

# FINAL TRANSCRIPT

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**CTRP - Q4 2010 Ctrip.com International, Ltd. Earnings Conference Call**

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Feb. 14, 2011 / 1:00AM, CTRP - Q4 2010 Ctrip.com International, Ltd. Earnings Conference Call

## CORPORATE PARTICIPANTS

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## PRESENTATION

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**Operator**

Good day, ladies and gentlemen, and welcome to the Q4 2010 Ctrip.com International Limited Earnings Conference Call. (Operator Instructions).

I would now like to turn the conference over to your host for today, Ms June Zhu, Senior IR Manager for Ctrip. Please proceed.

**June Zhu - Ctrip.com International Limited - Senior IR Manager**

Hello, everyone. Thank you for attending Ctrip's fourth quarter and full year 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 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 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 statement, except as required under applicable law.

Min, James and Jane will provide a business update, industry outlook and financial highlights for the fourth quarter and full year 2010 as well as the outlook for the first quarter 2011. 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 Limited - Co-founder & CEO**

Thanks, June, and thank you to everyone for joining us today on the call. We are glad to report that our team once again delivered strong results in the fourth quarter of 2010. Our net revenues grew 39% year-over-year and net income grew 59% year-over-year. For the full year of 2010, our net revenues grew 45% year-over-year and net income grew 59% year-over-year.

During the fourth quarter, with the successful end of the Shanghai World Expo, the travel industry began returning to normal. The Ctrip team was able to outperform the competition and gain an even greater market share. Our hotel supply network achieved rapid expansion to satisfy the growing needs of our customers, with 17,000 hotels now compared to 9800 hotels by the end of 2009. A number of our hotels with guaranteed allotment rooms further increased and accounted for more than 75% of the total hotel supply. Our [licensed] system connections with more hotels further enhanced customer experience and satisfaction.

Our air ticketing volume maintained robust growth despite the high comparison base, which is a clear indication that our incomparable service capacity and quality are key drivers of our significant market share gains. The Ctrip team will keep working hard to add more value to our airline partners and our customers and help them to achieve their goals.

Boosted by increased household income and a stronger consumer confidence, tour package revenues increased by 108% in the fourth quarter despite the post-Expo slowdown. Our leisure travel products provide more variety and coverage within China and around the world to satisfy fast growing demand.

Wing On travel was once again awarded the honor of best travel agency in Hong Kong for 2010. The fifth consecutive year the Company has earned this great honor dating back to 2006. Corporate travel continued to gain variable corporate clients, and joined to our high quality and reliable services that helped them meet all their business travel needs.



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Our new CTMS system enables our clients more control, greater efficiency and bigger savings on travel expenses. In 2010 to drive increases in online customer search and bookings our IT team updated our website by enhancing its functionality and usability. Our efforts were rewarded with excellent results as statistics generated by Alexa and Google Double Click Ad Planner provide clearly an authoritative proof that we have the most visited travel website in China, far ahead of our closest competitors.

In other test developments Ctrip has extended leadership in the realm of 3G wireless technology with the creation of our wireless mobile booking platform. Three user friendly kind of versions for iPhone, Enjoy and Symbian operating systems together with our Web, mobile website now make it more convenient to make hotel room and air ticket reservations on line via mobile devices and booking volume is increasing rapidly.

In China, wide travel service procurement often cannot be done purely online; Ctrip is China's biggest nationwide service procurement team boasts the strongest execution capabilities and seeks to constantly improve using effective account quality control mechanisms including Six Sigma methodologies.

The combination of website and call center service is preferred by the greater majority of travelers. Ctrip's website excels at presenting information clearly, our call center offering travelers, convenience, flexibility, availability and reliability. Travel with Ctrip means travel with peace of mind and quality assurance.

Fully committed to improving service we are transforming our call center into a customer contact center that can provide even more comprehensive services to Ctrip members including trip planning, integrated booking and a menu of services available during and after travelling.

Our sales and marketing teams did a great job in the fourth quarter and throughout the year to elevate Ctrip's brand name and to introduce even more customers to our outstanding services. As a result we have seen robust growth in the number of our cumulative customers from 8.9 million by the end of the year 2009 to 11.9 million.

Additionally Ctrip's website is not only a platform for booking but also contains China's best hotels reviews, travel guides and travel blogs posted by our members. In order to provide more comprehensive travel related information, including hotel reviews, travel blogs and forums for travelers Ctrip has consolidated these services into a new website, Lvping.com.

Lvping.com is dedicated to enabling and providing also authentic assorted travel reviews from real travelers by inheriting these features from Ctrip.com and expanding their coverage and enhancing user experiences.

Lvping.com will operate independently and partner with other OTAs, hotels, airlines, traditional travel agencies, tourist consumption companies and other travel industry service providers. It will be one of Ctrip's major strategic initiatives for the years to come.

Ctrip invested in Dining Secretary China Ltd in the fourth quarter of 2010. Dining Secretary is a leading player in restaurant reservation services and operates in many cities across China. Customers can make restaurant reservations through the call center or online platform.

Through this strategic alliance with Dining Secretary, Ctrip will offer more and better Ad services to our customers and improve efficiency and service levels with our business partners. As one of many recognitions of the ongoing Ctrip team effort, Focus Asia, once again, named Ctrip as one of Asia's most promising and medium and small companies.

A few days after the wrap up of the Shanghai World Expo, Disney announced its official launch of the Shanghai Disney project. This will significantly increase Shanghai's spending as a long term leisure travel destination in addition to being a premier business center. This Disney project will also boost the economic growth in Shanghai and Eastern China.



