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HTHT - Q4 2011 China Lodging Group Ltd Earnings Conference Call

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CORPORATE PARTICIPANTS

Ida Yu *China Lodging Group Limited - IR Manager*

Qi Ji *China Lodging Group Limited - Executive Chairman & CEO*

Jenny Zhang *China Lodging Group Limited - CFO*

CONFERENCE CALL PARTICIPANTS

Chenyi Lu *Cowen & Company - Analyst*

Liping Cai *William Blair & Company - Analyst*

Ella Ji *Oppenheimer & Co - Analyst*

Adam Krejcik *Roth Capital Partners - Analyst*

Justin Kwok *Goldman Sachs - Analyst*

Lin He *Morgan Stanley - Analyst*

Billy Ng *BofA Merrill Lynch - Analyst*

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

Vivian Hao *Deutsche Bank Research - Analyst*

Jamie Zhou *Macquarie - Analyst*

Kenneth Fong *JPMorgan - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the China Lodging Group 2011 Q4 earnings call.

At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session. (Operator Instructions). I must advise you this conference is being recorded today, Thursday, March 8, 2012.

I would now like to hand the conference over to your speaker for today, Miss Ida Yu. Thank you, please go ahead.

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

Thank you, [Gary]. Hello, everyone, and welcome to our fourth quarter and full year 2011 earnings conference call.

Joining us today is Mr. Qi Ji, our founder, Executive Chairman and CEO, and Jenny Zhang, our CFO, who will discuss our Company's performance for the fourth quarter and full year 2011.

As part of our continued efforts to improve our investor communication, we have supplemented this conference called with a PowerPoint presentation, which you can download at the homepage of our IR website.

Following their prepared remarks, the CEO and 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.

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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 published 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. [Re-confirmation] of those measures to comparable GAAP information can be found in the earnings release that was distribution earlier today.

As a reminder, this conference call is being recorded. The webcast of this conference call, as well as the presentation slides, are available on the IR section of China Lodging Group's website at ir.htinns.com.

Now, I would like to turn the call over to Mr. Ji, who will be speaking in Chinese and his statements will be translated into English. Qi Ji, please.

Qi Ji - *China Lodging Group Limited - Executive Chairman & CEO*

(interpreted) Good morning, everyone, and thank you for joining us today. I'm pleased to announce the fourth quarter and full year 2011 results.

As shown on slide 3 of our PowerPoint presentation, in spite of our high 2010 comparison base, we continue to deliver strong revenue growth, thanks to growing travel demands and our solid execution.

For the fourth quarter, our net revenues grew by 43.8% year over year, or 47.6% year over year if excluding the Shanghai Expo impact. For the full year of 2011, our net revenues grew by 29.4% or 38.2% if excluding the Shanghai Expo impact.

On slide 4, 2011 witnessed another year of fast expansion for HanTing, as we opened 201 net new hotels, we have recorded 101 net new leased-and-operated hotels in a single year, and brought the total hotel count to 639.

We successfully extended our footprint into 100 cities across China. We have 22 Seasons Hotels and 28 Hi Inns in operation, accounting for a combined 8% of our portfolio.

At the end of 2011, we had 278 hotels in the pipeline, including 93 leased-and-operated hotels, and 185 franchised-and-managed hotels, both maintaining our growth trend.

Our growth is supported by both the trend growth, travel demand, and the consolidation opportunity arising from a very fragmented hotel market in China.

On slide 5, let's take a look at the travel demand data first. China's domestic travel expenditure grew significantly faster than GDP at a CAGR of 14% from 2007 to 2009, and 17% from 2009 to 2011. Even on a high base of 2010, the growth continued in 2011 at 13%.

As various businesses expand geographically, and the household disposable income increases, the travel expenditures are expected to continue growing fast, building the demand for our hotels.

On the supply side, as shown on slide 6, the China travel accommodation facilities remain fragmented, with all the branded hotel chains below four star taking only 1.9% of the market in 2011.

Despite that, the branded hotel chains have successfully taken shares from standalone hotels in the parts. Those remaining one, two, three star hotels, and other hotels, still account for 30.2% of the market. The chains still have abundant room for growth, through consolidating those standalone hotels. Being a leading hotel chain in China, HanTing will have no hesitation in grasping this opportunity.

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On slide 7, we have set clear strategies to capture the growth opportunities presented by the prospering China travel market, and the fragmented competitive landscape. First, we will continue to focus our customer experience. We are committed to provide high-quality product and service with value for money in each segment of our brand portfolio.

Second, we will continue the fast growth in both hotel count and revenue. Our goal is to exceed 2,000 hotels in five years, and to become one of the top 10 hotel groups, globally, in 10 years.

