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HTHT - Q2 2011 China Lodging Group Ltd Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the China Lodging Group Q2 2011 earnings call. I would now like to hand the conference over to your first presenter today, Miss Ida Yu. Thank you, madam, please go ahead.

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

Thank you, Amy. Hello, everyone, and welcome to our second quarter 2011 earnings' conference call. Joining us today is Matthew Zhang, our Chief Executive Officer, and Jenny Zhang, our Chief Financial Officer, who will discuss our Company's performance for the past quarter.

Following their prepared remarks, CEO and the CFO will be available to answer your questions.

Before we continue, please note that the discussion today will include forward-looking statements made under the safe harbor provisions 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 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. Recalculations of those measures, to comparable GAAP information, can be found in the earnings' release that was distributed earlier today.

As a reminder, this conference call is being recorded. The webcast of this conference call will be available on the investors' section of China Lodging Group's website at ir.htinns.com.

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

Matthew Zhang - *China Lodging Group Ltd - CEO*

Thanks Ida, and good morning, everyone. Thank you for joining us this call today.

With travel demand recovery and our solid operations in the second quarter, our net revenues reached RMB548 million, an increase of 40 -- 24.8%, year over year, or 34.4% if excluding Shanghai Expo impact in the second quarter of 2010. The result was at the high end of our previously guided range of RMB530 million to RMB550 million.

On the hotel development front, we continue to make solid progress, with 43 net new hotels added, including 22 leased and operated hotels and 21 net franchised and managed hotels. HanTing had a network of 516 hotels in operation over 80 cities in China by the end of the quarter.

In addition, we had 201 hotels in pipeline, including 90 leased and operated hotels and 111 franchised and managed hotels. We are on track to achieve our full-year target of 200 new hotel openings, with approximately half being leased and operated hotels.

At the end of the second quarter, we had 19 Seasons Hotels and 22 Hi Inns in operation in 10 and 14 cities, respectively. In the next five years, those two brands, on top of flagship brand of HanTing Express, will enable us to accelerate our growth in a sustainable manner.

In 2012, we plan to open 240 to 250 new hotels, with approximately half being leased and operated hotels. The new openings in 2012 will include 40 to 50 Seasons Hotels and Hi Inns.

HanTing is committed to delivering high quality customer experience. HanTing's high quality offering is well positioned to capture the market opportunities for both business and leisure travel purposes. Our recent customer survey indicated that among the overnight stay customers 60% to 70% stayed with us for business purpose.

At the end of the second quarter 2012, individual members in HanTing Club reached approximately 3.5 million; an increase of 71% from a year ago, exceeding our room count growth of 56%. The individual members contributed 66% of our room nights sold during the quarter, improving from 59% during the same period of last year.

Our quality brand and fast growing loyal customer base makes us an attractive choice to potential franchisees. By the end of the second quarter of 2011, we grew our franchise hotels to 235; a growth of 72% from a year ago, with another 111 in the pipeline.

Our recent statistics indicated that 74% of matured franchised hotels performed above the franchisees initial RevPAR expectation by an average of 27%. The financial success of our current franchisees will further strengthen our market reputation as a capable and credible hotel operator, and attract more franchisees in the future.

Now let's take a look at the key operational metrics for the second quarter.

In the second quarter of 2011, ADR was RMB182, compared with RMB196 in the same quarter last year. The decrease was mainly due to the absence of one-time benefit from Expo, city mix shifting towards lower tier cities, and increasing percentage of ramping up hotels, which typically offered extra discount to attract customers.

Occupancy rate was 93%, compared with 98% in the same quarter last year. The decrease was mainly due to the high percentage of ramping up hotels, and the absence of one-time benefit from Expo. In addition, we observed that the occupancy contribution from third-party agencies decreased from 5% to 4%. As a result, RevPAR was RMB170, compared with RMB192 in the same quarter of last year.

