FINAL TRANSCRIPT

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the China Lodging Group's first quarter 2011 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, May 11, 2011, Wednesday.

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

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

Thank you, Pauline. Hello, everyone, and welcome to our first 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 provisions of the United States Private Securities Litigation Reform Act of 1995.

Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the views expressed today. A number of potential risks and uncertainties are outlined in our public filings with the SEC. China Lodging Group does not undertake any obligation to update any forward-looking statements, except as required under applicable law.

On the call today, we will also mention adjusted financial measures during the discussion of our performance. The calculations of those measures to comparable GAAP information can be found in the earnings release that was distributed earlier today.

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

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

Matthew Zhang - *China Lodging Group Limited - CEO*

Thank you, Ida. Good morning, everyone. Thank you for joining our conference call. In the first quarter, our hotel expansion was well on track with 35 net new hotels added, including 16 net leased-and-operated hotels and 19 franchised-and-managed hotels. HanTing had a network of 473 hotels in operation, covering 71 cities in China by the end of the quarter. In addition, we had 162 hotels in pipeline, including 74 leased-and-operated hotels and 88 franchised-and-managed hotels.

At the end of the first quarter 2011, our HanTing Club had approximately 3.1 million individual members, an increase of 74% from the end of the same period of last year. The individual members contributed 65.7% of room nights sold during this quarter, improving from 60% during the same period of last year.

Booking through our website reached 22% in this quarter, compared to 14% in the same period of last year. We are pleased to see that our loyal customer base is expanding, and our Internet channel is becoming more popular among our customers.

In the first quarter of 2011, certain factors impacted our operational metrics. First, post-Expo impact in Shanghai. Since the Expo closed at the end of October 2010, our hotels in Shanghai experienced lower-than-normal RevPAR. During the first quarter of 2011, such hotels were in recovery and tracked positively.

The second factor was seasonality. Our business is seasonal, with the first quarter being the lowest season when the ADR occupancy rates are lower and new hotel ramp-ups slower. In particular, in 2011 we have experienced a prolonged low season in January and the first half of February. Starting from March, our RevPAR tracked upward.

Thirdly, higher percentage of hotels in the ramp-up stage. Due to our fast expansion, we had a higher percentage of hotels in ramp-up stage during the first quarter of 2011, compared to the same period of last year. The ramping-up hotels, as expected, had lower occupancy rate and RevPAR before becoming mature.

Furthermore, the leased-and-operated hotels in ramp-up stage would contribute less revenue comparing to those in mature stage, despite of similar operating cost. In the first quarter of 2011, the leased-and-operated hotels in operation for less than six months was about 20% of the leased-and-operated hotels' room nights available for sale, compared to around 5% in the same period of last year.

In the first quarter of 2011, ADR was improved to RMB175, up 1.3%, from RMB173 in the same quarter of last year, due to our strengthening brand and successful yield management, partially diluted by the city mix shifting towards lower tier cities.

Occupancy rate was 82%, compared with 93% in the same quarter last year and 87% in the previous quarter. The year-over-year decrease was mainly because of the post-Expo impact in Shanghai, higher percentage of hotels in ramp-up stage, and prolonged low season.

RevPAR was RMB143, compared to RMB161 in the same period of last year. The RevPAR for hotels at least 18 months in operation was RMB161 for this quarter, decreased by 2.4% from the same period of last year.

ADR for those hotels increased 4.7% as a result of our yield management efforts, while occupancy rate decreased by 6.9%, due to prolonged low season and post-Expo impact in Shanghai.

We observed encouraging signs of improvement in the latter part of the quarter. Outside of Shanghai, hotels in operation for at least 18 months showed a 1.2% increase of RevPAR in March, compared to 1.1% decrease for January and February combined, while in Shanghai a 3% decrease of RevPAR in March, comparing to 9.1% decrease for January and February combined.

