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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to China Lodging Group's 2013 first quarter earnings conference 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 that this conference is being recorded today, Thursday the 9th of May 2013. I would now like to hand the conference over to your first speaker today, investor relations manager, Ida Yu. Thank you, please go ahead.

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

Thank you, DJ. Hello, everyone and welcome to our first quarter of 2013 earnings conference call. Joining us today is Mr. Qi Ji, our founder, Executive Chairman and CEO, Mr Xie Yunhang, our COO and Jenny Zhang, our CFO, who will elaborate on our Company's development strategy and performance for the first quarter of 2013. Following their prepared remarks, management 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 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. 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 as well as supplementary presentation slides are available on the investor section of the 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 and CEO*

(interpreted) Good morning everyone, thank you for joining our earnings conference call today. During the first quarter we maintained our robust growth with high quality. Net values for Q1 increased by 33% year-over-year, exceeding the high end of our reported guidance by 1%. We made a profit in a seasonally low quarter. At the end of first quarter 2013, we had more than 120,000 rooms in operation, an increase of 59% from a year ago. Our same-hotel RevPAR increased 1% in the first quarter.

Behind our consistent strong performance is our committed and dedicated team who implement our strategies to build multiple brands to expand fast, to be customers' favorite and to achieve leading profitability. We have been communicating our multi-brand strategy several times for the past six months, today I would like to share with you our focus on fast expansion.

In retrospect, on page 4 of presentation illustrated our rapid expansion from the year of 2008 to 2012. The CAGR for the number of our hotels in operation with 58%, with 34% for leased hotels and as high as 120% for manachised hotels. Since 2010, the significant growth of manachised hotels accelerated our natural expansion.

Looking forward on page 5, at the end of 2012 compared with our peers we had the strongest pipeline for both leased and manachised hotels with 80 and 330 hotels contracted respectively. Our strong pipeline was well supported by our [most grand] portfolio and industry leading profitability which underpins a sustainable rapid expansion in the coming years.

Leveraging on our franchisees' local network, Hua Zhu is better positioned to an accelerated high margin and light asset expansion as shown on page 6. First, manachised model allows for very quick expansion and through our direct management to ensure quality. Secondly, asset-light manachised business requires no upfront capital investment from us and thus can immediately enhance ROA and ROE. Thirdly, manachised business provides us with franchise fee and a stable revenue stream. Last but not least we can utilize franchisees access to inexpensive leased or owned properties as well as to local connections.

It is obvious that accelerated expansion of the asset-light high margin manachised business will increase our profits and shareholder values. At the same time our strict control over manachised hotel is a key to ensure quality consistency for each brand and sustain our long term growth.

At pre-opening stage, franchisees have to strictly comply with Hua Zhu's standards for product design and construction quality. All hotels have to meet that requirement for opening. Pricing and yield management are controlled centrally by our sales department at headquarters. We appoint hotel general managers to oversee onsite operations and conduct frequent regional supervision. Last but not least, Hua Zhu's provides staff training for manachised hotels. With strict control over these key points we ensure that manachised hotels are operated in the same way as our leased hotels, both providing customers with extraordinary stay experiences.

We create a win-win relationship with franchisees. On page 8 we've detailed our core value to the franchisees. Our strong brands and operational capability ensures profitability of manachised hotels plus we are consistently leading in RevPAR performance. Our excellent brand positioning and strong marketing capabilities have laid a foundation for manachised hotels being profitable. Our multiple brands provide multiple choices for franchisees which help franchisees to make best use of properties. Our strong direct sales capability is supported by a high quality membership program which ensures fast ramping up of hotels and maintains high occupancy rates and ADR.

Secondly, we are committed to provide extraordinary customer experience. Our tasteful room design and other initiatives aim to enhance customer's experience. In the meantime our systematic and standardized management has established customer trust in Hua Zhu brands. Customer loyalty is fundamental to the success of manachised business.

Thirdly, effective cost control. We have the lowest staff-to-room ratio, low cost centralized sourcing and highly efficient IT, finance and HR support. These advantages make Hua Zhu (inaudible) from stand alone hotels and other hotel chains. We believe our good reputation amongst franchisees will bring us more growth opportunities in the future.