For the Group of the hotels in operation for at least 18 months, the same hotel RevPAR was RMB191 for the second quarter of 2011, compared with RMB202 a year ago. If excluding Expo impact, the same hotel RevPAR increased by 3%. Outside of Shanghai, the same hotel RevPAR increased by 4%, as a result of our strengthening brand, expanding loyal customer base and our successful yield management.

In light of some recent changes, we adjusted our expectation net revenue close to 28% to 32% for the full year of 2011, which represents a 36% to 40% year-on-year growth, if excluding Shanghai Expo impact in 2010. We lowered our expectation of same hotel RevPAR appreciation, due to the weakness of Shanghai market after the Expo, and the recent macro economic development, such as tightening of the private and slowdown in export growth.

Our revenue was also negatively impacted by the delay in new hotel opening, caused by lengthened business license application process.

Despite all the changes in our guidance, our business model and growth prospect remains solid. We remain confident in the long-term growth of China Lodging market, driven by the robust economy growth, continuous improvement in transportation infrastructure, and increasing disposable household income.

In addition, we are pleased to see the recent promising trend in our hotel operational metrics. Excluding the Shanghai -- excluding Expo impact, the same hotel RevPAR for Shanghai increased by 4% in June, which indicated that the post-Expo impact was behind us.

In the second half of 2011, we will take measures to accelerate hotel opening process, continue to launch proactive marketing programs and optimize our yield management practice.

We believe, with the enlargement of our matured hotel base and increasing popularity among franchisees, our overall profitability will gradually enhance. We are confident that our growth in scale and profit will generate meaningful shareholder value.

Now I will turn the call to Jenny to walk us through the financials in more details; Jenny?

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 of 2011.

Net revenues for the quarter were RMB547.7 million, representing an increase of 24.8% year over year and 29.1% sequentially. Excluding Shanghai Expo impact, the net revenue year-on-year growth was 34.4%.

Our leased and operated hotels and the franchised and managed hotels had a year-over-year revenue growth of 22.4% and 64% respectively.

Hotel operating costs for the quarter was RMB395.7 million, representing a year-over-year increase of 44.6% and a sequential increase of 9.5%, mainly driven by our network expansion, especially the growth of leased and operated hotels.

Total hotel operating costs, excluding share-based compensation expenses, represented 72.1% of net revenues compared with 62.3% for the same quarter in 2010, and 85% in the previous quarter. The fluctuation was mainly driven by different levels of RevPAR achievement during those periods, with relatively stable level of hotel operating cost per room night.

Selling and marketing expenses for the quarter, excluding share-based compensation expenses, were RMB22.5 million, or 4.1% of net revenues, compared to 3.8% for the second quarter of 2010 and 4.2% for the previous quarter.

General and administrative expenses for the quarter, excluding share-based compensation expenses, were RMB38.9 million, or 7.1% of net revenues, compared with 5.2% of the net revenues in the second quarter of 2010 and 7.5% in the previous quarter. The year-over-year increase of G&A expenses were mainly attributable to our increased personnel cost, as a result of net expansion, as well as the lower RevPAR achievement this quarter as compared with a year ago.

Pre-opening expenses for the quarter were RMB46.5 million, primarily driven by the number of leased and operated hotels under conversion during this period. 22 leased and operated hotels were opened during this quarter, and another 90 were in the pipeline at the end of the quarter. In addition, as mentioned by Matthew earlier, we experienced some delay in the new hotel openings, which also led to an increase in pre-opening expenses.

Excluding share-based compensation expenses, adjusted income from operations for the quarter was RMB44.7 million. Excluding share-based compensation expenses, adjusted net income attributable to the Company for the second quarter of 2011 was RMB44.5 million, compared to adjusted net income attributable to the Company of RMB82.7 million in the second quarter of 2010 and adjusted net loss attributable to the Company RMB10.6 million in the previous quarter.

The year-on-year decrease in net income was mainly due to the absence of one-time benefit of Shanghai Expo, higher pre-opening expenses and the more leased and operated hotels in the ramp up stage as a result of our accelerated expansion.

