

FINAL TRANSCRIPT

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CTRP - Q3 2010 Ctrip.com International, Ltd. Earnings Conference Call

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the Third Quarter 2010 Ctrip.com International Ltd Earnings Conference Call. (Operator instructions).

I now would like to turn the conference over to your host for today Ms. June Zhu. Please proceed.

June Zhu - *Ctrip.com International Ltd - IR*

Thank you Ms. (inaudible) and thank you everyone for attending Ctrip's Third 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 Ms. Jane Sun, Chief Financial Officer. We may during this call discuss our future outlook and performance which are forward-looking statements made under the Safe Harbor provisions under US Privacy Securities Litigation Reform Act of 1994.

Forward-looking statements involve inherent risks and uncertainties. As such our results may be materially different from the views expressed today. A number of potential risks and uncertainties are outlined in Ctrip's public filings with the Securities and Exchange Commission. Ctrip does not undertake any obligation to update any forward-looking statements except as required under applicable law. Min, James and Jane will provide a business update, industry outlook and financial highlights for the third quarter of 2010 as well as outlook for the fourth quarter of 2010.

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, please.

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

Thanks June, and thank you to everyone for joining us today on the call. As we celebrate Ctrip's eleventh anniversary we are pleased to report that our team, once again, delivered a strong result in the third quarter of 2010. Our net revenues grew 49% year-over-year and net income grew 70% year-over-year.

We are pleased to note that 2010 Shanghai World Expo was a big success and propelled tourism nation-wide. Our team captured opportunity to provide excellent service. It helps our brand and grow our market share. Our hotel supply network continues to expand to satisfy the growing needs of our customers with 30,700 hotels by the end of the third quarter of 2010 compared to 9400 hotels at the same time last year. The number of hotels will guarantee a lot more rooms, further increased and accounted for more than 75% of the total hotel supply.

During the third quarter our air ticketing volume grew at a strong pace in part by being comparable service (inaudible) capacity the Ctrip team delivered strong results and expand our market share.

As household income increases, consumer confidence becomes stronger. As a result, revenue from our (inaudible) has increased significantly in the third quarter. Our (inaudible) travel network has been expanding rapidly. It has products encourage more customers in the great China region to travel both within China and around the world.

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Corporate travel has been strengthening its branding. During the third quarter and for the second year in a row Ctrip was named the best corporate travel engine in China by Travel Weekly China. Two weeks ago Ctrip launched its updated CTMS Corporate Travel Management System. This innovative system enables our corporate clients to obtain competitive prices and to locate their employees during emergencies.

Supported by wider coverage and comprehensive services Ctrip's Corporate Travel Management Team is able to provide high quality and reliability to our corporate clients. With a concentrated and energetic effort Ctrip's IT team has continued to bring innovation to our online and mobile platforms. Ctrip has officially released the current version for iPhone, Google engine and Nokia Simbian after success launch of the wireless mobile website.

These wireless platforms will enable our customers to make reservations more convenient. Our ongoing investment in online and offline platforms extend our leadership in the market. According to Google (inaudible) Ctrip.com was the most visited travel website in China during the third quarter, listed as one of the leading travel portals in the world and number one in China. Ctrip is the undisputed leader in China's online travel market.

The Ctrip service team strives to improve customer service and to provide the best solutions to our customers. In 2010 our call center, once again, won the China and Asia Pacific Call Centre Award issued by CCA, China Call Centre and CRM Association. This made Ctrip call center fourth time repeat winner. (Inaudible) the owner Ctrip's call center was also rewarded the Golden Headset Award for the best contact center in China for the fourth straight year.

We believe the high quality of our services is a key to our ongoing success. We aim to continue to improve our service level and thereby maintain competitiveness and steady growth over the long term. Through the outstanding customer service and the endless effort of the Ctrip sales and marketing team, the number of our cumulative active customers increased to 11.1 million by the end of the third quarter of 2010 compared to 8.2 million for the same period in 2009.

At the China CEO conference held in September the organizer (inaudible) manager, [Matt Ring] announced that Ctrip rank among the top 10 list of the most creative companies for 2010. Ctrip was also the only online travel engine to make the rankings. Ctrip won this award due to its efforts in innovation in the past 11 years including one hour express lane for air ticketing, CTMS for corporate travel management and our national disaster relief fund for Ctrip customers.

Recently the Ctrip team has launched an initiative called Perfecting Customer Service which is a customer-oriented approach to delivering the perfect service. The Perfecting Customer Service system integrates products and the development of process improvement, technology innovation, marketing promotion and employee training. The goal for Perfecting Customer Service is to turn both online and offline travel services into duplicable, scalable and transmittable process in order to provide the best service experience for our targeted customers.

We are confident that our continued efforts in innovation will enable Ctrip to expand its leadership in the travel industry. Now I will turn to James for the industry outlook.

