

Morgan Stanley Asia Limited+

Richard W Ji

Richard.Ji@morganstanley.com
+852 2848 6926

Jenny Wu, CFA

Jenny.Wu@morganstanley.com
+852 2848 6708

Lisa L Yuan

Lisa.Yuan@morganstanley.com

Muzhi Li, CFA

Philip Wan

Stock Rating
Overweight-V

Industry View
Attractive

May 15, 2008

Ctrip.com

1Q08: Quake Impact Now, Market Share Gain Then...

What's Changed

Reported diluted ADS 08-10e **Down 5%, Up 3%, Up 4%**

Earnings topped: Sales of Rmb340mn dipped 4% QoQ on soft seasonality but grew 47% YoY, in line with our forecast. Diluted earnings per ADS were Rmb1.43, up 49%YoY and 5% beyond our expectation.

What we liked: 1) Hotel booking sales (47% of total) rose 28% YoY, mainly driven by the faster growth in tier-2 cities (30% or plus YoY). 2) Air ticket sales (43% of total) escalated 68% YoY, outpacing the industry level (+11%) and helped by the market share gains via e-ticketing. 3) Packaged tour sales (7%) jumped 67% YoY, due to the soaring leisure travel volume in China.

What concerned us: 2Q sales guidance (+30% YoY) appears soft, largely due to the earthquake (limited flight routes to impacted areas + more flight allocation for relief efforts). Yet, we believe Ctrip should gain market share via e-ticketing services (its air ticket market share may enlarged from ~5% now to 25-30% in 5-10 years, on our analysis).

Eyeing on the Inbound Travel Boom... We reiterate our OW-V rating on Ctrip, with a DCF-based fair value of US\$80.3. Notably, we view inbound travel a new growth driver for Ctrip, as: 1) inbound travelers to China doubled over the past 8 years, as China became the No. 4 global tourism destination (*World Tourism Organization*). 2) International tourists tend to spend 5 times as much as domestic ones in China. 3) Ctrip has developed an English website tailored toward the inbound travelers and is likely the partner of choice in China for foreign travel agencies. On our estimates, the Beijing Olympics may lift inbound tourist volume by 5% in China, which should help Ctrip to showcase its quality services and premium brand globally. 4) Inbound traffic may contribute 5-10% of Ctrip's total sales in the years to come, vs. up from nearly nil now.

Key Ratios and Statistics

Reuters: CTRP.O Bloomberg: CTRP US

China Internet

Shr price, close (May 14, 2008)	US\$63.33
52-Week Range	US\$70.89-35.26
Shrs out, diluted, avg (12/07) (mn)	68
S'hldr eqty (12/06) (mn)	US\$132
Net debt (12/06) (mn)	US\$(119)
Mkt cap, curr (mn)	US\$4,372
EV (12/06) (mn)	US\$1,965
ROE (12/06) (%)	31.5

Fiscal Year ending	12/07	12/08e	12/09e	12/10e
ModelWare EPS (US\$)	0.80	1.08	1.52	2.02
Prior ModelWare EPS (US\$)	-	1.17	1.55	2.04
EPS, rpt'd, diluted (US\$)	0.80	1.08	1.52	2.02
Prior EPS, diluted, rpt'd (US\$)	-	1.17	1.55	2.04
Revenue, net (US\$ mn)	164	248	346	472
Net inc, rpt'd (US\$ mn)	55	75	105	139
P/E	71.8	58.6	41.6	31.4
P/BV	19.9	15.3	11.2	8.3
EV/EBITDA*	64.7	43.8	31.3	22.1
Div yld (%)	0.4	0.5	0.7	1.1

* = Please see explanation of Morgan Stanley ModelWare later in the note. Here EPS represents the earnings per ADS. Each ADS equals to 1 common shares
* The foreign exchange rate used in the above two tables are provided by ModelWare, which may be slightly different from the one we used for other numbers in the report. For this reason, some of the numbers and ratios in the above two tables could also be slightly different from the corresponding ones in the report.

e = Morgan Stanley Research estimates

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May 15, 2008

Ctrip.com

Financial Summary

Exhibit 1

Income Statements, 2006-2010E

(RmbMM)	2006	2007	2008E	2009E	2010E
Total Revenue	834	1,287	1,868	2,609	3,560
Hotel reservation	476	677	849	1,051	1,270
Air ticketing	293	503	840	1,286	1,900
Packaged tour	42	71	127	202	299
Others	23	36	52	70	91
Business taxes	(54)	(88)	(133)	(186)	(254)
Net revenue	780	1,199	1,735	2,423	3,306
% change Y/Y	50%	54%	45%	40%	36%
Cost of services	(153)	(236)	(340)	(482)	(668)
Gross Profit	627	963	1,395	1,940	2,638
Gross margin (%)	80%	80%	80%	80%	80%
% change Y/Y	45%	54%	45%	39%	36%
Operating expenses	(372)	(559)	(783)	(1,082)	(1,463)
Operating income	255	404	612	858	1,175
Operating margin (%)	33%	34%	35%	35%	36%
% change Y/Y	16%	58%	51%	40%	37%
Interest income	16	17	33	34	48
Other income (expense)	11	35	56	28	28
Pre-tax income	282	456	702	920	1,251
Income tax expense	(41)	(58)	(179)	(184)	(275)
Net income	241	398	523	736	976
Net income margin (%)	31%	33%	30%	30%	30%
% change Y/Y	7%	66%	31%	41%	33%
Earning per share, basic (Rmb)	7.44	12.10	15.73	22.14	29.38
EPS, diluted (Rmb)	7.23	11.67	15.14	21.31	28.27
Earnings per ADS, diluted (\$)	0.46	0.80	1.15	1.78	2.36