In the second quarter of 2011, our leased and operated hotels in operation less than six months contributed 21% of the leased and operated room nights for sale compared with only 5% a year ago. The sequential improvement in net income was mainly attributable to normal seasonality, performance improvement in our Shanghai hotels and increased number of mature leased and operated hotels in the portfolio.

EBITDA for the second quarter of 2011 was RMB104.3 million compared with RMB144.5 million in the same quarter of 2010 and RMB35.9 million in the previous quarter. The year-over-year decrease in net income -- in EBITDA was mainly due to the absence of one-time benefit of Shanghai Expo, higher pre-opening expenses and the more leased and operated hotels in the ramp up stage as a result of our accelerated expansion.

Excluding share-based compensation expenses and the pre-opening expenses, adjusted EBITDA from operating hotels was RMB155 million compared with RMB166 million a year ago. The slight year-over-year decrease was mainly a result of the absence of one-time benefit from Shanghai Expo and the more leased and operated hotels in the ramp up stage.

To monitor performance of hotels at different maturity levels and of different forms, we track a metric called hotel income, which is the difference between net revenues and hotel operating costs.

For leased and operated hotels in operation for at least six months, the hotel income was RMB121.6 million during the second quarter of 2011, or 28% of net revenue derived from those hotels. For leased and operated hotels in operation for less than six months, the hotel loss was RMB8.7 million during the second quarter of 2011, or 13% of net revenue derived from those hotels, mainly due to lower revenue achievement of those hotels before reaching maturity. We opened 38 new leased and operated hotels in the first half of 2011 and 43 in the fourth quarter of 2010.

For franchised and managed hotels, the hotel income was RMB39.2 million, or 82% of net revenue derived from those hotels. As an increasing number of the leased and operated hotels reach maturity and our franchised and managed hotel network grows, we expect our profit base to expand steadily.

Net operating cash flow for the quarter was RMB161.2 million for the quarter, increasing 12.4% from a year ago. In our operational history, the net operating cash flow was often higher than EBITDA, primarily driven by steadily increasing deferred rent and the deferred revenue. For this quarter, deferred rent and the deferred revenue increased by RMB27.2 million and RMB15.1 million respectively.

Cash spent on purchase of property and equipment was RMB180.7 million for the quarter. As of June 30, 2011, we had a total balance of cash and cash equivalents, restricted cash and a short-term investment of RMB978.5 million.

We expect to achieve net revenues in the range of RMB605 million to RMB625 million in the third quarter of 2011, representing 20% to 24% year-over-year increase, or a 38% to 42% growth, if excluding the Shanghai Expo impact.

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

On a side note, to provide more comprehensive disclosure to our shareholders, we have added the statement of cash flow to our quarterly earnings release, as attached at the end of our press release distributed earlier today.

Now, please allow me to reiterate our strategy. We will grow our portfolio with a balanced mix of leased and operated and franchised and managed hotels. In the near term, the planned 41% growth of leased and operated hotels this year leads to significant pre-opening expenses and new hotel losses during the ramp up stage. On the other hand, it's foreseeable that our fast-growing network of leased and operated hotels will unfold significant revenue and profit in the future.

In addition, our multi-brand strategy will enable us to capture a wide spectrum of customers and sustain our fast growth for many years to come. We believe our well-formulated strategy, together with diligent execution, will maximize our shareholders' value in the long run.

So, with that, we will now open the call to questions. Operator? Amy?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Ella Ji.

Ella Ji - *Oppenheimer - Analyst*

I want to start my questions with your full-year guidance adjustment. It's lowered by about 6% from previous guidance and you listed three reasons. So I'm wondering if you could break down this 6% and tell us how much does each reason contribute.

Matthew Zhang - *China Lodging Group Ltd - CEO*

At the end of last year we have a forecast for this year the same store -- of the same hotel RevPAR increase of 7%. And, as of today, the recent developments in our hotel operation metrics, we're foreseeing that the whole year, same hotel increase -- RevPAR increase will be about 2%. So the gap there will be about 5%. Another 1% is because of the delayed new hotel opening caused by the lengthened business license acquisition process.