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Headquartered in Shanghai, Ctrip is in an optimal position to seize this opportunity to provide new products and services while gaining new customers and growing our business. At Ctrip we believe that our expertise, diligence, discipline and focused approach to our core business will lead to continuous growth, new business opportunities and ongoing success.

Now we turn to James for the industry outlook.

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**James Liang** - *Ctrip.com International Limited - Co-founder & Chairman of the Board*

Thanks, Min. The Government has been gradually laying out the details of the 12th Five-Year Plan for China including a projected increase in tourism's percentage contribution to GDP. Such an increase would usher in a golden age for the travel industry and maintain growth momentum across the travel service sector.

The 12th Five Year Plan also includes many favorable policies for infrastructure development. China possesses a great amount of natural travel and regional resources that are currently not very accessible due to underdeveloped infrastructure, especially in Western China. Once this situation has improved, it will benefit travelers and travel service providers alike.

Ctrip succeeds because of its dedicated and experienced team of travel industry veterans and its focused business development plan. We are confident that we will be able to capitalize on even more opportunities moving forward and generate even better returns on your investments.

Now I will turn to Jane for the financial updates.

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

Thanks, James. I am very pleased to report solid results for the fourth quarter and for the full year of 2010. For the fourth quarter of 2010 net revenues were RMB787 million or \$119 million, representing a 39% from the same period in 2009. Net revenues for the fourth quarter of 2010 decreased by 3% from the previous quarter due to seasonality.

In the fourth quarter, Wing On Travel and ezTravel contributed 8% for the year on year growth for net revenues. For the full year ended 31 December 2010 net revenues were RMB2.9 billion or \$437 million representing a 45% increase from 2009. In 2010 Wing On Travel and ezTravel contributed 7% for the year on year for net revenues.

For general reservations revenues amounted to RMB 360 million or \$55 million for the fourth quarter of 2010 representing a 31% increase year on year primarily driven by an increase of 27% in hotel reservation volumes and an increase of 4% commission per room night year on year.

Hotel reservation revenues increased 3% quarter-on-quarter. For the full year ended 31 December, 2010, hotel reservation revenues were RMB1.3 billion or \$194 million, representing a 36% increase from 2009. The hotel reservation revenues accounted for 42% of total revenue in 2010 compared to 44% in 2009.

Air ticket booking revenues for the fourth quarter of 2010 were RMB320 million or \$48 million, representing a 35% increase year-on-year, primarily driven by a 29% increase in air ticketing sales volume and a 5% increase in commission per ticket year-on-year. Air ticketing booking revenues increased 1% quarter-on-quarter.

For the full year ended 31 December 2010, air ticket booking revenues were RMB1.2 billion or \$183 million, representing a 39% increase from 2009. The air ticket booking revenues accounted for 39% of the total revenues in 2010, compared to 41% in 2009.



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Packaged-tour revenues for the fourth quarter of 2010 were RMB101 million or \$15 million, representing a 108% increase year-on-year due to the increase of leisure travel volume. Wing On Travel and ezTravel contributed 84% for the year-on-year growth for packaged-tour revenues. Packaged-tour revenues decreased 29% quarter-on-quarter due to seasonality.

For the full year ended 31 December, 2010, packaged tour revenues were RMB380 million or \$58 million, representing a 116% increase from 2009. Wing On Travel and ezTravel contributed 67% for the year-on-year growth for packaged-tour revenues. The packaged tour revenues accounted for 12% of the total revenues in 2010, compared to 8% in 2009.

Corporate travel revenues for the fourth quarter of 2010 were RMB36 million or \$5 million, representing a 34% increase year-on-year and a 5% increase quarter-on-quarter, primarily driven by the increased corporate travel demand from business activities.

For the full year ended 31 December, 2010, corporate travel revenues were RMB130 million or \$20 million, representing a 56% increase from 2009. The corporate travel revenues accounted for 4% of the total revenues in 2010, remaining consistent with that in 2009.

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

For the full year ended 31 December, 2010, gross margin was 78% compared to 77% in 2009.

Product development expenses for the fourth quarter of 2010 increased by 37% to RMB121 million or \$18 million from the same period in 2009, primarily due to an increase in product development personnel and share-based to compensation charges.

Product development expenses for the fourth quarter of 2010 decreased by 2% from the previous quarter. Excluding share-based compensation charges, product development expenses accounted for 13% of the net revenues, remaining consistent with those in the same period in 2009 and in previous quarters.

For the full year ended, 31 December 2010, product development expenses were RMB454 million or \$69 million, representing an increase of 47% from 2009. Excluding share-based compensation charges, product development expenses accounted for 14% of the net revenues, remaining consistent with those in 2009.

Sales and marketing expenses for the fourth quarter of 2010 increased by 30% to RMB127 million or \$19 million from the same period in 2009, primarily due to the increase in sales and marketing related activities.

Sales and marketing expenses for the fourth quarter of 2010 increased by 1% from the previous quarter. Excluding share-based compensation charges, sales and marketing expenses accounted for 15% of net revenues, compared to 16% in the same period in 2009 and 14% in the previous quarter.

For the full year ended 31 December 2010, sales and marketing expenses were RMB453 million or \$69 million, representing an increase of 31% from 2009. Excluding share-based compensation charges, sales and marketing expenses accounted for 15% of net revenues, decreasing from 16% in 2009.

General and administrative expenses for the fourth quarter of 2010 increased by 25% to RMB78 million or \$12 million from the same period in 2009, primarily due to the increase of general and administrative personnel and share-based compensation charges.

