

# FINAL TRANSCRIPT

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**HTHT - Q2 2010 CHINA LODGING GROUP LTD Earnings Conference Call**

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Jul. 30. 2010 / 1:00AM, HTHT - Q2 2010 CHINA LODGING GROUP LTD Earnings Conference Call

## CORPORATE PARTICIPANTS

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*China Lodging Group Ltd - IR Manager*

**Matthew Zhang**

*China Lodging Group Ltd - CEO*

**Jenny Zhang**

*China Lodging Group Ltd - CFO*

## CONFERENCE CALL PARTICIPANTS

**Justin Kwok**

*Goldman Sachs - Analyst*

**Fawne Jiang**

*Brean Murray, Carret & Co - Analyst*

**Adam Kercher**

*- Analyst*

**Howard Tang**

*- Analyst*

**Ella Ji**

*Oppenheimer & Co - Analyst*

**Lin He**

*Morgan Stanley - Analyst*

**Po Tian**

*Okinawa - Analyst*

## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the China Lodging Group Q2 2010 earnings conference call hosted by Ida Yu, IR Manager of China Lodging Group.

My name is Daniel and I am your event manager. During this presentation your lines will remain on listen-only. (Operator Instructions) Please note that today's conference call will be recorded.

I'd now like to hand you over to Ida.

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**Ida Yu** - *China Lodging Group Ltd - IR Manager*

Thank you, Daniel. Hello everyone, and welcome to our second quarter 2010 Earnings Conference Call. With us today is Matthew Zhang, our Chief Executive Officer, and Jenny Zhang, our Chief Financial Officer.

Matthew will provide an operations overview of our Company, and Jenny will be further discussing our financial performance for the second quarter. Following their prepared remarks, we will take your questions.



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Before we continue, please note that the discussions today will include forward-looking statements made under the Safe Harbor Provisions of the US Private Securities Litigation Reform Act of 1995. These forward-looking statements involve potential 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 our public filings with the SEC. China Lodging Group does not undertake any obligation to update any forward-looking statements, except as required under applicable law.

On the call today, we will also mention adjusted financial measures during the discussion of our performance. The calculation of those measures to comparable GAAP information can be found in the earnings release that was distributed earlier today. Please note that the numbers discussed in this conference call is the RMB terms.

As a reminder, this conference call is being recorded. The webcast of this conference call will be available on China Lodging Group's investor relations website at [ir.htinns.com](http://ir.htinns.com).

I will now turn this call over to our CEO, Matthew.

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**Matthew Zhang** - *China Lodging Group Ltd - CEO*

Thank you all for joining us today. I'm pleased to report a very profitable quarter. Net revenues increased 39% year-over-year to RMB439 million, achieving the high end of guidance, RMB415 million. Net income attributable to the Company was RMB80 million, more than 2.8 times of RMB28 million a year ago.

This is the fifth consecutive profitable quarter for HanTing. And we are confident that our business will continue to be strong, due our strengthening brand, larger base of mature hotels, economic recovery and a booming travel industry in China.

In the past quarter, we added 42 new hotels, with nine leased-and-operated hotels and 33 franchised-and-managed hotels. We entered into four new cities in the past quarter, increasing our overall coverage to 51 cities.

With the urbanization and regional development in the China, more and more cities are ready for our business model, which will provide continuous support for a nationwide expansion. By the end of this year, we expect to establish a network covering more than 60 cities.

As of June 30, 2010, we had a network of 324 hotels in operation or 37,782 rooms, consisting of 187 leased-and-operated hotels and 137 franchised-and-managed hotels. And we are very pleased with the hotel expansion results for the first half of the year, totally with 14 leased-and-operated hotels and 74 franchised-and-managed hotels newly added.

As of June 30, 2010, we had 159 hotels under development, including 56 leased-and-operated hotels and 103 franchised-and-managed hotels. So the second half of this year, we'll open more leased-and-operated hotels, which will support our strong top line and bottom line growth in the long run. For the full year 2010, we expect to add around 60 leased-and-operated hotels and 125 to 135 franchised and managed hotels.

Together with our hotel development, we have strengthened our loyalty program. As of June 30, 2010, we had more than 2 million individual members, contributing 60.5% of room nights sold during the quarter. Another 11.8% was contributed by our corporate members.

Now let's look at our key operational metrics.