Ella Ji - *Oppenheimer - Analyst*

Okay, thanks. So that 5% adjustment in same hotel RevPAR, do you think it's more because of the slow Shanghai market? Or is it because of the macroeconomic situation?

Matthew Zhang - *China Lodging Group Ltd - CEO*

I think it's both. It's both; the Shanghai market is weaker than expected, especially in the first quarter of this year. And also, we see 4% increase of outside of Shanghai RevPAR appreciation, which is also below our initial expectation of 7%; so that's both facts.

Ella Ji - *Oppenheimer - Analyst*

Got it. And then your 2012 new hotel opening target is 40% to 50% above 2011. So you are speeding up your new hotel openings. So, could you elaborate on the thoughts behind? Are you worried about the macroeconomic situation? Or do you still feel comfortable that you can achieve pretty satisfactory occupancy rate, even with this aggressive hotel opening plan?

Matthew Zhang - *China Lodging Group Ltd - CEO*

We plan to open 40 to 50 more hotels in 2012 than this year. And the second quarter and also in July, we see a promising trend of the hotel operation metrics. So we see that the biggest negative impact was in the first quarter of 2011 is already behind us. And looking forward, we are expecting, again, to 2% to 4% of same hotel RevPAR appreciation, which is also a very healthy macroeconomic and industry growth and also, as well as hotel performance growth.

So we are confident that we are -- we are confident that, looking forward, that the same hotel RevPAR will continue to increase, but is not as the high end as the 2010, because of the hotel -- for the Shanghai Expo, but is also a moderate increase in future.

Ella Ji - *Oppenheimer - Analyst*

Thanks for the color. And regarding your occupancy rate for your leased hotels versus franchised hotels, I notice that since the beginning of this year, the occupancy for leased hotels have been below the franchised hotels, versus previously it's also above franchised hotels. So I just wondering if there's any -- could you provide any color behind that.

Matthew Zhang - *China Lodging Group Ltd - CEO*

Yes, our leased and managed hotels and franchised and managed hotels are both under our own management. So they should add the same operational efficiency or the same operational quality.

The difference is the -- the major enhancement of the franchised hotels occupancies was mainly because there are more matured franchised and managed hotels in the total portfolio. And what you saw in previous years that there are very little in numbers of franchised and managed hotels which is not that representative. And we really started the franchised model in 2009 and the big number comes out to 2010.

So the difference between the franchised and managed versus leased and operated hotels occupancy rate that's because of the hotel mix, city mix and the individual hotel differences. That's a normal situation, and you will see that kind of situation going forward.

Ella Ji - *Oppenheimer - Analyst*

Got it. Thanks for the color and thank you for taking my question.

Matthew Zhang - *China Lodging Group Ltd - CEO*

Thank you, Ella.

Operator

Billy Ng.

Billy Ng - *BofA Merrill Lynch International - Analyst*

Just have two quick questions. One is can you tell us about the trend you saw in the last two months, does that make you more comfortable? Or does it concern you more in terms of the RevPAR claim and the demand, because we are a bit confused, because we saw you post a very strong Q2 numbers and it looked like the comment for July/August should be positive. But at the same time, you also mentioned that the full year guidance that's because you see some softness on the demand side. So can you clarify for that? That's my first question.

Matthew Zhang - *China Lodging Group Ltd - CEO*

I think that the softness was the gap between what we originally thought at the end of 2010. At that time, we forecasted in 2011 the same hotel RevPAR will appreciate about 7%. So the reality we have experienced in the first quarter -- of the first half of the year, which has quite a difference to we already thought in 2010. So that is the softened part, especially in the first quarter of 2011.

Billy Ng - *BofA Merrill Lynch International - Analyst*

Right, so --.