General and administrative expenses in the fourth quarter of 2010 decreased by 2% from the previous quarter. Excluding share-based compensation charges, general and administrative expenses accounted for 5% of net revenues, decreased from 6% in the same period in 2009 and remained consistent with those in the previous quarter.



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For the full year ended 31 December, 2010, general and administrative expenses were RMB295 million or \$45 million, representing a 50% increase from 2009. Excluding share-based compensation charges, general and administrative expenses accounted for 5% of the net revenues, decreasing from 6% in 2009.

Income from operations for the fourth quarter of 2010 was RMB292 million or \$44 million, representing an increase of 54% from the previous period in 2009 and a decrease of 5% from the previous quarter. Excluding share-based compensation charges, income from operations was RMB352 million or \$53 million, representing an increase of 47% from the same period in 2009 and a decrease of 4% from the previous quarter.

For the full year ended 31 December 2010, income from operations was RMB1.1 billion or \$160 million, representing an increase of 53% from 2009. Excluding share-based compensation charges, income from operations was RMB1.3 billion or \$196 million, increasing by 59% from 2009.

Operating margin was 37% in the fourth quarter of 2010, compared to 33% in the same period in 2009 and 38% in the previous quarter. Excluding share-based compensation charges, operating margin was 45% compared to 42% in the same period in 2009 and remained consistent with that in the previous quarter.

For the full year ended 31 December 2010, operating margin was 37%, compared to 35% in 2009. Excluding share-based compensation charges, operating margin was 45%, compared to 41% in 2009.

The effective tax rate for the fourth quarter and full year of 2010 was 19% and 17%, respectively, remaining relatively consistent with the same periods of 2009. The effective tax rate for the fourth quarter of 2010 increased from 17% in the previous quarter, primarily due to true-up of profitability.

Net income attributable to Ctrip's shareholders for the fourth quarter of 2010 was RMB302 million or \$46 million, representing a 59% increase from the same period in 2009 and a 6% decrease from the previous quarter. Excluding share-based compensation charges net income attributable to Ctrip's shareholders was RMB362 million or \$55 million, representing an increase of 51% from the same period in 2009 and a decrease of 5% from the previous quarter.

For the full year ended 31 December 2010, net income attributable to Ctrip's shareholders was RMB1.0 billion or \$159, representing an increase of 59% from 2009. Excluding share-based compensation charges, net income attributable to Ctrip's shareholders was RMB1.3 billion or \$196 million, representing an increase of 63% from 2009.

Diluted earnings per ADS were RMB1.98 or \$0.30 for the fourth quarter of 2010. Excluding share-based compensation charges, diluted earnings per ADS were RMB2.37 or \$0.36 for the fourth quarter of 2010.

For the full year ended 31 December 2010, diluted earnings per ADS were RMB6.97 or \$1.06, compared to RMB4.67 or \$0.68 in 2009. Excluding share-based compensation charges, diluted earnings per ADS were RMB8.59 or \$1.30, compared to RMB5.60 or \$0.82 in 2009.

As of 31 December 2010 the balance of cash, restricted cash and short-term investment was RMB3.6 billion or \$539 million.

For the first quarter of 2011, the Company expects to continue the net revenue growth year-on-year at a rate of approximately 20%. This forecast reflects Ctrip's current and preliminary view, which is subject to change.

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



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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Our first question comes from the line of Richard Ji, with Morgan Stanley. Please proceed.

### Richard Ji - Morgan Stanley - Analyst

Hi, Min, James, Jane and June, and Happy Chinese New Year to you and also congratulations on a very strong quarter.

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

Thank you.

### Min Fan - Ctrip.com International Limited - Co-founder & CEO

Thank you.

### Richard Ji - Morgan Stanley - Analyst

Sure. I have two questions. Let me start with the first one. Obviously, we are seeing an uptrend for your air tickets as well as the hotel booking commissions. Can you help us with the outlook for the commission trend going forward? In particular, have you - what is your latest feedback from your airline partner regarding the commission arrangements?

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

Sure. Regarding the current commission arrangement with the airline partners, we have been seeing that the [air commission rate] has been stabilizing.

### Richard Ji - Morgan Stanley - Analyst

Going forward, what is your thought for the commission rate going forward?

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

Sure. Going forward into Q1 2011, our commission rate schedule remains very consistent from Q4 2010.

### Richard Ji - Morgan Stanley - Analyst

Thank you. Secondly, regarding your 1Q 2011 outlook, obviously you have delivered a very robust quarterly performance in 4Q 2010 and yet for next quarter you are conservatively guiding for only 20% year on year growth. Can you help us understand that a little better, whether that is due to the base you set last year, or are we still seeing some lingering impact from the World Expo?

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

Sure. Richard, I think you're right. The base for Q1 2010 was pretty high. That's why the guidance is very conservative. Also, the visibility for Q1 2010 is still limited. That's another reason why we want to be prudent when we provide our guidance.

Additionally, there are several unexpected, uncontrollable events that are going on, such as what's going on in Egypt, in Australia and also in Thailand and Cambodia and in Korea. All these things individually might not be material to our business, but if you aggregate them together it might impact consumers' sentiment. Therefore, we want to be prudent when we give our guidance for the Q1 of 2011.

**Richard Ji** - *Morgan Stanley - Analyst*

Okay, understood. Thank you.

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

Sure, thank you.

**Operator**

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

**Mike Olson** - *Piper Jaffray - Analyst*

Thanks, good morning.

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

Good morning.

**Min Fan** - *Ctrip.com International Limited - Co-founder & CEO*

Good morning.