In the second quarter of 2010, the occupancy rate was improved to 98% from 96% in the same quarter last year, compared with 93% in the previous quarter. ADR was improved to RMB196, of 12.6% from RMB174 in the same quarter last year, compared



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with RMB173 in the previous quarter. RevPAR was improved to RMB192, up 15% from our RMB167 in the same quarter of last year, compared to RMB161 in the previous quarter.

Shanghai World Expo had a very positive impact on our second quarter results, as 24% of our total hotel rooms are located in Shanghai. As of yesterday, the accumulative Expo visitors exceeded 34 million.

In the second quarter, the RevPAR of our Shanghai hotels were increased around 50% from the same quarter last year, mainly due to the ADR increase of approximately 40% from the same quarter last year. Our performance outside of Shanghai was also very strong, fuelling a year-over-year RevPAR increase of 4%, mainly driven by ADR increases.

We have successfully leveraged our premium brands to achieve price increases gradually.

The [same] hotel RevPAR for at least 18 months in operation was RMB205 for this quarter, increased 18.5% from RMB173 for the same quarter last year. The improvement was caused by both higher occupancy rates and higher ADR.

Now let me wrap this up. We have had a great first half of the year, with a significant growth in both top line and bottom line, driven by an improved economic environment and solid execution and capability. Shanghai World Expo from May 1 to October 31 also contributed to our performance in 2010. We will continue to enhance our performance and expand our network, as planned.

Now let me turn to Jenny Zhang, our CFO, to walk us through the financials in more details. Jenny.

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**Jenny Zhang** - *China Lodging Group Ltd - CFO*

Thank you, Matthew. Hello everyone. I'm glad to report to you the financial results of the second quarter.

Total revenues for the quarter increased 39% year-over-year to RMB464 million, primarily as a result of our enlarged hotel network and a higher RevPAR. As noted by Matthew earlier, our RevPAR increased both in and outside of Shanghai.

Total revenues from leased-and-operated hotels for the quarter were RMB432.9 million, representing a 34.6% increase year-over-year, as both the number of leased-and-operated-hotels and the revenue per leased-and-operated hotels increased. As of June 30, 2010, we had 187 leased-and-operated hotels in operation, compared with 160 a year ago.

Our proven good record and premium brands continue to attract franchisees to join HanTing. Total revenues from franchised-and-managed hotels for the quarter were RMB31.1 million, representing a 153.6% increase year-over-year, mainly due to the enlarged base of franchised-and-managed hotels.

As of June 30, 2010, we had 137 franchised-and-managed hotels in operation, compared with 40 a year ago. The revenues from franchised-and-managed hotels accounted for 7% of our total revenues, improved from 4% for the same quarter the prior year. Net revenues for the quarter were RMB438.9 million, representing an increase of 39.2% year-over-year, and an increase of 28.7% sequentially.

Our operating costs and expenses for the second quarter of 2010 were RMB334.3 million. Total operating costs and expenses, excluding share-based compensation expenses for the quarter, were RMB331.3 million, representing a 20% increase year-over-year, and a 3.4% increase sequentially, mainly due to our expansion of the hotel network.

Major components of operating costs and expenses are described and discussed in more detail, as follows.

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Hotel operating costs for the quarter were RMB273.6 million, representing 62.3% of net revenues. Total hotel operating costs, excluding share-based compensation expenses, represented 62.3% of net revenues, compared with 75.9% for the same quarter in 2009 and 79.7% in the previous quarter.

The decrease in hotel operating costs as a percentage of net revenues year-over-year was primarily due to higher revenue per hotel and an increased proportion of franchised revenues. The sequential decrease was primarily due to higher sales in the second quarter and the seasonal decrease of utility costs.

Selling and marketing expenses for the quarter were RMB16.5 million. Selling and marketing expenses, excluding share-based compensation expenses, was RMB16.3 million, representing 3.7% of net revenue, compared with 5.2% for the same quarter in 2009, and 4.2% in the previous quarter.

General and administrative expenses for the quarter were RMB25.6 million. G&A expenses, excluding share-based compensation expenses, were RMB23.2 million or 5.3% of net revenues, compared with 4.1% of net revenues in the same period of 2009, and 6.7% in the previous quarter. For the full year of 2009 our general and administrative expenses, excluding share-based compensation expenses, were 6.1% of net revenues. (inaudible) that the ratio remains stable for the full year of 2010.