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

Thanks Min. Recent market analysis published in the Wall Street Journal shows that Chinese people with 50K RMB minimum annual income exceeds 10% of the nation's total population comprising over 130 million consumers. Continued growth in the segment will provide Ctrip with a solid foundation for future growth.

With the success of the 2010 Shanghai World Expo the appeal of travel and tourism in China has gained strength worldwide. Even more tourists are expected to visit China in years to come. China's strengthening currency and the relaxed visa requirements also make it easier for Chinese travellers to travel abroad and we'll continue to capitalize on these opportunities for growth by means of solid execution, excellent customer service and effective sales and marketing channels.



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Now I will turn to Jane for the financial update.

Jane Sun - *Ctrip.com International - CFO*

Thanks James. I'm very pleased to report the solid results for the first quarter of 2010. For the first quarter of 2010 Ctrip reported total revenues of RMB863 million or \$429 million representing a 48% increase from the same period in 2009 and a 16% increase from the previous quarter.

Hotel reservation revenues amounted to RMB315 million or \$52 million for the third quarter of 2010 representing a 36% increase year-on-year primarily driven by an increase of 30% in hotel reservation volume and an increase of 5% commission per room night year-on-year.

Hotel reservation revenues increased by 11% quarter-on-quarter primarily driven by an increase in hotel reservation volume.

Air ticketing booking revenues for the third quarter of 2010 was RMB315 million or \$47 million representing a 36% increase year-on-year primarily driven by a 30% increase in air ticketing sales volume and a 4% increase in commission per ticket year-on-year. Air ticketing booking revenues increased by 3% quarter-on-quarter.

Packaged-tour revenues for the third quarter of 2010 were RMB141 million or \$21 million representing a 161% increase year-on-year and a 110% increase quarter-on-quarter due to the increase of leisure travel volume and seasonality.

Wing On Travel and EzTravel contributed 108% for year-on-year growth for packaged-tour revenue. Corporate travel revenue for the third quarter of 2010 were RMB34 million or \$5 million representing a 37% increase year-on-year and a 1% increase quarter on quarter primarily driven by the increased corporate travel demand for business activity.

For the third quarter of 2010, net revenues were RMB812 million or \$121 million representing a 49% increase from the same period in 2009 and a 17% increase from the previous quarter.

In the third quarter Wing On Travel and EzTravel contributed 11% for year-over-year growth for net revenues. Gross margin was 78% in the third 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 third quarter of 2010 increased by 53% to RMB123 million or \$18 million from the same period in 2009 and 13% from the previous quarter primarily due to an increase in product, personnel and share-based compensation charges. Excluding share-based compensation charges product development expenses accounted for 13% of net revenues, decreased from 14% in the same period in 2009 and in the previous quarter.

Sales and marketing expenses for the third quarter of 2010 increased by 33% to RMB125 million or \$19 million from the same period in 2009 primarily due to the increase in sales and marketing related activity and share-based compensation charges. Sales and marketing expenses for the third quarter of 2010 increased by 17% from the previous quarter primarily due to the increase in sales and marketing related activity. Excluding share-based compensation charges sales and marketing expenses accounted for 14% of net revenue decreasing from 17% in the same period in 2009 and remained consistent with that in the previous quarter.

General administrative expenses for the third quarter of 2010 decreased by 69% to RMB18 million or \$12 million from the same period in 2009 primarily due to an increase in administrative personnel and share-based compensation charges. General and administrative expenses for the third quarter of 2010 increased by 13% from the previous quarter primarily due to an increase in administrative personnel. Excluding share-based compensation charges general and administrative expenses accounted for 5% of the net revenue decreasing from 6% in the same period in 2009 and remained consistent with that in the previous quarter.

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Income from operations for the third quarter of 2010 was RMB308 million or \$46 million representing an increase of 55% from the same period in 2009 and an increase of 20% from the previous quarter. Excluding share-based compensation charges income from operations was RMB368 million or \$55 million representing an increase of 63% from the same period in 2009 and an increase of 17% from the previous quarter.

Operating margin was 38% in the third quarter of 2010 compared to 37% in the same period in 2009 and in the previous quarter. Excluding share-based compensation charges operating margin was 45% compared to 41% in the same period in 2009 and remained consistent with that in the previous quarter.

The effective tax rate for the third quarter of 2010 was 17% increased from 13% in the same period of 2009 primarily due to the normalization of the tax rate in the third quarter of 2010. The effective tax rate for the third quarter of 2010 decreased from 19% in the previous quarter primarily due to the impact of newly acquired entities.

Net income attributable to Ctrip's shareholders for the third quarter of 2010 was RMB320 million or \$48 million representing a 78% increase from the same period in 2009 and a 36% increase from the previous quarter. Net income for the third quarter of 2010 benefited from a higher government subsidy recorded in other income lines. Excluding share-based compensation charges net income attributed to Ctrip shareholders was RMB380 million or \$57 million representing an increase of 77% from the same period in 2009 and an increase of 30% from the previous quarter.