**Mike Olson** - *Piper Jaffray - Analyst*

I just had a couple of quick questions. So just dig in a little more on Q1, what are the guidance assumptions for air and hotel volume and pricing that are built into the guidance?

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

I think if we take the volume and also commission rate versus pricing, our assumption is on the per ticket and a per room basis, commission remains very consistent on a year over year basis. So the driving force for our revenue growth is mainly coming from the volume growth.

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So included in our 20% year over year growth, we assume hotel reservation is somewhere around 10%, air ticketing 15%, package tours around 70% and corporate travel 15%. So if you add them all together, the aggregated revenue growth is about 20% on a year over year basis.

**Mike Olson** - Piper Jaffray - Analyst

Okay, got you. Then over time, I guess, just given the changing or maybe the uncertainty around air commission rates - and I know you said they have stabilized but they are probably less certain than some of the other areas of your business. Then also the improvements in rail travel, do you anticipate that you'll have to de-emphasize the amount of revenue that's coming from air over time?

In other words will you focus on growing hotel and packages more than air over the next several years?

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

I think our revenue is very diversified. Right now we have four major lines of business -- hotel, air, package tour and corporate travel. All of them are growing at a healthy pace. As always, our team puts lots of effort in developing new products. So hopefully we will have more diversified revenue which will support our ongoing business.

**Mike Olson** - Piper Jaffray - Analyst

All right, thanks very much.

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

Sure, thanks.

**Operator**

(Operator Instructions). Our next question comes from the line of Chenyi Lu with Cowen and Company. Please proceed.

**Chenyi Lu** - Cowen and Company - Analyst

Thank you. I have two questions. The first question I have regarding your gross margin trend. This quarter again the gross margin is really strong. Can you give us a breakdown by the segment for each of your products and the gross margin?

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

Sure. Gross margin for Q4 was very strong and for each product line it remains very consistent. For hotels the range is somewhere around 85% to 90%. For air tickets it is a little lower, 55% to 70%, and for package tours it is in between because it is a combination of hotels plus air, so it is about 70% to 80%. Corporate travel is similar to air ticketing's growth margins.

**Chenyi Lu** - Cowen and Company - Analyst

Okay, great. Then, so given that this year the gross margin has been trending up, from the first quarter 2010 to the December quarter, can you give us a view of your gross margin going to 2011? Thank you.

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

Sure. For 2011, conservatively gross margin can be stabilized somewhere between 75% to 76% and operating margin can be stabilized somewhere around 40%.

**Chenyi Lu** - *Cowen and Company - Analyst*

Okay, great, thank you. That's all my questions.

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

Thanks.

**Operator**

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

**Aaron Kessler** - *ThinkEquity - Analyst*

Yes, hi, good morning, a couple of questions. First, can you give us a sense for the linearity throughout Q4? I mean it sounds like November was fairly weak, December came back, and just maybe a sense for what you've seen so far in January? Also, any update on the online mix of business as well as mobile? I believe you started mobile in the last quarter or two? Thank you.

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

Yes, November was very slow just because World Expo ended in October and people went back to work and kids went back to school. In November it came back a little bit. In January this year the Chinese New Year was a little bit earlier than last year, so from the year over year comparison perspective the comparability is not very consistent.

That is why we also want to be very prudent when we keep up our efforts in monitoring the development for the quarter.

**Aaron Kessler** - *ThinkEquity - Analyst*

Great, and also the - in terms of the online mix and mobile?

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

Sure. Online overall is 40% plus of the transactions being conducted on the online format. Mobile is being developed very quickly. Our three major platforms are getting lots of momentum. However, it is very small; percentage-wise it is very minor to our business right now.

**Aaron Kessler** - *ThinkEquity - Analyst*

Great. And just any insights into the tax rate for 2011 and other income line was much higher than expected. And (inaudible) tax revision in Q4, if you can just give us a little color there. Thank you.

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

Sure. For 2011 - in the past three years we have been granted for high technology status. In 2011 the tax authority will renew - review our application for the renewal of the high technology status and the final decision will not be made until the later part of the year.

So for Q1, for your modeling purposes, we believe consistent tax rate of 19% to 21% is a reasonable estimate based on our best visibility right now.

**Aaron Kessler** - *ThinkEquity - Analyst*

Okay (inaudible) any effect into that other income line?

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

For Q1 we do not expect any subsidiaries for Q1. Going forward, when we're moving to Q2, we will provide more precise guidance.

**Aaron Kessler** - *ThinkEquity - Analyst*

Great. Thank you.

**Operator**

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

**Alex Yao** - *Deutsche Bank - Analyst*

Good morning, everyone, and congratulations on a very strong quarter. My first question is regarding the investment in Dining Secretary. Can you help us to understand a bit more on the rationale behind investment and also where do you see the synergy comes from and how would you integrate this business into the existing one? Thank you.

**Min Fan** - *Ctrip.com International Limited - Co-founder & CEO*

Yes, Dining Secretary is the largest restaurant reservation business in Shanghai and also in China, and Ctrip values Dining Secretary's brand name and expertise in this segment.

As you know, Ctrip has a nationwide and fast growing loyal customer base. Through this alliance, Ctrip and Dining Secretary can leverage the strengths of each other to expand geographically and to pool and to provide more comprehensive service to our customers.

So I think for the invest for Dining Secretary, this will enrich our service providing and also to enhance our customer loyalty.

**Alex Yao** - *Deutsche Bank - Analyst*

Got it. What would be the accounting treatment for this deal? Is it going to be treated as aggregate investment?