Pre-opening expenses for the quarter were RMB18.6 million, an increase of 140% year-over-year, and an increase of 65.5% sequentially. The higher pre-opening expenses reflected increased number of leased-and-operated hotels under construction, including the hotels opened and those in the pipeline during the quarter.

Income from operations for the quarter was RMB104.5 million. Excluding share-based compensation expenses, the adjusted income from operations was RMB107.5 million, representing a 174% increase from the adjusted income from operations of RMB39.2 million in the same quarter of 2009.

Net income attributable to the Company for the quarter was RMB79.7 million, up 185% from RMB27.9 million a year ago. Excluding share-based compensation expenses, the adjusted net income attributable to the Company was RMB82.7 million, up 183% from the same quarter of 2009. The year-over-year improvement on profit was mainly attributable to the expansion of our hotel network and improved RevPAR.

EBITDA for the second quarter of 2010 was RMB144.5 million, compared with RMB71.3 million in the same quarter of 2009 and RMB54.9 million in the previous quarter. EBITDA from operating hotels was RMB163 million, an increase of 106.4% from the same quarter of 2009. EBITDA from operating hotels represented 37.1% of net revenues, improved from 25.1% for the second quarter of 2009.

Net operating cash flow for the quarter was RMB143.4 million. Cash spent on the purchase of property and equipment was RMB64.6 million. As of June 30, 2010, we had cash and cash equivalents of approximately RMB1.3 billion.

We are encouraged with our progress in the first six months of 2010 as we fulfilled our expansion plans and improved our margins. We expect to achieve net revenues in the range of RMB460 million to RMB480 million in the third quarter of 2010. In light of the stronger demand from the Expo, we adjust our full-year net revenues to grow 35% to 37% from 2009.

Please be aware the above forecast reflects the Company's current and preliminary view, which is subject to change.

With that, we now open the call to questions. Operator?



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## QUESTIONS AND ANSWERS

### Operator

Ladies and gentlemen, your question and answer session will now begin. (Operator Instructions) All lines will remain on listen only. And your first question comes from Justin Kwok from Goldman Sachs. Please go ahead.

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**Justin Kwok** - *Goldman Sachs - Analyst*

Thank you. Hi, everyone. Morning.

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**Jenny Zhang** - *China Lodging Group Ltd - CFO*

Good morning, Justin.

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**Justin Kwok** - *Goldman Sachs - Analyst*

Congratulations on a good set of results.

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**Jenny Zhang** - *China Lodging Group Ltd - CFO*

Thank you.

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**Justin Kwok** - *Goldman Sachs - Analyst*

A couple of questions, and let's start with the revenue line. As Matthew mentioned on the particularly strong performance in Shanghai because of the Shanghai Expo was 40% growth in room rates and 50% growth in RevPAR.

I'm just wondering if you could also share with us on how is the room rate trend in the same quarter for the rest of the portfolio, if we try to exclude the Shanghai Expo effect. That's my first question.

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**Matthew Zhang** - *China Lodging Group Ltd - CEO*

Okay. Let me answer the first question. The ADR increase outside of Shanghai hotels are about 4%. So that means the RevPAR also increased about 4%. So the occupancy rate pretty much consistent with the same quarter of last year.

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**Justin Kwok** - *Goldman Sachs - Analyst*

Okay. Do you see any divergence in this number, say 4% room rate growth, among the first tier cities? Or are they more second tier cities?

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**Matthew Zhang** - *China Lodging Group Ltd - CEO*

I think that most of the room rate increase was in our existing cities. So we have four new cities are pretty much new. There are not much of room rate increase. So for the mature cities the increase will be a bit more.

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**Justin Kwok** - Goldman Sachs - Analyst

All right. Thanks for that. My second question's on the products. You have three product lines and, since you are not disclosing your details on this breakdown in terms of the performance, do you mind to walk us through a bit of the operating metrics you're looking at for the different segments, and how you're performing in terms of the revenue and margins? Thanks.

**Jenny Zhang** - China Lodging Group Ltd - CFO

The three products are actually both doing well in the quarter. The RevPAR for the Seasons is up [quarterly], because of the positioning significantly higher than the other two.