Matthew Zhang - *China Lodging Group Ltd - CEO*

But for the promising part is our recent month by month, we saw gradual improvement in terms of the comparisons of same hotel RevPAR. For example, we already mentioned that Shanghai hotels, excluding if Expo impact, in June have already had a 4% appreciation of the same hotel RevPAR. So going forward, the trend is promising. But the whole year result especially being negatively impacted by the first quarter of this year --

Billy Ng - *BofA Merrill Lynch International - Analyst*

I see.

Matthew Zhang - *China Lodging Group Ltd - CEO*

Was not as good as we originally thought at the end of last year.

Billy Ng - *BofA Merrill Lynch International - Analyst*

I see, that sounds good. And second question, just very straightforward; just wanted to know is there any delay in the opening? I don't think there is any delay in terms of number of openings this year. But can you clarify in terms of Q3 and Q4 how many hotels you will open, leased and operated and also in managed hotels?

Matthew Zhang - *China Lodging Group Ltd - CEO*

In leased and operated hotels in the third quarter, we will open around 30 hotels. For the franchised and managed hotels, there will be more due towards the end of the year.

Billy Ng - *BofA Merrill Lynch International - Analyst*

Franchised and managed, yes, okay. Right, that's clear, thanks; thanks a lot.

Matthew Zhang - *China Lodging Group Ltd - CEO*

Thank you.

Operator

Justin Kwok.

Justin Kwok - *Goldman Sachs & Co. - Analyst*

I have a question, indeed, on your multiple brand strategy, because for the second quarter now, you have almost 40 hotels [in various] Seasons and Hi Inn. I just want to get sense on the respective RevPAR margins and also the ramp up period required for these two products, aside from your flagship product. Are you seeing any differences? Are you seeing any better or worst performance on side?

And in terms of the 40/50 new openings for next year in these two products, what will be the expectation in terms of the geographical mix? And also, will they be opening towards the end or towards the later part of the year in terms of your -- will that change your overall portfolio RevPAR mix in a material way? Thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you Justin. In terms of the profit model for the two smaller brands, we have quite some experience with Seasons. For now, the IRR we can achieve through the mature Seasons hotels is slightly higher than what we have achieved in HanTing Express as a whole. We are yet to roll it out to a wider geography, including a second tier city. And we believe the profitability will be sustainable.

In terms of Hi Inn, it's a much newer brand. So our experience with it is less as compared with Seasons. With its limited operational history, it can also, for the few mature hotels we also achieved similar level of return comparing with HanTing Express.

So the early success of those two brands gives us the confidence to roll them out in a quicker pace and for a larger scale. That's why we have planned 40 to 50 new openings for those two smaller brands in 2012.

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Justin Kwok - *Goldman Sachs & Co. - Analyst*

Thanks. So just a follow-up, say, for Seasons do you see a longer ramp up period required for this hotel for, say, bigger rooms or higher RevPAR, etc?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Seasons has a similar room count compared with HanTing Express and the ramp up period is also similar. Hi Inn, generally so far, our Hi Inn has a slightly bigger room count compared with HanTing Express, so the ramp up is also a little bit longer. We expect Hi Inn's ramp up period to gradually shorten as this brand gets more awareness.

Justin Kwok - *Goldman Sachs & Co. - Analyst*

Okay thank you; that's my questions, thanks.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you, Justin.

Operator

Adam Krejcik.

Adam Krejcik - *Roth Capital Partners LLC - Analyst*

The first one is on the margins for Q3, since I think you said you're opening 30 leased and operated hotels. How should we think about EBITDA margins taking that into account, I guess, first versus Q2 levels? Is there any room for improvement or should they be around that level? And then I have another question, thanks.

Jenny Zhang - *China Lodging Group Ltd - CFO*

In terms of the margin, we have introduced a new concept, a new metric we use internally as hotel income in this quarter's earnings release. By that, we can look at the profitability of hotels of different maturity level and of different form. I would say, given Q2 and Q3 are both high seasons, we expect the margin for different maturity levels and the form of hotels remain relatively stable in the third quarter as compared with the second quarter.