With that I will turn the call over to Xie Yunhang, our COO, who will work you through our Q1 operating results in more detail.

Xie Yunhang - *China Lodging Group Limited - COO*

(interpreted) Thanks, Qi Ji. Hello, everyone. As mentioned by Qi Ji just now, Hua Zhu again achieved fast growth with high quality in Q1 of 2013. As shown on page 10, we opened 19 net new leased hotels and 70 net new manachised hotels in Q1 which was beyond our expectations, especially for manachised hotels. At the end of Q1 we had 1105 hotels in operation, among which 44% were leased hotels, 53% were manachised hotels and the remaining 3% were franchised Starway hotels. In addition we had a pipeline of 76 leased hotels and 322 manachised hotels contracted for development.

As shown on page 11, in Q1 2013, occupancy was 87%, a decrease of 4 percentage points year-over-year, mainly because China's economy remained soft in Q1 2013 and our fast expansion lead to a higher percentage of new hotels at the ramp up stage compared to a year ago. In Q1 2013, the new hotels in operation for less than six months contributed 19% of our total hotel room nights available for sale, compared to 16% in Q1 2012. ADR was RMB172, an increase of 0.5% year-over-year, mainly attributable to an increase in same-hotel ADR of 3%.

With our hotel network expansion, our hotels in tier 1 cities as percentage of our total hotels is gradually decreasing, therefore the increase in same-hotel ADR for mature hotels outperformed the branded ADR for all hotels in Q1. As a result, in Q1 RevPAR was RMB149, a decrease of 4% year-over-year.

Page 12 provides a detailed view of our same-hotel RevPAR [chain] for the hotels in operation for at least 18 months. In the first quarter of 2013 our same-hotel RevPAR appreciated by 1%, with 3% increase in ADR and 2 percentage points decrease in occupancy. The slower same-hotel RevPAR growth in Q1 this year is mainly attributable to China's softer macro environment and a higher year-over-year comparing base in Q1 2012, which was a 10% increase.

We are committed to strengthen our direct sales capability mainly through robust growth of our membership program. On page 13 in the first quarter this year, 97% of room nights sold were through our own channels. At end of first quarter we had more than 10 million members who contributed over 90% of room nights sold.

The robust growth Hua Zhu membership program is benefited from our continuing initiatives to enhance customer experience. On page 14 to 16 we show some of the initiatives that Hua Zhu has been taking for the past couple of years. On page 14, Express Check-out is most widely used and very well accepted at our hotels. For all Hua Zhu members, they can just leave our hotels with no waiting in line again for check-out, if they complete the full payment when checking-in.

On page 15, another very important initiative is the free Wi-Fi coverage. Customers can connect to internet through their wireless devices in lobby and room, which is free for use for hotel customers. The whole project is expected to be fully implemented by the end of 2013.

The most recent initiative is called DIY Room Selection and Express Check-in, on page 16. Customers who make reservations through our official website or mobile apps and settle the full payment can select the room through e-channel by themselves on the day of arrival, which leads to an express check-in. Hua Zhu is committed to enhance our customer experience and we are a leader in the industry. In the future we will maintain our leading position.

With that, I will turn the call over to Jenny, our CFO, who will walk you through our Q1 financial results. Jenny, please.

Jenny Zhang - *China Lodging Group Limited - CFO*

Thank you, Yunhang and hello everyone. In the first quarter of 2013 we were delighted to see a very strong revenue growth and a significant improvement in operational margins. Let me walk you through the details.

As shown on page 18, our Q1 net revenues increased 33% year-over-year, exceeding the high end of our quarterly guidance by 1%. Leased hotels revenue grew 28% and the manachised and franchised hotels revenue grew 86% year-over-year. This quarter, our manachised and franchised hotels revenue reached 12% of our total revenue.

