

THOMSON REUTERS

FINAL TRANSCRIPT

Q3 2009 Ctrip.com International, Ltd. Earnings Conference Call

EVENT DATE/TIME: 11/12/2009 09:00 AM GMT



CORPORATE PARTICIPANTS

Lin Zhang *Ctrip.com International Ltd - IR*
Min Fan *Ctrip.com International Ltd - CEO*
James Liang *Ctrip.com International Ltd - Chairman*
Jane Sun *Ctrip.com International Ltd - CFO*

CONFERENCE CALL PARTICIPANTS

Catherine Leung *Citigroup - Analyst*
Kathy Chen *Goldman Sachs - Analyst*
Wendy Huang *Royal Bank of Scotland - Analyst*
Mike Olson *Piper Jaffray - Analyst*
Aaron Kessler *Kauffman Brothers - Analyst*
Richard Ji *Morgan Stanley - Analyst*
Ashish Thadhani *Gilford Securities - Analyst*
Marisa Ho *Credit Suisse - Analyst*
Ming Zhao *Susquehanna Financial Group - Analyst*
Elinor Leung *CLSA - Analyst*
Michael Fordano *Gilder Gagnon Howe & Co. - Analyst*
Jill Fan *Lusight Research - Analyst*
Zim Yin *Wisco Research - Analyst*

PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the third quarter 2009 Ctrip.com International earnings conference call. My name is Tanya and I will be your operator for today. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today, Ms. Lin Zhang. Please proceed.

Lin Zhang *Ctrip.com International Ltd - IR*

Thank you Tanya. Thank you for attending Ctrip's third quarter 2009 earnings conference 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 and are made under the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent 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 update, industrial outlook and financial highlights for the third quarter of 2009 as well as the outlook for the fourth 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 Lin and thank you for everyone for joining us today on the call. As we celebrate Ctrip's tenth anniversary, we are pleased to report that our team once again delivered solid results in the third quarter of 2009. Our net revenues grew 47% year-over-year and net income grew 80% year-over-year. We're glad to see that after global financial crisis our team has captured the opportunity of the economic recovery. Each business line of Ctrip reached historic records of the highest quarterly volume during the third quarter. The strong financial performance also demonstrates our ability to effectively control our costs and expenses.

Our Hotel supply network continued to expand at a rapid pace with approximately 9,400 hotels by the end of September 2009 compared to approximately 7,600 by the same period of last year. The number of hotels with guaranteed allotment rooms further increased and accounted for approximately 70% of the total hotel supply.



Air-ticketing business had a resilient growth during the third quarter this year primarily due to the increased business and leisure travel volume driven by the economic recovery.

Our Package Tour business grew 93% due to higher consumer confidence. The comprehensive tour products, high level service, and competitive prices, along with our newly-established, transparent quality standards are well accepted by our customers.

By the end of the third quarter of 2009 Ctrip has reached to 8.2m active customers compared to 5.6m by the same period of last year. And our customers' loyalty to our services has also been enhanced. We feel honored that Ctrip's call center was rewarded with the Golden Headset Award for the best contact center in China in September this year for the third straight year. We believe high quality of services is a key for success. We will continue to improve our service level and to maintain our competitiveness for our long term growth.

Not only do we have a highly qualified call center, but have been enhancing our online platform to provide our customers with a robust and comprehensive travel site. Ctrip's website is the most active and popular internet space for travelers in China. This is a great asset for our Company and we will continuously invest in the future.

By delivering the high quality of services, transparent information and flexible arrangements, Ctrip was awarded the Best Online Travel Agency in China by leisure travelers polled by Travel Weekly during the quarter. We believe our advanced technology systems and customer-tailored tour products are well received by our leisure travelers.

Additionally, in the third quarter Ctrip has been awarded the best Corporate Travel Agent in China. Corporate travel management sets high standards for information management and customer service. With three years experience our team had won this prestigious award. We are confident that we are well positioned to compete in the emerging and fast growing corporate travel management market.

In September this year Fortune China announced that Ctrip was on its list of 2009 China's most admired companies. This is a great recognition of our leadership in the online travel industry. Looking forward, we'll fully utilize our advantage in new technology to deliver excellent service to our customers and bring strategic values to our customers, partners. With Ctrip's branding becoming stronger in China travel market, our team is more confident and passionate about our growth in the coming future.

Now I will turn to James for industry outlook.

