

# FINAL TRANSCRIPT

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**CTRP - Q2 2008 Ctrip.com International, Ltd. Earnings Conference Call**

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**Min Fan**

*Ctrip.com International Ltd - CEO*

**James Liang**

*Ctrip.com International Ltd - Chairman*

**Jane Sun**

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*Merrill Lynch - Analyst*

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**Richard Chow**

*AllianceBernstein - Analyst*

**James Mitchell**

*Goldman Sachs - Analyst*

## PRESENTATION

**Operator**

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Good day, ladies and gentlemen, and welcome to the second quarter 2008 Ctrip.com International Limited earnings conference call. My name is Andrea and I will be your coordinator for today. At this time, all participants are in a listen-only mode. We will conduct a question and answer session towards the end of this conference. (OPERATOR INSTRUCTIONS) I would now like to turn the presentation over to your host for today, Ms. Jade Wei, Senior IR Manager for Ctrip.com. Please proceed, ma'am.

**Jade Wei** - *Ctrip.com International Ltd - Senior IR Manager*

Thank you, Andrea. Thank you for attending Ctrip's second quarter 2008 earnings call. Joining me on the call today, we have Mr. James Liang, Chairman of the Board. Mr. Min Fan, 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 provision of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the views expressed today. A number of potential risks and uncertainties are outlined in Ctrip's public filings with the Securities and Exchange Commission. Ctrip does not undertake any obligation to update any forward-looking statements except as required under applicable law.

Min, James and Jane will provide business updates, industry outlooks and financial highlights for the second quarter of 2008, as well as outlooks for the third quarter. We will also have a Q&A session towards the end of this call. With that, I will turn to Min for our business update.

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

Thanks Jade. And thanks for everyone joining us today on this call. I'm glad to report the solid results achieved by our team for the second quarter of 2008. Despite the challenges brought by the Sichuan earthquake, we were able to achieve solid results and maintain a healthy pace of growth.

While the customer loading base by the major airlines indicated that the travel industry in China experienced unnaturally year-over-year growth in May and June, which drives to deliver a revenue growth rate at 30% year-over-year. Our hotels business grew 14% year-over-year. Air-ticketing business grew 44% year-over-year. And the package tour business grew 85% year-over-year.

Our hotel supply network continued to expand at a rapid pace with approximately 7,000 hotels by the end of June 2008, compared to approximately 5,300 by the same period last year. The number of hotels which can achieve allotment rooms further increased to account for more than 60% of the total supply.

For air-ticketing, although the industry experienced a massive growth in May and June of 2008, our team executed effectively to deliver the strong growth rate at 44% year-over-year. By the second quarter of 2008, the number of cumulative active customers reached to 5m, compared to 3.3m by the same period of last year. We are glad that our customer acquisition pace continued its momentum, despite a slower market growth.

Meanwhile, our corporate travel business continued to grow with a strong momentum. One of the initiatives to further elevate our service offerings to our corporate clients is a newly-launched Crystal Reports system. This system has intelligent and customized reporting features to help our customers plan, manage and monitor their travel budget more efficiently. We believe the new system will enable our customers to cut about 10% to 30% of their travel costs. At the same time, the system enables us to improve productivity and service quality.

During the second quarter of 2008, we officially launched Starway Hotel Alliance. Starway Alliance is established and operates independently to support the individual three and lower star hotels for their branding, quality control, purchasing and technology. It is at the very early stage of development and we believe it will benefit hotel industry by giving customers more choice of quality hotels, and giving customers, hotel partners, better exposures in the sales channels.

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Subsequent to the second quarter of 2008, Ctrip signed a definitive agreement to acquire a majority equity stake of one of the leading software companies in China, which specialize in hotel property management systems. This acquisition will enhance Ctrip's cooperation with hotels and increase our operational efficiencies. Meanwhile, Ctrip will be able to support the PMS sales through our hotel network.

Another exciting note is that China's Prime Minister, Wen Jiabao, came to visit our headquarters in Shanghai on July 6. Prime Minister Wen praised Ctrip for its innovative service model and our ongoing efforts to take leadership in the online travel industry.

Overall, we feel very confident about our fundamentals and leadership in this market. While we continue to expect a challenging market environment in the short term, we are optimistic about our prospects in the medium to longer-term. And I will let James speak more on that front.