Diluted earnings per ADS were RMB2.11 or \$0.31 for the third quarter of 2010. Excluding share-based compensation charges diluted earnings per ADS were RMB2.5 or \$0.37 for the third quarter of 2010. As of September 30, 2010 the balance of cash, restricted cash and short-term investment was RMB3.1 billion or \$463 million.

For the fourth quarter of 2010 the Company expects to continue the net revenue growth year-on-year at a rate of approximately 30% to 35%. This forecast reflects Ctrip's current and preliminary view which is subject to change. With that, Operator, we are opening the lines for the questions.

QUESTIONS AND ANSWERS

Operator

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

Richard Ji - Morgan Stanley - Analyst

Hi James, Min, Jane and June, good morning and congratulations on a very strong quarter. Let me start with the impact of the World Expo and obviously the Shanghai World Expo indeed gave a boost to China's air travel industry overall and also to the performance of your company. The World Expo ended last week and should we expect some slow down going forward or should we expect continued sustainable growth because the World Expo also helped to boost awareness of the travel services in China. On that particular note, it would be helpful also if you can provide us with some granularity on the breakdown for your 4Q guidance. Thank you.

Min Fan - Ctrip.com International Ltd - CEO

The Shanghai World Expo just closed and, as everybody knows, it has been very successful and the World Expo Shanghai promoted China and also I think as well as Ctrip. I think that after this great event still for the travel and EzTravel and business travel will not be as -- expect there will be a slowdown significant because if we compare the Beijing Olympic Games -- after Beijing Olympic Games and the whole leisure travel to Beijing and around China seems not to be slow down, just secondary.

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So I think for this World Expo, China and Shanghai and Ctrip will also benefit from this after Expo impact.

Jane Sun - *Ctrip.com International - CFO*

Richard, to add our financial comments I think our growth is very much linked into China's economy. So if China's economy has a sustainable growth in the next few years we are very positive the growth for Ctrip. Regarding our guidance, we guide net revenue growth at about 30% to 35% and for hotel we believe 25% to 35% year-over-year growth is achievable. For air, 25% to 35%. For packaged tour about 100% and for corporate travel about 25% to 35%. So if you add all these together that's giving us abrogated growth rate for 30% to 35%.

Operator

Your next question comes from the line of Chen-yi Lu with Cowen and Company. Please proceed.

Chen-yi Lu - *Cowen and Company - Analyst*

Thank you. I just have a question regarding the gross margin trend. This quarter again (inaudible) deeper about 78.3% gross margin and then the gross margin has been really strong over the last two or three quarters. I'm just wanting to see whether you see the gross margin trend to continue going forward?

Jane Sun - *Ctrip.com International - CFO*

I think 78% gross margin is very strong and our Q1 [in 10] very efficient operation to make sure we deliver strong gross margin but conservatively I think our gross margin is somewhere between 75% to 77% in the near future is very much achievable.

Operator

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

James Lee - *CLSA - Analyst*

Congratulations on a very good quarter. Jane, can you clarify maybe the air volume a little bit during the quarter? It seems like the volume was really strongest in the quarter and also the (inaudible) was a little bit stronger (inaudible) and maybe a little bit of lag in terms of (inaudible) adjustment from the airliners in general. Thanks.

Jane Sun - *Ctrip.com International - CFO*

James, your voice was cut out in the middle but we did hear your first question which is to ask us to comment on the volume. In Q3 the volume growth is very strong. For hotels we were able to deliver 30% year-over-year growth. For air ticketing it's similar, 30% year-over-year growth. I think our scalable platform and also our strong customer services have won us the strong volume growth. Going forward, we believe as long as the economy is holding strong travel business will hold very strong and if the travel business is holding very strong our team will work very hard to grow our volume and extend our leadership.

Sorry James, for the middle of your question the line was cut out. Do you mind repeating it again if you haven't addressed your question? Maybe later. Hello?

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Operator

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

Catherine Leung - *Goldman Sachs - Analyst*

My question is in terms of the Company's performance relative to the market. Are you seeing stronger growth in new customers from tier one or tier two cities and is there a material difference in the customer mix from these two tiers for your hotel and air ticketing businesses?

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

Our new customers generally from the hotels and airline ticketing and also travel business are quite strong this quarter and during this quarter we were happy to see the new customers generated from the leisure section. The leisure section is very strong and I think this also is (inaudible) with World Expo and we hope we can maintain the momentum in the coming quarter. As you know, in China recently we promote more and more leisure products among our targeted customers. So I think within this quarter we see a very good market.