James Liang *Ctrip.com International Ltd - Chairman*

Thanks Min. As we are celebrating our tenth anniversary, we are proud to see that Ctrip has become the leading brand in online travel market in China. Ctrip is going to continuously challenge and improve ourselves through all fronts, including customer service, product offers, technology, sales and marketing and, more importantly, developing our people.

The travel market in China is fast growing. Ctrip is still young and small compared to the global players. We look forward with excitement to the opportunities that China travel industry presents us in the future. We want to take this opportunity to thank everyone for their continuous support to Ctrip. I believe with the passion, commitment and diligence our team has, Ctrip is going to grow with China economy and China travel industry.

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

Jane Sun *Ctrip.com International Ltd - CFO*

Thanks James. I'm very pleased to report the solid results for the third quarter of 2009. Net revenues were CNY545m or \$80m for the third quarter of 2009, up 47% year-on-year. Excluding net revenues attributable to ezTravel, Ctrip's net revenues were CNY518m or \$76m for the third quarter of 2009, up 40% year-on-year.

Hotel reservation revenues amounted to CNY262m or \$38m for the third quarter of 2009, representing a 41% increase year-on-year and a 16% increase quarter-on-quarter. Excluding revenues attributable to ezTravel, Ctrip's hotel reservation revenues were CNY257m or \$38m, representing a 38% increase year-on-year, primarily driven by a 47% increase in hotel reservation volume, which was partially offset by a

decrease in commission per room. Excluding revenues attributable to ezTravel, Ctrip's hotel revenues increased by 15% quarter-on-quarter, primarily driven by an increase in hotel reservation volume.

Air-ticketing revenues for the third quarter of 2009 were CNY241m or \$35m, representing a 45% increase year-on-year and 8% increase quarter-on-quarter. Excluding revenues attributable to ezTravel, Ctrip's air-ticketing revenues were CNY234m or \$34m for the third quarter of 2009, representing a 40% increase year-on-year and a 9% quarter-on-quarter, primarily driven by an increase in air-ticketing sales volume.

Packaged-tour revenues for the third quarter of 2009 were CNY55m or \$8m, representing a 93% increase year-on-year and a 53% increase quarter-on-quarter. Excluding revenues attributable to ezTravel, Ctrip's packaged-tour revenues for the third quarter of 2009 increased by 53% year-on-year and 61% quarter-on-quarter, due to the increase in leisure travel volume.

Gross margin was 77% in the third quarter of 2009, remaining consistent with that in the same period in 2008 and in the previous quarter.

Product development expenses for the third quarter of 2009 increased by 32% to CNY81m or \$12m from the same period in 2008 and by 6% from the previous quarter, primarily due to the increase in the number of the product development personnel. Excluding share-based compensation charges, product development expenses accounted for 14% of net revenues, remaining consistent with that in the same period of last year and in the previous quarter.

Sales and marketing expenses for the third quarter of 2009 increased by 32% to CNY94m or \$14m from the same period in 2008 and by 13% from the previous quarter, primarily due to the increase in sales and marketing activities and the number of personnel. Excluding share-based compensation charges, sales and marketing expenses accounted for 17% of net revenues compared to 18% in the same period last year and remained consistent with that in the previous quarter.

General and administrative expenses for the third quarter of 2009 increased by 5% to CNY47m or \$7m from the same period in 2008 and 4% from the previous quarter, primarily due to the increase in the number of the personnel. Excluding share-based compensation charges, general and administrative expenses accounted for 6% of net revenues compared to 7% in the same period last year and remained consistent with that in the previous quarter.

Income from operations for the third quarter of 2009 was CNY199m or \$29m, representing an 87% increase from the same period in 2008 and a 22% increase from the previous quarter. Excluding share-based compensation charges, income from operations was CNY226m or \$33m, representing a 64% increase from the third quarter in 2008 and a 19% increase from the previous quarter.

Operating margin was 37% in the third quarter of 2009 compared to 29% in the third quarter of 2008 and 34% in the previous quarter. Excluding share-based compensation charges, operating margin was 41% in the third quarter of 2009 compared to 37% in the third quarter of 2008 and 40% in the previous quarter.

Net income attributable to Ctrip's shareholders for the third quarter of 2009 was CNY189m or \$28m, representing an 80% increase from the same period in 2008 and a 19% increase from the previous quarter. Net income attributable to Ctrip's shareholders for the current quarter included an equity income of CNY12m or \$2m from our investment in Home Inns. Excluding share-based compensation charges, net income attributable to Ctrip's shareholders was CNY215m or \$32m, representing a 59% increase from the same period in 2008 and a 16% increase from the previous quarter.