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

Thanks Min. We witnessed the industry slowdown in the past quarter and probably the situation will extend into the third quarter. We have lived through similar or even more severe market situations caused by unexpected events in the history of our Company. Today we are in a better position than ever to weather through difficult times and come out even stronger. Our solid execution enabled us to continue to enhance our core competency and improve customer base and loyalty, and improve productivity and technology advantages. The strong growth in corporate travel, the establishment of Starway Hotel Alliance, the acquisition of one of the leading hotel PMS software companies will further strengthen our competitiveness.

China's economy is expected to continue a strong growth rate in the coming years. The recent correction is deemed to be healthy to maintain our long-term perspective of the country. We remain to be confident that Ctrip is going to benefit from the economic growth in China. Our solid execution has delivered good results in the past and will enable us to achieve our targets in the future.

Now let me turn to Jane for the updates of financial performance.

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

Thanks James. I'm very pleased to report the solid results for the second quarter of 2008. Despite of the challenges brought by the earthquake, our net revenues reached RMB375m, or \$55m in the second quarter of 2008, representing a growth rate of 30% year-over-year.

Hotel reservation revenues amounted to RMB196m, or \$29m for the second quarter of 2008, representing a 14% increase from the same period in 2007 and the previous quarter, primarily due to the increase of volume in hotel bookings.

Air-ticketing revenues for the second quarter of 2008 were RMB169m or \$25m, representing a 44% increase from the same period in 2007, and a 6% increase from the previous quarter, primarily due to the increased air-ticketing volume.

Package tour revenues in the second quarter of 2008 were RMB24m or \$3m, up 85% from the same period in 2007, primarily due to the increase in visa travel volume and a decrease of 11% from the previous quarter, due to the seasonality.

Gross margin was 79% in the second quarter of 2008, remaining relatively consistent with 80% in the same period in 2007 and in the previous quarter.

Product development expenses for the second quarter of 2008 increased by 37%, to RMB57, or \$8m from the same period in 2007, and increased by 6% compared to the previous quarter, primarily due to the increased product development personnel

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resources. Excluding share-based compensation charges, product development expenses accounted for 13% of the net revenues, which was an increase from 12% of the same period last year and remaining consistent with the previous quarter.

Sales and marketing expenses for the second quarter of 2008 increased by 16%, to RMB68m or \$10m for the same period in 2007, and increased 4% from the previous quarter, primarily due to the increased sales and marketing personnel resources and other marketing activities. Excluding share-based compensation charges, sales and marketing expenses accounted for 17% of net revenues, decreased from 19% from the same period last year and 18% in the previous quarter.

General and administrative expenses for the second quarter of 2008 increased by 22% to RMB43m or \$6m, from the same period in 2007, primarily due to the increase of personnel resources and share-based compensation charges. General and administrative expenses remained relatively consistent with the previous quarter. Excluding share-based compensation charges, general and administrative expenses accounted for 6% of net revenues, decreased from 7% in the same period last year and in the previous quarter.

Income from operations for the second quarter of 2008 was RMB127m, or \$19m, which represented a 34% increase from the same period in 2007 and a 15% increase from the previous quarter. Excluding share-based compensation charges, income from operations was RMB159m, or \$23m, representing a 34% increase from the same period in 2007 and a 10% increase from the previous quarter.

Operating margin was 34% in the same -- in the second quarter of 2008, compared to 33% in the second quarter of 2007 and 32% in the previous quarter. Excluding share-based compensation charges, operating margin was 42% in the second quarter of 2008, compared to 41% in the second quarter of 2007. And it was relatively consistent with the previous quarter.

Net income in the second quarter of 2008 was RMB119m or \$17m, representing a 35% increase from the same period in 2007 and a 21% increase from the previous quarter. Excluding share-based compensation charges, net income was RMB151m or \$22m, representing a 35% increase from the same period in 2007 and a 14% increase from the previous quarter.

The effective tax rate for the second quarter of 2008 was 26%, increased from 15% in the same period of 2007, primarily due to the application of the new statutory tax rate of 25% under the new PRC Enterprise Income Tax Law, effective on January 1, 2008. The effective tax rate for the second quarter decreased from 28% in the previous quarter, primarily due to the decrease of share-based compensation charges, which is non-tax deductible.