Operator

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

Mike Olson - *Piper Jaffray - Analyst*

Thanks very much. Good morning. A couple of quick questions. One is just, as far as the Q4 guidance Jane, can you talk about what the pricing assumptions are built into your guidance?

Jane Sun - *Ctrip.com International - CFO*

Sure. For our guidance we assume the main driving force for the growth is coming from volume. We assume that the price will increase on the year-over-year basis between 5% to 10% which will be partially offset by the commission rate decrease of between 5% to 10%. So if you add volume times price times commission rate, the main driving force will be volume driven.

Mike Olson - *Piper Jaffray - Analyst*

If you look at the competitive environment for online travel compared to offline travel will you guys face more competition in online bookings than you have in offline bookings? I guess, what changes in the competitive environment have you seen over the last several months in the online sites?

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

I think that, as you know, the China travel market is so big and we always work on more players in this field and if there are more online players in the market then that will mean that more and more customers will be educated. This will be very good for the whole industry and also I think it will be good for Ctrip. Ctrip so far is still the undisputable online travel player in China and also we have the better offline travel service in China. I think the competition landscape has not been changed so far. Of course, we will monitor our competitors very closely and also we will do our best to grow our competition edge.

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Mike Olson - Piper Jaffray - Analyst

One last question. What percent of bookings in Q3 were online and what do you expect 2011 online bookings will be as a percent of overall bookings?

Jane Sun - Ctrip.com International - CFO

Q3, the online booking increased to about 37% and every year we invest a lot of resources in online platform and every year we'll grow a couple of percentages. So slowly but surely every quarter we will try to move a few percentage online.

Operator

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

Chris Zee - BNP - Analyst

Good morning guys. Congratulations on a very strong set of results. I have a couple of questions. First of all, for the Shanghai Expo because Q3 was a full quarter for this event to have happened. Can you help us to quantify what was the volume in terms of the air ticketing side both in-bound and out-bound in and out of Shanghai for air ticketing as well as the hotel reservations for the volume out of your total booking. Can you help us to understand?

Jane Sun - Ctrip.com International - CFO

Chris, I think normally our first tier volume including Shanghai, Beijing, Guangzhou, Shenzhen, the percent is approximately 50% of the total.

Chris Zee - BNP - Analyst

Should we expect Shanghai to be half of that for Q3 because of the Expo or do you have that account in front of you?

Jane Sun - Ctrip.com International - CFO

We don't have the number in front of us but Shanghai will remain to be a very important traffic hub in China and Shanghai is where our headquarters are so with or without World Expo Shanghai will remain to be an important hub for us.

Chris Zee - BNP - Analyst

Sure, okay, I just have one more follow up. You mentioned the online booking account for 37% of total bookings in the third quarter. Did that also include the mobile or iPhone or other smart phone kind of booking? Is that 37% inclusive of that?

Min Fan - Ctrip.com International Ltd - CEO

Mobile and smart phone they are a very small amount. So add to the online platform with or without them the percentage doesn't change.

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Chris Zee - BNP - Analyst

I see but with your company's internal budget or outlook what do you see online booking to account for in 2011 next year?

Jane Sun - Ctrip.com International - CFO

I guessed that.

Min Fan - Ctrip.com International Ltd - CEO

I think every year we will grow that to increase that to a point, a percentage to add more online on production. As you know this is not so easy to do in China. We do see more and more people search online and they will find various information and search websites.

But a lot, quite some people will still book offline which is more convenient for them. So I think it's a gradual process for us to migrate the offline users to the online platform.

Operator

Ladies and gentlemen, as a reminder, please limit your questions to one question. Your next question comes from the line of Jin Yu with CICC, please proceed.

Jin Yu - CICC - Analyst

Hi, good morning, Min, Jane and James, and congratulations on that strong result.

Min Fan - Ctrip.com International Ltd - CEO

Thank you.

Jane Sun - Ctrip.com International - CFO

Thanks.

Jin Yu - CICC - Analyst

I have two straightforward questions. The first one is you made eyeball to eyeball comparison is namely including the partner of Wing On Travel. What will be the growth for the package business? That's the first one. The second one is to [restack] our fourth quarter guidance has the potential impact of Games in Guangzhou?

Jane Sun - Ctrip.com International - CFO

Sure, Wing On for this quarter was very strong because Q3 is normally their strongest quarter. Without Wing On and ezTravel our team delivered about 50% to 60% growth for package tours. For Guangzhou the Asian Sports Meeting definitely is a good event to further promote the concept of China, the concept of Guangzhou. However I think the impact is relatively minor compared to the World Expo. Just because it only lasts for two weeks.

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Operator

Your next question comes from the line of Wendy Huang, with Royal Bank of Scotland, please proceed.

Wendy Huang - *Royal Bank of Scotland - Analyst*

Apologies first that I actually have more than one question. First you mentioned a lot of factors to affect the inbound and outbound travel demand in the next few years. Does that mean that the Company has some strategic focus change on international travel?

