FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the China Lodging Group Q3 2010 earnings conference call. I'd now like to hand it over to Ida, IR Manager of the Company.

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

Thank you, Daniel. Hello, everyone, and welcome to our third quarter 2010 earnings conference call. With us today is Matthew Zhang, our Chief Executive Officer; and Jenny Zhang, our Chief Financial Officer.

Matthew will lead off today's call with a brief overview of our business performance, and Jenny will be further discussing our financial results for the third quarter. Following their prepared remarks, the CEO and the CFO will take your questions.

Before we continue, please note that the discussion today will include forward-looking statements made under the Safe Harbor provisions of the United States 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. The calculations 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 investor 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*

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

As you see from the press release, we had another terrific quarter. We continue to build our momentum, delivering solid revenue and profit growth in the past quarter.

Net revenues increased 48% year-over-year to RMB506 million, exceeding the high end of guidance of RMB480 million. Net income attributable to the Company was RMB88 million, 4 times of the RMB22 million in Q3 last year.

Now I'd like to share with you our performance results in more details.

We opened 44 hotels in the past quarter, to establish a network of 368 hotels in operation, consisting of 200 leased-and-operated hotels, and 168 franchised-and-managed hotels.

We continue to seek for suitable properties and attract more franchisees to expand our network. At the end of Q3, we had 167 hotels under development, including 76 leased-and-operated hotels, and 91 franchised-and-managed hotels. We entered four new cities last quarter, increasing our network coverage to 55 cities.

In Q4, we plan to open around 30 leased-and-operated hotels, and around 25 franchised-and-managed hotels. By the end of this year, the total number of hotels in operation is expected to reach 420 hotels to 425 hotels, which is an 80% increase from 236 hotels a year ago. Next year, we plan to add another 180 hotels to 200 hotels, with a 50/50 split between leased-and-operated hotels and franchised-and-managed hotels.

Along with our fast network expansion, we have strengthened our loyalty program. At the end of last quarter, we had more than 2.3 million individual members, doubled from a year ago.

62% of room nights sold were contributed by individual members, and another 12% were contributed by corporate members during the last quarter.

Now let's look at the key operational metrics.

In the third quarter of 2010, occupancy rate was 95%, compared with 98% in the same quarter last year and in the previous quarter. The slight year-over-year and sequential decrease was mainly due to increased percentage of new hotels, which were still in the ramp-up stage.

ADR was improved to RMB218, up 25% from RMB174 in the same quarter last year, compared with RMB196 in the previous quarter. As a result, the RevPAR reached a record high of RMB207, up 21% from RMB171 in the same quarter last year, compared with RMB192 in the previous quarter.

We are also delighted to see continuous revenue growth from matured hotels. The same hotel RevPAR for at least 18 months in operation was RMB220 for this quarter, increased 27% from RMB173 for the same quarter last year. The improvement was mainly driven by higher ADR.

In the third quarter, the RevPAR for mature hotels in Shanghai has increased 89% from the same quarter last year, mainly contributed by the ADR increase.

We are also encouraged to see RevPAR improvement of mature hotels outside Shanghai by 7% year-over-year, also primarily driven by the ADR increase.

We are pleased to see wide acceptance of our price increases as a result of our premium positioning and high quality customer base. We look forward to achieving our RevPAR improvement on a same hotel basis for the next couple of years.

We will continue our hotel expansion to cover around 60 cities by the end of this year, and we intend to expand our network to exceed 1,000 hotels and cover 100 cities by 2013.

Now I'll turn the call over to Jenny Zhang, our CFO, to walk us through the financials in more detail.

Jenny Zhang - *China Lodging Group Ltd - CFO*

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

Total revenues for the quarter increased 48.2% year-over-year to RMB535 million, primarily as a result of our enlarged hotel network and higher RevPAR. As noted by Matthew earlier, our RevPAR increased in both Shanghai and the non-Shanghai areas.