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

Yes, the investment is capitalized on our balance sheet. Any gains or losses based on the evaluation will be recorded in the other comprehensive income, so only balance sheet items is going to be impacted.

**Alex Yao** - *Deutsche Bank - Analyst*

Got it. My second question is regarding the Lvping.com. Can you talk about what's the rationale for spin-off this website and what would be the monetization plan of this one? Thank you.

**Min Fan** - *Ctrip.com International Limited - Co-founder & CEO*

For Lvping.com it is, generally speaking it's similar to TripAdvisor which is a website dedicated to help travelers to find valuable information about hotel destination and attraction reviews and notes so that it will be more credible, can be the most credible trip advisor for customers.

Lvping.com is a part of Ctrip's strategic plan for the next several years. We will continue to increase our future offerings to help users to get travel information more quickly and accurately and to become the most reliable platform for experience sharing and travel information search. Lvping.com will also run independently and not only cooperate with Ctrip but also will work together with the other OTAs and other travel industry players.

**Alex Yao** - *Deutsche Bank - Analyst*

Got it. Thank you very much.

**Operator**

Our next question comes from the line of Ms Alicia Yap with Citigroup. Please proceed.

**Alicia Yap** - *Citigroup - Analyst*

Hi, good morning, thanks for taking my questions. My first question is regarding the (inaudible) outlook. I know it's a little bit early, but just can you share with us the growth expectations for the hotel, air ticketing and also the package tour?

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

I think, based on our guidance, we expect for Q1 the revenue will grow about 20% and we want to maintain a very conservative attitude when we provide our guidance, just because we are moving into the New Year and the visibility is very limited. So, as we discussed, included in the 20% guidance, hotel is about 10% growth and air ticketing 15%, package tour 70% and corporate travel 15%.

**Alicia Yap** - *Citigroup - Analyst*

Just to follow up on the pricing, does that mean that the hotel and the ticket pricing will be flat year-over-year?

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

Yes. In our assumption we assume on each room and on each ticket commission per room and commission per ticket remains very consistent, so the main driving force will be volume increase.

**Alicia Yap** - Citigroup - Analyst

Understood. Just quickly, the second question is, we understand that NetEase recently launched a travel channel. How do you see that and any potential threat from the competitive front? Thank you.

**Min Fan** - Ctrip.com International Limited - Co-founder & CEO

I think for this travel community channel we (inaudible) separate and independent websites (inaudible - technical difficulty) and for other [big] travel, big portals, and when they provide a service, especially provide travel industry services, and it's more like a supermarket (inaudible) with more (inaudible) professional travel providers. So I think the business model is quite different. So for customers who will be more interested in the service quality and for one-stop solution, they still will view Ctrip as the best travel website for their demand.

**Alicia Yap** - Citigroup - Analyst

I see. I understand. Can I just quickly ask about the latest Chinese New Year traveling trend? Compared to last year, for example, for Wing On and all your package tours, have you seen the volume increase in line with your expectations?

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

Yes, [Alicia], this year it's very difficult to compare on the calendar year just because this year the Chinese New Year is a little bit earlier - 10 days earlier than last year - so we have to wait for another month or two in order to get a comprehensive number to give you uniform guidance, because if you simply pull out certain dates it's not really comparing apples to apples.

**Alicia Yap** - Citigroup - Analyst

Okay. Thank you so much.

**Operator**

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

**Yu Jin** - CICC - Analyst

Good morning and thank you for taking my questions. I remember doing a media interview and you said Ctrip will become a more service oriented company in the future from current agency model. So my question is -- can the management elaborate what kind of strategic approach we will take to achieve that objective to become a more service oriented company, and what kind of financial impact from that strategy? Does that mean we can expect more stronger growth from package tours and corporate management than just a pure booking business?

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

Jin, I think your question was cut off during the call a little bit, but if we understand you correctly you would like to know if Ctrip is going to be a more service provider.

**Yu Jin** - *CICC - Analyst*

Yes.

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

Yes, I think it's--

**Yu Jin** - *CICC - Analyst*

I read (inaudible) Ctrip will become a more service oriented company. So my question is, what kind of strategic approach we can expect that the Company will take to achieve that objective? It seems that a kind of model transition or model expansion to more service areas.

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

You mean more service oriented?

**Yu Jin** - *CICC - Analyst*

Yes. Actually I'm not sure. Yes, I didn't get exactly from the newspaper, but I got the title that means that our company will become a more service oriented company. So I want to - whether the management can elaborate on that strategy and what kind of strategic approach we will take to achieve that strategy.

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

Okay.

**Min Fan** - *Ctrip.com International Limited - Co-founder & CEO*

Yes, we internally launched a perfecting service campaign to make fine service providing for customers. This perfecting service campaign mainly will be achieved by our - as you probably are aware - Six Sigma method, project management, and through more defined service streamlining and also what we call more streamlined, more targeted customer service providing.

So we hope through those methods we can provide better service for our customers and also we can differentiate Ctrip from other travel service providers. So I guess this probably you can see from the - you can read from the public newspapers.

**Yu Jin** - *CICC - Analyst*

Sorry, I think I didn't get my, how do you say, my question clearly. Can I ask the question in Chinese?

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

Sure. Please.

**Yu Jin** - CICC - Analyst

(spoken in Chinese)

**Min Fan** - Ctrip.com International Limited - Co-founder & CEO

Okay. In fact what we think about is we need to provide more comprehensive service to our customers and also we need to provide more one-stop solution service to our customers. A more comprehensive service means that, for example, we are not only just a hotel booking or air ticketing company; we will provide more leisure products which are more defined, developed and also sometimes we will make them more personalized for our customers to enlarge our service providing.