Currently international travel accounted for just 10%, do you expect that to account for more than 30% in the long term. The second question is really to just help the modeling. Your tax rate declined this quarter due to the newly acquired entities. So which entity is that and do you expect this low tax rate to be recurring going forward?

Also can you update on your active state in Home Inns and China Lodging and how should we model that in the next few quarters FT income? Thank you.

Jane Sun - *Ctrip.com International - CFO*

So our CEO will address your first question and I will address the second and third questions.

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

Yes I think in the coming years both inbound and outbound travel business will be booming. As you probably know that recently the Central Government just released its 12th 5 Year plan and the travel business is one of the key industries to promote this 5 Year Plan.

I think for Ctrip we are working very hard to attract more and more inbound in connection with travellers. Ctrip's English website I think is the best foreign linked website to promote the Chinese travel business in China. We do see the volume and unique visitors and production from our English website is growing very fast in the past years.

Also we do see the trade is very encouraging in the coming years. As you know we have around 10% of the total bookings were generated from non-Chinese residents. I think in the coming years the percentage can be increased by way the total base is also increased. So I think it's very hard to project whether, or when we can reach 30% of the total bookings can be generated from the inbound tourist. But we do see the trend is there.

For the outbound travel business in China the home market is growing at around more than 2 digit's growth. So we do see in the coming five years this trend will still be there. As you know, recently we had actually quite good results in the leader travel business. So we think Ctrip it can be one of the major players in this leisure travel, outbound business.

Jane Sun - *Ctrip.com International - CFO*

Wendy, your question on the tax rate. Going forward for your model I think a tax rate of somewhere around 20% is sustainable. This quarter is a little bit lower just because one of our overseas entities had a one-time tax benefit. That's the main reason.

Secondly on equity income, we report 18% of Home Inns' net income as our equity income on a one quarter lag basis. So what we recorded this quarter reflected 18% of Home Inns' Q2 net income. They have not released Q3 earnings yet but once they do you can easily use their number plus our ownership and that will be our equity number.

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For Haning we have about 9% of the ownership, so with cost accounting which is only mark to market on the balance sheet without any P&L pickups.

Operator

Your next question comes from the line of Eddie Leung with BAS-ML, please proceed.

Eddie Leung - BAS-ML - Analyst

Good morning guys. Just a housekeeping question. Could you guys give us the industry price trends of tickets and hotels in the same quarter?

Jane Sun - Ctrip.com International - CFO

Sure, the price for hotels and air when we see it in our system is somewhere around a 5% to 10% increase.

Eddie Leung - BAS-ML - Analyst

Jane, do you expect the same trends in the near term, say in the fourth quarter?

Jane Sun - Ctrip.com International - CFO

Yes in our guidelines we forecasted the price will be somewhere around 5% to 10% which were offset by the commission rate drop by almost eh same rate. So on a per ticket or per room basis, the commission will stay stable on a year over year basis.

Operator

Your next question comes from the line of Eric Wen with Mirae Asset Securities, please proceed.

Eric Wen - Mirae Asset Securities - Analyst

Hi, good morning, Jane, James and Min.

Jane Sun - Ctrip.com International - CFO

Good morning.

Eric Wen - Mirae Asset Securities - Analyst

Good morning, I just have a very simple question. On Wing On I estimated it's contributing about RMB55 million revenue? Can you comment on the seasonality of Wing On going forward?

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Jane Sun - *Ctrip.com International - CFO*

Wing On, normally Q3 is their strongest quarter and when they move into winter the slow season starts and Q4 will slow and Q1 will be a little bit slower. When they move further into Spring, when the weather becomes warmer they will pick up the volume again.

Eric Wen - *Mirae Asset Securities - Analyst*

But Jane, if you can comment from peak to trough, typically what kind of difference do we see in Wing On's business?

Jane Sun - *Ctrip.com International - CFO*

Oh I think normally Wing On normalized revenue contribution to our overall pool should be somewhere around 5% to 6%.

Eric Wen - *Mirae Asset Securities - Analyst*

I see, thanks.

Jane Sun - *Ctrip.com International - CFO*

Sure, thank you.

Operator

Your next question comes from the line of Fawne Jiang with Brean Murray Carret & Co, please proceed.

Jane Sun - *Ctrip.com International - CFO*

Fawne, are you there?

Operator

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

Alex Yao - *Deutsche Bank - Analyst*

Hey good morning everyone and congratulations on a very strong quarter. I have few housekeeping questions. The first one is can you please comment on the business tax? It looks like business tax dropped as a percentage of total revenue. Is it because of the consolidation of Wing On. Second, can you comment about the trend going forward?

Second question is on the other income. Is it because of the Government subsidy in the third quarter and how do you expect the Government subsidy in the fourth quarter, thank you very much.