We will continue to expand our network in balanced approach. Although the new leased-and-operated hotels incur preopening expenses and operating losses in the early part of the ramp-up period, they tend to contribute more profit compared to franchised-and-managed hotels once matured.

We believe investing into leased-and-operated hotels with an attractive return prospect will create significant value for the shareholders in the long run. On the other hand, our franchised-and-managed hotels enable us to accelerate our growth rate with no capital investment. Those hotels also contributed a more stable revenue source.

The combination of the two models enable us to grow at a fast pace, and to optimize shareholder value in the long run.

We are on track to open around 200 new hotels this year and to grow our revenue at a fast pace. As we progress into the second quarter, certain factors that affected our first quarter's performance, such as prolonged low season and post-Expo impacting Shanghai, are now behind us.

We are confident in the fast-growing travel market in China, and our investment in leased-and-operated hotels will position us advantageously to capture the tremendous growth opportunity. Despite of the near-term margin pressure, we remain confident that our investment in 2011 will enable us to a strong revenue and profitable growth in 2012 and forward.

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

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you, Matthew. Hello, everyone. I'm glad to report to you the financial results of the fourth quarter of 2011. Total revenues for the quarter increased 24.9% year over year to RMB450.4 million, primarily as a result of our enlarged hotel network.

Revenues from leased-and-operated hotels and the franchised-and-managed hotels grew 21% and 85% respectively. Total revenues from franchised-and-managed hotels for the quarter accounted for 8.9% of total revenues, compared to 6% in the first quarter of 2010.

Our net revenues for the quarter were RMB424.4 million, representing an increase of 24.5% year over year.

Hotel operating costs for the quarter were RMB361.3 million, representing a year-over-year increase of 32.7%, and a sequential increase of 11.8%. Our hotel network expansion, especially growth in leased-and-operated hotels, was the main driver for hotel operating cost increase.

The average number of leased-and-operated hotels in operation during the first quarter of 2011 increased 43% from the same period of 2010, and 13.3% sequentially.

Total hotel operating costs, excluding shared-based compensation expenses, represented 85% of net revenue compared with 79.7% for the same quarter in 2010, and 71.3% in the previous quarter.

The increase in hotel operating costs, as a percentage of net revenue, was primarily due to the lower RevPAR achievement this quarter. As noted earlier, our RevPAR was affected by the post-Expo impact in Shanghai, seasonality, and a high percentage of leased-and-operated hotels in the ramp-up stage, which incurred similar level of costs as the mature hotels, but generally generate significantly less revenues.

The sequential increase was also attributable to higher utility cost in the first quarter of 2011 due to seasonality.

Selling and marketing expenses for the quarter were RMB17.9 million. Selling and marketing expenses, excluding share-based compensation expenses, was RMB17.7 million, or 4.2% of net revenues, which was stable compared to the first quarter in 2010, and the previous quarter.

G&A expenses for the quarter were RMB34.6 million. G&A expenses, excluding share-based compensation, were RMB31.8 million, or 7.5% of net revenues, compared with 6.8% of the net revenues in the same period of 2010, and as well the previous quarter.

The year-over-year increase in G&A was mainly driven by increased personnel cost as a result of network expansion, and the professional service fees associated with our becoming a public company.

Preopening expenses for the quarter were RMB34.3 million, an increase of 205.6% year over year, and a decrease of 25.3% sequentially. The preopening expenses were primarily driven by the number of leased-and-operated hotels under construction during the period.

Just a few data points for your reference. 16 leased-and-operated hotels were opened during this quarter, and another 74 were in the pipeline at the end of the quarter, compared to 5 opened and 32 in the pipeline during the same quarter in 2010, and 43 opened and 69 in the pipeline for the previous quarter of 2010.

Loss from operations for the quarter was RMB23.6 million, compared to income from operations of RMB17.2 million in the first quarter of 2010. Excluding share-based compensation, adjusted loss from operations was RMB20.2 million. Loss from operations for the quarter was impacted by seasonality, the ramp up of those newly opened leased-and-operated hotels, and significant preopening expenses.