Diluted earnings per ADS were RMB1.72 or \$0.25 for the second quarter of 2008. Excluding share-based compensation charges, diluted earnings per ADS were RMB2.17 or \$0.32 for the second quarter of 2008.

As of June 30, 2008, the balance of cash and short-term investments was RMB1.3b or \$188m. The balance of cash and short-term investment accounted for more than 50% of total assets as of June 30, 2008.

For the third quarter of 2008, the Company expects a year over year net revenue growth rate to be in the range of 15% to 20%.

The Board of the directors have -- has approved a share purchase program, which is subject to our shareholders' approval during our annual general meeting currently scheduled in September 2008. The Board has authorized Ctrip to repurchase up to \$15m worth of its own ADSs. The repurchases will be made from time to time on the open market, at prevailing market prices. Ctrip's Board of Directors or certain authorized officers will review the shares repurchase program periodically and may adjust its terms and its size accordingly.

With that, operator, we'll open the line for questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you for that presentation. (OPERATOR INSTRUCTIONS) Your first question comes from the line of Catherine Leung with Citigroup. Please proceed.

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**Catherine Leung** - Citigroup - Analyst

Hi. Good morning, Min, James and Jane.

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

Morning.

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**Catherine Leung** - Citigroup - Analyst

Hi. My first question is on margins. In the second quarter, despite slower revenue growth, operating margin still expanded by over 100 basis points, primarily driven by leverage off SG&A. Can you help us to understand specifically which areas you were able to derive more efficiencies from and were able to cut costs?

And going forward, what is the potential for further cost control if the weaker demand environment persists? Thank you.

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

Sure. We monitor our investment return for each dollar we put in the channel, very carefully. And so in Q2, after the earthquake, we sense that the market is, the sentiment in the market is very low. So we control our sales and marketing cost very carefully. To an extent, if our campaign is effective, we will proceed without any problem. But to an extent, if we sense the sales and marketing campaign will not stimulate the market, then we will control the cost accordingly. That's the main reason why, as a percentage of total revenue, sales and marketing decreased to 17%.

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### Operator

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

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**Mike Olson** - Piper Jaffray - Analyst

Hey, good morning. I had a quick question about Q4. And looking at some of the industry data suggests that Q4 air capacity is getting cut globally and also in China. Can you talk at all about what you expect for Q4 revenue growth and what kind of pent up demand there may be for travel, and what kind of revenue growth rate that could result in? Thank you.

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

Sure. I think we will do our best to monitor the market situation and give Q4 guidance in our Q3 earnings release call. So far, I think after the Olympic Games, the business will be back to normal. And travel industry growth rate should be back to normal in Q4.

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**Operator**

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

**Chun Ming Zhao** - *Susquehanna International Group - Analyst*

Thanks for taking my question. Good morning. Yes, my question is, Jane, can you comment on your 3Q guidance? What has so far that makes you be -- give this kind of guidance? Is it mainly the air ticketing or is it hotel?

And because we are in the middle of the Olympics, have you already had visibility about the Olympic impact? Thanks.

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

Sure. Based on our current visibility, during the Olympic Games, for leisure travelers, most of them are staying home watching games on TV. So they are delaying their trips until after Olympic Games. For business travelers, most of the companies are also delaying their meetings and conferences until after Olympic Games. So we see the market slow down during the Olympic Games. But our expectation is in Q4 all the business and travel volume will be back to normal. That's the reason we -- our guidance is between 15% to 20% for Q3.

**Operator**

Your next question comes from the line of Jenny Wu with Morgan Stanley. Please proceed.

**Jenny Wu** - *Morgan Stanley - Analyst*

Hi James, Jane, Ming and Jade. How are you?

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

Hi.

**Jenny Wu** - *Morgan Stanley - Analyst*

I have several questions. The first one, follow the Ming's question on the Olympic impact. Could you please quantitatively give us some color, how much the impact might be coming from this one-off event? And how much would come from the economic slowdown? Thank you.

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

From our observation, the slowdown of the travel industry for the second quarter is primarily caused by the Sichuan province earthquake. And for the Q3, as Jane just said, that we project that are for leisure and business travelers, those events, those activities would slow down during that season. But after the Q3, that means after the Olympic Games, we -- hopefully, we can see the -- all the -- those activities and business would be back to normal. So I think still right now it's very hard to predict very exactly how much the impact will be. But we are very sure that this will be one-time events.