Third, we envision HanTing to grow into a multi-brand hotel group. The new brands, such as Seasons and Hi Inn, will serve as extra growth engines in addition to our core HanTing Express.

Last, but not least, we will continue to invest into our people and organizational capabilities. Our commitment to attracting quality employees, to providing means and tools for our employees to succeed, and to rewarding performance, is a cornerstone of our organization.

With the successful execution of those strategies, I believe that we will see a sustainable growth of the shareholder value.

Now I will turn the call over to Jenny. She will walk you through operational and financial performance in more detail. Jenny, please.

Jenny Zhang - *China Lodging Group Limited - CFO*

Thank you, Qi Ji. Hello, everyone. To make this call more productive, I will not go through all the data (inaudible). Instead, I would like to discuss with you a selection of the data that are most meaningful when reviewing our business results.

First of all, let's turn to page 9 and take a look at our RevPAR, which is essential to our revenue achievement and margin performance. In the fourth quarter of 2011, our RevPAR was RMB167, largely stable compared with the same period in 2009 and 2010, with the impact of city mix shifting towards lower tier cities largely offset by the same-hotel RevPAR growth.

For the full year of 2011, our RevPAR was RMB165, 9.6% lower than 2010, mainly due to absence of one-time benefit of Shanghai Expo, but 1.3% higher than 2009, mainly driven by the same-hotel RevPAR growth.

Page 10 provides a detailed view of our same-hotel RevPAR trend. In the fourth quarter of 2011, our same-hotel RevPAR appreciated by 5% across China, and 7% for the hotels outside of Shanghai. The appreciation outside of Shanghai was attributable to a 3% growth in ADR, and a 4% growth in occupancy. For the full year of 2011, same-hotel RevPAR increased 4% outside of Shanghai.

The appreciation of same-hotel RevPAR was owing to our strengthening brand, and fast-growing loyal customer base. At the end of 2011, our HanTing Club members increased to more than 4.4 million, 68% more than a year ago, and accounted for 66% of room nights sold in the fourth quarter of 2011.

After looking at RevPAR let's turn to page 11 for a waterfall view of our full-year P&L. This page shows the hotel income, contributed by mature leased-and-operated hotels, by franchised-and-managed hotels, and by new leased-and-operated hotels, separately, which provides more insight into our underlying margin and profitability.

For mature leased-and-operated hotels, which is defined as those in operation for at least six months, the hotel income was RMB420.9 million during 2011, or 23% of net revenues derived from those hotels. For franchised-and-managed hotels, the hotel income was RMB167.6 million, or 84% of net revenue derived from those hotels.

New leased-and-operated hotels, defined as those in operation for less than six months, derived a hotel loss of RMB42.2 million, or 18% of net revenues derived from those hotels in 2011. The new hotels accounted for 18% of leased-and-operated room nights available for sale in 2011, which is much higher than the 7% in 2010, and also higher than the 15% in 2009.

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Pre-opening expenses was RMB184 million in 2011, 65.7% higher than 2010, as a result of a record high 101 new leased-and-operated hotel openings, and the extended conversion period due to regulatory changes. The high new leased-and-operated hotel loss and pre-opening expenses, which depressed our margin in 2011, were attributable to our fast expansion through leased-and-operated hotels.

As those hotels become mature, they will then contribute positively to the hotel income and overall profit.

As we look at the five main margin drivers, we will provide more details on page 12.

Firstly, our mature leased-and-operated hotel income, as a percentage of net revenue, which is the core indicator of our underlying profitability, increased to 23% from 22% in 2009. The upward trend was mainly due to our same-hotel RevPAR appreciation, partially offset by cost inflation.

Secondly, the high margin franchised-and-managed hotel revenue continued to grow in our revenue mix, helping improving the overall operating margin. At the same time, as we accelerated our expansion, especially when the new leased-and-operated hotel openings increased, our weight of new leased-and-operated hotels and the pre-opening expenses, as a percentage of net revenue, increased significantly in 2011, and impacting the 2011 margin.

As our mature leased-and-operated hotel base expands, we expect those two ratios to decrease in 2012. We are committed to improve the margin of our business in the long run, mainly through strengthening our brand, managing the cost thoughtfully, and growing the franchise business at a faster pace.

Beyond those four drivers, SG&A, as a percentage of net revenue, is also another impacter worth noting. On page 13, as you can see, adjusted SG&A ratio increased over the five-year period from 2007 to 2011 as the Company expanded. But since 2009, adjusted SG&A ratio has been largely stable, mainly because the benefit of economy of scale and organizational and [infrastructure] investment to support the fast expansion more or less offset each other.

If we move to page 14, I'm glad to report that we maintain a strong balance sheet, as of the end of 2011, with a total balance of cash and cash equivalents, restricted cash, and short-term investments of RMB783 million and a zero debt.