Page 19 shows the adjusted quarterly EBIT margin which increased by 1.8 percentage points in Q1 of 2013, when compared with a year ago. Yunhang mentioned earlier, China's economy remained soft in Q1 2013 and we had a higher percentage of new hotels at the ramp-up stage this quarter compared with Q1 last year. Those factors, coupled with cost inflation, led to an increase of adjusted hotel operating costs as a percentage of net revenues. However, pre-opening expenses as a percentage of net revenue saw a 0.2% decrease due to our enlarged revenue base. At the same time, our SG&A expenses as a percentage of net revenue continued to show a decrease of 1.8% year-over-year, attributable to our cost control efforts and the benefit of economies of scale.

As shown on page 20, our cash balance closed at RMB186 million at the end of the first quarter. We have total credit facility of RMB760 million. At the first quarter, the operating cash flow reached RMB71 million compared with RMB101 million for the first quarter of 2012. The year-over-year decrease was mainly attributable to the increase in working capital related to our fast expansion and the seasonality, such as increasing advantage to employees in accounts receivable and the payment of accrued bonus. The cash deployed to investment activities for the first quarter totaled RMB350 million. We believe that our cash balance, our operating cash flow and our available credit facility will be sufficient to fund our expansion plan in the near future.

Last but not the least, as shown on page 21, we revised our full year hotel opening target for manachised hotels to approximately 300, with confidence in robust core pipeline. Our full year hotel opening target for leased hotels is around 100. We expect to achieve net revenues in the range of RMB1.01 billion to RMB1.02 billion in the second quarter of 2013, representing a 27% to 29% year-over-year growth.

With that, let's open the floor for questions. DJ.

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, we will now begin the question and answer session. (Operator Instructions) Your first question comes from the line of Lin He of Morgan Stanley. Please go ahead.

Lin He - *Morgan Stanley - Analyst*

Good morning, management, thanks for taking my questions, a couple of questions. Firstly Jenny, you just talked briefly about the operating cash flow but I still want you to share more color on that. I think historically your operating cash flow tend to be higher than EBITDA, which is not the case in Q1 this year. Can you please give us a bit more color, details on that, for example what drives the account receivable?

And secondly, is on the margin outlook, I think in the last quarter you guided that this year we should expect to see relatively flattish EBITDA and EBIT margins, but in Q1 you have a very good margin expansion. So do you still keep that guidance and how shall we think about the following quarters? Thank you.

Jenny Zhang - *China Lodging Group Limited - CFO*

Thank you, Lin. You know, on the cash flow, as I mentioned a little bit earlier, that we had a significant change in working capital position during this quarter. Part of that is because of the business expansion. For example, the advances to employees as well as you know -- I think are reasonable based on the scale expansion. We opened a significant number of new leased hotels at the end of last year, so that has led to increase in advances to employees.

And also during the first quarter we had a few factors driving up accounts receivable. For example, you know, as this quarter ends, closing [at the weekend], so that has led to the accounts receivable relating to the credit card increased quite significantly. We think those changes are fairly normal.

And another factor is the payment of accrued bonus. We had quite a profitable year last year, so the accrued bonus at the end of last year was a significant number and [there is skew] in Q1, before the Chinese New Year, we paid out all the bonus. So that has caused a significant change in the payable -- salary payable to employees. So those factors we feel are, you know, normal to our business course, and Q1 has this special seasonality such as the bonus payment.

Going forward, we still expect our operating cash flow to be higher than EBITDA as the two major factors driving that gap remain there. That's the deferred revenue as well as the deferred rental, especially the deferred rental factor I think is still quite significant. So that's the situation of operating cash flow.

And on the question of margins, we have significantly increased the -- kind of tightened up the account management throughout the Company this year. So the cost savings resulting from those efforts actually were beyond my original expectation for the first quarter. So the cost saving is a major factor driving up the first quarter margins. And also, the franchised revenue in the first quarter were higher than our original expectations. So those two factors have led to a higher EBIT margin compared with a year ago.

Going forward, we will continue the efforts in cost control, but there's a major uncertainty which comes from the revenue side, especially when we -- you know, when we look at the Chinese economy the recent activity level doesn't seem to have picked up significantly. So as for now, we think more positively at the beginning of the year but we will still reserve some room and I don't expect the full year (technical difficulty) would be as significant as the first quarter.