Total revenues from leased-and-operated hotels for the quarter were RMB497.7 million, representing a 42.3% increase year-over-year, as both the number of leased-and-operated hotels and the RevPAR increased.

As of September 30, 2010, we had 200 leased-and-operated hotels in operation, compared with 166 a year ago.

Our proven good record and premium brand continue to attract franchisees to join HanTing.

Total revenues from franchised-and-managed hotels for the quarter were RMB37.3 million, representing a 228.9% increase year-over-year, due to the increased number of franchised-and-managed hotels, as well as improved RevPAR.

As of September 30, 2010, we had 168 franchised-and-managed hotels in operation, compared with 50 a year ago. The revenues from franchised-and-managed hotels accounted for 7% of our total revenues, improved from 3% for the same quarter the prior year.

Net revenues for the quarter were RMB506.1 million, representing an increase of 48.4% year-over-year, and also increase of 15.3% sequentially.

Total operating costs and expenses for the third quarter were RMB402.4 million. The total operating costs and expenses, excluding share based compensation expenses for the quarter were RMB399.1 million, representing a 32.2% increase year-over-year, mainly due to our business expansion.

Major components of operating costs and expenses are described and discussed below.

Hotel operating costs for the quarter were RMB311.1 million, representing 61.5% of net revenues. Total hotel operating costs, excluding share-based compensation expenses, represented 61.4% of net revenues compared with 75.1% for the same quarter in 2009, and 62.3% in the previous quarter. The decrease in hotel operating costs as a percentage of net revenues year-over-year was primarily due to increased RevPAR and the rapid growth of franchised hotel proportion.

Selling and marketing expenses for the quarter were RMB20.6 million. Selling and marketing expenses, excluding share-based compensation expenses, was RMB20.3 million, representing 4.1% of net revenues, compared with 5.4% for the same quarter in 2009, and 3.7% in the previous quarter.

G&A expenses for the quarter were RMB35.2 million. G&A expenses, excluding share-based compensation expenses, were RMB32.5 million, or 6.4% of net revenues, compared with 5.8% of net revenues in the same period of 2009, and 5.47% in the previous quarter.

For the full year of 2009, our G&A expenses, excluding share-based compensation, were 6.1% of net revenues. We expect that the same ratio remains stable for the full year of 2010.

Pre-opening expenses for the quarter were RMB35.5 million, an increase of 372.6% year-over-year, and an increase of 91.4% sequentially. The increase in pre-opening expenses was a result of the increased number of leased-and-operated hotels under construction during this quarter.

As you're aware, 13 leased-and-operated hotels were opened during this quarter, and another 66 were under construction at the end of the quarter compared to nine opened and 37 under construction as for the period -- as for the prior quarter.

Income from operations for the quarter was RMB103.7 million. Excluding share-based compensation expenses, adjusted income from operations was RMB107 million, representing a 172.8% year-over-year increase.

Net income attributable to the Company for the quarter was RMB88.7 million, representing 17.5% of net revenues, up 298% from RMB22.2 million a year ago.

Excluding share-based compensation expenses, adjusted net income attributable to the Company was RMB92 million, up 277% from the prior year. The year-over-year improvement on profit was mainly attributed to the enhanced profitability of mature hotels, the expansion of our network, and the favorable impact of the Expo.

EBITDA for the third quarter of 2010 was RMB155 million compared with RMB72 million in the same quarter of 2009, and RMB144.5 million in the previous quarter.

EBITDA from operating hotels were RMB190.6 million, an increase of 139.7% from the same quarter of 2009, and an increase of 16.9% sequentially.

EBITDA from operated hotels was 37.7% of net revenues, improved from 23.3% for the third quarter of 2009, and 37.1% for the previous quarter.

Net operating cash flow for the quarter was RMB164 million. Cash spent on the purchase of property and equipment was RMB111.2 million. As of September 30, 2010, we had cash and cash equivalents of RMB1.27 billion.