The cash generated from operating activities in 2011 amounted to RMB467 million, stable from 2010, because the additional cash generated from the network expansion in 2011 were largely offset by higher pre-opening expenses and the lease deposits in 2011 due to expansion, and also, the absence of the one-time benefit from the Shanghai Expo.

Our strong cash position, and the capability to generate cash from operations, provide us a reliable funding source for our expansion.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Chenyi Lu, Cowen & Company.

Chenyi Lu - *Cowen & Company - Analyst*

I have a question regarding the hotel expansion plan for 2012. Can you give us the breakdown between the operating and also the leased and managed?

And then also, can you give us your view in terms of pre-opening costs as a percentage of total revenue in 2012? That would be great, thank you.

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Jenny Zhang - *China Lodging Group Limited - CFO*

So you're asking about new hotel opening mix. We plan to open around 120 new leased-and-operated hotels, and the rest are going to be franchised-and-managed hotels.

And what's the second part of the question, if you don't mind?

Chenyi Lu - *Cowen & Company - Analyst*

Regarding the pre-opening costs for the 2012 as a percentage of total revenue. Will you continue to see improvement, or it's going to be remaining high at 8.5% as you had in 2011?

Jenny Zhang - *China Lodging Group Limited - CFO*

Since we have a large mature hotel base, we expect that ratio to decrease slightly from 2011.

Chenyi Lu - *Cowen & Company - Analyst*

Great, thank you. That's all my questions.

Operator

Liping Cai, William Blair.

Liping Cai - *William Blair & Company - Analyst*

Congratulations on a strong quarter. My first question is regarding your guidance for the first quarter and for 2012. I wonder if you can talk a little bit about your assumptions in your guidance regarding RevPAR and, also, the hotel opening pattern.

Jenny Zhang - *China Lodging Group Limited - CFO*

Sure. We have guided full-year revenue growth of 34.5% to 37.5% growth, and we also guided the first quarter with 43% to [46%] (Company corrected after the conference call) revenue growth. The basic assumption is that we are going to have a small improvement on the same-hotel RevPAR, and have a steady opening schedule throughout the full year for both leased-and-operated hotels and franchised-and-managed hotels.

We expect to open roughly 35% to 40% of new hotels in the first half of the year, and the rest opening in the second half of the year, which is our normal seasonal pattern.

Liping Cai - *William Blair & Company - Analyst*

Okay. And so for the improvement in same-hotel RevPAR that's related to mature hotels?

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Jenny Zhang - *China Lodging Group Limited - CFO*

Currently, we are expecting flat to 3% kind of same-hotel RevPAR growth. We are continuing to see a positive demand situation, but we are also cautious in watching [all the] different uncertainty factors globally, as well as in China. So that's our current assumption.

Liping Cai - *William Blair & Company - Analyst*

Okay, thank you very much.

Operator

Ella Ji, Oppenheimer.

Ella Ji - *Oppenheimer & Co - Analyst*

Firstly, a follow up with the prior question regarding what are you seeing on the market. Our Premier just cut the GDP rate. I'm wondering what are you seeing since the Chinese New Year, especially in the business travel side?

Jenny Zhang - *China Lodging Group Limited - CFO*

Our first two months continue to see fairly stable travel demand, and our performance, so far, meets our internal expectations. So that's our current observation.

I believe the 7.5% GDP growth, much larger growth [pace] in China, although GDP level is still a fairly strong number. And on top of that, as we explained in our call earlier, we have consistently seen the travel demand growing faster than GDP, so we are still fairly positive that we are going to see relatively strong travel growth in this year.

Ella Ji - *Oppenheimer & Co - Analyst*

Okay, thank you; that's helpful. And how did the occupancy rate and ADR in Shanghai compare to the pre-Expo level?

Jenny Zhang - *China Lodging Group Limited - CFO*

If we compare to the full year of 2009, (technical difficulty), our last year, actually we are already doing better than 2009. So we feel the Shanghai market is now back to normal.

Ella Ji - *Oppenheimer & Co - Analyst*

Okay, that's great to know. And also, Jenny, could you also talk about the margins expectation for 2012? Given that you will continue with faster growth in new hotels, do you still expect improvement in the margins on a year-over-year basis?

Jenny Zhang - *China Lodging Group Limited - CFO*

There are a few factors that are going to impact our margins. On the positive side, we expect to see a lower percentage of pre-opening expenses, and because of the enlarged mature hotel base, we also expect the new leased-and-operated hotels account for a slightly smaller percentage of room nights available for sale on the leased-and-operated hotel side.

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At the same time, there are other factors which is -- the most critical one is, will our RevPAR growth be able to outpace the cost inflation. Currently, we are (technical difficulty) uncertainty there, so our margin is more likely to be around a similar level to 2011. There may be some slight improvement on the operational level.

