

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

CTRP - Q2 2013 Ctrip.com International, Ltd. Earnings Conference Call

EVENT DATE/TIME: AUGUST 01, 2013 / 12:00AM GMT

OVERVIEW:

CTRP reported 2Q13 YoY total net revenue growth of 28% and diluted earnings per ADS of \$0.24. Expects 3Q13 net revenue growth to be around 20-25%.



CORPORATE PARTICIPANTS

Jade Wei *Ctrip.com International Ltd - IR Director*

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

Min Fan *Ctrip.com International Ltd - Vice Chairman of the Board and President*

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

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

CONFERENCE CALL PARTICIPANTS

Philip Wan *Morgan Stanley - Analyst*

Jiong Shao *Macquarie - Analyst*

Jin Yoon *Nomura Securities - Analyst*

Eddie Leung *Bank of America Merrill Lynch - Analyst*

Alicia Yap *Barclays - Analyst*

Andy Yeung *Oppenheimer & Co - Analyst*

Fei Fang *Goldman Sachs JBWere - Analyst*

Michael Olson *Piper Jaffray - Analyst*

Vivian Hao *Deutsche Bank - Analyst*

Ida Yu *China International Capital Corporation - Analyst*

Tian Hou *TH Capital - Analyst*

Muzhi Li *Citibank - Analyst*

Wendy Huang *Standard Chartered Bank - Analyst*

Alex Yao *JP Morgan - Analyst*

Richard Wei *UBS - Analyst*

PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the Second Quarter 2013 Ctrip.com International Ltd Earnings Conference Call. My name is Amanda and I'll be your coordinator for today. At this time all participants are in a listen only mode. We will facilitate a question and answer session at the end of today's presentation. (Operator instructions).

At this time I'd like to turn the call over to your host for today, Ms. Jade Wei, Investor Relations Director of Ctrip.com International. Please proceed Ma'am.

Jade Wei - *Ctrip.com International Ltd - IR Director*

Thanks Amanda. Thanks for attending Ctrip's second quarter 2013 earnings conference call. Joining me on the call today we have Mr. James Liang, Chairman of the Board and Chief Executive Officer. Mr. Min Fan, Vice Chairman of the Board and President, Ms. Jane Sun, Chief Operating Officer and Ms. Jenny Wu, Chief Financial Officer.



We may during this call discuss our future outlook and performance, which are forward-looking statements made under the safe harbor provisions of the 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 findings with the Securities and Exchange Commission. Ctrip does not undertake any obligation to update any forward looking statement except as required under applicable law.

James, Min, Jane and Jenny will share our strategies and business updates, operating highlights and financial performance for the second quarter 2013 as well as outlook for the third quarter. We will also have a Q&A session towards the end of this call. With that, I'm turning this call to James for our business update. James please.

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

Thanks Jade. Thanks everyone for joining us today. We are very pleased to report solid results delivered in the second quarter of 2013. Net revenues grew by 28% year-over-year, mainly driven by strong volume growth. In the second quarter, hotel room nights grew 44% year-over-year and air ticketing volume grew 34% year-over-year. Over the past few quarters, we have been investing heavily in enhancing our brand awareness enriching product offerings and strengthening price competitiveness to make deeper penetration into the leisure market. We are pleased with our progress and team's strong execution.

Online migration particularly mobile app option is evolving in a rapid pace. As at June 2013 China's internet population was approaching 600 million and the mobile internet users exceeded 460 million. Online penetration for China's travel industry is still far behind the level of the U.S. and Europe. We expect to see a continued trend of secular growth for the online travel sector. Each of the team is working diligently to capture this unprecedented industry opportunity. Over the past several quarters Ctrip has achieved accelerated growth for both of our PC-based internet and mobile internet platforms. By the end of the second quarter we had more than 50 million mobile app downloads, up from 35 million downloads last quarter and 10 million downloads last year. Over 55% of transactions were booked through online and mobile channels, compared to about 45% a year ago.

For hotel bookings, PC-based internet contributed about 45% of the total transactions and mobile internet contributed over 20%. For air ticket booking, PC-based internet contributed about 40% of the total transactions and mobile internet contributed close to 15%. Ctrip travel app is now the number one mobile app in the travel segment in China in terms of transaction value. The peak transaction value per day achieved over RMB50 million. Our one stop platform with a comprehensive product and excellent services empowers the growth of our mobile app.

We will continue to focus our mobile strategy and take the leadership in the mobile travel market. Ctrip travel app offers the most comprehensive travel products in a mobile space. Our offers range from domestic to international hotels, air tickets and train tickets. We also cover packages that include tours, local activity tickets, car rentals, last minute promotions, destination information and user generated reviews. We recently launched a dedicated app for our corporate travelers to book and manage their business trips. Ctrip apps could enable our customers to find all the important information for their travel needs.

More importantly we carefully study and improve our user experience. We are proud that through our innovative and mobile functions on Ctrip travel app, customers are able to book travel products in a more efficient way than through our PC and call centers. For example using our innovative flight booking functionality on our mobile app, our customers could go from selecting a flight to making a payment within 10 seconds. Mobile is everywhere in Ctrip now. It is not only becoming a new interface for servicing travelers, but also changing the way we run our business overall. Meanwhile we are running extensive marketing campaigns to enhance traveler's awareness of the unique value that Ctrip can provide especially through our mobile app.

In the second quarter we launched our new logo with the slogan Ctrip mobile anywhere to everywhere. These new elements were created to ensure Ctrip's brand a better fit in the mobile and the leisure markets. Based on our observation, once customers' trust of brand is associated with every possible travel product at the most competitive prices they will have no interest or need to jump between different mobile apps.