Also, in the meantime, we will provide related travel services including, as we just talked about, the Lvping.com we will [enlarge] our information providing, and also, like we just talked about, the Dining Secretary. Our customers when they travel around probably they will need more, they will have the need to book restaurants for their either business purpose of their leisure purpose. Through Ctrip website they can also get this one-stop solution, one-stop services. So what we think about is we will provide a more comprehensive service and one-stop service for our targeted customers.

**Yu Jin** - CICC - Analyst

Okay. I have fully understood. Thank you.

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

Jin, I think you have the second part of your question. Do you mind repeating it?

**Yu Jin** - CICC - Analyst

Actually it's another question that I want to make sure that 20% year-on-year growth for the first quarter, does that include a contribution from Wing On or not? I remember that Wing On is not consolidated in the last year in the [fourth] quarter.

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

Yes, all the guidance we have given is on a consolidated level, so all the numbers include Wing On.

**Yu Jin** - CICC - Analyst

So you have consolidated but it's not (inaudible) basis?

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

Correct. Wing On probably will represent somewhere around 5% of our total revenue.

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**Yu Jin** - CICC - Analyst

Okay. I understand. Thank you.

**Operator**

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

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

Good morning, guys. I have two questions. The first one is on the industry ASP of tickets and room nights in the fourth quarter. I'm wondering Jane if you can give us the ASP trends in the fourth quarter on a year-over-year basis?

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

Sure. I think in our guidance, based on our best visibility, we assume that for each ticket and for each room it's remaining very consistent. So ASP is very consistent on the year-over-year basis.

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

Got that. Then the second question is on the number of staff. Could you give us the total staff number in the fourth quarter? Especially importantly for 2011, what's your plans on the staff force as well as on salary, given inflationary pressure in China?

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

I think as of year-end we have approximately 12,000 employees in our total employee pool. As many of you probably have read in the news, the labor pressure is impacting all the business and Ctrip is included as well. However, we will work very hard to do a couple of things. First of all, we will make sure we continuously improve our efficiency; and secondly, we also want to make sure we give very good career paths to our employees so they can grow with our company.

But nevertheless I think every company in China is monitoring the labor pressure and salary pressure for all companies. So there is pressure, but we will do our best to manage it.

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

Jane, just one follow up - should we (inaudible) expect the staff force to increase in a normal rate? Basically there has not been any freeze of head count at the moment, right?

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

Yes, normally when we plan our business we're very careful and prudent. We [make sure] that our cost is in line with our top line growth. So yes, it's a planned growth, but no freeze.

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

Got that. Thank you.

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**Operator**

Our next question is coming from the line of Eric Wen with Mirae Assets. Please proceed.

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**Eric Wen - Mirae Assets - Analyst**

Hi. Good morning. Thanks for taking my questions. Jane, I just want to get a sense also on the guidance. On the first quarter I understand a few of the competitors have launched group travel deals. Do you see that it has impact on your first quarter outlook?

Secondly, the first quarter, do you think it reflects mostly the industry trend on volume or rather competitive pressure on the volume? Could you comment on that? Thanks very much.

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

First of all, on the Group buy, we are monitoring the developments very carefully. However, Ctrip's model in a way is a group buyer already. For travel packages I think it's already - we group all the customers from different destinations; that's how we form different tour groups for the business.

The other business, it's very time sensitive, so in terms of coordinating timing it takes a lot of effort. But yes, our business model in a way is already a group buy already.

Secondly, I think in the other countries what we have seen is group buy will do very well in the area that is not time sensitive. So commodities products, it's easy to do a group buy, but for traveling, sometimes it's difficult to do that. So yes, our guidance takes into consideration all the new business developments in the industry, so that reflects everything.

Secondly, in terms of competitive landscape, we monitor all the new players, but so far we haven't seen a major impact on our business. The guidance reflects our visibility for the industry and also reflects our prudence in providing the guidance.

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**Eric Wen - Mirae Assets - Analyst**

Thank you very much.

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**Operator**

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

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**James Mitchell - Goldman Sachs - Analyst**

Great, thank you for taking my questions. Two quick questions. First one - sorry to harp on it, but could you talk a little bit more about your guidance for 10% room night growth in Q1? It seems like a very slow rate. I think that you grew 10% even in the global financial crisis in the second half of 2008. Is there a reason why you wouldn't grow materially faster now?

Then the second question is, when you consolidate the hotel reviews in the new Lvping website, is there a danger that website replaces the core Ctrip engine in the Baidu natural search results and that the core Ctrip engine then drops down those results?

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

I probably would answer your first question and Fan then will answer your second question.

In terms of the guidance, 20% is a prudent guidance and very conservative as well. The hotel business is guided at about 20% just for a couple of reasons. First of all, I think we're still very early in the quarter, so the visibility for the quarter is limited.

Normally, before the Chinese New Year, hotel business is very slow because people - business people travel less before Chinese New Year and during Chinese New Year. With everything we have right now, I think it's prudent to provide a guidance at a very conservative level.

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**James Mitchell** - Goldman Sachs - Analyst

Jane, are you seeing people traveling even less than usual before the lunar New Year holiday because of lower economic environment or some of the external issues you mentioned?

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

This year compared to last year, January versus last January, the comparability is not there because the Chinese New Year this year is 10 days before last year, so it's hard to say is it because of the calendar is shifted or is it because of the industry. So that is why I think we have to wait for another month and aggregate two months or even three months together. Then we will have a meaningful comparison.