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Jane Sun - *Ctrip.com International - CFO*

Sure. First of all on business tax it really depends on which entity drives the volume. On average business tax should be somewhere around 5% to 7%. This quarter it was a little bit lower because Wing On has a lower tax rate. So the blended rate has decreased. Going forward, I think 5% to 7% is a sustainable range.

On the other income, this quarter we got government subsidies and we do not expect any more government subsidies for the rest of the year based on the current feasibility. Obviously we will do our best, but the timing of the government subsidy and also the amount of the government subsidy is not in our control, so pretty much we have probably collected everything for the year.

Operator

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

Ming Zhao - *SFG - Analyst*

Thank you very much for taking my questions. Two quick questions. The first one, Wing On acquisition, I think you already talked about the top line contribution. Could you give us some color about its margin and expense structure as compared with your own business? How does that look like?

The second question is, if you don't mind, could you give us some color about your cash flows for the quarter? What's your operating cash flow and your CapEx in the quarter?

Thank you.

Jane Sun - *Ctrip.com International - CFO*

Sure. Wing On, their scale is much smaller than Ctrip and therefore the margin is a little bit lower. The margin, depending on the seasonality, can be somewhere around 20% to 30% compared to the same level of the similar players their margin is very high, but compared to Ctrip their margin is a little lower than ours.

The cash flow for the quarter, from operating we have generated somewhere around RMB350 million cash. For investment the CapEx is about RMB20 million, RMB30 million but we also moved some cash to short term investment. So if you count that, that is about RMB250 million. Then in financing activities, that's minor, about RMB30 million income.

Operator

Your next question comes from the line of Muzhi Li from Mizuho Securities. Please proceed.

Muzhi Li - *Mizuho Securities - Analyst*

Hi, thank you for taking my questions and congratulations, a great quarter. Would you please give me some guidance about the future revenue contribution from Wing On and ezTravel? Do you see that the current 11% revenue contribution is sustainable in the future? Thank you very much.

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Jane Sun - *Ctrip.com International - CFO*

For the ongoing contribution from these two entities, I think the normalized revenue contribution should be somewhere around 5% to 6%. This quarter it is very high just because seasonally Q3 is the strongest quarter.

Operator

Another reminder, ladies and gentlemen, to ask a question please press star one on your touchtone telephone.

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

Jin Yu - *CICC - Analyst*

Thank you for taking my question. I really have two questions. One question is can you update us on some (inaudible) figures? I wanted to know what percentage of our online presence comes from wireless and if possible what percentage of online (inaudible) comes from wireless, so one is what is the percentage please between like (inaudible) and major users? That is my first question.

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

I think the percentage for online production from wireless is very small right now compared to production. We do see the gross rate for wireless and mobile phone production is increasing very quickly, but still we need some time to cultivate these parts of business. So right now we cannot give you a very concrete number on this.

For business (inaudible) and business in Malaysia right now still around 80% is generated from our business travel and around 20% generated from leisure travels. This is the big picture for our total segment.

Operator

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

James Mitchell - *Goldman Sachs - Analyst*

I had a couple of questions about air commissions. I think you mentioned in your guidance air ticket prices up 5% to 10% year on year in the fourth quarter and air ticket commission a little bit cancelling part of that out. First of all, do you expect air commissions to rebound in Q4 as air demand normalizes or do you think that some of the airlines have moved to structurally different air commission structures?

Then in the past and Q4 you've got some big yearend bonus commissions delivering certain volume levels. Is there any reason why you wouldn't receive those bonus commissions this year in Q4? Thank you.

Jane Sun - *Ctrip.com International - CFO*

Under air commission I think we have seen the air commission has been stabilizing and, for our team, our goal is to execute our operations as efficiently as possible which then can provide efficient distribution channel for our airline partners. How much commission airlines will pay is mainly a division by airlines, but what we will do is always work hard with the airlines to provide good value and good channel for them.

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So, so far we have seen the air commission represents about 5% to 10% decrease on the year over year basis and as long as we remain to be an efficient channel (inaudible) we believe it's stabilizing.

The pricing, you're right; on pricing it's about 5% to 10%.

Regarding the last part of your question, is there any structural changes besides what we have discussed, so far there is nothing else we haven't discussed. I think the market normally is a very market driven phenomenon. When the volume is very strong I think the travel agencies need less sales marketing campaigns to support the sales, but when the market is softening I think everybody in the sales channel will put lots of effort to promote the ticket.

From a structural perspective, so far I think it's very stable.

Operator

Your next question comes from the line of James Lee of CLSA. Please proceed.

James Lee - CLSA - Analyst

Thanks for taking my follow up question. Jane, can you help us understand maybe second quarter for air pricing was 4% better than expected and can you let us know why that was better than your original guidance?