We expect to achieve net revenues in the range of RMB450 million to RMB470 million in the fourth quarter of 2010. In light of the stronger demand from the Expo and our successful increase of same-hotel revenue, we raise our full year net revenues guidance to grow 38% to 39% from 2009.

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

The macro economy in China continues to grow strongly, leading to increasing travel demand. With our strengthening brand and a fast-growing network, we are positive that we will continue to improve our business results.

With that, we will now open the call to any questions that you may have. Operator?

QUESTIONS AND ANSWERS

Operator

I'm sorry, my line was on mute. (Operator Instructions). Your first question comes from Justin from Goldman Sachs. Please go ahead.

Justin Kwok - *Goldman Sachs - Analyst*

Hi, good morning. Thanks for taking my question; actually, a couple of questions. Number one is on your guidance. You have mentioned that apart from the Expo, you raised your guidance because you have seen a successful increase of same-hotel revenue. Do you mind to share a little bit more on what was your original expectation, and what is your new expectation now in terms of the same-hotel room-based occupancy growth?

This is my first part. Thanks.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Currently, we have seen a 7% improvement on the like-for-like basis for our mature hotels in Q3, and we saw a similar improvement in Q2. So for the area in non-Shanghai, we will maintain that in Q4 they are going to have similar level of improvement, say 5% to 7%, as Q4 is typically a slower season than the two earlier quarters. Justin, I'm not sure; does that answer your question?

Justin Kwok - *Goldman Sachs - Analyst*

Yes, that's very helpful. And just a follow-up on this would be -- I believe a lot of people also focus on what was the pricing and occupancy trend after the Expo, which is -- we are now 10 days into this Expo period, and what has been factored into your guidance in terms of the assumption? Or how should we look at the occupancy and room rate in the area?

Thanks.

Matthew Zhang - *China Lodging Group Ltd - CEO*

I think that fourth quarter, especially November/December is slightly a lower season compared to the third quarter, so the pricing I think after Expo, Shanghai pricing will back to the price level of March/April time, okay? And the outside of Shanghai keep pretty much stable.

The occupancy rate I think that's next quarter, the fourth quarter will be pretty much similar to the last year, but ADR is increased, as we just mentioned, this will increase about 5% to 7%. So that's the basis for the outlook.

Justin Kwok - *Goldman Sachs - Analyst*

I see. So for the first [big] 10 days, are you seeing occupancies back to the normal range when you have put it back to, in terms of a room rate, back to the March/April level? Are you seeing that, or do you see any room for your hike? Or do you see the need for discount on this end?

Matthew Zhang - *China Lodging Group Ltd - CEO*

I think that currently because it's only a week past the Expo, so it's not so clear, but I think that for the first week it's kind of dipped after the Expo where the traffic had not been picked up yet. But we are positive that after the next week or so, the demand will coming back to the normal business traveling demand.

Justin Kwok - *Goldman Sachs - Analyst*

Okay, great. My other question is on the cost side because I have --- well, looking at your numbers, the SG&A number seems to have increased quite a bit quarter-on-quarter basis, and in your announcement, you have mentioned that there are some one-time fee like the (inaudible) [listing] or other things. So how much of them will be recurring, and how much of them would be on the one-time basis for the G&A?

Thanks.

Jenny Zhang - *China Lodging Group Ltd - CFO*

I think the Q3 G&A expenses are actually in line with our full year expectation. Our G&A reported may fluctuate from quarter-to-quarter due to the timing of certain reclamation of expenses. For example, in Q2, we recognized about RMB2 million of government refunds, so that reduced G&A in the second quarter, so makes the comparable high for Q3.

But overall speaking, the Q3 G&A is in line with previous year range.