Ella Ji - *Oppenheimer & Co - Analyst*

Thank you, Jenny.

Operator

Adam Krejcik, Roth Capital Partners.

Adam Krejcik - *Roth Capital Partners - Analyst*

I have follow-ups to the last question as well. I guess, as to the full-year guidance, you're guiding for faster growth this year in what seems like a more uncertain macroeconomic outlook. How confident are you that you won't have to revise this guidance like you did last year, and I think your peers did as well? But maybe you can just walk us through the key assumptions that gets you that confident level?

Jenny Zhang - *China Lodging Group Limited - CFO*

Adam, the guidance we provide today reflects our best estimation of the current market situation, as well as the progress of our own growth plan.

Adam Krejcik - *Roth Capital Partners - Analyst*

Okay. And in terms of cash flow, this year looks like you'll be cash earning still. I'm just wondering, over the next two, three, five years, do you feel like you'll have sufficient cash on hand to maintain the growth rate expectations, 100 to 120 leased-and-operated hotels for the next few years?

Jenny Zhang - *China Lodging Group Limited - CFO*

First of all, it's been our plan to deploy the cash to generate more return for the shareholders, so we are happy to deploy cash this year into more new leased-and-operated hotels. And based on our current growth plan, we are going to use not only our cash balance, but also deploy the cash generated from operations.

For this year, we feel those [tier fundings] for us should be more or less sufficient for our this year plans. And going forward, we are going to have using leverage for our future expansion, as far as we are within a comfortable range.

Currently, the Company has zero debt, and we are also under negotiation with a couple of major Chinese banks, and very close in securing some significant amount of credit lines. So we are confident that we have sufficient funding in the next few years to support our expansion.

Adam Krejcik - *Roth Capital Partners - Analyst*

Okay, that's helpful. And then finally, just some housekeeping questions. What's your expectations for the tax rate for the full year 2012? And also, share-based compensation, it looked like it went down in Q4, is that the correct run rate to use for 2012, or should it be a similar level, or would you expect it to be much higher?

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Jenny Zhang - *China Lodging Group Limited - CFO*

For the tax range we expect 2012 to be similar to 2011, so it will be largely stable.

Adam Krejcik - *Roth Capital Partners - Analyst*

Okay. And then on share-based compensation?

Jenny Zhang - *China Lodging Group Limited - CFO*

For the share-based compensation, currently we are also expecting a fairly stable level, with some small growth along with the expansion of our organization. So percentage to revenue, we expect it to be fairly stable.

Adam Krejcik - *Roth Capital Partners - Analyst*

Great, thank you very much.

Operator

Justin Kwok, Goldman Sachs.

Justin Kwok - *Goldman Sachs - Analyst*

I have two questions. One is on the same-hotel RevPAR for the fourth quarter. And then the second question is on the multiple brand development progress.

If I just start off with the first question; looking at your non-Shanghai hotels 7% year-over-year growth in the fourth quarter, it looks pretty strong to me. But when I look at some of the breakdown that you have shown, the same-[store] room rate has been around 3% and actually, there was a 4% increase in the occupancy level.

I just want to get a sense on what happened in the fourth quarter, when compared to the previous time in 2011. What happened in your portfolio; why you see an even faster improvement in the occupancy level towards the end of the year? Do you see any differences in terms of the geographical mix, were in the second tier cities, [cities] etc?

And in terms of this growth, do you think it's somewhat belongs [to] because of your smaller base mature hotel, or do you think it's more likely across the board scenario that you are seeing on your 100 cities that you track? That's my first question.

Jenny Zhang - *China Lodging Group Limited - CFO*

Sure Justin, all our RevPAR can be impacted by both ADR trend as well as the occupancy trend. If we look at Q4, we have to keep in mind that November and December Q4 for Shanghai was two fairly low months, in terms of occupancy, due to the very weak demand post the Expo. So the lower base, in that comparison period, I think has an impact on the occupancy growth that we have shown in the last quarter of 2011.

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Justin Kwok - *Goldman Sachs - Analyst*

But just a follow-up with that, because you've shown a 7% RevPAR growth for the fourth quarter for non-Shanghai hotels, do you mind, could you just walk us through what you've seen in terms of this non-Shanghai portfolio, and whether you see some geographical differences within that mix?

Jenny Zhang - *China Lodging Group Limited - CFO*

As a matter of fact, during November and December the lower occupancy, of course, was most obvious in Shanghai. But the impact was actually across the board, so outside of Shanghai, the occupancy was also slightly weaker than normal in those two months.

Justin Kwok - *Goldman Sachs - Analyst*

I see. Okay, thanks for this color.

And my second question is on the multiple brand side; as you mentioned the five-year timeframe of achieving 2,000 hotels with the larger mix towards the mid-tier, and also the [other brands].

