requirement by the government is you need to travel on a group tour basis, then we will have tour packages. Within China most of our business is under SIT business.

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Ming Zhao - *SIG - Analyst*

Okay. Lastly, a quick follow up to the CapEx you just mentioned. I just want to make sure I heard correctly. For the maintenance CapEx it's USD10 million per quarter. Is that right?

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

Correct.

Ming Zhao - *SIG - Analyst*

Okay, thank you very much.

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

Thanks Ming.

Operator

Our next question comes from the line of Ashish Thadhani of Gilford Securities. Please proceed with your question.

Ashish Thadhani - *Gilford Securities - Analyst*

Yes. I have two very quick questions. What portion of your air revenue comes from short haul routes where high speed trains have started service? Do you have any plans to sell high speed rail tickets in the near future?

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

Yeah. For the high speed train, right now the impact on the air market is not so significant and I think in the future, those high speed trains if they travel the cities within 500 kilometer cities, those air markets will be impacted significantly. But I think the coin has two sides. When those kind of cities were being [froze] by the fast train construction you would have more opportunity to grow your [attractive] business because people will be easily to travel from this state to another city within a very short time. So we recently we already covered more cities, so covered more hotels within their regions, within those areas, to well prepare for the future growth in the travel market. So I think the total influence can be offset one another.

Ashish Thadhani - *Gilford Securities - Analyst*

Okay. But is it fair to say that most of your air revenue does come from short haul routes within 500 kilometers?

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

No. The majority of our travel routes are long distance tour.

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Ashish Thadhani - *Gilford Securities - Analyst*

Okay. Then switching subjects, with respect to your recent investments, how should we treat these for modeling purposes going forward? This is with respect to the hotel companies and what are your financial expectations from these investments?

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

I see. So Ashish, are you talking about our investment in Home Inns and HanTing?

Ashish Thadhani - *Gilford Securities - Analyst*

That's right.

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

Okay, for Home Inns, we invest approximately 20% so we are under-equity invested. On the one quarter lag basis we will pick up approximately 20% net income from Home Inns financials and they're recorded below the line as other income--

Ashish Thadhani - *Gilford Securities - Analyst*

I'm sorry to interrupt. Home Inns I understand the most recent ones, yeah.

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

Okay. The most recent one is China Lodging and which is HanTing. We invested about (inaudible) 9% so we are under cost accounting method, we are going to reflect the increase or decrease of the fair value of the stock on balance sheet only. There is no P&L impact from that investment.

Ashish Thadhani - *Gilford Securities - Analyst*

The second company?

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

The second, which company? Are you talking about the [Xiang Quo] Hotel? That deal has not been closed yet.

Ashish Thadhani - *Gilford Securities - Analyst*

Okay and when do you expect that to close?

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

We are still going through the official approval process. It should be in the near future.

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Ashish Thadhani - *Gilford Securities - Analyst*

Okay. Thank you very much.

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

Sure. Thanks Ashish.

Operator

Our next question comes from the line of Fawne Jiang with BMC. Please proceed with your question.

Fawne Jiang - *BMC - Analyst*

Hi good morning. Just one quick question. What's the percentage of your air ticket [cost] are from Shanghai and Beijing approximately.

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

You mean the percentage Shanghai Beijing, the market percentage, I think it's less than 10%.

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

Ten per cent.

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

Less than 10%.

Fawne Jiang - *BMC - Analyst*

Okay, thank you.

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

Thank you.

Operator

Our final question comes as a follow up from the line of Yu Jin with CICC. Please proceed with your question.

Yu Jin - *CICC - Analyst*

Thank you. One quick question. I heard that (inaudible) information links which provided to those for the party [B2P] website, which served those small to mid travel agencies. So can you tell us what kind of impact from that kind of activity that has an indirect benefit we have seen from that? Thank you.

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June Zhu - *Ctrip.com International Ltd - Investor relations*

I'm sorry, we couldn't follow your question (spoken in Mandarin).

Yu Jin - *CICC - Analyst*

[Sky travel].

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

(Inaudible) [B2P] connecting among those small air ticketing issue platforms, you mean that case?

Yu Jin - *CICC - Analyst*

I mean, yeah. And I think there is supposed to be some indirect benefit to Ctrip but I'm not sure, so can you confirm--

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

In fact, I don't think this case would be any significant impact on Ctrip's production and because those companies, they are mainly doing the B to B business and they use a kind of technical platform to issue - to issue tickets across different regions. TravelSky recently they said will cut that connection to those B to B technical platforms. I guess in that way some small players will be hard to get some favorable ticketing prices, which they can be entitled to endure those low price before. But over speaking, I think this case is not so relevant to Ctrip's business.

Yu Jin - *CICC - Analyst*

Guys that's helpful.

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

Okay, thank you.

June Zhu - *Ctrip.com International Ltd - Investor relations*

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

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

Thank you very much.

Operator

Thank you for attending today's conference. This concludes the presentation. You may now disconnect and have a great day.

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