FINAL TRANSCRIPT

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HTHT - Q3 2011 China Lodging Group Ltd Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the China Lodging Group's 2011 third quarter earnings call. At this time, participants are in a listen-only mode. There will be a presentation followed by a question and answer session. (Operator Instructions). I would like to advise that this conference is being recorded today, Friday November 11, 2011.

I'd now like to hand the conference over to the Company's IR Manager, Miss Ida Yu. Thank you, please go ahead.

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

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

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

Before we continue, please note that the discussion today will include forward-looking statements, made under the Safe Harbor provision of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the views expressed today. A number of potential risks and uncertainties are outlined in our 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 will be available on the IR 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 this call. With strong travel demand and our solid operations in the third quarter, our net revenues reached RMB627 million, an increase of 24% year over year, or 43% if excluding Shanghai Expo impact in the third quarter of 2010, exceeding high end of our previously guided range of RMB625 million. Thanks to our fast unit growth and robust same-hotel RevPAR appreciation.

With 64 new hotels added, including 33 leased-and-operated hotels, and 31 franchised-and-managed hotels, HanTing had a network of 580 hotels in operation, covering 92 cities in China by the end of the quarter.

In addition, we had 233 hotels in pipeline, including 88 leased-and-operated hotels, and 145 franchised-and-managed hotels.

For the last -- for the first nine months of 2011, we had opened 142 net new hotels. We are on track to achieve our full-year target of 200 new openings. We remain optimistic for our 2012 hotel development plan, to open 240 to 250 new hotels.

We believe our competitive advantage in branding hotel operation and customer loyalty will enable us to further consolidate the standalone hotels.

At the end of the third quarter 2011, individual HanTing Club members reached approximately 3.9 million, an increase of 69% from a year ago, exceeding our room count growth of 53%. The individual members contributed 66% of room nights sold during this quarter, increased from 62% during the same period of last year.

We are committed to deliver a high quality customer experience, with prime location stops for design of product and services. For instance, all HanTing Club members enjoyed the service of zero second checkout, which we rolled out in the last quarter.

Now, let's take a look at the key operational metrics for the third quarter. ADR was RMB183, compared with RMB218 in the same quarter last year. The decrease was mainly due to the absence of one-time benefit from the Expo and city mix shifting towards the lower end cities.

The ADR outside of Shanghai was RMB182, remaining stable as compared to the third quarter of 2010 as price increase on the same-hotel basis was offset mainly by the city mix shifting towards the lower end cities.

Occupancy rate was 97%, compared with 95% in the same quarter of last year. The increase was mainly due to our increased brand awareness and successful marketing program. As a result, the RevPAR was RMB177 compared with RMB207 in the same quarter of last year.

Compared to the second quarter of 2011, RevPAR in the third quarter was increased by RMB7, mainly due to the higher proportion of matured hotels in the portfolio and further improvement in Shanghai hotel performance.

For the hotels in operation for at least 18 months, the same-hotel RevPAR was RMB193 for the third quarter of 2011, compared with RMB214 a year ago. If excluding Expo impact, the same-hotel RevPAR in Shanghai increased by 4%, indicating a strong rebound of our Shanghai operation; outside of Shanghai, the same-hotel RevPAR increased by 6%.

The prospering China travel market provided us a promising long-term growth prospect. The fragmented competitive landscape further provided the opportunity of consolidation. Despite all the near-term uncertainty in the global and Chinese economy, we experienced solid demand growth in our hotel during the recent quarters.

We are confident that our vast expansion will continue in a quality manner, with our well respected brand effective in execution and fast-growing, high quality and loyal customer base.

Now I will turn it over to Jenny to walk through the financials in more details. Jenny?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you, Matthew. Hello, everyone. I'm glad to report to you the financial results of the third quarter of 2011.

Net revenues for the quarter were RMB626.7 million, representing an increase of 23.8% year over year and 14.4% sequentially. Excluding Shanghai Expo impact, the net revenues would have increased 42.8% year over year.