Net loss attributable to the Company for the quarter was RMB14 million compared to net income attributable to the Company of RMB12.4 million in Q1 2010.

Adding back the preopening expenses, our adjusted net income would be RMB20.3 million, compared to RMB23.6 million in the same quarter of 2010.

EBITDA for the first quarter of 2011 was RMB35.9 million, compared with RMB54.9 million in the same quarter of 2010, and RMB92.9 million in the previous quarter. EBITDA from operating hotels was RMB70.2 million, an increase of 6.2% from the same quarter of 2010.

The year-over-year increase was a result of enhanced profitability of the mature hotels, and the expansion of our network, while the sequential decrease was mainly due to post-Expo impact in Shanghai, the prolonged low season, and new leased-and-operated hotels ramp-up.

Net operating cash flow for the quarter was RMB38.6 million. Cash spent on the purchase of property and equipment was RMB157 million for the quarter. As of March 31, 2011 we have cash and cash equivalents of RMB902 million.

We expect to achieve net revenue in the range of RMB530 million to RMB550 million in the second quarter of 2011, representing 21% to 25% year-over-year increase, or a 30% to 35% growth, excluding the Shanghai Expo contribution, in the second quarter of 2010, according to our management estimation.

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

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

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, we will now begin the question and answer session. (Operator Instructions) Ella Ji, Oppenheimer.

Ella Ji - *Oppenheimer - Analyst*

First, I'll ask about your ADR outlook. You mentioned the yield management has been very successful but, on the other hand, we have this mix shift towards the lower tiered cities. So net-net, how should we think about the ADR sequentially?

Matthew Zhang - *China Lodging Group Limited - CEO*

I think that, going forward, from the second quarter and beyond, because of the Shanghai Expo impact, it's very hard to compare with that factors being an 2010 ADR. So exclude that impact, I would say even though we're shifting towards the lower tier cities, our ADR will gradually increase as well. That's also reflected in our first quarter ADR increase.

Ella Ji - *Oppenheimer - Analyst*

Okay. Thank you. And then, I haven't seen that your press release, I just want to confirm that if you maintain your full-year revenue guidance of 34% to 38% year-over-year growth?

Matthew Zhang - *China Lodging Group Limited - CEO*

I think that, at this point, because the first quarter is below our estimation of the revenue we have achieved because of several factors we have already explained, so [for] this year the top line guidance we currently will estimate towards around the lower end of our previous announced guidance.

Ella Ji - *Oppenheimer - Analyst*

Low end of your previous guidance?

Matthew Zhang - *China Lodging Group Limited - CEO*

Correct.

Ella Ji - *Oppenheimer - Analyst*

Okay. Got it. Thank you very much. I'll turn it over.

Matthew Zhang - *China Lodging Group Limited - CEO*

Thank you.

Operator

Adam Krejcik, Roth Capital Partners.

Adam Krejcik - *Roth Capital - Analyst*

I noticed you provided some trends in terms of RevPAR for January, February and March. I wonder, could you speak to how April has tracked so far, either with the whole portfolio, or the portfolio ex-Shanghai? And specifically, are we seeing positive RevPAR growth in just the Shanghai region yet, or is it still down on a year-over-year basis?

Matthew Zhang - *China Lodging Group Limited - CEO*

Right. I think that, in April, it's more encouraging than March. Outside of Shanghai, our mature hotel, which has operated for more than 18 months, their year-over-year comparison, we see a more than 2% of increase in RevPAR.

In Shanghai, in March, we have about 3% of decrease of RevPAR but, in April, the decrease continued to narrowed; it's less than about 2% of the decrease than the same period of last year.

Jenny Zhang - *China Lodging Group Ltd - CFO*

So if you combine Shanghai and non-Shanghai together, the overall portfolio in operation more than 18 months showed a 2% positive RevPAR move.