Lin He - *Morgan Stanley - Analyst*

Okay, that's very clear. Thanks, Jenny.

Jenny Zhang - *China Lodging Group Limited - CFO*

Thank you, Lin.

Operator

Your next question comes from the line of Justin Kwok of Goldman Sachs. Please go ahead.

Justin Kwok - *Goldman Sachs - Analyst*

Thanks for taking my question. I would just like a sense on the latest run-rate of April and May and how do you see demand trend in the segment? As you mentioned, the standing as of today when you compare to the beginning of the year, it seems that you look a little bit more positive than before. What prompts to you look at that or what kind of observations that you can share with us on that sense.

And also on the full year basis or the rest of the year, how do you see your same-hotel RevPAR trend moving ahead? Thank you.

Jenny Zhang - *China Lodging Group Limited - CFO*

From the data we have seen so far, I think, you know, we see two things, the macro and our internal situation. I think our own execution has been fairly good, actually better than we originally expected. For example, you have seen the cost control effect come in better than we originally expected. And also the acceleration of the manachised business expansion also favorably improved our bottom line. So those two factors I think will continue throughout the year.

However, the macro economy situation, at least from the data in April, we haven't really seen significant improvement from Q1. So we are yet to find out how the macro situation will evolve.

Justin Kwok - *Goldman Sachs - Analyst*

So just a follow-up with that. When you look at April and May within your geographical (inaudible) rate, do you see any divergence in performance between say the first tier cities and the second or third tier cities? And also with the news flow on avian flu, does that impact more to the Shanghai portfolio and surrounding area that -- or whether you've seen any such impacts yet?

Jenny Zhang - *China Lodging Group Limited - CFO*

In general our tier 1 cities are performing quite well. We have seen relatively the challenges mainly come from the tier 2 and tier 3 cities.

Justin Kwok - *Goldman Sachs - Analyst*

And on the avian flu, any observations on that?

Jenny Zhang - *China Lodging Group Limited - CFO*

I beg your pardon, Justin?

Justin Kwok - *Goldman Sachs - Analyst*

On the news flow for the avian flu in the Yangtze River delta, have you seen any notable changes in your booking pattern or your occupancy rate in the respective provinces or major cities?

Jenny Zhang - *China Lodging Group Limited - CFO*

The avian flu has had some minor impact on our eastern part of China business and there -- but we don't think it's very significant. It does have some minor regional impact.

Justin Kwok - *Goldman Sachs - Analyst*

Okay, thank you.

Jenny Zhang - *China Lodging Group Limited - CFO*

You're welcome.

Operator

Your next question comes from the line of Ella Ji of Oppenheimer. Please go ahead.

Ella Ji - *Oppenheimer - Analyst*

Thank you for taking my questions. A follow-up on the previous question. With regards to the mature hotel RevPAR performance, what's your expectation for 2Q?

Jenny Zhang - *China Lodging Group Limited - CFO*

Currently the RevPAR, same-store RevPAR situation is still clearly similar to the first quarter. So we still see quite some uncertainties in Q2, so we currently probably cannot provide a very specific guidance to the same-store RevPAR growth guidance for the second quarter.

Ella Ji - *Oppenheimer - Analyst*

Sure, and then just the quarter to date, are you -- just in terms of trend, are you also seeing ADR as being up year-over-year while occupancy is being down year-over-year?

Jenny Zhang - *China Lodging Group Limited - CFO*

That trend seems to be continuing.

Ella Ji - *Oppenheimer - Analyst*

Okay. And then secondly, with regards to the leased hotel opening target, I noticed that it's adjusted to around 100 from 100 to 110 previously. Can you provide some colors with regard to why you made such change?

Jenny Zhang - *China Lodging Group Limited - CFO*

We made the change based on our -- this is really a small fine-tuning based on our pipeline situation.

Ella Ji - *Oppenheimer - Analyst*

Is there anything like the macro or anything that has been taken into consideration, or cash flow management?

Jenny Zhang - *China Lodging Group Limited - CFO*

Not really. It's really a small fine-tuning based on our current pipeline situation. We are being a little bit more conservative than before, in putting the leased hotel into tier 3 and 4 cities. So that has some small impact into the pipeline.