Hotel operating cost for the quarter were RMB452.6 million, representing a year-over-year increase of 45.5%, and a sequential increase of 14.4%, mainly driven by our hotel network expansion, especially the growth of leased-and-operated hotels.

The hotel operating costs, excluding share-based compensation expenses, represented 72.1% of net revenue, compared with 61.4% for the third quarter in 2010, and 72.1% in the previous quarter. The year-over-year increase was mainly driven by the absence of one-time benefit from Shanghai Expo this year, with relatively stable level of hotel operating cost per room night.

Selling and marketing expenses for the quarter, excluding share-based compensation expenses, were RMB24.6 million, or 4% of net revenue, compared to 4.1% for both the third quarter of 2010 and the previous quarter. G&A for the quarter, excluding share-based compensation expenses, were RMB35.1 million. That represents 5.6% of net revenues, compared with 6.4% of the net revenue in the third quarter of 2010, and 7.1% in the previous quarter.

Pre-opening expenses for the quarter were RMB54 million, primarily driven by the number of leased-and-operated hotels under conversion during the period. 33 leased-and-operated hotels were opened during this quarter; and another 88 were in the pipeline at the end of the quarter.

Excluding share-based compensation expenses, our adjusted income from operations for the quarter was RMB60.9 million. Excluding share-based compensation expenses, adjusted net income attributable to the Company for the third quarter of 2011 was RMB63.2 million, compared to RMB92 million in the first quarter of 2010, and RMB44.5 million in the previous quarter.

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

In the third quarter of 2011, our leased-and-operated hotels in operation less than six months contributed 16% of the leased-and-operated room nights for sale, compared with 8% a year ago. The sequential improvement in net income was mainly

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attributable to increased number of mature leased-and-operated hotels in the portfolio and a performance improvement in our Shanghai hotels, primarily offset by higher pre-opening expenses.

EBITDA for the third quarter of 2011 was RMB125.1 million compared with [RMB155 million] (company corrected after the conference call) in the same quarter of 2010, and RMB104.3 million in the previous quarter. The year-on-year decrease was mainly due to the absence of one-time benefit of Shanghai Expo, higher pre-opening expenses, and more leased-and-operated hotels in the ramp-up stage.

Excluding share-based compensation expenses and the pre-opening expenses, the adjusted EBITDA from operating hotels were RMB184.2 million, compared with RMB193.8 million in the third quarter of 2010, and RMB155 million in the previous quarter.

The slight year-over-year decrease was mainly a result of the absence of one-time benefit from Shanghai Expo, and more leased-and-operated hotels in the ramp-up stage. The sequential increase was attributable to strong travel demand in the summer, performance improvement in our Shanghai hotels, and an increased number of mature leased-and-operated hotels in the portfolio.

For our leased-and-operated hotels in operation for at least six months, the hotel income was RMB131.2 million during the third quarter of 2011, or 26% of net revenue derived from those hotels. Leased-and-operated hotels in operation for less than six months accounted for 16% of leased-and-operated room nights available for sale in this quarter. Those hotels derived a hotel loss of RMB3 million during the quarter, or 5% of net revenue derived from those hotels, mainly due to lower revenue achievement of those hotels before reaching maturity.

For franchised-and-managed hotels the hotel income was RMB45.9 million, or 84% of net revenue derived from those hotels. As an increasing number of leased-and-operated hotels reach maturity and our franchised-and-managed hotel network grows, we expect our profit base to expand steadily.

Net operating cash flow for the quarter was RMB124 million. Cash spent on the purchase of property and equipment, purchase of intangible and acquisitions, was RMB226.6 million for this quarter.

As of September 30, 2011, we had a total balance of cash and cash equivalents, restricted cash and short-term investment, of RMB872.6 million.

We expect to achieve net revenues in the range of RMB635 million to RMB655 million in the fourth quarter of 2011, representing 40% to 45% year-over-year increase; or 44% to 49% growth if excluding the Shanghai Expo impact. The above forecast reflects the Company's current and preliminary view which is subject to change.