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**James Mitchell** - Goldman Sachs - Analyst

Okay.

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**Min Fan** - Ctrip.com International Limited - Co-founder & CEO

Regarding Lvping.com, Lvping.com will be operationally independent from Ctrip and it will be open to all individual users and it will work hard to [enlarge] all its hotel reviews and travel brokers and destination guides. Also, it will open to all online partners, including OTAs, hotels, airlines, et cetera.

So Lvping.com will position as a [best] travel information and community website in China, which will be a very good alliance for Ctrip and also for both Ctrip and Lvping.com to work together in the leisure market in China.

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**James Mitchell** - Goldman Sachs - Analyst

Okay, I guess my concern is that the hotel reviews on Ctrip are a great way of making sure that the Ctrip website scores highly in search results. So if the hotel reviews are now shifted to another website that's an advertising rather than a transactional website, does that mean that your core transactional business won't get as much visibility in Baidu or Google?

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**Min Fan** - Ctrip.com International Limited - Co-founder & CEO

Ctrip's hotel reviews - the Ctrip website will be put by those people who stayed in the hotels and those hotel reviews will also reflect in Lvping.com's website, and in the meantime in Lvping.com people can also comment on various hotels in Lvping.com. Maybe they are not staying in the hotels. This will be a little bit different from Ctrip's website hotel reviews.

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For the volume size, those [surface] when they reach on Ctrip's community site they will lead to Lvping.com. So for both Ctrip and Lvping.com they will enjoy more [page views] I am sure.

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

So James, I think to address your question, for the hotels our customer has stayed, both websites are synchronized. So if a customer made a comment on Ctrip's website, Lvping.com will automatically be updated as well.

In addition, on Lvping.com, the platform also is open to the other comments; however, we will rank them separately. For example, we will star the people who have stayed with Ctrip, so when the readers read these comments they will know which are the ones from the customers who have stayed with these hotels, which are the comments with no experience staying in these hotels. So customers can have fair judgment as to how objective these comments are.

**James Mitchell** - *Goldman Sachs - Analyst*

Okay. So Ctrip itself will have the reviews that are written by people you know for certain have booked at the hotels and stayed at the hotels and then Lvping will have more reviews. I guess my question is whether, since Lvping has more reviews, it will tend to score higher in the search results, and by definition if Lvping scores higher then Ctrip scores lower and then there's less search traffic to Ctrip as a result.

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

I think both websites can cross reference each other.

**James Mitchell** - *Goldman Sachs - Analyst*

Okay. Thank you.

**Operator**

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

**Ming Zhao** - *SIG - Analyst*

Hi, thank you. Jane, I still have the question on the Q1 guidance. I understand there's a lower visibility due to the early timing of the Chinese New Year, but I think in the past - in maybe '08 or '07 - there was an early Chinese New Year too. So if you compare this year versus those years, your visibility, is that same or is that lower that prevents you or that leads you to guide conservatively on the Q1?

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

As we discussed, Ming, I think there are a couple of reasons why we guided very conservatively. First of all is the visibility is limited. Secondly, I think there are quite a few uncontrollable events that are going on and these items are not totally in our control; that is why we want to be prudent. Thirdly, also, I think Q1 last year had a very high base.

So all these factors combined together, we wanted to make sure when we gave a guidance we are very prudent.



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**Ming Zhao** - *SIG - Analyst*

Okay. My second question is on the general, the macro economy in China. So everyone knows that the inflation is very high in China, but it seems that you are not seeing the ASP growing higher. So I wondered why is that?

Second, coupled with that, you say the labor cost is going higher, you want to manage that. Is that managed through more online transactions or through let's say you cut the staffing in your Shanghai call centre, hire more in the Nantong call centre? I just want to hear your strategy there.

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

First of all, on ASP, I'm sure a lot of products and services are increasing their prices, but for our business specifically last year there was the World Expo, so the price was very high. That is why we've conservatively forecast the ASP will be very consistent.

Secondly, in terms of the [offset] in the impact of the labor costs, I think we will put concerted efforts to methodically move transactions online, as we always have been doing. Secondly, also, we will improve our efficiency by re-engineering some of the business processes, as we always do.

But online and efficiency are the two focuses that we are doing. Also I think, the offsetting in fact can partially offset the impact on the labor costs. We will also absorb some impact for the labor costs in our P&L as well. But we will do our best to keep our business very efficiently.

**Ming Zhao** - *SIG - Analyst*

Alright. Thank you.

**Operator**

Our next question comes from the line of Steve Rubis with Stifel Nicolaus. Please proceed.

**Steve Rubis** - *Stifel Nicolaus - Analyst*

Steve Rubis here on behalf of George Askew. Thank you for taking my question. Your 29% air ticket volume growth was almost three times the pace of industry air passenger and (inaudible) growth in the quarter. Clearly, you're gaining market share, but are there other factors at work that drove this strong performance, such as a new marketing campaign or something else?

**Min Fan** - *Ctrip.com International Limited - Co-founder & CEO*

We will provide more service to our customers. We will try to enlarge our market share via more service providing. Also, I think in the years to come we also will have - we will try to provide more efficient promotions on our websites and also we will provide more different products to different category of customers. So in that way I think we would try to double or even triple the natural growth of the industry.

**Steve Rubis** - *Stifel Nicolaus - Analyst*

Thank you. I have no further questions.