Adam Krejcik - *Roth Capital - Analyst*

Great, that's helpful. And then in terms of the margin trends for Q2, I guess how should we think about your overall blended margin? And then you provided last quarter adjusted EBITDA ex-Shanghai Expo. Putting that together, and the fact that you are going to have more leased-and-operating hotel openings still in Q2, is there any directional guidance you could give in terms of how to think about margins for Q2, and also for the full year, if you can?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Comparing to Q1, there are a few factors already behind us, especially the seasonality impact. And we also see the hotels in Shanghai trending positively. So we expect them to gradually recover to the normal level of RevPAR performance in the second quarter.

However, at the same time, we continue to have a significant portion of new hotels in the ramp-up stage. But, of course, the seasonality will help accelerate the ramp up, compared with the first quarter.

So if you put all of those factors together, we expect the margin to be significantly improved from the first quarter, but more likely to be still slightly lower than the margin we achieved the last year, even after normalizing the Expo impact.

Adam Krejcik - *Roth Capital - Analyst*

Okay. That's very helpful. And then, if I may, just one housekeeping item? Can you refresh us in terms of how you account for your franchisee manager personnel expenses? Is that line item booked under hotel operating costs?

And then also, do you add back that -- is that then an offset line in terms of the revenue on the franchised-and-managed hotel revenue line? Just want to make sure I understand this correctly. Thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Sure. We charge a flat fee to the franchisee which more or less covers the [GM] expenses we pay off directly to the GM. So the fee we charge from the franchisee [are booked] as revenue, and expenses being incurred [are those] under the hotel [operating costs].

Adam Krejcik - *Roth Capital - Analyst*

Great. Thank you very much.

Jenny Zhang - *China Lodging Group Ltd - CFO*

You're welcome.

Operator

Justin Kwok, Goldman Sachs.

Justin Kwok - *Goldman Sachs - Analyst*

I have two questions. The first one is regarding your guidance on the second quarter and full year with five months into the year, what kind of ADR hike or ADR adjustment that you have been looking for to derive this guidance range?

And in terms of the second quarter, are you seeing more downside to further room rate adjustments in the portfolio? That's my first question, thanks.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Basically, we expect ADR, comparing to the same period of last year after normalizing for the Expo impact, to be stable to small improvement.

We are seeing two factors affecting the ADR trend. One is, of course, our continuous effort by management which will drive up ADR, and we see opportunities coming up when the high season comes. At the same time, we are entering into a lot of new cities, especially our mix are gradually shifting towards the second and third tier cities. And that part will have a gradual dilution to the average ADR.

So with both factors playing together, we're expecting stable to small increase of ADR overall.

Justin Kwok - *Goldman Sachs - Analyst*

Okay. And as a follow-up, with this guidance range, what kind of pace of openings for the rest of the three quarters are you looking at in terms of leased-and-operated hotels which you have opened (inaudible) in the first quarter? What would be the opening schedule for the rest of the quarters? Thanks.

Jenny Zhang - *China Lodging Group Ltd - CFO*

So the opening schedule, we expect leased-and-operated hotels to continue to be relatively stable, even off schedule, in the rest of the year; the second half year to be slightly more heavily loaded than the first half. As we discussed earlier in our last earnings call, our expectations were one-third in the first half of the year, and two-thirds in the second half of the year.

In the franchised hotels we will be probably 40% versus 60% in the scheduling of the full year.

In terms of city mix, the new addition has been relatively stable in the past six months, comparing to the forward-looking six to nine months. We approximately have in the new addition it's about one-quarter in the first tier cities, and one-quarter in the second tier cities, and about half in the third tier cities. But we would like to clarify that our definition of city tiers may not be the same as our peers in the industry.

Justin Kwok - *Goldman Sachs - Analyst*

All right. My second question is about some site safety issues that [the press has been] focusing on in the recent two weeks because of the incident in the north of China. We've seen some news flows saying that the Peking Government are also reviewing some of the existing [opened] economy hotels in the city and check their safety standard.