So with that, we'll now open the call to questions. Steve?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Adam Krejcik, Roth Capital Partners.

Adam Krejcik - *Roth Capital Partners LLC - Analyst*

The first one is, can you remind us what percentage of your customers are business travelers. And, if you have it, of those business travelers are from SMEs. And are you seeing any weakness in this segment?

Jenny Zhang - *China Lodging Group Ltd - CFO*

No, according to our most recent survey for the overnight stay customers they are about 60% to 70% are business travelers. But we don't have specific data to indicate how much of them are coming from SMEs. Since we now have those very diversified portfolio across the country and the most active SME area would be along the coastal area, especially in the Guangdong province. And overall speaking, we haven't seen some of the negative impact on SMEs hasn't shown in any way in our operating data.

Adam Krejcik - *Roth Capital Partners LLC - Analyst*

Okay, that's helpful. And then my second question is I notice the occupancy rates for managed hotels are actually higher than your leased-and-operated hotels this quarter. Can you discuss about that, the reasoning there.

And then also, generally speaking, occupancy was very strong across your portfolio. I'm wondering were there any promotions or new type of marketing campaigns you did this quarter to drive occupancy?

Matthew Zhang - *China Lodging Group Ltd - CEO*

First of all, the leased-and-operated hotels and franchised-and-managed hotels are both managed by the hotel managers which is trained in HanTing, so they are following the same standard of our operation. The fluctuation of the occupancy rates between leased-and-operated and franchised-and-managed hotels cannot be viewed in the short time. So if I look at the matured hotels, same hotel, which operated in at least 18 months, actually that our leased-and-operated hotels occupancy rate is much higher than the franchised-and-managed.

The occupancy rate varies hotel by hotel, and city by city. So it's a mixed effect from these combinations. So I think that, over the time, the leased-and-operated hotels and franchised-and-managed hotels, they all reached a similar occupancy rate with a short-term fluctuation if you narrow down the timeline, if you look at it that way.

Secondly, we have done significant marketing programs in the third quarter -- throughout this year I would say. In the fourth quarter, we have launched several marketing programs focusing on the individual member acquisition and loyalty, and focusing on the corporate client spending, because close to the year end there are annual meetings and [extra] etc.

And also we have a pre-paid card rebate program which is going on. We have already launched, some are in the pipeline we're going to launch in the middle of this month, in the market with a very significant marketing programs we're undertaking.

Adam Krejcik - *Roth Capital Partners LLC - Analyst*

And about -- going back, you said occupancy rates should eventually converge, be similar for the two leased-and-operated and managed. Will the same hold true for ADRs? Should we expect ADRs when (inaudible) to reach the same level as leased-and-operated?

Matthew Zhang - *China Lodging Group Ltd - CEO*

I would say that ADR are -- I think the leased-and-operated hotel ADR will be a slight higher than franchised-and-managed. Because our franchised management development strategy is to compensate the geographic coverage of our whole portfolio. So more percentage of franchised-and-managed hotels will be in the lower tier cities than leased-and-operated hotels.

Adam Krejcik - *Roth Capital Partners LLC - Analyst*

Got it. And final question really fast; based on your expansion for next year, do you anticipate having to take on any debt to fund your growth? Thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Currently, we have a very significant cash balance. So we will consider if we do need the cash, we will consider debt financing as the first choice. In the near term, we may try to get some credit lines. But I don't think, in the next six months, that we are in need of immediate debt financing.

Adam Krejcik - *Roth Capital Partners LLC - Analyst*

Thank you.

Operator

Liping Cai, William Blair.

Liping Cai - *William Blair & Company, LLC - Analyst*

I have a question about your hotel opening schedules for Q4 and next year. Given the very strong demand for your products apparently in the past few quarters, I wonder if you have planned to accelerate your hotel expansion in Q4 next year?

Matthew Zhang - *China Lodging Group Ltd - CEO*

I think that Q4 is already -- because our construction timeframe is about six to seven months, so the Q4 is already a done deal. In 2012, we already accelerated the hotel new opening from 200 this year to 240 and 250 next year. Given our strong pipeline of franchised-and-managed hotels, there could be some upside of the new openings for franchised-and-managed hotels next year.