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**Operator**

Your next question comes from the line of Ashish Thadhani. Please proceed.

**Ashish Thadhani** - *Gilford Securities - Analyst*

I just want to continue on that line. Now after looking at various gauges, such as consumer and business segments, GDP growth, stock market performance, inflation, all of that, over what kind of timeframe do you expect that the macro-environment will stabilize and then be able to improve on a sustainable basis, as best you can tell right now?

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

Okay. I think we are not economists, so we cannot predict the GDP growth and economic growth very well, as well as the chief economists in the major banks. But we will do our best to help our investors by sharing our views.

I think last year the GDP growth rate was above 10 percentage. And the travel industry was growing at around 15%, a couple of percentage higher than the normal GDP growth rate. And this year, for the first six months, the GDP growth rate was still above 10%. Although it's slower than last year, but still it's among the fastest-growing nations in the world. And going forward, I think even the GDP growth rate will be slower than last year. A 7% to 8% GDP growth rate probably is still sustainable. And we think that with that sustainable GDP growth rate, travel in a normalized business environment should be 1 or 2 percentage higher, or even higher than the GDP growth rate. And with that, I think, based on our execution, Ctrip should be able to sustain our strong growth rate, going forward.

**Operator**

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

**Elinor Leung** - *CLSA - Analyst*

Hi. Thank you for the call. Actually, I have two questions. The first question is still regarding the economic slowdown. Given you are targeting the business travelers, so if there is really an economic slowdown, will you actually expose to a higher rate of the slowdown?

And second question is regarding your gross margin. I see there's a slight decline in the second quarter. What's the main reasons and what is the trend, going forward? If we see continued slowdown in the top line, are we going to see a more gross margin decline?

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

Sure. Our CEO will address your first question. And I will address the gross margin question later on.

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

I think for the slowdown right now I think still it's one-time. As you know the year 2008, as our Prime Minister Wen Jiabao said, year 2008 probably will be one of the tougher year, most tough year in China's history. So I think that's why the macro situation is not so good as the last year. But definitely I think past the Olympic Games there will be very good recovery from the inbound and also the domestic travel business.



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

Regarding the gross margin, the gross margin is still holding at a very strong pace. It's going to be reflecting the revenue mix. Hotel business has the highest gross margin. And air ticketing has relatively lower gross margin than the hotel business. So as the air ticketing business increases, its contribution to the total revenue pool, the gross margin will pull down a little bit. But our team will do our best to continuously to improve our efficiency to offset the decrease in the margin. So based on the current volume I think a margin between 75% to 80% is sustainable, probably will be in the middle range.

**Operator**

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

**Candy Huang** - *Lehman Brothers - Analyst*

Hi Jane, James. Two questions, first about the volume slowdown. Do you think the fuel price hike in China will slow down the overall tourism? And think of this as the first question.

And secondly, about the hotel revenue growth, what do you think is expected in the third quarter or the fourth quarter?

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

Okay. The fuel price definitely impacts all the travelers worldwide. But fortunately, I think, for our business, because 80% of the travelers are business travelers, so they are less sensitive to the increase in the price. Relatively they are better than the leisure travelers. So that's the first question.

The second question is the hotel revenue. Hotel revenue is going to be reflecting the overall general market. I think in Q2 the industry had a negative growth in May and June. And normally air industry represents the high end of the travelers. Hotel industry does not have a national wide impact. So we have to analyze based on the air industry. Normally hotel growth rate it's below the air industry by a couple of points. So if the market recovers, hotel industry will follow. But in Q3 I think it's still a very challenging quarter for the hotel industry.

**Operator**

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

**Chris Zee** - *BNP Paribas - Analyst*

Hi guys. I just have several questions. First of all in the earlier part of this year you guys gave the full year guidance for 2008 in revenue terms. Now two quarters are already lapsed and the third quarter guidance has been released today of 15% to 20%. So with that, are you guys doing anything with changing your full year guidance? That's number one.

The number two question is you mentioned earlier about the cost controlling especially in the sales and marketing item, that being quite a flexible cost item, spending less in the sales and marketing in the air cycle. Should we assume that to persist in third and fourth Q so that the leverage may be higher in these two quarters?