Justin Kwok - *Goldman Sachs - Analyst*

All right. Thanks. My last part of the question is you still have a strong cash balance now. Would you -- how would you be planning in terms of the CapEx [view] in terms of speeding up more in the leased-and-operated side? Or more acquisitions, M&A? How do you look at these things?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Yes, we have a significant balance of cash, and we intend to deploy those cash gradually into our expansion plans. Currently, we have already adjusted up our leased-and-operated hotels percentage. As Matthew mentioned earlier in the call that for next year, about half of the new hotels opened will be leased-and-operated hotels, which is a significant increase from this year.

And we of course are also open to any merger and acquisition opportunities, but whether we do get into any of those deals is really depending on whether the deal can meet our return criteria.

Justin Kwok - *Goldman Sachs - Analyst*

All right. Thanks again. Great quarter. Thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you, Justin.

Operator

Thank you for your question, and the next question comes from Paul from Oppenheimer. Please go ahead.

Paul Hinsum Keung - *Oppenheimer - Analyst*

Hi. Good morning. Thanks for taking my call. Real quick; I just want to know how many hotels do you guys expect to open the first quarter of next year? New hotels.

Matthew Zhang - *China Lodging Group Ltd - CEO*

It is normally the first -- because of Chinese New Year and very cold weather in the first quarter, in every first quarter, that will be the slowest season for new hotel opening. I think that normally we're expecting about 10% around the total number of open of the year numbers of hotels.

Paul Hinsum Keung - *Oppenheimer - Analyst*

Okay. And are you still guiding for about 200 roughly for 2011?

Matthew Zhang - *China Lodging Group Ltd - CEO*

Right.

Paul Hinsum Keung - *Oppenheimer - Analyst*

Okay.

Matthew Zhang - *China Lodging Group Ltd - CEO*

About -- yes, about 15. Something like that.

Paul Hinsum Keung - *Oppenheimer - Analyst*

15, okay. Now just a few follow-ups, a follow-up to it. Is majority of this year's opening hotels, it's still going to be a bulk -- it's still going to be in the fourth quarter then. Correct, for this year?

Matthew Zhang - *China Lodging Group Ltd - CEO*

Go again.

Paul Hinsum Keung - *Oppenheimer - Analyst*

The majority of new hotels opening for this year, a big bulk of it is still coming on this quarter, the fourth quarter, right now?

Matthew Zhang - *China Lodging Group Ltd - CEO*

Right. Correct, yes.

Paul Hinsum Keung - *Oppenheimer - Analyst*

Okay, and for your guidance for next year, for 2011, you guys are still expecting to grow at maybe a similar rate as what you originally guided this year? And what's your expectations for next year?

Matthew Zhang - *China Lodging Group Ltd - CEO*

We will open about 180 hotels to 200 hotels next year, but mix between the leased-and-operated and the franchised-and-managed hotels will be changed a little bit. So we're expecting that we will open -- about 50% of the total number of hotels next year will be leased-and-managed hotels.

Paul Hinsum Keung - *Oppenheimer - Analyst*

Okay. Now what is the thought behind that in terms of your strategy that's changing now that you're pushing forward heavily on leased-and-operated?

Matthew Zhang - *China Lodging Group Ltd - CEO*

I think it's first of all we have, like Justin asked, we have a lot of cash on hand, so we need to deploy this cash to generate more returns, first of all.

Second of all, I think that today in the market you can find very favorable return leases, so it's about our strategy -- you know that our strategy is for about 20% of IRR, so that's why we deploy these cashes to generate 20% IRR. So we will add more leased-and-operated hotels.

But this year, we already intended to do that, and you can see that our pipeline for leased-and-operated hotels is growing, because there will be some lag, or there's some pipelines need to be [geared] up to speed up our leased-and-operated hotels. So we're already starting to add more -- put more emphasis on leased-and-operated hotels this year, which will be fruitful for the next year.

Paul Hinsum Keung - *Oppenheimer - Analyst*

Okay. And one last small question. Now on your -- I see that you haven't spent -- on your statement, is says purchase of property. Now what --? Can you specify exactly what it is you have purchased in terms of property?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Actually, Paul, that's an accounting term. We didn't purchase any property.