The effective tax rate for the third quarter of 2009 decreased to 13% from the same period of 2008 and the previous quarter primarily due to the preferential tax treatment to certain Ctrip's PRC subsidiaries.

Diluted earnings per ADS were CNY2.65 or \$0.39 for the third quarter of 2009. Excluding share-based compensation charges, diluted earnings per ADS were CNY3.03 or \$0.44.

As of September 30, 2009, the balance of cash and short-term investment was CNY1.4b or \$207m.



For the fourth quarter of 2009, Ctrip expects a year-on-year net revenue growth at approximately 25% to 30%. This forecast reflects Ctrip's current and preliminary view, which is not -- which is subject to change.

With that, operator we are opening the line for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question will come from the line of Catherine Leung with Citigroup. Please proceed with your question.

Catherine Leung Citigroup - Analyst

Hi, good morning and congratulations on the very strong quarter. My first question is if you can please discuss the pricing trend in the third quarter, and what you've seen so far in October and November. And any difference in dynamics you're seeing between the Hotel and Air travel business?

And my second question is whether you can update us on your developments of your leisure travel initiative. Thank you.

Jane Sun Ctrip.com International Ltd - CFO

Okay. I will take the first question and our CEO will answer the second one. On the price trend for Hotel business in Q3, the volume growth was very strong. However the price was still having a 5% to 10% decrease compared to last year. For Air-ticketing the price has been increased at approximately 5% to 10% depending on different airlines and different routes, and that trend still holds very similar for Q4 as of today.

Min Fan Ctrip.com International Ltd - CEO

Yes. In terms of the leisure market we do see after the financial crisis and in China the economy seems some recovery, the leisure travel demand is growing quite significantly. And also in this Q3 it's normally it's seasonal period for leisure demand. So we do see quite some pick up from leisure side and that's why we also see our hotel rooms' growth quite significantly this quarter.

Catherine Leung Citigroup - Analyst

Right. Thank you.

Min Fan Ctrip.com International Ltd - CEO

Thank you.

Jane Sun Ctrip.com International Ltd - CFO

Thanks.

Operator

Our next question comes from the line of Kathy Chen with Goldman Sachs. Please proceed with your question.

Kathy Chen Goldman Sachs - Analyst

Hi. Thanks for taking my questions. The first one is actually a follow up on the comments regarding the Hotel trends during the quarter. Can you give us a bit more color on how much of the volume growth came from leisure versus corporate during the quarter?

And the second question on the Air side, it looks like the volume growth is a bit slower given the acceleration in the industry traffic that we saw during the quarter. Can you talk about whether you're seeing any changes in the relationship between your growth rate and the industry trends going forward? Thanks.



Jane Sun Ctrip.com International Ltd - CFO

Sure. The rate in the Hotel, I think both side grows very strong. I think our business activities from the corporations have demonstrated its growth due to the economic recovery. And also on the leisure side, our team has put lots of effort to make sure the weekend travelers are increasing their spending. So both side are increasing very healthily during the past quarter.

For air-ticket the industry data shows approximately maybe 20% increase on the volume. The main reason is that Q3 is a very strong quarter for leisure traveler, particularly for group tour. However last year during Q3, due to the Olympic Games, most of the people were staying home to watch the Olympic Games. So in the base of last year group tour was not there. So if you compare the industry data from this year versus last year, the group tour was one of the very important reasons for the industry growth rate.

For Ctrip, though, our targeted market is not in group tour. Our targeted market is mainly in FIT, frequent independent travelers. So if you take out the group tour, our growth rate still is at a very healthy multiple of the industry growth rate.

Kathy Chen Goldman Sachs - Analyst

Thanks. That's very helpful.

Jane Sun Ctrip.com International Ltd - CFO

Thanks.

Operator

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

Wendy Huang Royal Bank of Scotland - Analyst

Hi. My first question is regarding your top line guidance. Is it still including the 5% contribution from ezTravel, so that organic growth is 20% to 25%? Is that what you --

Jane Sun Ctrip.com International Ltd - CFO

Yes Wendy. I think our guidance includes the ezTravel piece.

Wendy Huang Royal Bank of Scotland - Analyst

Historically I think, in terms of Q4 it's kind of weak seasonality. But historically the weak seasonality was always surpassed by the strong sectoral growth you achieved. So are you expecting to see sequential growth this quarter, the very strong sequential growth you achieved in the past?