I just wanted to get a sense on the management's take on this, and will there be any potential impact on the conversion [course] and also on the opening pace? Thanks.

Matthew Zhang - *China Lodging Group Limited - CEO*

In HanTing we emphasize very much in safety of our hotels, and although after the incident of the fire in north China, the Government really put more effort to check hotels -- the safety equipment, if that is working, or if that is efficient. But until now, we have no problem for this very strict check.

Only there's one in Beijing, this franchised hotel, there's a warehouse which could have some problems. We are working on this franchised warehouse issue. All rooms related, the main building related, the safety equipment are all sufficient.

So we do not see any significant investment increase in future, although the impact could be in the near term that, for the opening of the new hotels, the Government would make more efforts to look through our equipment whether it's sufficient. That could have a short period of time where our new opening could have a couple of weeks of delay in terms of the opening schedule. That's my estimations.

But the China Government, the measurements are mostly short term, so it will be back to the normal (inaudible).

Justin Kwok - *Goldman Sachs - Analyst*

All right. Thank you very much.

Operator

Fawne Jiang, Brean Murray.

Fawne Jiang - *Brean Murray - Analyst*

Actually, my question is relating to the ramping up of your new hotels. It seems that you have a relatively large proportion of new hotels this year in your portfolio which have a dilutive impact on your margin. I just wonder whether you could walk us through the [chief] stages of the ramping up period in terms of the occupancy as well as the ADR trends over this month to give us an idea how the ramping up period essentially works.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Typically, we would expect our new hotels to go through the ramp up on average through a six-month period. However, this may vary significantly, depending on where the hotel is opened, and which month the hotel is opened.

When the hotel ramps up, especially the early part of the ramp up, [whilst] the low season, we may need to add another two to three months before the hotel can reach a mature stage.

And in a typical ramp-up phase, the first quarter the average occupancy could vary from 30% to 60%, depending on, as I mentioned earlier, seasonality and the specific location of the hotel. And the second quarter could vary anywhere from 50% to 85% of occupancy. So they really have very large deviations.

So in the first quarter we have experienced a relatively slow ramp up due to the low season, but we expect the curve to peak up very quickly for hotels opened in the second and the third quarter.

Fawne Jiang - *Brean Murray - Analyst*

Got you. That's very helpful, Jenny. Just a follow-up on that, how about on ADR side? Are we getting [big discounted] ADRs for the new hotels in the initial stage as well?

Jenny Zhang - *China Lodging Group Ltd - CFO*

On a very selective basis we would discount after new hotels in the first three months of their operation. Discounts vary anywhere from zero discount to 30%, depending on the specific competitive landscape, and the potential impact of hotels nearby. Typically, the discount program will start at the end of the three-month period.

Fawne Jiang - *Brean Murray - Analyst*

Got you. Very helpful. My second question is actually regarding your preopening costs. Just wonder, what is your estimated preopening cost for 2011?

Jenny Zhang - *China Lodging Group Ltd - CFO*

The full year preopening cost will correlate to the number of leased-and-operated hotels we are going to open during the year. Our current estimation is around 155 to 160, 165, approximately in that ballpark.

Fawne Jiang - *Brean Murray - Analyst*

Jenny, for the preopening costs throughout the next few quarters, so do we expect heavy second and third quarter preopening costs? Or it's going to be, again, pretty much backend loaded?

Jenny Zhang - *China Lodging Group Ltd - CFO*

I think, comparing to last year, it will be more evenly spread out. But the second half will still have a bigger portion, compared to the first half.

Fawne Jiang - *Brean Murray - Analyst*

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

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you.

Operator

Lin He, Morgan Stanley.

Lin He - *Morgan Stanley - Analyst*

My first question is regarding the acquisition you made in 4Q and the first quarter this year. Can you give us more color on that? Especially what kind of multiples you are paying in terms of either EBITDA or [PE] you are paying for that acquisition. Thank you.