Paul Hinsum Keung - *Oppenheimer - Analyst*

Okay. I just wanted to make sure you (inaudible), okay.

Well, congratulations on a great quarter. Thank you. I'll get back in the queue. Thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you.

Operator

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

Fawne Jiang - *Brean Murray - Analyst*

Good morning. Thank you for taking my questions. The first one is, what's the total opening costs do you expect for 2010?

Jenny Zhang - *China Lodging Group Ltd - CFO*

We expect Q4 pre-opening to be similar, or even slightly more than Q3, as we have more new hotels to be opened and our leased-and-operated hotels are continuing beefing up.

Fawne Jiang - *Brean Murray - Analyst*

Got it. Second question is regarding your hotel operating costs. I just wondered, is there any item you see, I guess, increasing pressure going forward. Just wondering whether you see personnel costs increasing, or utility costs increasing in the fourth quarter, or potentially next year.

Jenny Zhang - *China Lodging Group Ltd - CFO*

First of all, the majority of our cost elements are fairly stable, such as rent and the depreciation. Those two together account for approximately 40% of our net revenue. And there are also items more impacted by the inflation, such as utilities and the labor.

As I mentioned in our call last quarter, that those two, especially the personnel costs, are increasing at close to 10%, let's say, year-on-year. So we are expecting increase on those items.

Of further note on the utility is that this item also fluctuates from quarter-to-quarter due to seasonality. For example, Q1 and Q4 generally see a higher utility cost. Q3 are next to them, and Q2 generally is fairly low. And this may also contribute to the cost fluctuation across quarters.

Fawne Jiang - *Brean Murray - Analyst*

Got it. Thanks. And last question is regarding your store openings for next year, 4,200 hotels. What's the approximate allocation regarding different tiers of cities?

Matthew Zhang - *China Lodging Group Ltd - CEO*

I think that we'll continue -- I think that the pipeline right now shows the Tier 1 cities will have about 30%, Tier 2 cities will be about another 30%, and Tier 3 will be another 40%.

Fawne Jiang - *Brean Murray - Analyst*

Okay. That's all my questions. Congratulations on a good quarter.

Matthew Zhang - *China Lodging Group Ltd - CEO*

Thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you, Fawne.

Operator

Thank you for your questions. There are no more questions at this time. (Operator Instructions). There is a question from Adam from Roth Capital Partners. Please go ahead.

Adam Krejcik - *Roth Capital Partners - Analyst*

Hi. My first question is I was wondering if you could give an idea of what the ADR would have been in Q3 without the benefit of the Shanghai Expo. Maybe just a range or an idea would be helpful.

Matthew Zhang - *China Lodging Group Ltd - CEO*

Yes, that's very difficult to say, but I can give you an indication that the ADR outside of Shanghai increased about 7%.

Adam Krejcik - *Roth Capital Partners - Analyst*

Okay, got it. And then, sorry, could you repeat the --? I missed the last question when you gave the breakdown for the new hotels in the different tier cities.

Matthew Zhang - *China Lodging Group Ltd - CEO*

Tier 1, Tier 2, Tier 3 is about 30%, 30%, 40%.

Adam Krejcik - *Roth Capital Partners - Analyst*

30%, 40%. Okay, got it. And then I was wondering about the pre-opening expenses in Q4. So just so I understand this correctly, you've already incurred a number of costs for the new openings already in Q3, so even though you're opening a lot more in absolute terms, fairly new openings, it doesn't sound like there will be a significant jump in pre-opening expenses in Q4, because you've already incurred some of those here in Q3.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Adam, you know theoretically, there are two factors impacting our pre-opening expenses. One is the hotels opened, and the other is those under construction. So to estimate this, we have to put those two factors together.

Currently, we have a fairly full pipeline of leased-and-operated hotels, so we may see some increase (inaudible) for the pre-opening expenses. But I agree with you, since we're already ramping-up, it wouldn't be a significant jump in Q4.