In Q2 the RevPAR is in the range of around RMB270 in Q2. And Express is around RMB190 to RMB200. And our Hi Inns are mostly still fairly new, so they're still in the ramp-up stage. So not many of them have reached the mature stage yet.

**Justin Kwok** - Goldman Sachs - Analyst

Okay, right. Thanks on that. And one more question on the revenue line for [operating costs].

in fact, we understand one of the other economy hotel operators have adjusted the price, following the adjustment in terms of some complementary items in the room. What do you see that impact on your pricing strategy, or do you see any impact at all?

**Matthew Zhang** - China Lodging Group Ltd - CEO

I think that HanTing has positioned ourselves in the more premium brand in the market, and we continuously provide other consumable items within the room rate, and we will keep that as it is for the foreseeable future.

And the other economy hotel chain adjustments, we do not see any impact on our business in terms of the customers' patterns. So our customers continue like [how we operate] as a package for what they will enjoy in our hotels including the consumable items we provided for free.

**Justin Kwok** - Goldman Sachs - Analyst

Okay, thank you. My last question is on the cost, do you mind to walk us through on some of the cost trend, especially on your start costs and rental expenditures, because we were seeing a lot of news report on ongoing salary hike in different parts of China [and industry], and I wanted to get a sense on how it's been an impact on your operations?

And also, on the rental side, when you negotiate new leases, what do we see in terms of the rent growth? Thanks.

**Jenny Zhang** - China Lodging Group Ltd - CFO

So far, the rent is in line with our expectations. The utility cost incurred is fairly significant this year. Our estimation is that the full year utility cost per room will increase around 8%. And there is a lagging effect so it will be heavier in the second half of the quarter. Similarly, for the personnel cost, we expect the full year personnel cost per room to be 5% to 7% higher than last year. But the second half will have some more significant impact than the first half because of the lagging impact.

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**Justin Kwok** - Goldman Sachs - Analyst

Thank you.

**Jenny Zhang** - China Lodging Group Ltd - CFO

You're welcome, Justin.

**Operator**

Thank you, Kwok, for your question. The next question comes from Fawne Jiang from Brean Murray. Please go ahead.

**Fawne Jiang** - Brean Murray, Carret & Co - Analyst

Hi, good morning Jenny and Matthew. Congratulations on an excellent quarter. A couple of quick questions here; the first is related to your costs in the second quarter. Since you have a significant improvement in terms of cost savings, and [you said] the hotel operating cost is actually only 62% of the net revenue, a significant improvement year-over-year, as well as sequentially. Could you walk us through like where this cost saving comes from, like primary (inaudible) of your operating costs?

**Jenny Zhang** - China Lodging Group Ltd - CFO

First of all thank you, Fawne. You have seen a much lower operating cost in terms net revenue. The main driver, as I explained in the call just now was first, the revenue increase in Q2 and second, the mix change that we have more franchise revenue this quarter, 7% versus 4% last year.

In terms of cost, if we measure that on a per room basis it's fairly consistent from last year. We experienced some increase in the personnel cost as well as the utility cost, but we save on some other miscellaneous items, like procurement in the hotel, as well as in the marketing activities at the hotel level. So those things generally level each other out and it makes the total cost per room relatively stable for second quarter.

**Fawne Jiang** - Brean Murray, Carret & Co - Analyst

Okay, that's helpful. Actually I just want to add a question to that. It's about, how should we look at the operating costs, going forward, in the third quarter and probably for the rest of the year?

**Jenny Zhang** - China Lodging Group Ltd - CFO

I think we are going to see the personnel cost and utility cost to be a little bit higher than Q2. Utility will be impacted by seasonality; Q3 and Q4 typically will have a higher utility cost. On top of that, there is a utility crisis just nationwide. And the personnel cost, similarly, because the wage increase of different provinces gradually kick in. So the third and the fourth quarter you will see more salary increase nationwide, and a longer period of impact in general.

**Fawne Jiang** - Brean Murray, Carret & Co - Analyst

Okay, thanks, that's helpful. The next question is about your operating cost expenses. From the full year basis, how much percentage do you expect the operating expenses will be as a percentage of the net revenue?

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**Jenny Zhang** - *China Lodging Group Ltd - CFO*

Our current expectation is around 6%.

**Fawne Jiang** - *Brean Murray, Carret & Co - Analyst*

Okay, so that's unchanged, right?