Competitions remain intensive for the online travel markets in China. Our competitors are still using price competition in order to gain market share. We will match the price competition dollar for dollar and ensure that we gain market shares aggressively. We are determined to create the best value in our industry to our customers by our [relentless] efforts in building the best one stop travel platform with the comprehensive products industry leading service and competitive prices. The new journey for Ctrip is just getting started. We are excited and confident about our future. With that, I will turn to Min for the industry highlights and investment opportunities.

Min Fan - *Ctrip.com International Ltd - Vice Chairman of the Board and President*

Thanks James. Thanks everyone, this is Min. China's travel industry is experiencing rapid growth along with technology consistently is shifting the internet space. It creates opportunities as well as challenges for industry leaders like Ctrip. While proactively embracing new trends, we're also walking diligently with various players in this value chain in exploring opportunities to create more value to the industry and also to enhance Ctrip's leadership.

For example travel insurance is an important product which adds value to customers by providing them additional travel convenience and assurance. In order to provide more options for travelers, Ctrip has participated in funding an online travel -- online insurance company with other key industry players to design and sell more innovative online travel products in the future.

Recently Ctrip invested in the best hotel express application, which is young but the leader of the mobile budget hotel booking sector. Although the financial impact of this transaction is immaterial, it is a good start for Ctrip to work with mobile travel industry players and grow our future growth together. We will continue to pursue this pact. With that, I will turn to Jane for the operating highlights.

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

Thanks Min. Thanks to everyone. I've very pleased to share the updates for Ctrip's main businesses with you. Ctrip has further expanded its hotel coverage. By the end of the second quarter, our domestic hotel supply network covered approximately 60,000 domestic hotels, compared to around 39,000 hotels one year ago. Our international hotel network has been further extended to around 230,000 hotels. We achieved strong volume growth of 44% year-on-year in the second quarter of 2013 driven by both business and the leisure travel demand. Our international hotels are continuing to grow at a triple digit growth rate in the second quarter.

We have added a prepaid option to more domestic and international hotels. Our opaque model, Smart Hotels covered over 2000 hotels which offer significant discounts to the leisure travelers. Together with the group buy hotels and the flash-sale model, our customers are able to enjoy a greater variety of hotel products from Ctrip. The air ticketing business grew strongly in the second quarter and reached 34% volume growth year-on-year, far exceeding the industry average growth rate. We are continuing to methodically rolling out our air coupon plan and enhance our price competitiveness. Coupled with our consistent and reliable service we are solid market share gains and faster user acquisition.

In the past year, since our new international air ticket booking platform was launched, we have seen strong growth in the outbound tickets which is more than 60% year-over-year. We believe our international air ticket platform has great potential to serve the emerging outbound travel needs for Chinese travelers. Our package tour business reported impressive results in the second quarter of 2013. The revenue from mainland China grew over 55% year-over-year. We have seen that customers are becoming more used to using online platforms to book their summer vacations and also family trips.

Package tour products are more complex and have higher barriers of entry for product design, supply management, IT infrastructure and backend operations. We are improving our systems and operations to ensure that our customer can book our product more easily and travel more cost efficiently and enjoy their vacation with peace in mind. In the second quarter we started to promote the diamond rating system for all our product travel packages. This provides a transparent and a reliable ranking system to assist our clients in choosing products. At the same time, it created a standardization system in the industry which makes it easier for us to work with different suppliers and industry players. This is based on the expertise that Ctrip has developed over the past year and it is a good step for Ctrip to further extend our leadership in the leisure travel market.



Ctrip's corporate travel services maintain at a good growth rate in the second quarter. We are pleased that our corporate business has introduced an app designed for corporate travelers. It is the first app in the corporate travel industry to serve corporate travelers in China. It will further enhance the effectiveness of corporate travel management and will help us to gain more competitive advantages over the traditional travel agency.

On top of the four major business lines, we continue to add more services and products to our one stop shop and are elevating our service level for these new businesses. We have added ticket and a local daily tour activities to cover over 3000 attractions globally and enable leisure travelers to enjoy their trip with added convenience and at more compelling prices. We have enhanced our booking engine for car rentals, including cars with or without the chauffeurs. We are working with the leading players in this segment on a series of offerings and promotions. With our large scale customer base and a superior service legacy, we believe we can add excellent value to both suppliers and customers.

We are very proud to share the good news that Ctrip has been awarded the title of the Best Online Travel Agency of the Year 2013 for the third consecutive year by Travel (inaudible), recognizing the leading position of Ctrip in the travel industry in China. I would like to take this opportunity to thank our customers for their business, our planners for their support and our team for their hard work and commitment to make all of this happen. Now I will turn to Jenny for financial highlights.

Jenny Wenjie Wu - Ctrip.com International Ltd - CFO

Thanks Jane. Thanks everyone. For second quarter 2013, Ctrip's total revenue increased 28% year-on-year and 7% Q-on-Q. Hotel reservation revenues were up 25% year-on-year, primarily driven by 44% increase in volume and partially offset by 14% decrease in commission per room night which was in turn mainly due to promotional activities. Hotel reservation revenues increased 13% Q-on-Q, largely driven by the growth of the (inaudible) market.