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

Sure. At the beginning of the year our guidance was around 35%. Now for the full year guidance, it really will depend on how Q3 will turn out to be and how strong the markets rebound in Q4. Based on our current limited visibility for Q4, our estimation is full year growth rate will be in the range of 30% to 35% year over year. But again, as we come closer to Q4, we will better address your question and we will revise it accordingly.

Your second question on sales and marketing, normally, in a normalized range, we maintain sales and marketing in the range of 18% to 20%. That's the normalized range. In a market that is impacted by one-time event, we will do the adjustment accordingly.

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**Operator**

Your next question comes from the line of Leah Hao with Goldman Sachs. Please proceed.

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**Leah Hao** - *Goldman Sachs - Analyst*

Thank you. Hi. Good morning. I was wondering if you could give us a little bit comment of your expectations as where -- how the airline commission removal changes will impact the industry?

And also, along that line, do you perceive any structural changes in travel industry in China, either from this or some other factors such as higher gasoline price or maybe a lower GDP growth?

And also would you expect airlines to lower ticket price a little bit to promote volume in the near-term? Thanks a lot.

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

Yes. When the government decided to change the 3% mandatory commission rate, which is just a few months ago they had a meeting in Beijing, I think the intention is to let market decide the commission rate. We believe this can provide a better chance for a big company, or a qualified company, to get more market shares. It does not mean that the government will ask the airline companies to cut commission, but just to try to make our market behavior, market performance.

And for the air fuel and the surcharge change, I think this kind of cost increase will more affect the leisure travelers. And for business travelers, I think most of the business travelers they are less price sensitive. So there should be no big impact on our business.

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**Operator**

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

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**Thomas** - *Merrill Lynch - Analyst*

Hi. I'm Thomas asking questions on behalf of Merrill Lynch. Just a follow up question from previous one, I would like to get more color on how many corporate clients does Ctrip have in the second quarter compared to the first quarter? Thank you.

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

Thomas, we do not release the exact number of our corporate clients. But our corporate travel management business is growing very fast, even during this slow season, mainly because we acquire more big corporate clients among market. And I think still we are growing at around 100% year-over-year growth. So it's very healthy.

**Operator**

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

**Wendy Huang** - *ABN Amro - Analyst*

Hi, good morning. Thanks for taking my questions. I have three questions. First is about your second quarter '08 hotel revenue. I understand you no longer disclose the metrics regarding this segment, but could you help understand the segment in the second quarter, whether it's more from the volume side or whether it is more from ARPU side?

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

The second quarter volume -- the hotel growth is mainly driven by volume. Wendy?

**Operator**

(OPERATOR INSTRUCTIONS). Your next question comes from the line of Lu Sun with Indus Capital. Please proceed.

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

Hello? Hello?

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

Hello?

**Operator**

Lu Sun your line is open. Please proceed with your question. Your next question comes from the line of Jenny Wu with Morgan Stanley. Please proceed.

**Jenny Wu** - *Morgan Stanley - Analyst*

Hi everyone. I have a follow-up question. Given the cost environment currently, have you noticed some change in industry competitive landscape or have you noticed that some smaller peers actually have been squeezed out? Or more specifically, how many market shares you have or you expect you may gain in the coming quarters? Thank you.

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

Yes, we monitor our competitors in the market very carefully. However we don't think there is any significant change regarding the competition landscape. And in fact I think when Ctrip grow bigger and bigger we, definitely we get more and more market share from those small players in China. So I think the trend is still very healthy.

**Operator**

Your next question comes from the line of Lu Sun with Indus Capital. Please proceed.

**Lu Sun** - *Indus Capital - Analyst*

Hi, good morning. Thank you --

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

Good morning.

**Lu Sun** - *Indus Capital - Analyst*

For taking my questions. Actually I have three questions. First one is regarding other income. It seems like the Company has reported quite a substantial increase in this item. Please explain where it is coming from and the future trend.

And also I would like to know the month on month growth trend in the past three months, hopefully also provide us some color on the July trend, and also the regional difference in terms of travel volume performance because I suppose that the Olympics probably affects the northern cities a little bit more than the southern cities.

And then I have a follow up. Thank you.

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

Sure. The other income for Q2 is mainly driven by the following FX gain. We had to pay our shareholders cash dividends in USD. So last year when our shareholders approved the resolution, we converted some USD to Australian dollars in anticipation of the appreciation in Australian dollars. As of June we have paid all the dividends to shareholders. So the other income line is very much linked to the conversion from USD to Australian dollars. And it's not recurring for the next couple of quarters. So that's your first question.