Liping Cai - *William Blair & Company, LLC - Analyst*

Thank you. And do you expect to keep I think the 50/50 split between leased-operated and franchised hotels that you mentioned before?

Matthew Zhang - *China Lodging Group Ltd - CEO*

Yes. We will continue to this strategy of balanced approach.

Liping Cai - *William Blair & Company, LLC - Analyst*

Okay. And then in terms of margins. Obviously, you had a very strong third quarter, but given you just mentioned that given the significant market improvements you are running right now, what do you expect for Q4 and next year?

Jenny Zhang - *China Lodging Group Ltd - CFO*

The marketing programs we are running, I think you know, doesn't have an immediate direct impact on the margin itself because most offers are within our marketing budget this year. So, in general, we see the market coming fairly robust, so the general trend, we believe, we will have room for improvement in margin next year.

Liping Cai - *William Blair & Company, LLC - Analyst*

That's great. Thank you very much.

Operator

Ella Ji, Oppenheimer.

Ella Ji - *Oppenheimer - Analyst*

I want to ask about your RevPAR growth for your maturer hotels and I notice that it has trended up nicely quarter over quarter in this quarter. I was wondering if you expect this uptick will continue in 4Q.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Our business is seasonal, so I would expect the mature hotels to have some RevPAR fluctuation along the seasonality. Compared with the third quarter, the fourth quarter is a relatively slower quarter, so I wouldn't set my expectation to be higher. Actually, naturally, it should be a little bit lower.

Ella Ji - *Oppenheimer - Analyst*

I was talking about the --

Matthew Zhang - *China Lodging Group Ltd - CEO*

Looking at year over year, there will be -- again, year over year, there will be a similar pattern of appreciation of the RevPAR for these hotels.

Ella Ji - *Oppenheimer - Analyst*

So just put it into numbers. You did, I think, 6% for [new] Shanghai hotels in this quarter versus 4% last quarter and 1% in 1Q. So I was wondering what percentage would you expecting for 4Q?

Matthew Zhang - *China Lodging Group Ltd - CEO*

I think that it's -- my estimation is we'll be between 4% to 6% appreciation.

Ella Ji - *Oppenheimer - Analyst*

Okay. Thank you. That's very helpful. And also, regarding your performance in Shanghai, I was also wondering if you can comment on your outlook in Shanghai now that the Expo is almost annualized.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Shanghai has shown a very strong rebound since March of this year. At the end of the third quarter, we think Shanghai is more or less back to normal. What we mean by normal is the pre-Expo level of occupancy and ADR.

So the Q4 results for the Shanghai area we think will be normal, that actually in the third quarter, the Shanghai hotels, if normalized for the Expo impact last year, the 18 months same hotel RevPAR also appreciated by 4%. So we expect Shanghai area in the fourth quarter are likely also continuing to show a positive same hotel RevPAR trend.

Ella Ji - *Oppenheimer - Analyst*

Great. And my last question is if you can comment on the performance of each of your three brands. For example, which one are you seeing the strongest growth?

Jenny Zhang - *China Lodging Group Ltd - CFO*

For the three brands, HanTing Express continues to be our flagship. So most of the new hotels added will continue to be HanTing Express.

Out of the two smaller brands, Seasons that we have accumulated more experience, so when we develop the two smaller brands, we'll probably put more resources under priority to the Seasons compared with HanTin Hi Inn, where we are still accumulating experience.

In terms of growth rate, since Seasons has a much smaller base to compare with, so percentage wise, it probably will have the highest growth rate.

Ella Ji - *Oppenheimer - Analyst*

Highest in terms of number of hotels increased?

Jenny Zhang - *China Lodging Group Ltd - CFO*

As we shared last quarter, the two new brands are planned to add 40 to 50 new hotels next year.

Ella Ji - *Oppenheimer - Analyst*

Got it. Thank you. That's very helpful.