Matthew Zhang - *China Lodging Group Limited - CEO*

We do have some acquisitions at the end of last year. We acquired about six hotel small chain last year. But we do not calculate the financials based on the EBITDA multiples. It's not our main driver of the financial consideration.

Again, these hotel chains, because we will convert to our HanTing brand and product, we regard them as a new leased-and-operated hotel additions. So our criteria is exactly the same of the new hotels we develop by ourselves. So the criteria is IRR and payback period, and the EBITDA multiple is just a cross check consideration.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Just a data point for you. If we translate that into the whole EBITDA multiple, it will be somewhere between 4 to 6 times, depending on which case that we are talking about. We acquired three individual hotels, and one small chain of six hotels.

Lin He - *Morgan Stanley - Analyst*

Okay. So on top of the RMB15 million you paid in 4Q and Q1 this year, you will need to spend some CapEx to convert all those hotels to HanTing hotels, is that correct?

Matthew Zhang - *China Lodging Group Limited - CEO*

That's correct.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Not all of them need significant CapEx, actually. All of them are hotels already in operation, but half of them will need some re-modification and the rest, I think, need very minor changes in the facilities.

Lin He - *Morgan Stanley - Analyst*

Okay, I got it. And then the second question is regarding the RevPAR performance between your leased-and-operated hotels and your franchised-and-managed hotels. I notice that, in the past, you used to have a pretty big gap between these two models, but in this quarter the gap has narrowed significantly. Now it's quite close in terms of the EBITDA of these two -- in terms of the RevPAR of these two kinds of hotel. How should we think about that?

Matthew Zhang - *China Lodging Group Limited - CEO*

In the past our franchised-and-managed hotels started in year 2009, so in the past the numbers you looked at, most of these hotels are not matured, so there's a significant portion of franchised-and-managed hotels are in premature stage. So after a year and two, these hotels are becoming matured, and so the performance is closer to our own leased-and-operated hotels. That's the factor you have seen.

Lin He - *Morgan Stanley - Analyst*

Okay. So going forward, do you think that gap would be maintained? Or you think it will be very, very [close]?

Matthew Zhang - *China Lodging Group Limited - CEO*

Yes, that will be pretty similar. But the franchised-and-managed hotels vary, depending on their location and other competition dynamics of its local market. So it varies widely. But if you have an aggregate number, obviously our gap of leased-and-operated hotels RevPAR is pretty similar of the gap today you have seen.

Lin He - *Morgan Stanley - Analyst*

Okay. That's very helpful. That's all my questions. Thank you.

Matthew Zhang - *China Lodging Group Limited - CEO*

Thank you, Lin.

Operator

[David Freddi, RME Capital]

David Freddi - *RME Capital - Analyst*

I have two questions. First of all, if you could [confirm] what your long-term goal is with regards the breakdown between leased-and-operated hotels and franchised hotels. And, roughly speaking, how many years it's going to take to get to that goal?

And the second question is, on a per-room basis, your operating expenses, taking out preopening expenses, seem to be declining by roughly 4% or 5% every year. I'm assuming that this dynamic is linked to your expansion in lower tier cities. Is there a point in time, perhaps this year or next, when this downward dynamic steadies off, as just general inflation in China outweighs the benefit of moving over to lower tier cities, on an average cost basis?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Let me make sure I understand your questions first. I think that the first question is about our portfolio strategy, what will be the long-term mix of leased-and-[operated] hotel versus franchised. And the second question, I'm not sure if I get it fully. It seems to be asking about our margin trend, going forward, and how [it would cause the] inflation impact our margin. Is that what you mean?

David Freddi - *RME Capital - Analyst*

Yes, let me actually ask again then. So if I only focus on your operating expenses on a per-room basis of existing hotels, so taking out the preopening expenses, the average cost seems to go down by 4% or 5% every year, as you enter lower tier cities. Now, is this going to keep happening this year and next year, or is the general increase in inflation going to outweigh the benefit of constant expansion into lower tier cities?