I just want to get a sense on, in terms of the mix of this portfolio, how are you seeing the performance of these two smaller brands in terms of financially, and what's your target range, going forward?

And the other thing is, versus the product that we are seeing already today, are you planning to improve the product, or what kind of improvement, at this point, you have in mind on the two smaller brands, going forward? Thank you.

Jenny Zhang - *China Lodging Group Limited - CFO*

Sure, we have seen a fairly positive [outlook] for the Seasons Hotel, and so we have decided to speed up expansion of this brand, which is positioned as our mid-scale limited service hotel.

[The plan] for 2012 is to open another 25 to 30 new Seasons Hotels, and they currently account for between 3% to 4% of the portfolio; we expect it to account for 10% to 15% in five years.

And for Hi Inn, which has a much shorter operational history, we are still fine tuning the model, so the new additions this year will be 10 to 15. And once we get more experience with this positioning as a truly budget hotel, then we will have a likelihood to speed up later in 2013 and forward.

In terms of the product profile, we have decided to slightly upgrade the Seasons Hotel to make it more distinctive from our flagship HanTing Express. We have introduced two new hotels in Shanghai which could give our customer flavor of how the brand is going to look like in the future, and so far, the feedback is very positive.

And the Hi Inn, of course, is also in the fine tuning stage. We are trying this brand with different room size as well as room count, to identify the best fit for this segment.

So it's a totally new area that we are exploring, and we are sure that, after a couple of years, as we accumulate more experience with our customers, those brands are going to be very popular among the target audience.

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Justin Kwok - *Goldman Sachs - Analyst*

Thanks for this. Just a very quick follow-up is that you mentioned you have two brand new Seasons opened in Shanghai, did you mind to just give us some guidance on the expected room rate difference for these two hotels, or the new product when you compare to the [mainstream] Express?

Jenny Zhang - *China Lodging Group Limited - CFO*

The HanTing Seasons, with the new model, are expected to be 30% to 40% higher in terms of RevPAR.

Justin Kwok - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Lin He, Morgan Stanley.

Lin He - *Morgan Stanley - Analyst*

I have a question regarding your pipeline. You have a very strong pipeline, as of Q4, can you give us a little bit more background of that, what drives the growth in pipeline, especially the franchised hotels? And can you remind us what's your opening target, full year target, for 2012?

And also, accordingly, because of this very big pipeline, should we expect, relatively high pre-opening expenses at each one? Thank you.

Jenny Zhang - *China Lodging Group Limited - CFO*

Sure, when you look at our pipeline, we had 93 leased-and-operated hotel contracted, and there 185 franchised-and-managed hotels contracted.

I think the particularly high pipeline number on the franchised hotel side reflects a very strong demand for our brand in the marketplace, and our wide popularity. Well, one thing I want you to note here is, those are hotel contracted; not all of them are already delivered to us, or under conversion already. So as we communicated earlier, the expectation for new opening on the leased and franchised hotel side is approximately 120 hotels. So the pre-opening are going to be in line with the number of new hotels opened in that tranche.

Lin He - *Morgan Stanley - Analyst*

Okay. I see. Out of this 278 hotels contracted, how many of them are under conversion right now?

Jenny Zhang - *China Lodging Group Limited - CFO*

At the end of last year, about three-quarters of the lease-and-operated hotel contracted were under conversion. And approximately 60% of the franchised hotel contracted were under conversion.

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Lin He - *Morgan Stanley - Analyst*

Okay, I see. Thank you. My next question is about the ramping up schedule of your relatively new hotels opened in the last year, maybe second half last year. Do you think the ramp-up schedule is on track with your older hotels, or have seen any trends for some, maybe, slower ramp-up due to macroeconomic conditions?

Jenny Zhang - *China Lodging Group Limited - CFO*

In general, the ramping up has been largely in line with our expectation. [We went] into a lot of new cities last year. So in certain areas that we have very little brand awareness, the ramping up were slightly slower. But that's also what we had expected. So I would say, overall, the ramping up is more or less in line with our earlier experience.

Lin He - *Morgan Stanley - Analyst*

Okay. Thank you.

Operator

Billy Ng, BofA Merrill Lynch.

Billy Ng - *BofA Merrill Lynch - Analyst*

Actually, most of my questions got answered. But anyway, just want to have one or two follow-up on that. First of all, I think, Jenny, you have a comment on the economy of scales things, seeing that it probably won't help improving margin, going forward, or at least in the last two or three years. Can you elaborate a little bit more? Is that pretty much, let's say, next two years if you add another, together, 500 hotels, we should see there is no more benefit from being reaped from those increasing scale, is that pretty much the message you want to say?