Ticketing services revenues were up 29% year-on-year mainly driven by 34% increase in volume and partially offset by 6% decrease in commission per unit. Ticketing services revenues increased 14% Q-on-Q, primarily driven by the growth of [air ticketing sales] volume. Package tour revenues were up 40% year-on-year due to the increase in leisure travel volume and a decreased 20% Q-on-Q largely due to seasonality. Corporate travel revenues were up 34% year-on-year primarily driven by the increased corporate travel demand from business activities and up 29% Q-on-Q primarily due to seasonality.

Total net revenues were up 28% year-on-year and 7% Q-on-Q. Gross margin was 75% staying flattish year-on-year and up 1 percentage point Q-on-Q. Product development expenses were up 49% year-on-year and 16% Q-on-Q, primarily due to an increase in product development personnel related expenses. Excluding share-based compensation charges, product development expenses accounted for 22% of net revenues, up 4 percentage points year-on-year and 2 percentage points Q-on-Q.

Sales and marketing expenses increased 25% year-on-year and 1% Q-on-Q, primarily due to an increase in sales and marketing related activities. Excluding share-based compensation charges, sales and marketing expenses accounted for 21% of net revenues staying flattish year-on-year and decreasing 1 percentage point Q-on-Q. G&A expenses increased 14% year-on-year and 2% Q-on-Q. The year-on-year increase was primarily due to an increase in administrative personnel related expenses and share-based compensation charges. Excluding share-based compensation charges, general expenses accounted for 8% of net revenues staying flattish year-on-year and Q-on-Q.

Operating income was up 17% year-on-year and 22% Q-on-Q. Excluding share-based compensation charges, it was up 11% year-on-year and 13% Q-on-Q. Operating margins were 16% versus 17% a year ago, and 14% a quarter ago. Excluding share-based compensation charges, operating margin was 25%, versus 28% a year ago and 22% a quarter ago. The effective tax rate was 27%, versus 45% a year ago and 32% a quarter ago. The year-on-year decline was primarily due to because Ctrip accrued a provision of 5% PRC withholding tax related to the dividends that our PRC subsidiary would pay to our Hong Kong subsidiary to fund the share repurchase program in the second half last year. The Q-on-Q decline was primarily due to the decrease in the amount of non-tax-deductible share-based compensation as a percentage of our income as a whole.

Net income attributed to Ctrip's shareholders increased 76% year-on-year and 37% Q-on-Q. Excluding share-based compensation charges, the growth was 41% year-on-year and 21% Q-on-Q. Diluted earnings per ADS were \$0.24, or \$0.36 by excluding share-based compensation charges. As of second quarter, the balance of cash and cash equivalents, restricted cash and short-term investments was \$1.1 billion.

Finally, business outlook. For 3Q 2013, the Company expects the net revenue growth to be around 20% to 25%, likely at the high end. This forecast reflects Ctrip's current and preliminary view, which is subject to change.

With that, Operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions). Your first question comes from the line of Philip Wan of Morgan Stanley. Please proceed.

Philip Wan - Morgan Stanley - Analyst

Hi, good morning. Thank you for taking my question and congratulations on the very strong quarter.

Jenny Wenjie Wu - Ctrip.com International Ltd - CFO

Thank you.

Philip Wan - Morgan Stanley - Analyst

First of all, could you please share with us a little bit more about the third quarter outlook by business line please? And then I'll have a follow-up question. Thank you.

Jenny Wenjie Wu - Ctrip.com International Ltd - CFO

Sure. For the second -- the third quarter, the total revenue growth will be around 20% to 25%. If we look at the detailed breakdown for each business line or hotel, volume growth would be around 25% to 30%, the unit price will decline by 5% year-on-year and the commission rate and the promotional activity impact will be largely flattish, so the total revenue growth for hotels will be 20% to 25%.

For the ticketing business, the volume growth will be 20% to 25%. The year-on-year commission for ticketing will be largely flattish and the revenue growth will be 20% to 25%. For our package tours, the year-on-year increase will be 25% to 30%, and therefore our Corporate travel business, the volume growth and the revenue growth will both be around 20% to 25%. Thank you.

Philip Wan - Morgan Stanley - Analyst

Thanks Jenny. Could you also provide us some update about the competition? In particular are you seeing the price competition stabilizing, in both hotels and also (inaudible) bookings? Thank you.

Jenny Wenjie Wu - Ctrip.com International Ltd - CFO

Yes, thanks Philip. From a price competition perspective, yes we do see it stabilizing, however our team is very well prepared to respond to any irrational price competition at any time.



Philip Wan - Morgan Stanley - Analyst

Thank you.

Jenny Wenjie Wu - Ctrip.com International Ltd - CFO

Thanks.

Operator

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

Jiong Shao - Macquarie - Analyst

Thanks for taking my question and congrats for the very strong results and guidance.

Jenny Wenjie Wu - Ctrip.com International Ltd - CFO

Thanks.

Jiong Shao - Macquarie - Analyst

Just following up on the competition question, obviously sometimes competitors can sometimes be partners as well. I think you may have done something recently more with Qunar, in terms of a partnership, interestingly. Could you elaborate a bit on what you are doing with Qunar or other meta-search providers to bring more traffic to Ctrip's website? That's my first question and I have a follow-up.

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

Yes, in general we like to work with any marketing partners like Qunar or any other online price comparison websites, so we are working with -- including Qunar, different types of marketing partners to reach more customers.

Jiong Shao - Macquarie - Analyst

Okay, thanks. My next question is on the margins. Clearly, you did really well on the margins the last couple of quarters. I know previously you very conservatively guided a 20% margin for the year but that looks very conservative at this point. I was just wondering what your current thinking is going forward for the operating margin for the rest of the year? Thank you.