Operator

(Operator Instructions). Justin Kwok, Goldman Sachs.

Justin Kwok - *Goldman Sachs - Analyst*

Just my first question is actually a follow-up on the opening target. As you mentioned for 2012, you're now looking for a base case of 240 hotels opening.

I just want to get a sense if, say, the economy slowdowns a bit, what would be your response to this opening trend in terms of the leased-and-operated or franchised-and-managed mix or the absolute number or if any response to the economy macro potential slowdown, etc? This is my first question.

Jenny Zhang - *China Lodging Group Ltd - CFO*

I don't think the economy fluctuation will have immediate impact on our new hotel openings schedule next year. As you're aware, we have already signed contracts for a significant amount of pipeline, so we expect to execute those contracts and get those new hotels opened on schedule.

On a leased-and-operated hotels front, currently we have a significant cash balance, so we believe we will have very reliable financial resources to get those hotels opened. And secondly, if -- we don't know if the opportunity will come, but if the rental price comes down or some of the small chains look for sale and at an attractive price, we may also consider those opportunities.

On the franchise front, as you can see, the current pipeline is very strong. We believe most of the franchisees are people who have capital, individual money, that they are seeking for investment opportunities. So, even if there are economy slowdown, that's probably not going to impact our franchised business development in any significant way.

Matthew Zhang - *China Lodging Group Ltd - CEO*

Let me elaborate a little bit on this development because we have experienced in late '08 and early '09 that the financial crisis. At that time, we can't do something about the -- for the leased-and-operated hotel project contract, which we did; was to postpone the construction and some of it, which is to find ways to terminate the contract. But that kind of a percentage as to the whole pipeline will be about 20%; it won't be a significant number.

But on the other hand, I believe that our economy hotel business is quite resilient to the economy. During the financial crisis, our same hotel RevPAR drop was only 4% in one quarter, so that was the magnitude of our business responding to the macroeconomic change.

On the other hand, I think now, although there are uncertainties in terms of the global and Chinese economies, but on the other hand, we see some different phenomenon today than compared to the last financial crisis.

At that time, we -- most of our corporate clients, they have plans to cut headcount and to reduce travel expenditures, but now, our corporate client has -- most of our corporate clients, they have plans to expand their hirings, they have no plans to cut their travel budgets and etc. So, at this point, I do not see the uncertainty materially impacts to our business in the near term.

Justin Kwok - *Goldman Sachs - Analyst*

Thanks. That's very helpful. I have one more question. It's actually on the RevPAR trend and also pricing. As I guess your peers are also reporting a similar rate of matured hotels RevPAR growth for hotels outside of Shanghai, I just want to get a sense of when you look at your competitive set or when you look at these low-end hotels in the area where you operate. Is this, say, 4% to 6% range of growth something particular to the bigger branded names or is it more like a general uplift for the whole sector, including the mom and pop shops? Or are you seeing in terms of getting wider in the price differentials versus some of the local brands or local operators? Thanks.

Matthew Zhang - *China Lodging Group Ltd - CEO*

I think that the local -- the individual standalone hotels, their pricing has not -- I would say it's less regulated. In the summer, they could have higher appreciation of the ADR, but in the normal business days, their ADRs is very low.

In the slow season like January/February, they're almost below RMB100 per room night level. So I think that they are less -- I would say less sophisticated in terms of the price planning.

But for -- we have already started the -- I would call the yield management already have the experience for more than two years. So we have -- our target is to maximize the RevPAR by adjusting the ADR and carefully looking to our hotel occupancy.

So that is what we have done compared to these standalone hotels or these other hotel chains who have less experience. But on the summer season, in favor to lower tier cities. So if a hotel chain has a big portion of their hotels in the portfolio are in the lower tier cities, they have more benefits because the lower tier cities entered are mostly -- are tourism destination kind of these market.

So we have -- less proportion of our hotels are in these cities compared to our competitors. So, in that matter, we are 6% in appreciation and are much -- are very happy to see that our appreciation to reach to the similar level.