Jenny Zhang - *China Lodging Group Limited - CFO*

In the past three years, the SG&A ratio has been relatively stable. As I explained earlier, there are two factors driving it. One, we did see the benefit of economy of scale. But at the same time, we will also make investment into our organization, when we accelerate our expansion, especially the expansion through leased-and-operated hotels.

So those two things happening at the same time more or less offset each other, so that led to the stable SG&A ratio that we have seen in the past three years.

Going forward, we believe we will continue to see the benefit of the economy of scale, and the investment into the expansion, I think, also likely to have some increase. But in the long run, if you are giving a three to five year timeframe, the SG&A ratio are going to gradually decline, because when our mature base gets bigger, it's more likely the economy of scale will outweigh the investment into the organization.

Billy Ng - *BofA Merrill Lynch - Analyst*

Thanks. Also, I think it sounds like the guidance that's certainly turning more positive. Is that something that you see recently, the trend that you see in the economy, or in your portfolio, prompt you to have more confidence than, let's say, a quarter? Because in the last two quarters, I think we were being reminded there's some uncertainties in the macro environment; there's a bit more cautiously optimistic view. But this time, we think that it seems like the guidance is very positive.

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Also, can you share the recent trend, especially after Chinese New Year? Is RevPAR picking up more dramatically after Chinese New Year?

Jenny Zhang - *China Lodging Group Limited - CFO*

Okay. We have already been through the lowest month of this year, trough, from the seasonality perspective. And in both January and February, our sales results met our internal target. So our general observation is that, although we have seen some certain region that are having some weakness, but our strong brand and growing popularity among the consumers, as well as, in certain areas, that we are seeing much faster growth, especially the middle and the west part of China. So when we put all of those things together, on the table, we still feel this year we are going to see a relatively positive result. That's one thing.

The other thing is, after we are seeing the 2011 travel expenditure data, I think that's fairly encouraging. The 13% is built on a very high base of 2010. And it's also constantly higher than the GDP number, so that led us to believe 2012, although the GDP growth now is set at 7.5%, the travel demand growth probably still going to stay in the teens. That's another, I think, macro positive come to the table.

Billy Ng - *BofA Merrill Lynch - Analyst*

Thanks.

Operator

Fawne Jiang, Brean Murray.

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

Just two quick follow-ups. First half is actually regarding the pipeline and conversion. Jenny, you mentioned that part of your pipeline are actual hotels that just contracted. Just wanted to get a sense, what's the average time gap between contract hotels moving into conversion?

Jenny Zhang - *China Lodging Group Limited - CFO*

That's a good question, Fawne. Typically, we would see approximately 70%, 75% of the pipeline are under conversion. However, this ratio may change from quarter to quarter. Recently, we are seeing we are signing up more new buildings, and some of them are still in the late part of the construction period. So that led to a later delivery of those hotels, and also made their contract signing date to be [a date] longer than normal, so (technical difficulty) main shift. And we will keep you guys updated in the future.

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

Got it. That's helpful. Also, regarding your conversion, what's the average conversion period right now, after the tightening licensing approval process?

Also, going forward in 2012, are we expecting to see any, I guess, loosening at some point, or do you think the current average conversion period will be normal for the year?

Jenny Zhang - *China Lodging Group Limited - CFO*

Currently, the conversion period is stabilized around seven months, and we expect it to remain stable in this year.

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

Got it. Last question is actually regarding your Seasons, you mentioned that your new Seasons' RevPAR is around 40%, 50% higher than your Express. Just wonder, in terms of the number of rooms, what's the average rooms per hotel for the new Seasons?

Jenny Zhang - *China Lodging Group Limited - CFO*

Our Seasons Hotel we expect 30% to 40% higher RevPAR from HanTing Express. The room count, the current average is very similar to HanTing Express. It's more relevant to the cities that we penetrate into.

At the current stage, because the Seasons are still dominantly in tier 1, tier 2 cities, so the room count is slightly higher, say about 10 to 15 more rooms than our Express. But we expect, when it penetrates into more cities, the average room count probably will not be significantly different from our Express, which currently is penetrating into 100 cities.

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

Got it. Just a follow-up on the margin profile for Seasons, it should be similar margin to Express, right?

Jenny Zhang - *China Lodging Group Limited - CFO*

Currently they are similar.

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

Got it. Thank you very much, Jenny.

Operator

Vivian Hao, Deutsche Bank.

Vivian Hao - *Deutsche Bank Research - Analyst*

Jenny, just I think you mentioned earlier that there's uncertainties for the RevPAR growth to cover inflation, so just try to understand your cost structure. Could you give us a breakdown, or rough breakdown of your hotel operating costs of the major line items like rental and personnel costs?

I have a follow-up question on your current customer mix between corporate travelers and leisure travelers. Thank you.