**Jenny Zhang** - *China Lodging Group Ltd - CFO*

Yes, that's not changed.

**Fawne Jiang** - *Brean Murray, Carret & Co - Analyst*

Okay. The next question is actually regarding ADR and occupancy rates. What's the current [churn] -- like we're one month into the third quarter, where do you see the ADR as well as occupancy rates churn in the third quarter, and what do you expect generally for the quarter?

**Matthew Zhang** - *China Lodging Group Ltd - CEO*

I think that in the first quarter the ADR will continue to increase from the second quarter, so you will see higher ADR. On the occupancy, it will be also higher, but that will be [slightly] because our strategy will really increase our price gradually because our occupancy is already to a very end level.

**Fawne Jiang** - *Brean Murray, Carret & Co - Analyst*

Thanks, that's helpful. I will jump back to the queue.

**Matthew Zhang** - *China Lodging Group Ltd - CEO*

Okay.

**Jenny Zhang** - *China Lodging Group Ltd - CFO*

Thank you.

**Matthew Zhang** - *China Lodging Group Ltd - CEO*

Thank you.

**Operator**

Thank you, Jiang, for the question. The next question comes from [Adam Kercher] from (inaudible) Capital. Please go ahead.

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**Adam Kercher** - - Analyst

Hi, thanks for taking my call, and congratulations on a great quarter. Can I ask a little bit about the Shanghai Expo? Is it your expectation that the traffic and visitor numbers stay as robust and positive as they have been so far throughout October 31, or do you expect any type of slowdown here in Q3?

**Matthew Zhang** - China Lodging Group Ltd - CEO

The trend currently it will consistently have a visitor number of 400,000 a day, and that keeps pretty much constant for quite a few weeks already. And even in the July, we also see that trend continuing, so we are very positive that the Expo will continue through the third quarter.

**Adam Kercher** - - Analyst

Okay. And then, when you mentioned earlier on the call about the 4% increase in room rates outside of the Shanghai Expo area, is that safe to assume that you have more or less increased the rates at some of your existing hotels? Or was that just because of the maturity of some of the hotels versus previous quarters and last year?

**Jenny Zhang** - China Lodging Group Ltd - CFO

Actually we have looked at both the total portfolio outside of Shanghai as well as the mature hotels outside of Shanghai. For the hotels which are operating [currently] more than 18 months, the non-Shanghai part has about 5% price increase and, therefore, there is small difference between (inaudible) then are more spread over to more cities.

**Adam Kercher** - - Analyst

Okay. And then, regarding your relationship and partnership with Ctrip, I'm not sure if you've disclosed this, but approximately how many room nights do you sell to Ctrip?

And then, is there any plans in the future to change the commission structure with them, or are you content with the relationship as it stands right now?

**Matthew Zhang** - China Lodging Group Ltd - CEO

Our percentage of room nights sold is pretty much consistent from a year ago, which is about 3% to 4% to Ctrip. And the commission structure we do not disclose very detail, but I can tell you that the commission structure will be lower than that of last year.

**Adam Kercher** - - Analyst

Okay. I appreciate that, and a great quarter and thanks again.

**Matthew Zhang** - China Lodging Group Ltd - CEO

Thank you.

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**Jenny Zhang** - *China Lodging Group Ltd - CFO*

Thank you, Adam.

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**Operator**

Thank you for your question. The next question comes from [Howard Tang] from (inaudible) Capital. Please go ahead.

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**Howard Tang** - *Analyst*

Good morning, thanks for taking the call, and congratulations on a great second quarter result. Just a quick question on my part, just want to understand in the second half for the new hotel openings, are you skewed to the third quarter or the fourth quarter?

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**Matthew Zhang** - *China Lodging Group Ltd - CEO*

We'll be skewed to the fourth quarter.

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**Howard Tang** - *Analyst*

Thanks a lot.

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**Operator**

There is no questions for the time being. (Operator Instructions) We have a question from Justin Kwok from Goldmans. Please go ahead.

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**Justin Kwok** - *Goldman Sachs - Analyst*

Hi everyone, it's me again. Just a follow-up question actually on the expansion side, because I saw that you have kept your opening target basically unchanged, and then we are now halfway through the year. I just want to get a sense on the percentage of these 16 leased-and-operated hotels, and you think it's already secure to start construction, or some sort of guidance on the security of these numbers?