Jenny Wenjie Wu - Ctrip.com International Ltd - CFO

Sure. Just the one correction, my guidance is that for the full year, our op margin would be no lower than 20% and we, assiduously, are always trying our best to deliver the best. And so the first half this year you will see our overall op margin on a non-GAAP basis will be around 24%, and for 3Q, we target a largely Q-on-Q flattish performance. And if normal seasonality plays out, it implies that for the full year, our OP margin will be largely around 24% to 25%, which is I think largely similar to the level we delivered last year.

I think this year is still a year of investment for Ctrip, and our top priority is still to bring more market share at a faster pace. And we see there's a lot of opportunity in the market and also a lot of challenges. So the Ctrip team spares no effort trying to capture the opportunity and to handle the



competition in a more effective way. And also we see a lot of new innovations and change in the market, so we will continue to invest in the key strategic areas, such as our IT technology and our mobile internet.

And on the other hand, we will continue to implement innovative ways to improve our operation efficiency and conduct very tight cost control to avoid wasting any money. And one -- first half stronger than expected margin performance we've delivered so far could possibly demonstrate our efforts. So going forward the Ctrip team will continue to work in this practice and try our best. Thank you.

Jiong Shao - *Macquarie - Analyst*

Great thanks for the very helpful comments and a great result. Thank you guys.

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

Thank you.

Operator

Your next question comes from the line of Jin Yoon of Nomura. Please proceed.

Jin Yoon - *Nomura Securities - Analyst*

Hey good morning everyone. Just a couple of questions on the mobile side. First of all, I think that transactions in the quarter is about 20% of hotels and 15% of air. Now how much do you think of that is really incremental, compared to the PC, and what's the incremental margins on the mobile side versus the PC side? That's my first question. The second question is on your guidance. You know historically what we've seen you guys do is kind of take the midpoint and add 10. That's kind of what it seemed like you've been doing over the last couple of quarters.

Now should we expect that going forward as well, when you guide 20% to 25% is that -- should we just add a little bit of buffer to that on the upside? How much visibility do you have on that? Thanks.

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

Okay, we don't have exact number what percentage of the new customers were actually existing customers from other channels; what percentage of the new customers are in fact new customers to Ctrip. But we believe even with the -- even those customers who were existing customers who were using either phone, call center, or our website to book transactions, once they get to the mobile they will probably more loyal.

So they will have more transactions transacted with us, because mobile is more convenient and because of strengthening our mobile products they are probably more loyal and also their transaction will have lower marketing costs for us because we don't need to pay, for example, search engine costs. So I think whether or not these are existing customers, the fact that we are having more people transacting us with mobile apps is a plus for us.

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

Okay on the guidance, we always try to be very prudent, because we believe that what we promise to our investor, no matter what happens, we need to deliver. So on the guidance we tried to stay conservative and also in the travel industry, [visibility] is limited. There are uncontrollable events, politically and naturally. If we ran into natural disaster or some unexpected events, we try to make sure no matter what happened our



guidance is good once we promise to our investors. So the guidance we give has historically been very prudent, but obviously our team will work very hard to try to achieve a good result.

Jin Yoon - *Nomura Securities - Analyst*

Okay thanks, that's pretty clear. Thanks guys.

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

Thanks.

Operator

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

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

Hey, good morning guys, thank you for taking my questions. I have two questions. Firstly, could you give us an update on the pricing trends of tickets and hotel room nights in the quarter, and how much of that coming from mix shift to the lower tier cities? And then secondly, could you also share with us your thought about competition from e-commerce companies? It seems like you know some of them are making some moves into the travel industry more aggressively recently. Thank you.

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

Sure. For the first one, for the pricing for hotels, in the, in second quarter it declined about 5% on a year-on-year basis. That is partially due to our efforts to make fuller penetration into the lower tier cities and higher contribution from lower stars hotels. Now 50% of this impact is due to the pricing decline for the similar hotels on the like to like basis. And for the air ticketing pricing, it declined roughly 8% year-on-year, and I think for the second quarter -- for the third quarter so far, we see the pricing become largely stabilized.

On the competition, many companies throughout the year have come and many tried, many withdrew because the barrier of entry for the all tier business is very high. We are partners with many of the e-commerce companies. So on the front end our customers can find a travel channel, but on the back end we fulfill all the orders for them. If some other company would like to try, it's difficult to be break even if they run the whole fulfillment process. So we monitor them, but so far I think we focus on our own strategy to remain strong, and product offerings, service and branding.

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

Got that, thank you very much.

Operator

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



Alicia Yap - Barclays - Analyst

Hi, good morning James, Min, Jane and Jenny, thanks for taking my questions and congratulations on a strong result. My first question is regarding your air ticketing volume. Just wanted to get a sense, you're 34% volume growth this quarter, and how much is due to good tractions of your air ticketing coupon program and how much is due to the overall industry demand? And I have a second question, thanks.

Jane Jie Sun - Ctrip.com International Ltd - COO

Sure, Alicia I think when you see the growth rate, it's very hard for segmented by you know certain percentages due to coupons certain percentages due to a certain level. But what we can see is that the industry grew about 10% -- we did more than three times of the industry growth rate. And also I think the air coupon program does give us some advantage on the pricing in case some customers are really price sensitive. We're able to attract them to our website. But it's very hard to quantify down to percentage.