Adam Krejcik - *Roth Capital Partners LLC - Analyst*

Okay. And then looking to 2012, since you've said you expect to open 240 to 250 hotels now, is there any internal or baseline revenue year-on-year growth that you would expect or that you can provide with us for next year? So if guidance is now 28% to 32% for this year, should we assume that you'll be able to grow faster next year?

Jenny Zhang - *China Lodging Group Ltd - CFO*

We expect next year revenue growth to be higher than this year. We will give more accurate guidance either next quarter or the quarter after the next.

Adam Krejcik - *Roth Capital Partners LLC - Analyst*

Okay thanks. And then, I guess, one final question on your cash position. Any M&A or share buybacks or things like that, any planned opportunities?

And, I guess, on the M&A side, is there any regional opportunities that you see out there? Or is that not part of the current strategy?

Jenny Zhang - *China Lodging Group Ltd - CFO*

We have been open minded to different M&A opportunities. Currently, we are not engaged in any big deals with significant size. But we have completed a few smaller M&A cases in the past.

In terms of share buyback, if we are moving into anything like that, we will notify the shareholders through public channels according to the regulatory requirement.

Adam Krejcik - *Roth Capital Partners LLC - Analyst*

Okay, thank you very much.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you, Adam.

Operator

Lin He.

Lin He - *Morgan Stanley - Analyst*

I just have a couple of follow-ups. Firstly, regarding the license application process you just mentioned, can you tell us how exactly does that affect your development cycle? And then how does that exactly affect the opening expenses, first of all?

Jenny Zhang - *China Lodging Group Ltd - CFO*

In terms of the license application process, we experience different regulatory changes after a few [tragic] happening in different parts of China. For example, the process used to be parallel that you can get one license first and then you go apply for a second one. This kind of application process can, effectively, shorten the timeline to obtain the final approval of the general license.

However, in quite a few places, the process now is changed to you have to finish the construction before starting applying for certain licenses. So this kind of regulatory change caused some delay in obtaining the general business license for the hotel to open.

We have taken proactive measures and adjusted our internal process to better adapt to those changes. So we expect our period, the conversion period, to have some reduction in the future.

Matthew Zhang - *China Lodging Group Ltd - CEO*

The impact of -- let me add, the impact for the conversion process is a bit less than 30 days.

Lin He - *Morgan Stanley - Analyst*

Okay. So previously, you have about what -- five to six months conversion period?

Jenny Zhang - *China Lodging Group Ltd - CFO*

On average -- if you take into account the winter season impact, the average used to be six months.

Lin He - *Morgan Stanley - Analyst*

Okay, so now the impact, the actual incremental impact is less than one month?

Matthew Zhang - *China Lodging Group Ltd - CEO*

Right.

Lin He - *Morgan Stanley - Analyst*

So how should we think about the pre-opening expenses on per hotel basis?

Jenny Zhang - *China Lodging Group Ltd - CFO*

If you add one more month to the conversion period, then the pre-opening expenses will increase at the 1 to 6 percentage per hotel basis.

Lin He - *Morgan Stanley - Analyst*

Okay, I got it, thanks. And then the second question is, have you experienced any hotel closure in this quarter?

Jenny Zhang - *China Lodging Group Ltd - CFO*

We had one franchised hotel closed due to zoning issues.

Lin He - *Morgan Stanley - Analyst*

Okay. So, historically, how many, in total, how many franchised hotels have you closed, just roughly? Is that less than 10 hotels or more than that?

Jenny Zhang - *China Lodging Group Ltd - CFO*

It's less than five.