Jane Sun Ctrip.com International Ltd - CFO

For the travel industry I think the strongest quarter is Q3 because it's very warm and kids are off school. So the travel volume has been very strong in Q4 -- Q3. But obviously our team will do our best to deliver a strong result by capturing more market share. So we will work hard on that but the normal trend is Q3 is stronger than Q4 for the industry.

Wendy Huang Royal Bank of Scotland - Analyst

Okay. And my second question is regarding operating margin. This quarter operating margin expanded quite decently. Do you expect this current operating margin to sustain?

And also for 2010 have you budgeted any special branding expenses for the 2010 Expo?

Jane Sun Ctrip.com International Ltd - CFO

For the margin, I think based on the current rate, operating margin should be sustainable somewhere around 38% to 40%. That's a sustainable range. For 2009 we do not want to spend too much money on one-time event. We rather to spend money on the sustainable growth strategy. But we will give a detailed guidance at the Q4 conference call.



Wendy Huang *Royal Bank of Scotland - Analyst*

Okay, great. Thank you.

Jane Sun *Ctrip.com International Ltd - CFO*

Thanks.

Operator

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

Mike Olson *Piper Jaffray - Analyst*

Alright, thanks. Good morning and congratulations. A couple of quick questions. One on the pricing side, you mentioned Hotel was down 5% to 10% year-over-year and Air was up 5% to 10% year-over-year. Does that imply that Hotel pricing was flat sequentially and Air was up sequentially from Q2 to Q3?

And what are you expecting for sequential price changes from Q3 to Q4?

Jane Sun *Ctrip.com International Ltd - CFO*

Okay. For Hotel I think the price in Q3 was 5% to 10% decrease on a year-over-year basis. In Q4 it's the same compared to last year, we're still seeing a 5% to 10% range of the decrease. So which means it's probably flattish on a sequential basis.

But Air, in Q3 the price was 5% to 10% increase. And in Q4, compared to last year, it's flattish. So Air is -- the price can change on a daily basis. We're monitoring it very carefully.

Mike Olson *Piper Jaffray - Analyst*

Okay. And then a quick question on the modeling. There's this line item equity income in affiliates. What should we assume for that in Q4 if you are you willing to provide any guidance there?

Jane Sun *Ctrip.com International Ltd - CFO*

Sure. We use equity method to pick up Home Inns equity income on a one quarter lag basis. So they just announced their earnings and since we own approximately 18% of their shares, so that gives us about CNY15m for next quarter in the equity income line.

Mike Olson *Piper Jaffray - Analyst*

Okay. Thanks very much.

Jane Sun *Ctrip.com International Ltd - CFO*

Thanks Mike.

Operator

Our next question comes from the line of Aaron Kessler with Kauffman. You may proceed with your question.

Aaron Kessler *Kauffman Brothers - Analyst*

Thanks. A quick question on the tax rate. What should we expect going forward for either Q4 or 2010? Is there a kind of one-time tax benefit or would you be -- is a 13% rate going forward here?

Jane Sun *Ctrip.com International Ltd - CFO*

Most of our entities have a high and new technology status which enable us to get 15% tax rate. So for your modeling purposes I believe 15% tax rate is a sustainable rate. From time to time certain entities will get special preferential tax treatment and only when we confirm with the government -- we'll book it during the quarter when we confirm with the government agencies. But for your model purposes I think 15% is reasonable number to use.

Aaron Kessler *Kauffman Brothers - Analyst*

Okay, great. I will jump back in the queue. Thank you.

Jane Sun *Ctrip.com International Ltd - CFO*

Thanks.

Operator

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

Richard Ji *Morgan Stanley - Analyst*

Hi James, Min and Jane, and congrats on a very strong quarter and the many awards that your Company has received recently. It's quite an achievement.

Jane Sun *Ctrip.com International Ltd - CFO*

Thanks.

Min Fan *Ctrip.com International Ltd - CEO*

Thank you.

Richard Ji *Morgan Stanley - Analyst*

Sure. Then I have two questions. Let me start with the Hotel business. Can you elaborate to us what portion of that growth comes from your budget hotel versus star hotel, especially given that you are one of the large shareholder of Home Inns? And so far how does that synergy play out?

And also a related question is about hotel booking commission. Obviously it declined and on lower price. And is that due to the overall weak pricing environment or the rising contribution from lower priced budget hotels? So that would be helpful.