Alicia Yap - Barclays - Analyst

I see, I see. So my second question is regarding kind of like the overall landscape. What is the conversion rate for your mobile platform right now and how much do you expect the mobile traffic as a percentage of contribution to increase in the next like two to three years' time? And just wanted to get management's sense, will there be any difference in terms of the landscape and evolving in China versus the developed countries on the mobile front? Thank you.

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

I'm sorry, what -- conversion rate, what you are referring to is--

Alicia Yap - Barclays - Analyst

Is the actual -- so in terms of for example if we have the traffic coming through, are they actually transact through the mobile and through the payments inside the mobile?

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

Oh okay. Well but there are different products and there's different ways of calculating the conversion rate. In general, mobile -- actually we see the conversion rate if apple to apple comparison, different rates, different ways of calculating conversion rates. In general, on the mobile the conversion rate is a bit higher than the online website, because usually these are contrary to other most commonly belief that mobile customers actually in certain products are actually higher end. Actually even I think more business customers will actually be transacting on mobile. And we -- most of them are actually last minute travelers. So actually their booking patterns are a little different, but actually have higher conversion rates than on the website.

Alicia Yap - Barclays - Analyst

Okay, thank you and I just wanted to get a sense in terms of the China market versus developed countries in terms of the mobile usage. Would that be a much higher percentage in China longer term than the developed countries?

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

Yes I think in China in the long run will have probably higher mobile penetration than most other countries in the world, because they're not -- people have more, what they call, fragmented time when they are even going to work or commuting, they usually go on public transportation. So



they have more time with their mobile phones and in China also when you travel short distance or medium distance, the people go by train and on the train they a lot of time still working on the mobiles and there is a lot more lines than other developed countries, they probably have more time to play with their mobiles.

So in general I think in China, mobile applications in general, not just travel apps, but all kinds of apps, will have more -- will capture more user time than other developed countries.

Alicia Yap - Barclays - Analyst

Okay thank you so much.

Operator

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

Andy Yeung - Oppenheimer & Co - Analyst

Good morning, thank you for taking my questions. I have two quick questions. One is that you know obviously, your volume growth was very strong, much stronger online travel market growth. So what do you see is the big driver for the shift from offline to online? And also, do you think the mobile transaction would actually accelerate the profits? And--

Jane Jie Sun - Ctrip.com International Ltd - COO

I think -- yes sure, I think the market is moving very much from offline to online, and mobile is the leading player in the online shift. And also I think with more and more young people getting to the level that they can travel, they like to spend their time on the apps and also that helps us to move more volumes to online platform as well as the mobile app.

And the peak time for us -- on average, we have disclosed the number is around over 20% already. For certain popular dates before the national holidays or on the weekends, the percentage of contribution from mobile can even be higher. So very much in the near future we can see that percentage of the weighting will be much higher.

Andy Yeung - Oppenheimer & Co - Analyst

Great, that's great. My next question's also a follow up question on mobile. You know, as you mentioned that mobile users tend to be more sticky and have higher conversion rate perhaps than PC user -- also do you see there are greater repeat purchases from your mobile users, and how's overall demographic -- you mentioned about more business users -- but how's the overall demographic, compare your mobile users versus your desktop PC users?

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

Yes currently, actually, our mobile users are the most loyal customers and the frequent business, or frequent business and leisure travelers. They tend to have more booking frequency, they tend to be more loyal. Probably because they were frequent travelers in the first place, probably because they were Ctrip loyal customers more willing to accept this, our new booking platform. And but also because I think, it's increasingly more so in the future will be due to our strength in our mobile app. So we believe we have the best functionality and the best user experience for our mobile app.



So I think increasingly once our customers start to play with stuff, experiencing our mobile app, they will becoming more loyal and more frequent transactions. Thank you.

Andy Yeung - *Oppenheimer & Co - Analyst*

Thanks James, thanks Jane.

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

Thanks.

Operator

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

Fei Fang - *Goldman Sachs JBWere - Analyst*

Hi, thanks for taking my question. Congratulations on the great results. It seems by now Ctrip has navigated through the intense pricing competition and emerged stronger. So my question is, looking ahead, what is the big picture opportunity in front of Ctrip, meaning when investors that are taking a fresh look at the sector and when they allocate capital to Ctrip, what is the risk reward in the long run? Then I have a follow up question. Thank you.

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

Well I think I wouldn't say the price competition is over. As you know, there will be more competition, especially from some of the bigger internet players, coming to this marketplace. So there's some uncertainty as to whether or not the price competition will accelerate or will intensify in the future. But we are well prepared to match our competitors if there's such a competition. I think the big opportunity for us is actually taking advantage of this new industry paradigm that the mobile and perfectly fit with the new, the kind of last minute travel behavior that we are seeing right now in our mobile platforms.

So we'll continue to invest heavily in our mobile apps, continue to invest heavily in our brand awareness, especially our strength, especially to market our strength in our mobile platforms and lastly, to continue to invest in our services. So we, Ctrip has been operating the best service and we'll continue to invest heavily too, in this area and especially tailored with our new kind of travel -- customers' travel behavior, last minute kind of travel. And if we can do these things, we believe we'll have a -- we'll increase our market share despite the intensified price competition.

Fei Fang - *Goldman Sachs JBWere - Analyst*

Great.

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

And also I think, about your question on the investors, why do they decide to invest in this Company or not, I think from a bigger picture the GDP growth rate for China is growing at the fastest level among all the other countries, and also as a percentage of total GDP, travel is increasing its weight in China's total GDP growth. And as the leading player in this market, we are very determined to further extend our leadership in this market. So we are very confident if we keep up with our strong execution, the opportunity for Ctrip is still very good. So we'll keep up our hard work.