Lin He - *Morgan Stanley - Analyst*

Less than five, okay; got you, thanks. And finally, regarding your guidance change, you mentioned that macroeconomic situation is also a factor that you are considering. Just want to confirm that on the operational basis, have you seen any slowdown in business or in the amounts from your customers, especially small and medium corporate?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Lin, as explained by Matthew earlier, I think, part of the adjustment was because we were quite optimistic at the beginning of the year. The economies, we feel, are still running at a quite healthy status, especially the recent few months, we have seen strong rebound in Shanghai. And outside of Shanghai, the mature hotel, same hotel RevPAR appreciation has been enlarging gradually. So we see the trending as quite positive. But we do admit that we were much more optimistic at the beginning of the year.

Lin He - *Morgan Stanley - Analyst*

Sure, got it. Thanks for taking that question, it's very helpful.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you, Lin.

Operator

Fawne Jiang.

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

Actually, my first question is regarding your growth strategy. It seems like for this year as well for next year, you're planning to open the same number of leased and operated hotels versus franchised hotels. It seems like your competitors are more leaning towards the franchised side. Just wonder what contributed to this growth strategy regarding these two models, and if you could give us some color on that that would be helpful.

Jenny Zhang - *China Lodging Group Ltd - CFO*

The main driver for this choice, I think, is we can realize, in the long run, much more profit from leased and operated hotels as compared with one franchise hotel at a similar location. And although there are more leased and operated hotels in the portfolio, especially when they are under conversion and during ramp up, it will post pressure to our new term P&L. But we do look at one project through the lifecycle, instead of look at one year profit and loss statement. So that's the main driver.

On top of that, we also feel the leased and operated hotel is necessary for us when we go through the innovation, such as introducing new brands. For example, in Seasons and Hi Inn, currently 75% of the hotels are leased and operated hotels. We will have more opportunity to experiment and learn how to build a new brand to our own hotels.

On top of that, having leased half of the hotels as a leased and operated form, also gives us more leverage to maintain and improve the quality of our product and brand. So those are the main reasons why we are committed to this balanced portfolio approach.

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

Thank you, Jenny. The second question is actually regarding your franchised hotels. I think they have been growing very healthy and also RevPAR seems to be hitting target. I just wondered, in terms of EBITDA contribution, what's the percentage of your total EBITDA comes from your franchised model, approximately?

Jenny Zhang - *China Lodging Group Ltd - CFO*

We have introduced hotel income as a proxy to help investors understand the different contribution of hotels of different maturity levels and of different form. What's more technically challenging to do is to further allocate the SG&A expenses into those hotels, because they all share the same platform of operation. Nevertheless, I believe you know our hotel income can be used as a proxy to understand the contribution from the different forms of hotels.

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

Got it. Thanks, Jenny. That's all my questions.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you, Fawne.

Operator

[Dok Chu Kang].

Dok Chu Kang - - *Analyst*

I have two questions. First, as have mentioned before the recent trend seems to be the economy hotel chains are putting more emphasis on franchised and managed hotels and, certainly, compared to before there's a lot more emphasis. So in face of intensifying competition to attract franchised and managed hotels, is there a pressure to lower the concession rate, in order to attract more hotels to your brand? And is this a possible strategy that you may have considered or that we could expect to see in the next 12 months or so?

And then I have a follow-up question, thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

As Matthew mentioned earlier in the call that our franchisees have been very satisfied with the operational results. 74% of the franchised hotels reached a RevPAR higher than what was expected. Actually there were another 12% were meeting their expectation. So with the financial success of our existing franchisees, we have a very strong brand name in the franchise market, we don't see any urge to lower the franchise fee to attract more franchisees.

Dok Chu Kang - - *Analyst*

Got it, thank you. And secondly, could you provide some more guidance on the personnel costs in light of not just the rising minimum wage, but also other factors, such as the new regulations on the social insurance costs? And do you see any substantial increase in the near term in terms of personnel costs? Thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

We guided on a per room night basis personnel costs will increase 5% to 10% this year. Currently, the increase is within the range we guided earlier.

Dok Chu Kang - - *Analyst*

And that's including these new regulations that's I've been reading about; apparently, the social insurance, that's supposed to go up quite significantly, so I was wondering if that guidance was including this already.