Jenny Zhang - *China Lodging Group Ltd - CFO*

I see, okay. Let me address your first question first. We maintain our strategy of a balanced portfolio approach. So we expect to maintain our leased-and-operated hotel mix to be around 50% to 60%, and the franchise to be 40% to 50%. That's our view for the next few years.

And in terms of the cost observation, you are right that on a per-room night basis, our hotel operating cost had some decrease in the past few years. That was attributable to a few factors. One is, as we move down to lower tier cities, we do see lower per-room rental cost. And the personnel cost also had some relative decrease, but that part is more or less offset by the salary inflation.

And the second thing that we have been doing is improving the cost management, and improve the productivity at the per-hotel level. That has also contributed to our cost reduction at a per-room night basis.

So going forward, I think our mix shift to a more spread out national coverage, we will continue to drive the per-room night rental cost lower in the next few years. But when our mix starts to stabilize in terms of cities, then I think that trend probably will also stabilize.

Now our efforts to reduce operational costs will also continue, but we do observe a very strong push from the Government and [the] macro economy to increase salary and utility, and a few other cost items. So efforts in that regard will probably be part of the effort to offset those inflational impacts. So that's our outlook for the cost, going forward.

David Freddi - *RME Capital - Analyst*

I've understood, excellent. Thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you.

Operator

Wendy Huang, Royal Bank of Scotland.

Wendy Huang - *RBS - Analyst*

I have two here. First, you just mentioned that you expect your [revenue] to reach the lower end of your full year guidance, which is 33% to 38% growth. So I wonder what has changed in the past three or six months to make you more cautious on your top line growth for 2011?

And also, my second question is about high-speed railways rollout in China. Over the next two years, there will be four major rail lines linking the key cities in central and east China, to be opened gradually. So how do you see the two impact your hotel volume and demand in the Tier 2 cities? Thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Well, thank you for the questions. First of all, I think we need to recognize, we have 2010 as a very high base for comparison. If we exclude the Expo impact in 2010, even the lower end of our earlier guidance of 34% would translate into a 43% revenue growth. So that's actually a fairly aggressive target for ourselves.

As we go through and observe our operations, we do realize that a lot of our growth will largely be driven by the ramp-up speed of our new hotels, as well as the exact timing of each hotel's opening. So as we fine-tune our ramp-up progress, after seeing the low season impact of Q1, and also be more specific about the date of the expected new opening, we feel it's more likely that we will get to around the low end of our earlier guidance.

Wendy Huang - *RBS - Analyst*

Thanks. And how about my second question, on the demand in the Tier 2 cities, how will that be impacted by the high-speed trains rollout in China? Thank you.

Matthew Zhang - *China Lodging Group Limited - CEO*

Yes, the railway system in China is developing very fast, and we do see more and more people trying to take the train, to travel more frequently. That has two impacts in our operations.

First of all, we will focus on these railways to develop our new hotels; these including a lot of second tier cities. So you also can see that the new hotel mix is more towards second and third tier cities. That is part of the strategy, because of the transportation conditions really improved in these cities.

The second is that we do see that a lot of hotels around the high-speed railway stations really picked up dramatically. That will encourage us, give us more confidence to add more hotels around these highway networks.

Wendy Huang - *RBS - Analyst*

Okay, great. Thank you.

Operator

Adam Krejcik, Roth Capital Partners.

Adam Krejcik - *Roth Capital - Analyst*

Just had a few follow-ups. Going back to the M&A, so the nine hotels you acquired, is that included in the 15 leased-and-operated hotels that you opened this quarter, so those nine?

Matthew Zhang - *China Lodging Group Limited - CEO*

The nine hotels happened last year, so that did not included in these 15. Actually, the net 16 hotels, we opened actually new hotels, 18 hotels, but we closed down two leased-and-operated hotels because of the city rezoning requirement.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Adam, just to clarify, the nine hotels was actually accounted into the Q4 last year.