Jenny Zhang - *China Lodging Group Limited - CFO*

Sure, we continue to see an increase in our personnel costs, mainly driven by the government mandated salary increase, as well a more [inflationary] environment. So last year, the minimum wage increased around 14%, and we expect, this year, that that ratio are going to continue. So as we discussed with you earlier, that's going to lead to, more likely, 5% to 10%, same-hotel room, personnel cost increase in 2012. And also, we are also seeing inflation in food items. However, in rental, because of the city mixed change, actually rental, as a percentage of our revenue, has been decreasing gradually in the past couple of years.

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We are going to release our [20F] in April, and we are going to have more line-by-line details in the 20F then will probably help everyone understand it better. We also plan to, starting from next quarter, in our quarterly earnings release, also provide a more detailed cost breakdown to help the investors and the analysts to understand the development of the cost items.

And your second is about the customer mix, so what's that?

Vivian Hao - *Deutsche Bank Research - Analyst*

Yes, just what's the percentage of corporate travelers versus leisure travelers in your customer base?

Jenny Zhang - *China Lodging Group Limited - CFO*

We don't have a particularly accurate number for now. Our most recent survey, which was done a few months ago, indicates that, for the overnight stay customers, we are seeing around 60% to 70% business, and 30% to 40% leisure. If you put all occupancy together, it's probably in the 60%/40% range right now.

Vivian Hao - *Deutsche Bank Research - Analyst*

Okay, great. Just one follow-up on the personnel, so what's the percentage of your staff is subject to the minimum wage range?

Jenny Zhang - *China Lodging Group Limited - CFO*

About 40% of our hotel staff is subject to the minimum wage.

Vivian Hao - *Deutsche Bank Research - Analyst*

Okay, great. Thank you.

Operator

Jamie Zhou, Macquarie.

Jamie Zhou - *Macquarie - Analyst*

Congratulations on yet another strong year. My first question is on your tax rate, as you mentioned earlier that you expect your tax rate for 2012 to be similar to the 2011 number, which is roughly around 17%. Looking at the quarter-on-quarter changes, it seems like 2011 tax rate for the quarter has been showing higher volatility than 2010, particularly for the fourth quarter, where the tax rate was 26%. I guess my question here is, what is the reason behind the quarter-on-quarter volatility in the tax rate, and what can we expect for 2012?

Jenny Zhang - *China Lodging Group Limited - CFO*

In the fourth quarter of 2011, we took a more conservative, or more prudent approach in making provision for our future tax benefit. So that has led to an increase in the quarterly income tax rate.

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Jamie Zhou - *Macquarie - Analyst*

And for 2012, the seasonality of your tax rate?

Jenny Zhang - *China Lodging Group Limited - CFO*

For 2012 we expect the tax rate may have some fluctuation, going with our quarterly results, because this is a very seasonal business. But for the full year, we expect it to be at a similar level of 2011. And we don't expect further changes in our provision policy, and as a result, I believe the fluctuation will be reduced in 2012.

Jamie Zhou - *Macquarie - Analyst*

Okay, thanks. My next question is a follow-up to the 250 new hotels to be opened this year. Out of that are you still expecting a 50/50 split between leased-and-operated and franchised? And as well, which other different target markets you're looking at in expanding for those new hotels to be opened this year, as well as what percentage of the 250 new hotels to be opened this year will be new hotels that will be established on existing properties, or replacement of underperforming non-branded, non-chain hotels? Thanks.

Jenny Zhang - *China Lodging Group Limited - CFO*

Currently, our expectation for the mix is still relatively close to half/half. And due to the very strong pipeline of the franchised hotels, I believe franchised hotels ultimately may take a little bit more than 50%.

Then in terms of markets, most of the new hotels are going to be opened in the 100 cities we already have operations in. At the same time, we are going to enter into, probably, another 20 to 30 new cities in China. And based on our most recent statistics, close to half of the contracted properties used to be Lodging facilities, so about half are going to be replacement of the standalone hotels.

Jamie Zhou - *Macquarie - Analyst*

And is there a difference between the leased-and-operated pipeline versus the franchised pipeline on what your replacement of underperforming [non-star] hotels?

Jenny Zhang - *China Lodging Group Limited - CFO*

That ratio is actually very similar between the two.

Jamie Zhou - *Macquarie - Analyst*

So half/half?

Jenny Zhang - *China Lodging Group Limited - CFO*

Yes.

Jamie Zhou - *Macquarie - Analyst*

Okay. Thank you, Jenny.

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Operator

Kenneth Fong, JPMorgan.

Kenneth Fong - *JPMorgan - Analyst*

From what I see from the same-hotel RevPAR growth being an increasing trend over the past four quarters of 2011, from negative 1% first quarter, all the way to 7% for non-Shanghai hotels, but yet looking into 2012, you're guiding approximately a 0% to 3% RevPAR growth. I just want to reconcile the difference between the gradual improvement on the RevPAR growth, and yet you're looking for a more cautious outlook in the RevPAR?