Adam Krejcik - *Roth Capital Partners - Analyst*

Okay, got it. And then just briefly, could you remind us how many -- what percentage of your hotels are in Guangzhou and if you expect any type of benefit from the Asian Games coming up, and if you're seeing a similar change in pricing in that region like you did for the Expo?

Thanks.

Matthew Zhang - *China Lodging Group Ltd - CEO*

We have about 2% of our hotels in Guangzhou, which will be impacted by the Asian Games. At this point, we see -- in Guangzhou there's three events which are -- significantly change the RevPAR. One is -- two are the trade fair, which is one in spring, one in autumn. And this year, we have Asian Games. And we see the ADR increase is only one third of the autumn fair trade -- trade fair.

So that will be -- and possibly, given the very small percentage of our hotels in Guangzhou, we see very minimal impact to our total RevPAR of our portfolio.

Adam Krejcik - *Roth Capital Partners - Analyst*

Okay, that's helpful. Thank you very much.

Jenny Zhang - *China Lodging Group Ltd - CFO*

On top of that -- yes. On top of that, Adam, you know the Asian Games only lasted for two weeks, so it's not as significant as the Expo.

Adam Krejcik - *Roth Capital Partners - Analyst*

Sure, I understand. Thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

You're welcome.

Operator

Thank you for your question. The next question comes from Kenneth Tung from BNP. Please go ahead.

Kenneth Tung - *BNP Paribas - Analyst*

Hi. Congratulations for a strong third quarter. I just have one very quick question. If I am correct, the managed hotels pipeline is slowing down compared to second quarter from 100 hotels under conversion to about 90 hotels. Is it you are purposely slowing down the managed hotels or the franchisees is slowing down the expansion? That's my question.

Matthew Zhang - *China Lodging Group Ltd - CEO*

We continue to use a balanced approach to develop leased-and-operated and franchised-and-managed hotels. You saw a very large pipeline in the beginning of this year because it was building up the pipeline, and now it's -- I think that's normalized. I think that the pipeline will keep pretty much stable at about the 100 level going forward. It's not our intention to slow it down.

Kenneth Tung - *BNP Paribas - Analyst*

Okay, thank you.

Operator

There are no more questions at the current time. (Operator Instructions). A question's just come through from Paul from Oppenheimer. Please go ahead.

Paul Hinsum Keung - *Oppenheimer - Analyst*

Hi. Just one follow-up question. On your next year outlook, when you say you have 200 hotels estimated and half of them will be leased-and-operated, it's great that you [are] investing your cash [and what-not]. But you did say -- you have guided to have about 130 or so managed or franchisee hotels. So for next year then, what's the thinking that it will only be 100 hotels? Or would you not want -- are you guys being conservative? Can you explain that a little bit?

Matthew Zhang - *China Lodging Group Ltd - CEO*

It think it's not conservative. I think it's -- this year -- again, we keep a very balanced approach for leased-and-operated and franchised-and-managed hotels development. And we have the -- I think that with the market, we can acquire certain amount of properties as well as franchisees.

We -- just as you know that we started with very small pipeline of leased-and-operated hotels in the beginning of this year, and we put more resources in the leased-and-operated development, so I think it's a result of our resource allocation.

Paul Hinsum Keung - *Oppenheimer - Analyst*

Okay, thank you.

Matthew Zhang - *China Lodging Group Ltd - CEO*

Thanks a lot.

Operator

There are no questions.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Okay; thank you, everyone. Before concluding this call, I want to please let you be aware of our upcoming investor event. On November 10 to November 11, I will attend the Morgan Stanley Ninth Annual Asia Pacific Summit in Singapore.

On November 17, I will attend Brean Murray, Carret China Growth Conference in New York City. I will also visit our investors in Boston, New York and San Francisco during the week of November 15.

So for more information, please visit our IR website and you may register and get email alert.

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

Matthew Zhang - *China Lodging Group Ltd - CEO*

Thank you. Goodbye.