Also, actually heading into next year, assuming the traffic pattern around the country starts to normalize without the high concentration in and out of Shanghai, how should we think about commission and air tickets, commission for air tickets and also for hotel from that trend? Thank you.

Jane Sun - Ctrip.com International - CFO

For the hotels we believe the commission rate is very stabilized, somewhere around 14% to 16% which gives us an average of about 15% is very sustainable.

On the air ticket, next year I think it will be more evenly spread out through all the major cities rather than with heavy concentration for Shanghai bounded airlines. So our team has been working very hard to make sure our fulfillment capacity can reach out to the whole country so that we can provide good services to our customers. Hopefully a more evenly distributed channel will promote overall growth in the air ticketing business.

James Lee - CLSA - Analyst

Can you also comment about Q2 air pricing being better than expected?

Jane Sun - Ctrip.com International - CFO

Air pricing is overall in the market about 10% to 15% increase in Q3 which is partially offset by the commission decrease. That's why we saw on each ticket we were making about 4% to more on a year over year basis.

I think price related to the strong demand in the market. The price was holding very strong in Q3.

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Operator

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

Candy Huang - - Analyst

Good morning. One quick question. The quarter on quarter growth for the air ticket and hotel. I think the (inaudible) will benefit from World Expo and the strong demand from the domestic market. It seems the quarter on quarter growth for the hotel is still, the growth rate is still much stronger than the air ticket. Can you give us the reason for the difference in the growth rate?

The second, for the World Expo can you give some color, how much % of the revenue comes from the World Expo in the third quarter? Thank you.

Jane Sun - Ctrip.com International - CFO

On the quarter on quarter basis, Q3 is the strongest quarter for travel industry. That is why you see a quarter over quarter strong growth as well. For hotel, I think the hotel probably people start to travel by all means, not only by airlines but also by driving, by short distance haul in the nearby cities, so that's why I think on a quarter over quarter basis hotel represents a little bit higher growth rate than the air.

World Expo, in general World Expo has been very successful and it promoted the concept of China, promoted Shanghai and also promoted Ctrip brand. However, from our perspective, it's very hard to quantify what exactly is the volume from World Expo just because when we make the booking we do not ask customers the purpose of their travel.

So we know in general the market was very strong partially due to World Expo but it's very hard to quantify it.

Operator

Your next question comes from the line of Dick Wei from JP Morgan. Please proceed.

Dick Wei - JPMorgan - Analyst

Hi, thanks for taking my question. I just have a question on sales marketing expenses; if you can give an update on your marketing strategy and how do you allocate a budget across different channels and any changes of your marketing initiative in light of so many more online competition that would be helpful. Thanks.

Min Fan - Ctrip.com International Ltd - CEO

For marketing we always focus on efficient marketing and co-operation channels among the industry. That's maybe for the past quarter results in terms of sales marketing. We do see we get very good production from our partner channels as well as our direct sales channels and we are (inaudible) to obtain long term [profitable growth in the way we try to cultivate a healthy environment and always focus on value for money rather than fight competition.

I think in the coming years we will still focus on the marketing efficiency and the service quality of our branding.

Operator

Your next question comes from the line of Sam [Long] with Oppenheimer. Please proceed.

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Sam Long - *Oppenheimer - Analyst*

Thanks for taking my call. Just a quick follow up on the Expo questions that were just asked before. I know it's hard to quantify in terms of the Expo impact on your revenue but if you look at Shanghai alone what was the difference in terms of revenue and demand on flights and hotels? Can you give some color on that? I'll follow up after that.

Jane Sun - *Ctrip.com International - CFO*

For Expo we did see people interested in travel to Shanghai more than the other travel destinations, so if we look at the volume Shanghai had a pickup. However, for the other regions, some other regions have a decline and so if you add all of them together we feel the impact is not extremely significant just because our coverage for the whole country is so big and if a family has the budget to have two trips a year, if they are coming to Shanghai they're probably not going to Xi'an or they're not going to (inaudible) so that's why from a volume perspective we feel it's very normal.

Now on the pricing though, because of the World Expo but also because of the strong economy, the pricing on the year over year basis represents about 10% to 15%. But again that's very hard to segregate to say 2% of that is due to Expo and 2% of that is due to economy.

Overall we felt the Expo coupled with the strong economy gave us a very strong foundation for the growth.

Sam Long - *Oppenheimer - Analyst*

That was really helpful. When you say 10% to 15% are you talking about overall pricing, is that about hotels in general or airlines or everything?

Jane Sun - *Ctrip.com International - CFO*

Well 10% to 15%, both.

Sam Long - *Oppenheimer - Analyst*

Okay, and do you expect that, my follow up question is, after the Expo now do you expect a drop in pricing with that?

Jane Sun - *Ctrip.com International - CFO*

Drop in pricing? It's still too early to tell because in October the prices didn't change because we were still in the World Expo. In November, November 3, it's a little bit too early to see but we will carefully monitor the price going forward.