Jane Sun *Ctrip.com International Ltd - CFO*

Thank you Richard. I think our revenue for different star hotels are very evenly spread out. So for five star, four star, three star and budget hotel and below, each one of them gets a very even spread. For Home Inns, I think they're one of the many, many chain hotels in the market. So the revenue contribution from that specific hotel is not significant compared to the overall revenue.

On the commission per room, I think it's determined by two factors. The first one is the hotel price. The second one is the commission rate. Our commission rate is holding at a very steady rate which is 15%. The main decline, the reason for the decline is because of the room rate has declined between 5% to 10%.

Richard Ji *Morgan Stanley - Analyst*

Sure, that's helpful. And the second question is regarding the impact of pandemics. And obviously H1N1 swine flu impacted your performance in the previous quarter and going forward have you implemented any preemptive measure? And barring any further outbreak of swine flu, what do you think the impact might be?

Min Fan *Ctrip.com International Ltd - CEO*

For the H1N1 I think this quarter, since the government has controlled this disease in certain degree, we don't see the very severe impact on the travel pattern and consumer behavior. And for Ctrip's business, I think among our business in Q3 we don't see significant impact from H1N1. And we will monitor the situation prudently in the coming quarters.

Richard Ji *Morgan Stanley - Analyst*

Thank you. That's very helpful.

Operator

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

Unidentified Participant

Hi, I'm asking questions on behalf of Eddie Leung. Just a couple of quick questions. The first one is can you give out the percentage for the increase in Air-ticketing volume in this quarter.

And secondly can you talk about the opportunities for Ctrip for the Shanghai Expo next year? Thanks.

Jane Sun Ctrip.com International Ltd - CFO

Sure. I will answer the first question and then Min will answer the second one. For the Air volume we were able to achieve 40% volume growth on a year-on-year basis for Q3.

Min Fan Ctrip.com International Ltd - CEO

For the Shanghai Expo next year, I think this event will be very helpful for Shanghai and even for China. And we are working very closely with the government organization and the industry to provide the best products for our leisure customers. And I think for this coming event next year, both Ctrip and China industry, travel industry will benefit from this event.

Unidentified Participant

I see. Thanks

Min Fan Ctrip.com International Ltd - CEO

Thank you.

Jane Sun Ctrip.com International Ltd - CFO

Thank you.

Operator

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

Ashish Thadhani Gilford Securities - Analyst

Yes, good morning. Very nice quarter.

Min Fan Ctrip.com International Ltd - CEO

Good morning.

Ashish Thadhani Gilford Securities - Analyst

I have a quick question. On the balance sheet how have you accounted for the Home Inns investment? Specifically is there a value that is marked to the market?

Jane Sun Ctrip.com International Ltd - CFO

On the balance sheet Home Inns investment is recorded as a long term investment. Currently because our percentage already requires to account it for under the equity method so we are not marked to the market.

Ashish Thadhani Gilford Securities - Analyst

Okay. So to the extent that Home Inns stock rises or falls that will not really be reflected on the balance sheet, right?

Jane Sun Ctrip.com International Ltd - CFO

No. You are right. You are correct. We will not book any fluctuation on the stock in balance sheet. But rather we will pick up 18% net income from their income statement and book it as an equity income in our income statement.



Ashish Thadhani Gilford Securities - Analyst

So that would be 18% of roughly \$13m which they reported recently and that would go with a one quarter lag, right?

Jane Sun Ctrip.com International Ltd - CFO

Correct. So for Q4, we will pick up approximately CNY15m.

Ashish Thadhani Gilford Securities - Analyst

Excellent.

Jane Sun Ctrip.com International Ltd - CFO

In equity line.

Ashish Thadhani Gilford Securities - Analyst

Thank you very much.

Jane Sun Ctrip.com International Ltd - CFO

Thanks Ashish.

Min Fan Ctrip.com International Ltd - CEO

Thank you.

Operator

Our next question comes from the line of Marisa Ho with Credit Suisse. Please proceed with your question.

Marisa Ho Credit Suisse - Analyst

Hi, congratulations on a great quarter.

Min Fan Ctrip.com International Ltd - CEO

Thank you.

Jane Sun Ctrip.com International Ltd - CFO

Thanks Marisa.

Marisa Ho Credit Suisse - Analyst

I just have two follow up questions. When you mentioned just now that the Air-ticket volume increased by 40% year-on-year in the third quarter of 2009, is that including or excluding ezTravel?