Fei Fang - Goldman Sachs JBWere - Analyst

Thanks Jane and James. I just have a quick follow up question to that. I think the 2Q margin was apparently very strong, and this is in spite of the substantial R&D spending. I think this quarter, Ctrip spent about 22% of the revenues on R&D, which was probably the highest level in the reporting history. So other than mobile, do you have any other key projects in the pipeline?

Jane Jie Sun - Ctrip.com International Ltd - COO

Yes, I think R&D is a line that we invest in the future products. So there are more products in the pipeline that we are exploring, including the rental cars and ticketing for local activities. These are all the, we call baby tigers, that we want them to take off in the future. So these are in R&D, and obviously also the other important element is the IT investment, because in order to build a very strong platform for mobile and online, we need very good engineers to help us to build the IT system. So we would like to maintain or even increase this line if it brings us more opportunities in the future.

Fei Fang - Goldman Sachs JBWere - Analyst

That's very helpful, thank you.

Jane Jie Sun - Ctrip.com International Ltd - COO

Thanks.

Operator

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

Michael Olson - Piper Jaffray - Analyst

All right, thanks, good morning. You know you kind of just touched on this, but while it seems to have stabilized, may be the competitive environment would probably still be characterized as more intense than it was a couple of years ago. Similarly I think China travel fundamentals seem to have stabilized recently.

Just in general, how would you describe the current environment for just overall China travel now as we go into the second half of 2013 compared to may be what it was two or three years ago? Would you describe it as being as strong as it was two to three years ago, or would you describe it as we're still in a recovery process to get back to those levels?

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

Well I think you have to look at the two segments, the leisure and the business travel. Business travel in general will have a slower growth going forward. Business growth is in line with the overall GDP growth. As you know China's overall GDP growth will be slowing going forward, compared to a few years ago. But still it will have healthy rates, you know 7% is not bad.

But the leisure travel is growing much faster, because increasingly China is shifting to consumption and shifting to high end service consumption. So increasingly, travel markets will have -- especially leisure travel market, that will have a bigger portion of the overall consumption. So the leisure travel market we see it will continue to grow at an at least double digit, and probably a high end of double digit, especially for the high end leisure travel. And Ctrip is very well positioned to take a big part, a big chunk of this market.



Michael Olson - *Piper Jaffray - Analyst*

Okay thank you. And then I'm sure it's very small, but could you share what percent of revenue is coming from the opaque channel now? And do you expect opaque will ever become a major revenue driver or will it kind of remain more of a smaller niche offering? Thanks.

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

Yes, it's very small Mike. I think it will remain to be a very special and unique segment, which is supplemental to our main product.

Michael Olson - *Piper Jaffray - Analyst*

Thank you.

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

Thanks.

Operator

Your next question comes from the line of Vivian Hao of Deutsche Bank. Please proceed.

Vivian Hao - *Deutsche Bank - Analyst*

Hi thank you for taking my question. Just a quick question on your customer demographic mix. Could you provide us a more update customer mix, in terms of leisure and business, especially on the mobile traffic? Can we understand the majority of the traffic on mobile end are from leisure? Thank you.

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

Leisure versus business, we have to do estimates, because it's impossible for us to ask every customer what's the purpose of the business. But based on our observation, the leisure part is increasing, because we see the weekend bookings has increased significantly in our booking. So right now I think about 30% or even on the weekend even higher number are contributed by leisure travelers, and the rest is from business segment.

Vivian Hao - *Deutsche Bank - Analyst*

Right, and also on the mobile end?

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

Mobile, similar, similar split.

Vivian Hao - *Deutsche Bank - Analyst*

Thank you.



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

Thanks.

Operator

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

Ida Yu - *China International Capital Corporation - Analyst*

Hi thank you very much for taking my questions. I just have a follow up question on the current China OTA competitive landscape. So as Ctrip competition currently is not only coming from the players from the OTA market I think, but also from all those internet giants, such as [BAT]. So they are proactively stepping into the OTA market in order to provide one stop services on the platform. So where do you see this trend going forward and what do Ctrip management think about this competitive pressure coming from that?

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

Yes, so I think everybody sees this as very attractive market, high growth and relatively high margin. But this is also a market where it needs a lot of demand expertise. So we have, over the years we have built a very strong platform, and also very strong supplier relationships. So these things are -- takes time to build and also to create the kind of brand awareness that we enjoy now. So I cannot predict what they will do, but it's not an easy job.

Ida Yu - *China International Capital Corporation - Analyst*

Okay thank you.

Operator

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

Tian Hou - *TH Capital - Analyst*

Morning everyone. I have a couple of questions. One is regarding the air cash rebate program, and so air rebate program actually is started you know somewhere after Chinese New Year, and just starting from 3000 routes, expanding to 5000 routes. You know I wonder what the intention is going into Q3? Are you going to increase the scale or maintain the same or what's your plan in that? The second question is also related to your cash rebates and a lot of cash rebates actually serve as a purpose to promote your mobile apps downloads and activation. So I wonder if you continue your cash rebate program in Q3, so are you going to continue to use the rebate towards your mobile? So that's number two.

Number three will be, you know, among your mobile downloads, what's the split between the IOS system and Android system? That's all my questions.

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

On the price competition, our strategy is always very consistent. We will match up any competition in the market to make sure our price is competitive. So if in a market, some players are increasing the cash rebate, we'll match it, but if they're willing to reduce it, we'll match it too. Secondly, on the



mobile rebate all our sales and marketing dollar amounts have weighting for different channels and mobile, as the most important strategy for our Company, will get more allocation than other channels.