Jenny Zhang - *China Lodging Group Ltd - CFO*

All our employees are already in compliance with the social benefit scheme requirement.

Dok Chu Kang - - *Analyst*

Got it. Thank you very much. That's all my questions.

Jenny Zhang - *China Lodging Group Ltd - CFO*

You're welcome.

Operator

(Operator Instructions). Ella Ji.

Ella Ji - *Oppenheimer - Analyst*

Just a follow-up on 2012's margin outlook. Given that you open a lot more new hotels in 2012, Jenny, I'm wondering if you can give us an initial idea of 2012's margin performance versus 2011. And do you think it will go back maybe to 2009's level; just any rough idea would be helpful?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Although we are opening more hotels in 2012, percentage-wise actually the growth is slightly lower than what we have planned for 2011. So with that in mind, our mature hotel base for leased and operated hotels is also going to expand when we get into 2012. So we don't expect the margin of 2012 to be any lower than 2011.

Ella Ji - *Oppenheimer - Analyst*

Do you think it will be comparing to 2009's level, do you think? How do you think it will compare to that?

Jenny Zhang - *China Lodging Group Ltd - CFO*

In the year of 2009 we had the first quarter actually right at valley of the financial crisis. And in 2011 the first quarter we had a significant impact from the Shanghai market weakness after the Shanghai Expo. So far we -- the economy seems to be stable. Of course, I don't have a crystal ball, I cannot predict exactly how the macro environment will be in 2012. But assuming the overall economy is stable, then 2012 should have less of those negative impacts as we have seen in 2009 and 2011.

Ella Ji - *Oppenheimer - Analyst*

Okay, thank you, that's very helpful.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you, Ella.

Operator

Grace Lin, Citigroup.

Grace Lin - *Citigroup - Analyst*

Thank you for taking my questions, I'm sorry if someone asked this before, because I was dropped earlier.

I just want to know in terms of your new openings in 2012, is there any colors that you can give on where any region or tier of cities that you are going to enter? And also is that organic growth or you have taken into account of some smaller scale acquisitions? Thank you.

Matthew Zhang - *China Lodging Group Ltd - CEO*

In terms of the city mix, the region mix of the new hotel openings, we are more geared towards the lower end city with approximately balanced one-third for each tier, something like that. So that's the city mix, we're seeing that -- or tremendous opportunities in the second and third tiers of cities, because of the urbanization goes so quick. So that's the regional split.

What's your second question, sorry?

Grace Lin - *Citigroup - Analyst*

Yes, the second question is for the new openings, is it like purely new hotels that you open or you have taken into account of some smaller --?

Matthew Zhang - *China Lodging Group Ltd - CEO*

We are -- again, we are doing small individual hotel acquisition all the time, but that won't be significant for our hotel expansion. So that's -- mostly expansion is depending on the organic growth, I put it this way.

Grace Lin - *Citigroup - Analyst*

Okay, and, I'm sorry, could you remind me again for the latest price difference between the three brands of hotels, like Hi Inn and Seasons --?

Matthew Zhang - *China Lodging Group Ltd - CEO*

Hi Inns the price is about RMB100 to RMB150; Express Hotel the price between RMB150 to RMB300; and Seasons Hotel is prices are RMB250 to RMB400.

Grace Lin - *Citigroup - Analyst*

Thank you.

Operator

There are no further questions at this time, please continue.

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

Amy, I guess it's time to close the call, if we don't have any further questions.

So everyone, once again we appreciate your time and attention during the call, we continue to see tremendous growth opportunities in the limited service lodging sector in China. As a leading player in this sector, we are confident that China Lodgings' well formulated strategy and the solid execution capabilities will enable us to generate significant shareholder value in the long run.

For more information on China Lodging, please visit us at ir.htinns.com. The updated version of our Company presentation is now available. We also cordially invite you to register for e-mail alerts to get timely news and updates from us.

We look forward to talking to you in the next quarter earnings call. Goodbye, everyone.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you very much for participating. You may now all disconnect.