The second one is month to month growth rate. I think in July, because people are already anticipating the Olympic Games, the travel volume already reflects the people's delay of the travel in July.

**Lu Sun** - *Indus Capital - Analyst*

So what about regional difference in performance? I --

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

Sure. Regional differences, I think the Olympic Games is happening in Beijing. So that's definitely been impacted the most. But all around the country, I think everyone in China right now spends lots of time at home watching TV. So it's a countrywide phenomenon.

**Lu Sun** - *Indus Capital - Analyst*

I see. My last question will be on the hotel consolidation side. There have been some mainline reports about Ctrip potentially become a consolidator in the economy hotel side. Firstly I want to know whether that's true. And secondly, you did I think acquire a hotel consolidation software company. So can you indicate what's your future plan in this regard and how you're going to further expand your hotel supplier network?

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

Yes. We just -- a press release, we talked about the Starway Alliance. Maybe I give you a little bit information on this side. In China, around 90% of the hotels are unaffiliated hotels and around 10% are chain hotels. Starway Alliance is targeting at the 90% of those unaffiliated three star and below or those small hotels.

For Ctrip we will not try to be a hotel consolidator. But the Starway Alliance is not a chain hotels as you can see in China industry. And Starway Alliance will select those qualified hotels who intend to keep their own management and aim at improving their quality and brand awareness. So this will provide a nationwide branding and sales and marketing and quality assurance support for those hotels. And again Starway Alliance will act as an independent hotel alliance company, and will complement with chain hotels in the hotel industry and provide travelers with more quality accommodation choices. So I think this will -- is the -- this is our idea to launch the Starway Hotel Alliance.

And regarding the PMS company we acquired, I think this will give Ctrip a very good chance to improve its reservation efficiency in terms to have better cooperation with those hotels. And also the acquisition will enhance Ctrip's internal operational efficiencies. And also Ctrip will be able to support the sales through our hotel network with the PMS company. And right now the transaction is very immaterial and we -- in fact we, again, we're not, in future we're not trying to be software consolidator in China. But we just want to try to get more efficiency in terms of cooperation among hotels.

**Operator**

Your next question comes as a follow up from the line of Wendy Huang with ABN Amro. Please proceed.

**Wendy Huang** - *ABN Amro - Analyst*

Hi. I'm sorry, I just -- line just now. Just a follow up on the Starway Hotel Alliance. Could you maybe give us some data points regarding how many hotels you've already included in that network? And how will this help you to accelerate the penetration into the second tier cities?

And associated with that, should we expect some additional sales and marketing expenditures to help you build the brand name of this Starway Hotel Alliance among all consumers in the second tier cities? Thank you.

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

Starway Alliance right now has around 20 independent hotels already rebranded as a Starway Hotels in the market. And right now still Starway Hotel Alliance is in the only development stage. And we do not expect a significant revenue contribution from Starway Alliance. And again, as you may know, because we are not, as the chain hotels, we are not capital-intensive company to run the Starway Alliance. So in fact the expense, or the cost, to launch this company is not significant.

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

We do not plan to spend any significant amount of the sales and marketing dollars for the Starway Hotel. It should be self-sufficient.

**Operator**

Your next question comes from the line of Richard Chow with AllianceBern. Please proceed.

**Richard Chow** - *AllianceBernstein - Analyst*

Hi. Thanks for taking the call. I wonder if you can update us on the tax application for 15% that you alluded to earlier. Where are we in terms of that? Thanks.

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

Sure. Our team is very proactively working with the authority to get the approval. But I think in the city of Shanghai the detailed increment schedule is yet to be published. So we are anxiously waiting to hear from the government on any development on the detailed information guidelines. Hopefully they will publish it and approve our application as soon as possible.

But we will take a very conservative approach that before we get official notice from the government authority, we will apply 25% across the board for all entities that does not have the high-end new technology status.

**Operator**

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

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

Thank you for taking the question.

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

Sure.

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

If you could just clarify what was happening with the Australian dollar? You were transferring the US dollars for the dividends into Australian dollars and then transferring them back into US dollars?