Your third question, sorry?

Tian Hou - *TH Capital - Analyst*

Oh, just--

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

Yes --

Tian Hou - *TH Capital - Analyst*

Hello?

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

Yes, the other, third, I think for the downloads we have allocations for all kinds of phones so we do not have detailed splits for our --

Tian Hou - *TH Capital - Analyst*

The system.

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

No, we do not have that number, sorry.

Tian Hou - *TH Capital - Analyst*

Okay, so the first question was not how much rebate you give, but rather the scale, how many results. Currently, you have 5000. I wonder if that 5000 will be increased or decreased. What's the plan?

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

We monitor these routes on a daily basis so if other players are decreasing these routes we will match it. If they increase, we'll match it. So internally we have a system to monitor these routes carefully.

Tian Hou - *TH Capital - Analyst*

Okay, thank you.



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

Thanks.

Operator

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

Muzhi Li - *Citibank - Analyst*

Hi, good morning. Thanks for taking my questions. Would you please kindly share the revenue from the train ticket and the related services like insurance? Would you also provide quarter-on-quarter comparisons? Thank you very much.

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

The train and the related service right now is recorded in the ticketing business line. It's just started, very small; it's insignificant. But we believe if we execute well we should provide the travelers who need the service with a very good product.

Muzhi Li - *Citibank - Analyst*

Can I just also clarify that last quarter the line was named air ticket and this quarter it was ticketing services, so I suppose last quarter there's no train ticket revenue related, right?

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

Yes, very small--

Muzhi Li - *Citibank - Analyst*

And in booking other items.

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

Last quarter, yes. Last quarter is mainly contributed to by the air ticket team business, but from this quarter on the train product will start to generate some revenue, very small so we changed the (inaudible) to cover both air ticketing and train. But still in terms of dollar mark it's very small.

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

Sorry, just to clarify--

Muzhi Li - *Citibank - Analyst*

Okay, thank you.



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

I mean, the second quarter we started this reclassification. So from the second quarter for the ticketing business line, that's including the contribution from trains but is an overall impact and the contribution is immaterial.

Muzhi Li - *Citibank - Analyst*

I see, thank you. One question about the product development. Could you explain why the product development expenses increased in such a big scale, while the other lines have stayed pretty much flattish quarter-on-quarter? Thank you.

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

Sure. As we discussed before, product development line represents our investment of the future products. So anything that we put in the pilot program will be captured in this line. also, our IT investment, our mobile investment, are in this line, so this is the line we will protect and even increase if it generates more opportunities for us in the future.

Muzhi Li - *Citibank - Analyst*

Okay, fair enough. Thank you much and congratulations for the good quarter.

Operator

Your next question comes from the line of Wendy Huang of Standard Chartered Bank. Please proceed.

Wendy Huang - *Standard Chartered Bank - Analyst*

Thank you. I think in your prepared remarks you mentioned that you are expanding your market share quickly as well. Could you maybe provide some data points that we can refer to in terms of your market share in the hotel market and the tour market, as well as the air ticketing market?

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

The market share which we look at is compared to the industry growth rate versus our own growth rate. So air ticket has a very comparative market number. The major airlines publish their data. It's about 10% and we grow about 34%. The excessive portion above the industry growth rate represents the market share gain. So you can look at it that way. For the hotel business it's more fragmented but based on our survey of the different hotels we believe we are also increasing our hotel market share.

For the travel package group, also I think the industry growth probably is between 10% and 15%. We grow more than 40%. In mainland China we grow more than 50%. So again, the excessive portion we grow is the market share gain.

Wendy Huang - *Standard Chartered Bank - Analyst*

Okay. I have two housekeeping questions on the margins. For the mobile investments, you mentioned that the R&D costs will be included in the product development line. So how about the IT infrastructure cost, would that be included in the cost of services?



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

No. Existing IT line is allocated to different product lines. So for example, if the IT equipment is used for a call center, it's in the call center. If it used for back-end supporting department, then it's allocated as G&A. But we do have a research and IT department; that is captured in our R&D line.

Wendy Huang - *Standard Chartered Bank - Analyst*

I think Jane's also mentioned that there will be some cost efficiency for the mobile transaction. So can you give us some color on maybe the long-term margin difference between the mobile booking and also the PC booking?

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

I think the margin on the mobile, on one hand I think you don't need people to answer the call. So that's less of a burden on the personal hiring, so that's one saving. Secondly, it's also sales and marketing because in an online platform a lot of the time we work with other online players to get the traffic -- so that's ongoing expenses -- versus in apps, once you download it, the customers will look at it automatically.

So sales and marketing in a lot of ways have some advantage if the customer is loyal to our apps. So these are the two saving we can think of.

Wendy Huang - *Standard Chartered Bank - Analyst*

Okay, thank you Jenny.

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

Sure. Thanks.

Operator

Your next question comes from the line of Alex Yao of JP Morgan. Please proceed.

Alex Yao - *JP Morgan - Analyst*

Hi, good morning everyone. Thank you very much for taking my question and congratulations on a strong quarter. I have two questions on the mobile internet strategy. Number one is a follow-up question on the previous questions. For the mobile user acquisition strategy, you guys mentioned that you guys don't need to pay for the search engine and mobile gets a higher priority allocation in your marketing budget. Can you elaborate more on the mobile user acquisition strategy and maybe share with us the mobile user acquisition cost versus the user acquisition cost on the PC?