Ella Ji - *Oppenheimer - Analyst*

Okay, got it. Thank you, Jenny.

Jenny Zhang - *China Lodging Group Limited - CFO*

You're welcome, Ella.

Operator

Your next question comes from the line of Billy Ng of Bank of America Merrill Lynch. Please go ahead.

Billy Ng *- BofA Merrill Lynch - Analyst*

Hi, good morning. Thanks for taking my questions. Actually, it's also follow-up questions on the outlook for 2013. I understand that there may not be too much visibility given the economic condition right now, but overall, like what's your view for the second half? Like are you still confident that -- because last quarter earning call it seems like you believed there should be some pickup in the second half of the year. And so what's your view now in the second half in terms of RevPAR, in terms of revenue and do you have any updates on the revenue guidance for the whole year?

Jenny Zhang *- China Lodging Group Limited - CFO*

First of all, we are still very confident in our full year revenue guidance. Even with the uncertainties in the macro economies as well as those impacts from the avian flu, we do feel the full year guidance is achievable. And in terms of the second half, I think, you know, it's quite hard to predict. My personal view I still feel there are -- the situation are likely to improve when we move into the second half because the avian flu impact, we expect that to kind of end at some time in the second quarter, and also the leisure travel will peak in Q3. Those two factors I think are turning more favorable as we move into the third quarter.

Billy Ng *- BofA Merrill Lynch - Analyst*

And just follow-up on that, it's like in order to make your full year guidance, what kind of RevPAR trend will you have to see for the rest of the year? So for first quarter we see 4% down overall for the RevPAR but for the rest of the year, roughly speaking, what kind of RevPAR trend do we have to get in order to achieve your full year guidance?

Jenny Zhang *- China Lodging Group Limited - CFO*

Actually, I think the full year guidance has left sufficient room for us. In the first quarter our revenue grew 33% which is significantly higher than our full year guidance of 26% to [29%] (Company corrected after the conference call). So we think we have sufficient room in terms of RevPAR trend to complete the full year guidance.

And by the way, you know, the fluctuation in the first quarter RevPAR has a direct correlation with our increasing percentage of new hotels in the ramp-up stage. So I think that's kind of a normal situation and I would be more concerned over the same-store RevPAR trend instead of the blended RevPAR trend.

Billy Ng *- BofA Merrill Lynch - Analyst*

And how about, like, do you see the conditions improving enough and maybe in the next few months you may be able to get some pricing power or potentially raise room rates systematically?

Jenny Zhang *- China Lodging Group Limited - CFO*

I think our policy over the room rate has been fairly stable. Even in the first quarter facing the soft economies our same store ADR increased 3%. I think a price increase has not been an issue for us and we have always been a pricing leader in the industry. The risk or uncertainty mainly comes from the occupancy side.

Billy Ng - *BofA Merrill Lynch - Analyst*

Thanks. Thanks a lot.

Jenny Zhang - *China Lodging Group Limited - CFO*

Thank you, Billy.

Operator

Your next question comes from the line of Fawne Jiang from Brean Capital. Please go ahead.

Fawne Jiang - *Brean Capital - Analyst*

Good morning. Thank you for taking my questions. First one is actually a follow up on your margin. It seems like you have nice margin improvement year-over-year, but that seems largely contributed by your increasing franchise model. If you look at the leased and operated model per se, it seems like there is around 4% year-over-year margin decline.

Jenny, you did mention that you did open a lot of stores in the fourth quarter. Just wonder, like besides, I guess, the (inaudible) impact on new store, is there any other increasing cost factor we should be aware of in the first quarter?

Jenny Zhang - *China Lodging Group Limited - CFO*

First off, for the (inaudible) EBIT margin improvement mainly comes from the SG&A savings as well as the pre-opening as a percentage of revenue decrease. And we have been expecting the hotel operating margin to be lower this year compared with a year ago.

In the third quarter, due to our cost control efforts as well as the increased percentage of franchise revenue contribution, we had only a very minor increase in the hotel operating cost as a percentage of revenue. So I think that's a more complete view over the margin situation.