Justin Kwok - *Goldman Sachs - Analyst*

I see. Thanks again and congrats on the good set of results. Thank you.

Operator

Fawne Jiang, Brean Murray.

Fawne Jiang - *Brean Murray, Carret - Analyst*

My first question's actually regarding the licensing approval process. I just wonder whether you could give us an update regarding what's the current average conversion period you see.

Also, going forwards, do you see any recovery in terms of potential loosening of the regulation?

Matthew Zhang - *China Lodging Group Ltd - CEO*

I do not see any loosening signals in the coming quarters. So I think that is a trend for the government to have more regulated in terms of the safety, security, social responsibility, stuff like that. So obviously, these will prevail.

Fawne Jiang - *Brean Murray, Carret - Analyst*

Got it. So we do expect the conversion period will be somewhere close to six months going forward?

Matthew Zhang - *China Lodging Group Ltd - CEO*

Yes, I think that the conversion period will be six to seven months going forward.

Fawne Jiang - *Brean Murray, Carret - Analyst*

Okay, got it. Second question's actually regarding your store opening. You seem to be on track of reaching this year's guidance, but notice that you have very robust pipeline for the franchised hotels.

I just wonder what drives -- what has driven for such a strong pipeline as the Company has been pushing for signing more franchisees or it's more the demand from investors?

Matthew Zhang - *China Lodging Group Ltd - CEO*

I think that it's both. The Company is more -- put more efforts in terms of the franchised-and-managed hotels development. We approach the -- we're always trying to -- I would say, in the past we focused more on the leased-and-operated. Now we are more balanced in terms of the resource allocation internally is the one part.

On the other hand, I think that given the tough competition in the market, there are less profitability rooms for the standalone hotels, so there tends to join a big name, so they can have a better operational result.

On the other hand, I think that the markets -- there are a lot of money floating around in China. Although the government is tightening the liquidity, there's these kind of idle money. In the past, they [flow] into the real estate, now they're finding other means of investment.

Fawne Jiang - *Brean Murray, Carret - Analyst*

Got it. Do you think that with -- if the credit continues to be tight, do you think the demand on the franchisee side may get decelerated into 2012?

Matthew Zhang - *China Lodging Group Ltd - CEO*

I do not think so. I think that it will be continued. The manner will be continued.

Fawne Jiang - *Brean Murray, Carret - Analyst*

Got it. Last question's actually regarding your acquisition strategy. It seems like your competitor either take up a major acquisition or has taken basically [tuck-in] acquisition. I just wonder for you, going forward, does the Company consider to take, whether small or major scale acquisitions on your own, or do you have anything in your pipeline you may consider in the near term?

Matthew Zhang - *China Lodging Group Ltd - CEO*

I do not think there's a lot of opportunity for M&A for a scalable -- large-scale target. There's just not exist. We're always interested in looking into the individual small chain -- three, four, five hotels chains.

Actually we have completed a three hotel chain in [Dalian] acquisition. So we are looking into it as we regard these kind of acquisitions as a new hotel -- just as a new hotel development. So we do not -- because we do not remain their name; we just look at it as acquire the property. That's it.

Fawne Jiang - *Brean Murray, Carret - Analyst*

That is very helpful. Thanks, Matthew, and congrats on a good quarter.

Operator

Lin He, Morgan Stanley.

Lin He - *Morgan Stanley - Analyst*

A couple of follow-up questions. First of all, can you talk about the spending you have seen October and November. That's the same for RevPAR growth trend as well as Q3.

Matthew Zhang - *China Lodging Group Ltd - CEO*

October, November continue to be -- October is very strong; November is only half the way. So for the first couple of weeks also is very strong in terms of the RevPAR appreciation. And I think that in December it will be a little bit slower because the Chinese New Year will be in January this year -- next year and that will push the -- the demand will be slower towards the end of the year and early in January.

So as a whole, in the fourth quarter of this year, I am quite optimistic of what we could achieve.