Jane Sun Ctrip.com International Ltd - CFO

Including ezTravel.

Marisa Ho Credit Suisse - Analyst

So if we strip it out roughly how much would that be?

Jane Sun Ctrip.com International Ltd - CFO

No. 40% is without ezTravel.

Min Fan Ctrip.com International Ltd - CEO

Excluding.

Jane Sun Ctrip.com International Ltd - CFO

Yes, because when we compare we always have to compare to ourselves because ezTravel is the first time.



Marisa Ho Credit Suisse - Analyst

Right. And am I correct in saying that the Air-ticket revenue in the third quarter of 2009 without ezTravel increased by also 40% on a year-on-year basis?

Jane Sun Ctrip.com International Ltd - CFO

That's correct.

Marisa Ho Credit Suisse - Analyst

Right. But you're saying that the ASP increased by 5% to 10%. So the effective ASP was flat on a year-on-year basis or are we looking at an increase on a year-on-year basis?

Jane Sun Ctrip.com International Ltd - CFO

On a year-over-year basis, depending on the airlines and the routes, if you compare to last year's Q3 price it's somewhere around 5% to 10% increase.

Marisa Ho Credit Suisse - Analyst

Okay, right. And also to follow up on your earlier comment on the fourth quarter Air-ticketing ASP trend, you were saying that they're roughly showing flattish on a year-on-year basis.

Jane Sun Ctrip.com International Ltd - CFO

Correct.

Marisa Ho Credit Suisse - Analyst

If I remember correctly, the first half of the fourth quarter 2008 actually saw a lot of ASP pressure, probably a bit worse compared to the third quarter of 2008. So the base effect should actually sequentially become a bit easier. But it looked like the ASP trends are weakening a little bit compared to the third quarter of this year. So are you looking at any particular industry trend or competitive pressure within the airline industry that caused that to happen?

Jane Sun Ctrip.com International Ltd - CFO

From a seasonality perspective, when we move into Q4, I think the airlines will make a decision to adjust their price based on the seasonality, based on the capacity they have and also based on how strong the volume is in industry to make sure their revenue is maximized. So that's what we have seen so far.

Marisa Ho Credit Suisse - Analyst

Right. So in your conversation with your airline partners are you picking up any trends that you think we should be concerned about or is anything basically just fluctuating on a week-to-week basis?

Jane Sun Ctrip.com International Ltd - CFO

Nothing specifically. I think if the economy is holding very strong, the volume will hold strong and the price is sustainable. But obviously airlines have to consider many factors. The capacity is one consideration. How they can -- if they have new routes they might have special strategies. So, so far what we observed is on a year-over-year basis, the price is flattish.

Marisa Ho Credit Suisse - Analyst

Okay, great. Thank you very much.

Jane Sun Ctrip.com International Ltd - CFO

Thanks.

Operator

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

Ming Zhao Susquehanna Financial Group - Analyst

Hi, thank you for taking my questions. Good morning everyone, good quarter. I have two questions. The first question is just can you give us some update on the online versus offline in terms of the revenue source, call center versus internet, just an update on that? Any change there?

Min Fan Ctrip.com International Ltd - CEO

Yes. For the online versus offline, around one-third of our production is generated from online versus two-thirds generated from offline. And we do see the online portion is growing steadily year by year, with a certain percentage. But still in China as you may know, quite some people will still tend to go for offline. And we have around 80% business travelers and most of the travelers they are used to use mobile phone when they travel around and even in the office. So I think we are working, still we are working very hard to improve our online platform and also as well as we will still prepare our call center platform to be more user-friendly.

Ming Zhao Susquehanna Financial Group - Analyst

So let me ask you, which part grows faster relatively?

Min Fan Ctrip.com International Ltd - CEO

Yes, online is growing a little bit -- online is growing steadily. If you see the percentage change perhaps we have 1%, around 1% increase every year in the past years.

Ming Zhao Susquehanna Financial Group - Analyst

Okay, good. Jane, two questions on the balance sheet items. The first one is the prepaids and other current assets, it went up pretty big quarter-on-quarter and I wonder what's the cause there?

And also if we look at the property equity and the software line, you also had a big increase. I just wonder what's happening there.

Jane Sun Ctrip.com International Ltd - CFO

Sure. The first item is the prepaid. As of September 30, 2009, we have to prepay our vendors for the tour packages that's going to take place for October holiday. So normally up to that specific cut-off date we normally always have to increase the prepaid. The flipside is also if you look at the accruals and customer advance account, the customer also needs to put down deposit with us because they need to go out and use our package tour. So that is a seasonality phenomenon in these two accounts.