This year, we continue to see the minimum wage increase around 13%, 14% this year, but at the same time we have taken a more proactive approach to further reduce our staff remuneration this year. So we believe we will be able to absorb a significant portion of the labor cost increase this year.

Fawne Jiang - *Brean Capital - Analyst*

Got it. That's very helpful. Thank you, Jenny. Second question is actually regarding just the industry dynamic. I think as of now we probably already have around 10,000 budget hotels. Just wonder, from your perspective, how would industry evolve from here. Is there any difference we might see coming ahead versus in the past few years when industry was in the high growth stage and any, I guess, meaningful acquisition you might see down the road?

Jenny Zhang - *China Lodging Group Limited - CFO*

First off, what I think in terms of industry consolidation, China is still in the very, very early stage. According to our statistics, all the branded chains only account for 6% to 7% of the relevant market and compared with Europe, the number I think is around 40% to 50% and in US it's around 70%. So we believe there is still a long way to go for consolidation.

And along that path I think the most recent trend has been different companies start to differentiate themselves and create products addressing different sub-segments. So clearly we are seeing people are trying to figure out product both in the mid-scale as well as in the budget sector and they try to establish their position in those parts.

China Lodging, I think, we are a leader and we have earlier captured this trend and that has been -- driven our multi brand strategy. So we are riding the tide right now.

Fawne Jiang - *Brean Capital - Analyst*

Got it. Thank you, Jenny.

Jenny Zhang - *China Lodging Group Limited - CFO*

Thank you.

Operator

Your next question comes from the line of Shang Koo of One North Capital. Please go ahead.

Shang Koo - *One North Capital - Analyst*

Hi, thanks for the call. A couple of questions. One is, how much of your sales in the first quarter was from the e-channels and second question relates more to the mix of your revenues. How much of your traffic -- have you noticed any significant changes to your traffic between leisure versus business over the past 12 months in the face of softer economy environment? And if you could just indicate where used to be the mix and where it is right now?

Jenny Zhang - *China Lodging Group Limited - CFO*

Sure. Currently we have more than 40% reservation coming through our central channels and the significant majority of that is e-channels, including internet and handheld application.

In terms of customer mix, about 40% to 50% of our customers are staying with us for leisure purpose and 50% to 60% are for business. If you look back three or five years, then that mix has clearly been shifting. The leisure contribution has been increasing gradually in the past few years, which is in line with [award] demand structure shift in the past few years. Leisure travelling has been growing at a very significant pace compared with business travel.

Shang Koo - *One North Capital - Analyst*

Right, okay, and just one last question. Together with your growth in your hotel pipeline and given a more mature growth profile in terms of demand as well as the soft economy environment, what would be a reasonable occupancy rate that you think for China Lodging Hotels in, say, one to two years out?

Jenny Zhang - *China Lodging Group Limited - CFO*

When we talk about occupancy we have to separate the mature hotels from the ramping up hotels.

Shang Koo - *One North Capital - Analyst*

Sure.

Jenny Zhang - *China Lodging Group Limited - CFO*

In the past five years our mature hotels, which is defined as those who have operation history above six months, has been maintained occupancy above 95%. So going forward, we continue to expect the mature hotels to achieve occupancy in that ballpark.

Shang Koo - *One North Capital - Analyst*

Okay, help me understand that because I would imagine that as you increase the number of hotels and likewise for your peers, there should be a little bit more cannibalization within the relevant geographic zones. So the normal thinking is that occupancy should be coming off over time.

Jenny Zhang - *China Lodging Group Limited - CFO*

I think the occupancy is strong evidence to show that besides the few major players have been growing fast, in total they are still accounting for a small percentage of the overall supply in the market. As I mentioned earlier, all the chains together only account for 6% to 7% of the supply in the whole country, so that cannibalization stage I think is still miles down from today.

Shang Koo - *One North Capital - Analyst*

I see. I'm sorry to prolong this, but, for example, the same-hotel occupancy changed for this quarter compared to the first quarter of last year. It's low, it's come off. So help me understand, why is that? Is that just simply because of the temporary softness in the economy? To what extent is it just increased density hotels within relevant markets?