And also, do you mind to walk us through a bit on the competition you see in terms securing properties or negotiating rent, or when you have three or four major operators now expanding quickly in China? Thanks a lot.

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**Matthew Zhang** - *China Lodging Group Ltd - CEO*

Yes, just in the first half of the year we opened about 14 leased-and-operated hotels. And in the third quarter, we expect to open about 15 hotels, and the rest will be towards the fourth quarter.

Into the property development side, we see there are plenty of the property available. And we do not -- because of our positioning of our three different products in the market, that there are some competition, but the competition is in a very reasonable, acceptable level.

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So we are pretty much confident that we will -- if you look at our pipeline right now, it is much more than the end of last year. And I believe the pipeline will continue to grow, which will support our next year's expansion, because our conversion period will be pretty much around six months' time. So any new property we will acquire in the third and fourth quarter will be open in the next year.

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**Justin Kwok** - Goldman Sachs - Analyst

Of the 15 leased-and-operated opening in the third quarter, the rest in fourth quarter, how many of them that -- I suppose you have started the conversion period because you need six months to convert them; am I correct on that front?

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**Matthew Zhang** - China Lodging Group Ltd - CEO

As I said, we will open about 15 hotels in the third quarter, and about 30 in the fourth quarter.

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**Justin Kwok** - Goldman Sachs - Analyst

Okay. Thank you.

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**Operator**

Thank you for your question. The next question comes from Ella Ji from Oppenheimer. Please proceed.

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**Ella Ji** - Oppenheimer & Co - Analyst

Hello. This is Ella Ji from Oppenheimer. So this is a beat and raise quarter. If I use the midpoint of your guidance, your 2Q revenue exceeded your guidance by about \$5 million, and you raised your full year guidance by about \$25 million. So could you just give us a bit more color in terms of what's driven the additional \$20 million guidance you raised? Thank you.

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**Jenny Zhang** - China Lodging Group Ltd - CFO

Hi, Ella. Thanks for the question. The main driver is the Expo, actually. Initially, we didn't expect the additional revenue from Expo would be as strong as we have observed today.

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**Ella Ji** - Oppenheimer & Co - Analyst

Okay. Thank you very much.

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**Jenny Zhang** - China Lodging Group Ltd - CFO

Thank you, Ella.

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**Operator**

Thank you for your question, Ella. The next question comes from Lin He from Morgan Stanley. Please go ahead.

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**Lin He** - Morgan Stanley - Analyst

Hi, Jenny and Matthew. Good morning.

**Jenny Zhang** - China Lodging Group Ltd - CFO

Good morning, Lin.

**Lin He** - Morgan Stanley - Analyst

Thanks for taking my question. Actually, my question is also a follow-up on the Shanghai Expo. You mentioned that around [24%] of the whole volume in Shanghai at the end of Q2; is it possible for you to (inaudible)? If 24%, how many of them are leased-and-operated hotels and how many of them are franchised hotels? Or maybe just roughly in terms of percentage.

**Matthew Zhang** - China Lodging Group Ltd - CEO

We have about 25% of our leased-and-operated hotels in Shanghai, and about 23% are our franchised-and-managed hotels in Shanghai.

**Lin He** - Morgan Stanley - Analyst

Okay. And then, in terms of the RevPar trend for the Shanghai hotels next year, what's your outlook on that since you have achieved 50% RevPar growth in this quarter? What's your outlook on that [issue]? For the hotels in Shanghai, do you expect a significant RevPAR decrease next year on a year-over-year basis?

**Matthew Zhang** - China Lodging Group Ltd - CEO

I think that the RevPar will decrease next year, compared with this year, within the Shanghai area. But I think that it we will increase -- I think if you normalize that and you use the nationwide, outside of Shanghai, as a benchmark, Shanghai RevPar will increase about 4% to 5% this year, compared to our last year, without Expo impact. So that will be what we're thinking right now.

The next year, we haven't gone through the [planning] session yet, and we will have much more color in the fourth quarter when we're going through the planning session.

**Lin He** - Morgan Stanley - Analyst

So if we exclude the Shanghai Expo one-time effect, you think that, on an ongoing basis, the Shanghai hotels could see a (inaudible) RevPAR growth next year, right?