Jenny Zhang - *China Lodging Group Limited - CFO*

Actually, even if we normalize for the Shanghai actual impact in 2010, if you add the four quarters for all hotels, all cities together, we get approximately, I think, 2% to 3% for 2011. So with that in mind, we are also seeing some uncertainties in our external environment this year, especially the global economy development. So that was the basis for us to guide 0% to 3% same-hotel RevPAR appreciation for this year.

Outside of Shanghai, in general, the economy has been growing faster in the middle to west part of China. So Shanghai, actually the GDP growth is slower than the rest of the western part of the country. So as a result, I think the blended of all-hotel RevPAR -- same-hotel RevPAR appreciation is probably a more reliable indicator for the overall portfolio.

Kenneth Fong - *JPMorgan - Analyst*

Thanks. But I know in the first quarter it's generally a seasonally weak season. So if you look at January and February together, is the RevPAR growth higher than the 3% guided, or actually see a big drop-off in the fourth quarter?

Jenny Zhang - *China Lodging Group Limited - CFO*

It will be a little bit too early to discuss the numbers for Q1. We will definitely report that timely when we release the Q1 results.

Kenneth Fong - *JPMorgan - Analyst*

Thanks. And lastly, what is the pre-opening expense per hotel right now?

Jenny Zhang - *China Lodging Group Limited - CFO*

As we mentioned earlier in the call, we expect the pre-opening expenses, the percent of net revenue this year will decrease from the ratio last year.

Kenneth Fong - *JPMorgan - Analyst*

[And per hotel please] is still approximately RMB800,000?

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Jenny Zhang - *China Lodging Group Limited - CFO*

We never mentioned RMB800,000 in the past, and all hotels are located mainly in the prime locations. So our average, in the past, has been between RMB1.6 million to RMB1.8 million.

Kenneth Fong - *JPMorgan - Analyst*

Got you. Thank you very much.

Operator

(Operator Instructions). Lin He, Morgan Stanley.

Lin He - *Morgan Stanley - Analyst*

I just have a follow-up question for Qi Ji. (Spoken in Chinese).

Qi Ji - *China Lodging Group Limited - Executive Chairman & CEO*

(interpreted) First of all, in my experience in China, as well as my observation to the international players in the [industry] that the economy hotels, in general, are not as (inaudible) as the four, five star luxury hotels in the market. And the reason being, the customer source of the economy hotel is well-balanced and fairly well mixed between business traveler and leisure traveler.

5, 10 years ago, when I started get into this business, the leisure-to-business travel ratio was probably around 30% to 70%, and not 40% to 60%. In more developed countries, the ratio typically were 45% to 55%. And with such a well-balanced customer profile, and typically a very competitive price in the market, the performance of the economy hotels tend to be relatively stable.

And in our experience, in the last cycle, the worst quarter, our same-hotel RevPAR decreased less than 5%; the actual number was 4%. So that gives me the confidence that, even if there is slowdown in China, the impact on the economy hotel chains are going to be fairly limited. So when you look at [the airline] numbers, that would probably not fully relevant to what we are seeing in the overall travel expenditure.

Jenny Zhang - *China Lodging Group Limited - CFO*

Let me just add a couple of numbers there. We are seeing the airline grows less than 10%, and that, I think (technical difficulty) by the development of the railway system in China, and the substitution of airlines. And the 13% travel expenditure grows in 2011 is probably more [relevant] to predict in the overall travel demand.

And the last, but not the least, Mr. Ji mentions that, for the economy hotels, the sensitive spot is actually more in the competition in the smaller cities. And there is oversupply in very small cities then there (technical difficulty) to be a decreasing performance. However, with today's extremely fragmented market, and largely under-penetrated market across China, as we have discussed in the competitive landscape page earlier in the call, I think we are still relatively far from the situation.

Operator

(Operator Instructions). There are no further questions at this time. Please continue.

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

Thank you, everyone, for joining us today. Once again, I appreciate your support for HanTing. In the next two weeks, China Lodging Group will visit our investors in the United States, and attend three investor conferences, including the 24th Annual ROTH Conference in Dana Point; JPMorgan Gaming, Lodging, Restaurant & Leisure Management Access Forum in Las Vegas; and the Credit Suisse Asian Investment Conference in Hong Kong.

To get timely news and updates from us, please register at our investor relationships website at ir.htinns.com.

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

Operator

That does conclude our conference call today. Thank you for participating, you may now all disconnect.

Editor

Portions of this transcript that are marked (interpreted) were spoken by an interpreter present on the live call. The interpreter was provided by the Company sponsoring this Event.

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