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**Operator**

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

**Elinor Leung** - CLSA - Analyst

Hi, thank you for taking my question. My first question is regarding the pricing. It seems that the pricing is pretty resilient in 4Q but you are guiding that the commission rate for room or per air ticket is going to be the same as first Q 2010, which means that there will be a big drop on a q-on-q basis. So does it mean that your rates did decline in the air ticket prices or hotel room prices or in the normalization?

My second question is regarding the Chinese New Year. Given a majority 75% of your business do come from business travel, early Chinese New Year should be positive for your business. So have you counted that into your guidance? Thanks.

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

Thanks for your question. Just before - in terms of the commission, I think we have seen the commission rate stabilizing, meaning on the quarter-over-quarter basis our commission rate is very consistent. If you do it on the year-over-year basis, if you take the commission rate and also take into the price impact, it's almost - on a per room and per tickets basis we're making almost the consistent dollar amount. That is why we guide our revenue mainly based on the volume growth. So that's the first thing.

Secondly, the calendar of the Chinese New Year, whether it's good for business or bad for business, I think if we add again the two months together, or three months together, it's more meaningful. The impact on business should be very consistent from year-over-year, so right now I think it's still too early during the quarter for us to see the whole impact of the quarter.

**Elinor Leung** - CLSA - Analyst

Okay. Thanks.

**Operator**

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

**Wendy Huang** - Royal Bank of Scotland - Analyst

Hi, good morning, thanks for taking my question I'm asking on behalf of Wendy Huang. I noticed that for your operating margin guidance you guided down from 45% in the past few quarters to 40%. Could you talk more about what is going into this guidance? Thank you.

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

If you look at our operating margin in 2009, it was about 40% to 41%, which is very normalized. In 2010 the margin was higher just because the government has put in lots of efforts to promote the World Expo, and we fully leveraged all these campaigns and so we saved some money from these sales and marketing campaigns to achieve a relatively higher margin.

So conservatively in 2011 we forecasted the operating margin to be around 40% which is very consistent with the normalized years.

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**Wendy Huang** - Royal Bank of Scotland - Analyst

Okay so it is - am I right to assume that it will be sales and marketing which would be the increase, the bulk of the increase?

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

Yes, some sales and marketing, and also we need to put efforts in investing in future products. So product development also is very important for our business.

**Wendy Huang** - Royal Bank of Scotland - Analyst

Okay. Thank you.

**Operator**

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

**Fawne Jiang** - Brean Murray - Analyst

Good morning. My first question is actually regarding your first Q outlook. Jane, you mentioned, what's the Wing On growth assumption for first Q?

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

Wing On probably will contribute to 5% of our business because Q1, Q2 is their lowest two quarters for their business.

**Fawne Jiang** - Brean Murray - Analyst

Yes, got you. So like for first Q your organic growth of outlook is 15% plus 5% from Wing On, right?

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

Correct. Yes.

**Fawne Jiang** - Brean Murray - Analyst

Okay. What is your outlook for 2011 in general, in terms of organic as well as acquisition?

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

For 2011 we still have to monitor developments in the markets very carefully. Right now we are only one month into the year, so we haven't had very good visibility. That is why I think we have to wait a little bit longer to give you official guidance for Q2 and on guidance.



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**Fawne Jiang** - Brean Murray - Analyst

Okay. My second question is actually regarding Lvping.com. I just wonder what specific strategies Ctrip will adopt to differentiate from say daodao.com, the subsidiary of TripAdvisor in China?

**Min Fan** - Ctrip.com International Limited - Co-founder & CEO

I think Lvping.com will be competitive and have advantage over other players. We have a large and loyal travel user basis, and also Lvping.com has the most hotel reviews and most comprehensive travel guides and cheap products and travel (inaudible) in China.

As you know, before becoming, Lvping.com becoming independent, those services have been part of Ctrip.com since the day Ctrip was launched. So Lvping.com will enrich all these features in the future, and those features I think are quite unique, which other players are still in their early stage to contract those features.

So I think for Lvping.com it is a part of Ctrip's strategic plan for next few years and we will be best positioned in China leisure travel market and we will try to make it the most reliable platform for experience sharing and travel information search.

**Fawne Jiang** - Brean Murray - Analyst

Yes, thanks Min, that's very helpful. Just a follow up question on that Lvping.com - what's the revenue opportunity you see in short-term and in long-term for Ctrip?

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

I think for short-term it's immaterial, but obviously when we set it up as a separate website we have high expectations for it. But in the near future I think it's important for us to establish a viable and a strong website which will become something that our travelers need when they travel with Ctrip. So that's our short-term goal. But long-term I think we do have high expectations for this website.

**Fawne Jiang** - Brean Murray - Analyst

Yes, got you. Last question - actually I have quick housekeeping items. Number one is what's the percentage of your credit card transactions, approximately?

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

Yes, about 60% to 70%.

**Fawne Jiang** - Brean Murray - Analyst

Okay, and last question is regarding your other income in fourth quarter. Just wonder what it primarily was, if government subsidies or is there any other items that contribute?

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

It's primarily government subsidies.

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**Fawne Jiang** - *Brean Murray - Analyst*

Okay. That's all my questions. Thanks very much.

**Operator**

I would now like to turn the conference over to Ms June Zhu for closing remarks.

**June Zhu** - *Ctrip.com International Limited - Senior IR Manager*

Thank you, everyone, for joining us on the call today. A replay of this will be available as usual on our IR website shortly after the call is completed.

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

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

Thank you very much.

**Min Fan** - *Ctrip.com International Limited - Co-founder & CEO*

Thank you.

**Operator**

Ladies and gentlemen, thank you for your participation in today's conference. This concludes your presentation and you may now disconnect. Have a great day.

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