Lin He - *Morgan Stanley - Analyst*

Okay, I see. Thanks. And secondly about your geographic coverage. Can you remind us how many new cities you will probably enter in next year, 2012? And do you think that the dilution from entering more lower-tier markets will have significant impact on your RevPAR blend (inaudible).

Matthew Zhang - *China Lodging Group Ltd - CEO*

I think that next year we will enter -- I do not have the exact number -- my guess will be another 20 cities or so. This year, we already entered a lot of new cities -- about 27 new cities we have entered in the course of the third quarter -- for the first nine months. I think that next we -- the first quarter of this (sic) year we will enter another several new cities.

But if you look now in the RevPAR we are quite a -- we have no dilutions, or very little dilutions from the RevPAR perspective. I think that as the new cities we entered are very selective, because we do not open 300 or 200 new lease-and-operated hotels -- new franchised-and-managed hotels we are selective in terms of where the cities we should enter. And we have -- our competitors have a lot of experience how to enter these cities; we can choose which is more appropriate.

Lin He - *Morgan Stanley - Analyst*

So we shouldn't see too much dilution from entering lower-tier markets next year, right?

Matthew Zhang - *China Lodging Group Ltd - CEO*

I do not expect so.

Lin He - *Morgan Stanley - Analyst*

Okay, thank you. Lastly, on the income tax rate front, I think this quarter the income tax rate is pretty low. Jenny, how shall we think about that going forward?

Jenny Zhang - *China Lodging Group Ltd - CFO*

We have options on favorable treatment from the local government in terms of the income tax, so I would expect that we will remain lower than the regular 25% next year. But there are certain phasing of the favorable treatment, so it will gradually increase and come back to the 25% in the next three to five years.

Lin He - *Morgan Stanley - Analyst*

Okay, I got it. Thank you. That's very helpful.

Operator

Tian Hou, TH Capital.

Tian Hou - *TH Capital Research - Analyst*

I have a question regarding the RevPAR, and I realize that you guys' RevPAR is very healthy and has some premium compared with your competitors. So the debate in my head is your [old] (inaudible), budget hotel. If we keep growing -- if we keep -- keeping the RevPAR growth, are we eventually -- what are we going to eventually become? That's my number one question.

Number two question; I didn't really hear clearly about your expansion plans for next year, so if you don't mind please to repeat that.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Tian, I'm going to make sure I understand your first question. You want to understand the trending of the RevPAR; is that your question?

Tian Hou - *TH Capital Research - Analyst*

It's really your strategy, because my understanding is -- I see a budget hotel, and because we're budget hotel -- the reason we are in this category is because we are cheaper, or cheap. So if our RevPAR keeps growing, eventually we are not cheap any more. So that's the trend; our RevPAR keep growing. So what do we want to become eventually?

Matthew Zhang - *China Lodging Group Ltd - CEO*

I think that our RevPAR in my opinion appreciates too slow because our RevPAR appreciation lags behind from the CPI so I think it's not in a healthy manner I expected.

I think that our RevPAR should appreciate at least at the same pace of the CPI, because I think that there will be -- should be close to the GDP out growth. But our RevPAR appreciation is slow because we are expanding very quickly. So if you are expanding very quickly, there are more demands or there are no more [supplies] in the market so that it's kind of a compound effect of our growth prospect and RevPAR appreciation. I think that's why we need to look in both ways.

If I reach RevPAR -- I give you an example that 10 years ago, the first economy hotels of Jinjiang in Shanghai, Jinjiang Amusement Park, there was only about 100, and now there's more than 200. So that's the trend for 10 years. So I think that -- so I do not think it's a problem at all.

Tian Hou - *TH Capital Research - Analyst*

Okay. So back to the second question. And mast -- when you talk about the expansion plan, it isn't (inaudible) numbers. How many do you plan to open in total next year and what's the split between franchised hotels and the managed hotels?

Matthew Zhang - *China Lodging Group Ltd - CEO*

In total, we will open about 240/250 hotels, about approximately 50%. 50/50 split between leased-and-operated and franchised-and-managed hotels.

Tian Hou - *TH Capital Research - Analyst*

Okay, that's very helpful. Thanks so much.