Number two question is what is the mobile unique value proposition you guys can offer to the consumers? Currently I think by looking at the functionalities the featured app is able to offer, the most value proposition seems to be shifting the booking process from an PC environment to mobile and adding a little bit of location based information.

In addition to these, what are the mobile unique value propositions you guys can offer? Perhaps if we look at the next one to two years, what are you thinking to add to the consumers? Thank you.



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

In terms of the sales and marketing dollars, I think in the ongoing business in the future when the APP is downloaded by our customers, you do not have to spend as much in a dollar amount to remind these customers to use our apps as long as our product remains very strong and very convenient to be used.

But the first time, to introduce the apps to the customer, is very critical to us, so we work with all the mobile companies. We use all kinds of branding campaigns. Our branding is focusing on the mobile and also we use our coupon program which is focusing more on the mobile download.

So the allocation currently is geared towards the mobile, encouraging customers to download apps. But that's more a one-time cost because once the customer downloads it and if they use it for the first three times with a very good experience they tend to be very sticky to our product.

Now I turn to James on the mobile strategy and what we can offer better than the other players.

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

Compared to our competitors we have the most complete product offering and complete service offering. Most of our competitors have one product or have a few products and only do certain parts of the service not the complete service.

So by tackling and integrating all different products and different services, including pre-travel, post-travel or for example air ticketing if there is anything changed with the flight plan or the refund or changing the ticketing -- changing the flight schedule, a complete range of flight services, either through mobile, through our call center, through our other types of services, we can offer the complete range of all the services. By doing all these things to mobiles we offer a unique advantage compared to our competitors.

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

Alex, as James mentioned, because we control end-to-end service (inaudible), the fulfillment cycle is much, much shorter than the other players. So if you try our mobile, a lot of times you can make a reservation within 10 seconds. If you're familiar with the app, even five seconds. That is very hard to beat if you do not have a very strong execution team to support these apps. So that's a very good advantage for us to have.

Alex Yao - *JP Morgan - Analyst*

Got it. That's very helpful. Thank you.

Operator

Your next question comes from the line of Richard Wei of UBS. Please proceed.

Richard Wei - *UBS - Analyst*

Hi, good morning. Thanks for the very good second quarter results. I just wanted to ask one question. Given our regional channel [check] with the Chinese airline companies, the management said that the e-commerce sales were related to ticket, which is their direct sales are also increasing very fast on a year-on-year basis. So it seems that both featured in the airline companies' e-commerce business are rapidly gaining market share.

So can you tell us the current situation of the traditional ticket agent and what's their current situation? Do you see a fast deterioration of the business nationwide? Thanks.



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

Yes--

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

Yes, there are some overlaps how you're calculating this. Some of our tickets actually -- actually through our tickets are some of the traditional air ticket agencies.

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

I think if you look at the market, there are three major segments going into the airline sales. We believe the airlines will gain market share through their online services and I think what your data shows there has demonstrated their ability to gain more market share. We work very hard also to support the airlines to sell more tickets. So you are right, both airlines and Ctrip are growing well.

Naturally, in any market companies with strong execution will grow faster so traditional travel agencies, normally their scale is smaller so their growth rate will be relatively lower.

Richard Wei - *UBS - Analyst*

Thanks.

Operator

Your final question is a follow-up question from Jiong Shao from Macquarie. Please proceed.

Jiong Shao - *Macquarie - Analyst*

Great. Thank for taking my follow-up question. I have actually two. The first one is on the margin impact from air couponing. I think you may have mentioned it in the past, that air couponing may have two to three points of impact on your operating margins. I was wondering in Q2, incrementally how much will that impact? And regarding, you know, reached a very strong operating margin I just wanted to see what was the end result for the air couponing in Q2.

The second question is on macro. As you know, some skeptics are saying that Chinese macro is going down, which is probably true, and travel is cyclical. But despite all these perceived challenges you delivered pretty strong results. Can you shed some light on why you were able to achieve that, why some of the skeptics' concerns have not panned out? Thank you.

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

Sure. For the air couponing margin impact, and the one we'd previously communicated was the investors and analysts. We said that air couponing is one of the many marketing tools that we are using to proactively optimize our overall ROI for the marketing campaigns. We designed it very carefully and methodically to make sure we can have the positive impact. So far it's works well to our expectation. We see the stronger volume growth, new users' acquisition and especially the speed app in the online migration.

Then for the margin impact, what we discussed before with that -- and the maximum impact in our best judgment would be no more than 2 percentage points to 3 percentage points for the margin in (inaudible). So far we executed very well so overall margin impact from this tool is very



much under control and for the second quarter it should have very small impact. Then going forward, we will continue to evaluate each marketing program and to make sure for the overall -- otherwise will be optimized and have the best returns. I will turn to James for the second question.

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

Oh yes, I think I already that even though the overall GDP is lower, business travelling is probably going to be slowed but the leisure travel market is continuing to grow very robustly and Ctrip is very well positioned to take advantage of that.

Jiong Shao - *Macquarie - Analyst*

Okay, great. Thank you very much all.

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

Thank you.

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

Thank you.

Operator

This concludes today's question and answer session. I'll now turn the call back over to Jade Wei for closing remarks. Please proceed.

Jade Wei - *Ctrip.com International Ltd - IR Director*

Thanks Operator. Thank you to everyone joining us on this call today. We look forward to talking to you next quarter. Thanks very much.

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

Thank you.

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

Thank you.

Operator

This concludes today's presentation. You may now disconnect. Have a good day.



DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2013, Thomson Reuters. All Rights Reserved.