Jenny Zhang - *China Lodging Group Limited - CFO*

I think you know the main driver is the relatively soft economy.

Shang Koo - *One North Capital - Analyst*

Right, okay, and would that be more impact on business customer segment or are there any other segments that are showing the weakness?

Jenny Zhang - *China Lodging Group Limited - CFO*

The weakness has a bigger impact on business travel and Q1 is also the low season of leisure travel, so despite leisure travel is [over] growing strongly, the impact in Q1 is not as significant as in other seasons.

Shang Koo - *One North Capital - Analyst*

Okay. How would you think about the leisure business travel mix by the end of this year?

Jenny Zhang - *China Lodging Group Limited - CFO*

We don't have a very accurate number as of today, but our history has been the leisure travel is growing more than 20% year-over-year in the past five years.

Shang Koo - *One North Capital - Analyst*

I see. Okay. Alright, great. Thank you very much.

Jenny Zhang - *China Lodging Group Limited - CFO*

Thank you.

Operator

Your next question comes from the line of Vivian Howe of Deutsche Bank. Please go ahead.

Vivian Howe - *Deutsche Bank - Analyst*

Hi, Jenny. Thank you for taking my question. Just very quickly, so this year we have a shorter May holiday in China. Do you see that there's, previously I guess you mentioned the seasonality, from this year on we'll probably see stronger seasonality in peak seasons with longer holidays. So do you see any impact of this shorter May holiday has impact on your second quarter?

Jenny Zhang - *China Lodging Group Limited - CFO*

I have to -- actually no, one impression that people often think those Golden Weeks or holidays are favorable to our business. On the contrary, actually, those periods are not the kind of the peak season for us because typically before and immediately after the holiday, the travel traffic will significantly decrease. We will have a few peak days in the middle part of the holiday. So if you blended the three periods together, often those periods are below our average performance.

So as for the May holiday this year, I think it has kind of also shown that pattern.

Vivian Howe - *Deutsche Bank - Analyst*

Okay, so that means that that's actually [left] next year's impact from this shorter holiday to your second quarter performance?

Jenny Zhang - *China Lodging Group Limited - CFO*

No matter it's May holiday or it's Qingming or it's Duanwu holiday, all those three day holidays have never been a good thing for the business. This year just repeats the pattern.

Vivian Howe - *Deutsche Bank - Analyst*

Okay, thank you.

Jenny Zhang - *China Lodging Group Limited - CFO*

You're welcome.

Operator

Your next question comes from the line of Lin He of Morgan Stanley. Please go ahead.

Lin He - *Morgan Stanley - Analyst*

Hi, Jenny. I have two questions for the modeling purpose. One is CapEx. I think this quarter the CapEx number looks a bit high, so if we annualize that full year CapEx looks like it will probably exceed your previous guidance. So how should we think about that?

And secondly, as pre-opening expenses we have seen relatively low number this quarter. Is there any one time issue for this quarter or should we assume that next two quarters we should see relatively similar number?

And the last question is for Qi Ji, if he's still on the line. Can I ask him to talk about some operating results matrix of the other two brands especially Ji Hotel?

Jenny Zhang - *China Lodging Group Limited - CFO*

When you say two brands, do you mean Ji Hotel and --

Lin He - *Morgan Stanley - Analyst*

And Hi Inn.

Jenny Zhang - *China Lodging Group Limited - CFO*

And the Hi Inn?

Lin He - *Morgan Stanley - Analyst*

Yes.

Jenny Zhang - *China Lodging Group Limited - CFO*

Okay, sure.

Lin He - *Morgan Stanley - Analyst*

Thank you.

Jenny Zhang - *China Lodging Group Limited - CFO*

When you talk about CapEx, do you refer to the fixed asset position change or you refer to the operating -- investment cash flow, can I clarify that first?

Lin He - *Morgan Stanley - Analyst*

I'm referring to the number of over RMB300 million.