Operator

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

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Aaron Kessler - *ThinkEquity - Analyst*

Thanks, and good quarter. Couple of questions. First, given you've had a few quarters with operating margins in the mid-40s, how do you think about the long term operating margin now? I think historically we've had in the low 40 range. Any update? Are you seeing any increase in outbound travel, besides the acquisition of Wing On?

Jane Sun - *Ctrip.com International - CFO*

I think the margin for Q3 is 45% which is very high. In the long run we will work hard to improve efficiency so we believe operating margin of 40% to 42% is very much sustainable.

For outbound business, I think Wing On has been a very good acquisition for us because our two teams have been working closely to leverage each other to increase our expertise in outbound business.

For other pockets, I think we are always open to review all the opportunities but we have to be very disciplined and prudent when we execute and make strategies.

Aaron Kessler - *ThinkEquity - Analyst*

Thank you.

Operator

Your next question comes from the line of Fawne Jiang with Brean Murray. Please proceed.

Fawne Jiang - *Brean Murray - Analyst*

Thank you. Good morning. Just one quick question - just one quick follow-up question on the Wing On acquisition. You mentioned that Wing On and ez collectively contribute 11% of your top line growth. Is it possible to break down individual business growth?

Jane Sun - *Ctrip.com International - CFO*

Yes, the reason we put them out combined is because the - we would like to show our investors what is our core business growth rate versus the acquired business. The 11% is the total contribution from both entities. For Wing On it's a pure increase, because last year it was not in a base. For ezTravel they were already in our bases. Their growth rate probably is somewhere around 25% year-over-year.

Fawne Jiang - *Brean Murray - Analyst*

Got it. Thank you.

Operator

Your next question comes from the line Wendy Huang with Royal Bank of Scotland. Please proceed.

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Wendy Huang - Royal Bank of Scotland - Analyst

Thanks for talking my follow-up questions. Trying to get more color on the margins of packaged tour. So at the gross margin level I remember you mentioned before that long-term gross margin of packaged tour should be somewhere between the air ticketing and hotel booking, so given that this quarter packaged tour already accounted for 15% of revenue, so do you think you already reached that kind of long-term gross margin level for packaged tour and - or how far we are away from that gross margin level?

Also, turning to the net margin level, is packaged tour actually earnings accretive at the moment, and if not where is the discrepancy that your packaged tour business versus the traditional travel agencies and why there is such a difference. Thank you.

Jane Sun - Ctrip.com International - CFO

So, Wendy your understanding is correct. For our packaged tour it's a hotel plus air combination, so the gross margin should be in the range of 70% to 80%. Right now we are already very close to that range because of the fast growth, giving the fast growth rate in packaged tour I think in the next one to three years we will increase margin to the scalability.

In terms of the comparison, our margin versus traditional tour package, I think our margin is a little higher. First of all the packaged market we have is high-end leisure travellers instead of everybody, so not right, the budget travellers is not our packaged market. So that is the pre-condition for a very healthy margin.

Secondly is our scalability of our platform. Because we have such a big scale, the margin we can achieve is healthy compared to the others.

Operator

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

Alex Yao - Deutsche Bank - Analyst

Hi, good morning guys. Just one last follow-up question. Can you guys talk about the head count for end of third quarter and give us a break down of the head count? Thank you.

Jane Sun - Ctrip.com International - CFO

Sure, the head counting is somewhere around 12,000 employees, and half of them are call center employees and the others are allocated based on the business needs in each product development team, sales marketing team and administrative staff.

Alex Yao - Deutsche Bank - Analyst

Okay thank you.

Jane Sun - Ctrip.com International - CFO

Sure. Thanks.

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Operator

Your final question comes from the line of Eric Wen with Mirae Asset Securities. Please proceed.

Eric Wen - *Mirae Asset Securities - Analyst*

Thanks very much for taking my last question. Jane could you just quickly comment on corporate travel, what is the gross margin compared to your other line of business?

Jane Sun - *Ctrip.com International - CFO*

For the business line I think corporate travel is very close to air ticketing business because the majority of the volume are coming from the air ticketing business, so gross margin anywhere between 65% to 70% is achievable.

Eric Wen - *Mirae Asset Securities - Analyst*

Okay. Thank you.

Jane Sun - *Ctrip.com International - CFO*

Thanks.

Operator

That concludes the question and answer session. I now would like to turn the call back to June Zhu for closing remarks. Please proceed.

June Zhu - *Ctrip.com International Ltd - IR*

Thanks everyone for joining us on the call today. A replay of the call will be available as usual on IR website shortly after call is completed.

We appreciate your interest in Ctrip and look forward to convening with you again next quarter.

Jane Sun - *Ctrip.com International - CFO*

Thank you very much.

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

Thank you.

Operator

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

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