Operator

Kenneth Fong, JPMorgan.

Kenneth Fong - *JPMorgan - Analyst*

My first question is on your fourth quarter guidance. Despite the strong trend you are seeing so far from October and November, if I put in your guided range for the fourth quarter, it will make the full-year guidance like approximately 29% to 30% (inaudible) or 28% to 32% which is slightly under medium to low end of the full-year guidance.

I just wonder for fourth quarter [guidance] is just being more conservative given the macro environment or because of the regulatory issue directive slowdown you're opening or because of actually you are seeing some slowdown in demand. This is my first question.

Jenny Zhang - *China Lodging Group Ltd - CFO*

We are now halfway into the quarter. I would say for the actual data we have seen, the result has been fairly positive. Nevertheless, I think we need to be cautious about the uncertainties around us. I think those two things are both factored in, when we provide our fourth quarter guidance.

Matthew Zhang - *China Lodging Group Ltd - CEO*

So it's just more a reflection of being prudent?

Matthew Zhang - *China Lodging Group Ltd - CEO*

I think that, to be honest, in December there are uncertainties in December because of the early Chinese New Year is coming forward.

Kenneth Fong - *JPMorgan - Analyst*

That's true.

Matthew Zhang - *China Lodging Group Ltd - CEO*

So it's not because of the development scheme, our development schedule is well on track. The halfway of the quarter results is promising. Just there are uncertainties in December because of the seasonality shifting by the New Year coming along.

Kenneth Fong - *JPMorgan - Analyst*

Thanks. My second question is on your pricing strategy. If I recall in the earnings call in the first quarter, you mentioned that because of the HanTing premium branding, the strategy going forward would be more increases of room rate. So basically to [yield] better in the room.

And when we look at the occupancy over the past two quarters has been pretty strong, for leased-and-operating [hitting] 95%. So I just wondered will increased room -- we still have more room to push up a room rate higher or basically the strategy has shifted more towards like over a slightly more competitive price for the room.

Matthew Zhang - *China Lodging Group Ltd - CEO*

I think that our strategy is always to maximize the RevPAR. We always frequently look with -- we [fleetingly] and carefully look the mix of the RevPAR and ADR. The occupancy in the ADR is trying to achieve the highest. Our price increase is not the only means to achieve the RevPAR but also there are some of the customer mix means a lot. And the effectiveness of the pricing is also means a lot. So it's not just like our price increase. I guess that someone is trying to copy our price increase strategy which, if they do not understand the backbone means of it, it is very risky.

Kenneth Fong - *JPMorgan - Analyst*

Thanks. And lastly, if we look forward into the next six to nine months, should we expect for mature hotel to have a rapid increase of 3% to 5%?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Are you talking about the 18-month in hotel appreciation trend?

Kenneth Fong - *JPMorgan - Analyst*

I mean like going forward.

Jenny Zhang - *China Lodging Group Ltd - CFO*

If we look at the historical number from US over the 30/40 period -- years of period, the annualized appreciation is about 2%. Given trend that starts to pace I think the long-term trend, we are estimating 2% to 4% factored in the ups and downs.

So next year, you know exactly how much it's likely to be. I think we'll still be subject to a harder macro economy developed. We are relatively confident that next year we will continue the appreciation trend.

Kenneth Fong - *JPMorgan - Analyst*

Thank you, that's all from me. Thank you very much.

Operator

There are no further questions from the telephones. I'd like to hand back to our speakers.

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

Thank you, everyone, for participating on the call. Before closing this call, I would like to be -- bring to your awareness of the upcoming China Lodging's investor event. Mr. Qi Ji, our Founder and Executive Chairman, will present at Morgan Stanley Asia Pacific summit on November 17 in Singapore. Our Annual General Meeting is scheduled on December 8.

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

Once again, I would like to thank everyone for being on the call today and we look forward to talking to you in the next quarter. Goodbye.

Operator

Thank you, ladies and gentlemen, that will conclude our call for today. We appreciate you joining us and you may now disconnect.