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

Sure. Every year at the end of the year when we lock down our annual income, I think based on last year's Board resolution, 30% of our net income will be paid to our shareholders as cash dividend. And we need to convert RMB to US dollars in order to make sure we have sufficient US dollars to the shareholders. However we know US dollar is depreciating. So in order to preserve the value of the assets, we converted around \$15m to Australian dollars for the six months after we locked down our net income for the year to the time when we have to distribute our cash dividend, for six months. And after six months, the Australian dollars is converted back to USD and paid out to the shareholders. So that's what happened. Sorry, is it clear or we need more explanation on that?

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**Operator**

Your next question is a follow up from the line of Catherine Leung with Citigroup. Please proceed.

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**Catherine Leung** - *Citigroup - Analyst*

Hi. I have two more questions. Firstly a follow up on the Starway Alliance. Can you help us just understand a little better what is the revenue model for the Starway Alliance? Because I think one of the competitive advantages that Ctrip has, and one of barriers to entry for the hotel market is the fragmentation. So now that we're trying to build up that network, how will this affect the industry dynamics for the hotel market in terms of new agencies trying to enter this market and forming a cooperation with the Alliance to get some of the hotel supply?

And my second question is on the inbound travel initiatives. Ctrip has relaunched its English website earlier this year. I'm just wondering what is the development, what is the progress of the development? Have we been seeing some good traction especially with the Olympics? And what is the strategy right now in terms of cooperation with overseas partners? Thank you.

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

Okay. For Starway Hotel Alliance, Starway Alliance, in fact we'll get some revenue via the branding maintenance fees from each hotel. And this part of the money we'll mainly use the amount for those hotels in terms of sales and marketing and in terms of branding, in terms of upgrading their operations quality.

And for the marketing position of the Starway Alliance, I just -- I want to make a little bit color on this. Starway Hotel Alliance will be independent hotel management company, but it is not as the Home Inn or as other chain hotels. This is a kind of hotel alliance. So we will mainly target those 90% unaffiliated hotels. Among those hotels there are certain qualified hotels who aim at to improving their quality and try to establish their brand awareness. So among those hotels we set this Starway Alliance to make it more easy for our customers to choose among all those small hotels in China, because in China, we have tens of thousands of hotels. And among those hotels, most of them are small and low-star hotels. So if you're talking about the chain hotels, all those chain hotels only accounts for around 10%. So there's still 90% hotels, they don't have a nationwide brand. They don't have enough awareness among the -- among our business and leisure travelers.

So I think Starway Alliance will complement with existing chain hotels in China's hotel industry and provide more qualified or quality accommodation choice for business travelers. So in that way, this will again will help for Ctrip's clients and also will be very helpful for Ctrip to cooperate with those hotels.

And regarding the inbound business, we launched our upgraded English version, English website only this year. And so far, I think that our operation is very smooth. And inbound business right now accounts for very small portion of Ctrip total revenue. And especially I think, during this period of Q2, Q3, I think in China the inbound business, we cannot expect a very significant

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increase because of the current situation. But after the Olympic Games, definitely we will see very positive increase in terms of inbound business. And we are working very hard to provide more product lines for inbound travelers.

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**Operator**

Your next question comes as a follow-up from the line of Ashish Thadhani with Gilford Securities.

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**Ashish Thadhani** - *Gilford Securities - Analyst*

Yes, on this majority stake that was announced today, what exactly is the ownership stake, your purchase price? And any general color that you can provide on the revenue and profitability of the entity would be helpful.

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

Sure. The acquisition -- the majority stake we took in a PMS company is very strategic. The company in terms of size, balance sheet, income statement, is immaterial compared to Ctrip's size. So we do not expect the company to bring any significant revenue or income compared to the Ctrip -- compared to Ctrip. But this strategic move will improve our efficiency from an operational perspective.

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**Ashish Thadhani** - *Gilford Securities - Analyst*

And the amount you spent?

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

It's undisclosed.

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**Ashish Thadhani** - *Gilford Securities - Analyst*

Okay. Thank you.

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**Operator**

At this time, there are no further questions in the queue. I would like to turn the presentation back over to Ms. Jade Wei for closing remarks.

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**Jade Wei** - *Ctrip.com International Ltd - Senior IR Manager*

Okay. If there are no further questions, we could conclude this call and thank you all very much.

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

Thank you.



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

Thank you very much. Bye, bye.

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**Operator**

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

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