The second one is on the property line. That, the increase, is mainly for the payment we have made for our Nantong call center. It's still being built so we made certain payments for that building.

Ming Zhao Susquehanna Financial Group - Analyst

Okay, very clear. Thank you.

Jane Sun Ctrip.com International Ltd - CFO

Thanks.

Min Fan Ctrip.com International Ltd - CEO

Thank you.

Operator

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

Elinor Leung CLSA - Analyst

Hi, morning. Thank you for the call. I have two questions. The first question is regarding the guidance. Is it possible to give more breakdown in terms of guidance in terms of what do you expect in terms of volume and price trend for 4Q for both Hotel and Air-ticketing business?



And the second question is regarding the Package Tour. Given the leisure's travel volume is growing very strongly in China, do you have any plan in terms of strengthening the Package Tour business, in terms of maybe even M&As in that area?

Jane Sun *Ctrip.com International Ltd - CFO*

I will answer the first question and Min will answer the strategy on the Package Tour business. The guidance overall is somewhere around 25% to 30% year-on-year growth for Q4, which includes Hotel revenue probably will be somewhere to 20% to 25%. Volume growth probably will be around 30%, which will be offset by a price, a decrease in the price. For Air-ticket, the revenue probably will be somewhere around 30% to 35% and we forecast the volume growth to be around 30%. And for Package Tour the revenue growth probably will be in the range of 30% to 50% year-over-year increase.

Min Fan *Ctrip.com International Ltd - CEO*

Yes, for the leisure business, Ctrip this year we do see a quite healthy growth in this field and also we provided more products to our customers. And for example, last year we have 11 departure cities, this year we have more than 20 departure cities. That means we have more coverage geographically.

And I think in the -- during growth we will open to any good opportunity for M&A, but we will be quite prudent to evaluate. And as you know it can be easy to buy a company but it's very hard to integrate. So for the M&A opportunities we will always focus on whether it's a travel related business, whether it can bring a new business line for Ctrip and whether it can penetrate, help Ctrip to penetrate into a new geographical area, and also whether this M&A can add more key value-added service to our main business line. So I think we will monitor very carefully.

Jane Sun *Ctrip.com International Ltd - CFO*

Okay, Elinor?

Elinor Leung *CLSA - Analyst*

Thanks.

Jane Sun *Ctrip.com International Ltd - CFO*

Thanks Elinor.

Operator

(Operator Instructions). Our next question comes from the line of Michael [Fordano] with GGHC. Please proceed with your question.

Michael Fordano *Gilder Gagnon Howe & Co. - Analyst*

Hi guys. I had a question on the commission rates for Air-ticketing. I remember -- I think that it was about a year ago, they were deregulated. And I guess I was hoping that you could give us some guidance on where they're going, where they were this quarter as a percent. I think it's between 4% or 5%, but if you could just give us some granularity there that would be great.

Jane Sun *Ctrip.com International Ltd - CFO*

Sure. The commission rate right now is in the range of 5% to 6% excluding surcharge and that range has been very consistent. The elimination for the government required commission rate did not have too much impact on our business. So that's the current vision.

From Ctrip's side we will work very hard to improve our efficiency and to make sure that we are the most cost effective sales channel for all our business partners and to make sure we bring the best value to all the airlines. So we will, our team is very focused on how to bring the best value to airlines. But obviously the commission rate is determined by the airlines at the end of the day.

Michael Fordano *Gilder Gagnon Howe & Co. - Analyst*

And sorry, market share in Hotel and Air-ticketing across the board, is there a way you guys could break that up for us?



Jane Sun Ctrip.com International Ltd - CFO

Yes. For Hotel it's very hard to do. We only can give you a very -- the best estimation we have is probably around 2% to 3% in the hotel market. For Air-ticketing, the number is somewhere around 7% to 8%.

Michael Fordano Gilder Gagnon Howe & Co. - Analyst

Great. Thank you very much.

Jane Sun Ctrip.com International Ltd - CFO

Thanks Mike.

Operator

Our next question comes from the line of Marisa Ho with Credit Suisse. You may proceed with your question.

Marisa Ho Credit Suisse - Analyst

Hi. Could you give us an update on the progress on the Nantong call center and also your plan for the new call center in 2010 and 2011 please?