Jenny Zhang - *China Lodging Group Limited - CFO*

Okay, that's the investment cash flow. Typically, the first quarter is a peak quarter for the payment to suppliers especially those, you know, contractors help us renovate the hotels. So that's an important factor in [achieving that], the first quarter investment cash flow. For now, except the next three quarters actually will -- unlikely to exceed the level of the first quarter though we continue to expect overall investment cash flow to be approximately RMB1.2 billion this year. There may be some small adjustment but we don't think it will be significantly different from our original expectation.

In terms of the pre-opening, that's mainly driven by our pipeline situation so I think our earlier provided indication on a full year pre-opening data will remain similar so we don't expect major change in the pre-opening number since our leased hotel opening schedule hasn't changed significantly either.

Let me refer your first question to Mr. Ji. (Spoken in foreign language).

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

(interpreted) In terms of -- Ji Hotels has been doing quite well. Of course our new hotels opened so far are not a very huge number yet. We have mainly been focusing on the tier 1 to tier 2 cities and obviously, those Ji Hotels in tier 1 cities are extremely welcomed. They have achieved a very high RevPAR and the ramping-up speed is also very fast. We are yet to increase the number of hotels so we can make a conclusion based on a bigger sample.

As for Hi Inn, we also had an early success after we adjusted the model last year. We have changed our original large room count model to a small room count model and we tried to create a cheerful atmosphere in the hotel and occupy good locations. After the adjustment, many Chinese businesses have picked up very significantly.

We are also working on getting more leased hotels into the Hi Inn portfolio. We are expecting to also make a conclusion after we have a bigger sample in this brand.

Lin He - *Morgan Stanley - Analyst*

(Spoken in foreign language).

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

(Spoken in foreign language).

Lin He - *Morgan Stanley - Analyst*

(Spoken in foreign language).

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

(interpreted) There were two questions in the conversation. The first one is relating, you know, who are the main competitors for our Ji Hotel and Mr. Ji mentioned Holiday Inn Express, [Garden Inn], as well as Vienna Hotels which is a domestic player. So far we haven't seen any of them have any -- too outstanding performance and the foreigners I think are tapping the market. Holiday Inn Express has 30 to 40 hotels in operation right now but the model is different from ours. They have a much higher room count and a much higher investment. Garden Inn doesn't have a hotel in operation yet.

And our Ji Hotel will stick to the high price performance ratio concept with a reasonable investment and an attractive financial return. And we believe our thoughtful product design and good control in terms of the investment we'll become a new favorite choice for both the customers as well as the franchisees as investors.

The second question was regarding Mr. Ji's thoughts on the Joya brand. Strategically we have a few different revenue streams. One is, of course, our traditional lease model and the second will be the franchised and management business in the economy hotels [with the] mid-scale hotels. The third one which is what Joya represents is we want to build a third revenue stream which will be the management business in the high end hotels. If you look at the global leaders like Marriott and the Intercontinental, Starwood, they are -- a big portion of their revenue come from that area.

So we think we can build our own management capability in the high end hotel segment and with our own characteristics. Our -- we will have a few numbers of our own leased hotels first, currently mainly located in the tier 2 cities so it has a limited exposure in terms of the rental, and we want to use those sites to test our product design as well as third model. If we are successful then this is going to become a third growth engine for China Lodging.

Operator

Ladies and gentlemen, we have reached the end of the question and answer session. I'd like to hand the conference back to the presenters for closing remarks. Please continue.

Jenny Zhang - *China Lodging Group Limited - CFO*

Thank you DJ. Before closing the call I would like you to be aware of a few upcoming China Lodging investor events. We will participate in the Macquarie Greater China conference on May 10 in Hong Kong and the Morgan Stanley Investor Summit on May 13 to 14 in Hong Kong. On June 3 to 4 we will participate in JPMorgan China Summit in Beijing and the Goldman Sachs Lodging, Gaming, Restaurant and Leisure Conference in New York.

Once again, thanks to everyone for making time for your busy schedules to join our call today. To get our timely news and updates please register at our investor relations website ir.htinns.com. We look forward to talking to you in the next quarter [in the fall]. Good-bye everyone.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may 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.