Adam Krejcik - *Roth Capital - Analyst*

Okay, thanks. And then, just in terms of smallish acquisitions like that, what's the opportunity for similar M&A transactions, going forward? Do you see this being a viable opportunity, or was this more of a one-off scenario?

Matthew Zhang - *China Lodging Group Limited - CEO*

It's always there, depending on the conditions and what's the buyer's expectation of this price. We will continue to do that, in terms of the small M&A deals. And my expectation could be 5% to 10% of a new hotel addition could [be] coming from this small individual hotel acquisition.

Adam Krejcik - *Roth Capital - Analyst*

Okay, great. And then just quickly, the interest income seemed to drop (technical difficulty)

Operator

I'm sorry, it looks like Mr. Adam Krejcik's line has been disconnected. (Operator Instructions) [Grace Lin], Citigroup.

Grace Lin - *Citigroup - Analyst*

Just two quick questions. One is, you talk about the yield management. Is it fair to say that, going forward, you're mainly using yield management, rather than like [ADR hike] over the whole portfolio to manage your ADR?

Matthew Zhang - *China Lodging Group Limited - CEO*

We never increase our ADR international wide, one time. That is not our intention. We selectively [explore] to look into these hotels in very full occupancy, so that we grasp the opportunity to increase the price.

And on the other hand, the seasonal event, and also for the weekends, for example, for the tourist cities, we adjust our prices to meet this market demand requirement. So we always do the yield management on a per-hotel basis. And that, we will continue to do that this year, and going forward.

Grace Lin - *Citigroup - Analyst*

Is there any criteria to choosing to raise the rate, for example, like over a certain overnight occupancy rate, or things like that?

Matthew Zhang - *China Lodging Group Limited - CEO*

Yes, actually, it's more complicated, because we need to look at the increase of the price impact on the nearby hotels around them. Because we have a fairly large network, and a lot of our hotels are grouping together. But in a very simplified version, we looked at a continuous 90% overnight occupancy for more than one month, we're looking into the price increase opportunity.

On the other hand, like I said, it's a one-time event oriented price increase, for example, for the conference or conventions, stuff like that.

Grace Lin - *Citigroup - Analyst*

Okay, thanks. And my second question is, I noticed that it seems like there's some increasingly closure of the hotels, because of Government rezoning. I'm just wondering, is there any compensation from the Government when you have to close the hotels? And just like a rough feeling, do you see increasing trend of this kind of closure, maybe not just of HanTing, but for overall industry?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Gracie, this is Jenny. We typically receive compensation from the Government when the rezoning mandate comes out. So typically, we wouldn't incur near term any significant loss, because of the rezoning. But we do lose future revenue and profit stream when we close down our existing lease-and-operated hotels.

Since we have a lot of hotels, spreading out across the country, and China is going through an urbanization process, so we do see the rezoning requirement comes out from time to time. And so far, by now, I think we have two closed this year, and we had one earlier in 2009. So this could happen from time to time.

Operator

(Operator Instructions) Grace Lin, Citigroup.

Grace Lin - *Citigroup - Analyst*

Jenny, I just have a follow-up question on the acquired hotels. Roughly, on a per-hotel basis, how much CapEx do you expect for each of them for converting to under the HanTing brand?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Of the ones we have acquired, I think about half doesn't need any significant CapEx investment. For the rest, it varies. It could be anywhere from RMB20,000 to RMB50,000 for the few that we do need some changes.

Grace Lin - *Citigroup - Analyst*

Thank you.

Operator

(Operator Instructions) There are no further questions at this time. I would now like to hand the conference back to today's presenters. Please continue.

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

Everyone, thank you very much for being on the call. We enjoyed talking to you and taking your questions. We look forward to talking to you in the next quarter earnings call.

On one final note, Matthew and I will attend Morgan Stanley's investment summit in Hong Kong during May 16 to 17, and the Goldman Sachs BRICS conference in London on May 18. For more information, you're welcome to visit our IR website, and you may register and get email alerts. Goodbye, everyone.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may all disconnect now.