Min Fan Ctrip.com International Ltd - CEO

Nantong call center is still under construction right now. And we plan to use this new call center by next year. And for our call center seats in Shanghai, we will still remain the existing seats for some key business and also we will allocate our increased volume to Nantong call center next year and from the year beyond. And I think somewhat Nantong call center will be like a second headquarter for Ctrip, but this call center will mainly focus on the offline business solution.

Marisa Ho Credit Suisse - Analyst

Right. For 2010 and 2011, how much of the volume increase do you think Nantong can handle?

Min Fan Ctrip.com International Ltd - CEO

For the volume increase, I think at least three to five years, Nantong call center can handle all the incremental business of Ctrip.

Marisa Ho Credit Suisse - Analyst

Right. Okay, great. Thank you.

Min Fan Ctrip.com International Ltd - CEO

Thank you.

Operator

(Operator Instructions). Our next question comes from the line of Jill Fan with Lusight. You may proceed with your question.

Jill Fan Lusight Research - Analyst

Thank you very much for taking my question. I just have a question regarding the balance sheet. The accounts payable and deferred revenue seems to vary quite a bit from quarter to quarter. So can you explain a little bit what contributes to the variance?

Jane Sun Ctrip.com International Ltd - CFO

Sure. Just as we discussed with Ming, October is a very big holiday in China because we have 10 days off -- eight days off so most of the customers will take the long distance tour to travel. As of September 30, in order to book their packages they have put down deposit with us. And we will not recognize revenue until they use our services and they come back from these tour packages. So the accounts payable as well as the accrued revenue -- deferred revenue represents the advance payment the customer has made but we have not recognized the revenue yet.



Jill Fan *Lusight Research - Analyst*

Okay. Thank you very much.

Jane Sun *Ctrip.com International Ltd - CFO*

Thanks Jill.

Operator

(Operator Instructions). We have a follow up question from Eddie Leung with Bank of America. You may proceed with your question.

Unidentified Participant

Hi, just a quick follow up on the Air-ticketing side. Could you give us some color about the direct sales by airlines, the competitive landscape in this area? And do you see any on this happening in the third quarter of '09? Thanks.

Min Fan *Ctrip.com International Ltd - CEO*

I think from last year, the airlines are working very hard on the direct sales. I think because the China market is big enough for airline to grow their direct sales as well as Ctrip to grow its own, its Air-ticketing business, and I think with airline direct sales and Ctrip we can acquire market share from the whole market. So we don't see there's a significant impact on Ctrip's business so far.

Unidentified Participant

Thanks. So actually the impact of these [as one] do not impact on the Air-ticketing side as well. Is that correct?

Min Fan *Ctrip.com International Ltd - CEO*

No significant impact.

Unidentified Participant

Okay, thanks.

Min Fan *Ctrip.com International Ltd - CEO*

Thank you.

Operator

Our next question comes from the line of Zim Yin with Wisco Research. Please proceed with your question.

Zim Yin *Wisco Research - Analyst*

Good morning.

Jane Sun *Ctrip.com International Ltd - CFO*

Good morning.

Zim Yin *Wisco Research - Analyst*

Just a quick question. Could you tell me what is the gross margin of your Package Tour segment?

And going forward what do you see the trend of the margin will be? Thanks.

Jane Sun *Ctrip.com International Ltd - CFO*

Sure. The gross margin for each line of business is quite different. For Package Tour business it's somewhere around 70% to 75% to 80% gross margin because it's a combination of hotel and air ticket.

Zim Yin *Wisco Research - Analyst*

Okay. So do you see that the trend that the margin will expand in the future?



Jane Sun Ctrip.com International Ltd - CFO

I think that range probably is sustainable for the near future.

Zim Yin Wisco Research - Analyst

Okay, thanks.

Jane Sun Ctrip.com International Ltd - CFO

Thanks.

Operator

That concludes our question and answer session for today. I would now like to turn the conference back over to Lin for closing remarks.

Lin Zhang Ctrip.com International Ltd - IR

Okay. Thank you for participating in this conference and see you next quarter.

Jane Sun Ctrip.com International Ltd - CFO

Thank you very much everyone. Bye-bye.

Min Fan Ctrip.com International Ltd - CEO

Bye-bye.

Operator

Thank you for attending today's conference. This concludes the presentation. You may now disconnect and have a great 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 Briefs 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 BRIEFS REFLECTS THOMSON REUTERS'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND 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 BRIEF. 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.

©2017 Thomson Reuters. All Rights Reserved.