**Matthew Zhang** - China Lodging Group Ltd - CEO

Right.

**Lin He** - Morgan Stanley - Analyst

Thank you, Matthew.

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**Matthew Zhang** - *China Lodging Group Ltd - CEO*

Thank you, Lin.

**Operator**

Thank you, Lin, for your question. (Operator Instructions). The next question comes from Fawne Jiang from Brean Murray. Please go ahead.

**Fawne Jiang** - *Brean Murray, Carret & Co - Analyst*

Hi. Two more follow-up questions. The first one is on the RevPar for third quarter. Matthew, you mentioned that the ADR could be still trending up in the third quarter and occupancy rate might go up slightly. So are we expecting a further improvement on the quarter-over-quarter basis in the third quarter for RevPAR?

**Matthew Zhang** - *China Lodging Group Ltd - CEO*

Yes.

**Fawne Jiang** - *Brean Murray, Carret & Co - Analyst*

Okay. I just wanted to confirm that. Thanks. The next question is actually a housekeeping item. Jenny, what's the other income of your second quarter?

**Jenny Zhang** - *China Lodging Group Ltd - CFO*

We have received some government subsidy, and that's the main portion of the other income.

**Fawne Jiang** - *Brean Murray, Carret & Co - Analyst*

Okay. And so something you will expect, going forward, as well, or --?

**Jenny Zhang** - *China Lodging Group Ltd - CFO*

Sorry?

**Fawne Jiang** - *Brean Murray, Carret & Co - Analyst*

Is there something you will expect, going forward, as well, or it will be a one-time item?

**Jenny Zhang** - *China Lodging Group Ltd - CFO*

We have been receiving that in the past couple of years, so we expect that will continue in the near future.

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**Fawne Jiang** - Brean Murray, Carret & Co - Analyst

Okay. And the tax rate is still 25%, right, for the full year guidance?

**Jenny Zhang** - China Lodging Group Ltd - CFO

We have seen some (inaudible) tax treatment in the first quarter, and we also had some reversal of tax reserve this quarter. So for the full year it will be slightly lower than 25%. We are expecting somewhere between 21% to 22% for the full year.

**Fawne Jiang** - Brean Murray, Carret & Co - Analyst

Got it. That's all my questions, thanks.

**Jenny Zhang** - China Lodging Group Ltd - CFO

Thank you.

**Operator**

Thank you for your question. The next question comes from [Po Tian from Okinawa].

**Po Tian** - Okinawa - Analyst

Yes, hi, Jenny and Matthew. I've just got one question, [follow-up] question, not about the Expo, on [Feature]. What percentage of rooms this quarter was booked from third party agencies, like Feature? I'm sure that is number was less than it was in the past quarters, given how good benefit you had from the Expo this quarter

**Matthew Zhang** - China Lodging Group Ltd - CEO

Yes, I think that we do not disclose specifically for the room night, so for Feature in Shanghai area. But overall, in China we continue to (inaudible) Feature is about (inaudible) 4% of total room nights sold, and that percentage will continue the rest of the year and in the near future.

**Po Tian** - Okinawa - Analyst

Okay, so it stayed the same even though there was a very [high acting supporter]; does that make sense?

**Matthew Zhang** - China Lodging Group Ltd - CEO

Right, definitely, yes.

**Po Tian** - Okinawa - Analyst

Okay, interesting. All right, thank you.

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**Matthew Zhang** - China Lodging Group Ltd - CEO

Thank you.

**Jenny Zhang** - China Lodging Group Ltd - CFO

Thank you, Po.

**Operator**

Thank you for your question. There are no questions for the time being. (Operator Instructions).

**Jenny Zhang** - China Lodging Group Ltd - CFO

If there is no more questions, please allow me to conclude the call. Thank you, everyone, for joining us today. I would like to remind our investors that HanTing's 2010 annual general meeting will be held at our headquarter office in Shanghai, China, on August 26.

Also, from September to November this year we will participate in several investor conferences this year. So if you would like to join us in any of those sessions, please visit our IR website at [ir.htinns.com](http://ir.htinns.com) to find out more details.

Thank you very much for being on the call. We enjoyed taking your questions, and look forward to talking to you again in the next quarter. Goodbye, everyone.

**Matthew Zhang** - China Lodging Group Ltd - CEO

Goodbye. Thank you.

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