Source: Company data, Morgan Stanley Research

Exhibit 2

Balance Sheets, 2006-2010E

(RmbMM)	2006	2007	2008E	2009E	2010E
Cash and cash equivalents	844	1,083	1,510	2,154	3,106
Accounts receivables	137	262	379	527	715
Prepayments and others, current	62	90	121	161	209
Deferred tax assets, current	3	4	4	5	6
Total Current Assets	1,053	1,447	2,023	2,857	4,047
LT Investments	80	80	80	80	80
LT loans to related parties	0	0	0	0	0
LT deposits	80	80	80	80	80
Property, equipment and software	154	433	628	833	958
Goodwill	15	15	15	15	15
Other intangible assets	3	3	3	3	2
Total Assets	1,452	2,059	2,829	3,867	5,183
Accounts payables	151	221	302	405	530
Due to a related party	0	0	0	0	0
Salary and welfare payables	33	46	59	74	90
Taxes payable	35	45	56	78	107
Advances from customers	38	54	74	100	133
Provisions for customer rewards	30	43	62	84	112
Dividend Payable	72	120	157	221	312
Other payables and accruals	62	89	121	160	208
Total current liabilities	421	618	830	1,123	1,492
Total liabilities	423	621	833	1,126	1,494
Minority Interests	1	1	1	1	1
Share capital	3	3	3	3	3
Additional paid-in capital	627	759	951	1,181	1,464
Statutory reserves	54	54	54	54	54
Deferred share-based compensation	0	0	0	0	0
Cumulative translation adjustments	(16)	(16)	(16)	(16)	(16)
Retained earnings	360	639	1,005	1,520	2,183
Shareholder equity	1,028	1,438	1,996	2,741	3,688
Liabilities & shareholders' equity	1,452	2,059	2,829	3,867	5,183

Source: Company data, Morgan Stanley Research

Exhibit 3

Cash Flow Statements, 2006-2010E

(RmbMM)	2006	2007	2008E	2009E	2010E
Operating					
Net Income (loss) for the year	241	398	523	736	976
<i>Adjusted for:</i>					
Share-based comp. costs	55	87	144	177	224
Depreciation/amortization	14	22	54	57	83
Working capital change	38	(5)	25	40	39
Operating Cash Flow	348	502	746	1,009	1,323
Investing					
Purchase of property, equipment and software	(97)	(235)	(249)	(262)	(208)
Purchase of land use right	(27)	0	0	0	0
Increase in long-term loans to related parties	0	0	0	0	0
Investments in JV	(80)	0	0	0	0
Investing Cash Flow	(207)	(235)	(249)	(262)	(208)
Financing					
Dividends paid	(67)	(72)	(120)	(157)	(221)
Exercise of share option	40	44	49	53	59
Payment of IPO issuance costs	0	0	0	0	0
Financing Cash Flow	(27)	(28)	(71)	(103)	(162)
Change in Cash	109	239	426	645	952
Cash at beg. of the year	735	844	1,083	1,510	2,154
Cash at end of the year	844	1,083	1,510	2,154	3,106

* Foreign exchange rate is 7.90 Rmb/US\$ for 2006 to 2008.

E = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Company Description

Ctrip is a leading consolidator of travel services in China. It generated 53% of its 2007 revenue from hotel reservations, 39% from air ticketing services, and 6% from packaged tours. The company produced approximately 70% of its 2007 sales from offline services and 30% from online services. It was listed on the NASDAQ in 2003.

China Internet

Industry View: Attractive

While early stage and risky, we believe the Internet is among the fastest expanding industries in China and may offer investors one of the best ways to benefit from China's robust consumer market growth.

MSCI Country: China

Asia Strategist's Recommended Weight: 20.6%

MSCI Asia/Pac All Country Ex Jp Weight: 16.2%

Risk-Reward Snapshot: Ctrip (CTRP.O, US\$63.33, OW-V),

Risk-Reward View: Favourable Long-term Outlook

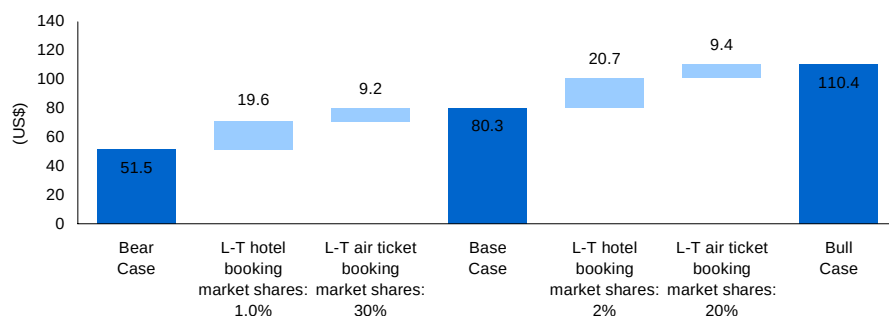


Price Target NA

Bull Case	23x Bull Case 08e EPS	Better-than-expected execution: We assume Ctrip's long-term hotel booking market share expands to 2% from 0.4% in 2008 and its long-term air ticket market share climbs to 35% from 5.7% in 2008
US\$110.40		
Base Case	55x Base Case 08e EPS	Sustained leadership: We assume Ctrip's long-term hotel booking market share rises to 1% from 0.4% in 2008 and its long-term air ticketing market share climbs to 30% from 5.7% in 2008
US\$80.30		
Bear Case	349x Bear Case 08e EPS	Capped growth: We assume Ctrip's long-term hotel booking market share increases to 0.5% from 0.4% in 2008 and its long-term air ticket market share grows to 25% from 5.7% in 2008
US\$51.50		

* P/E multiples based on current price and 08e EPS in respective scenarios.

From Bear to Bull: Utilization, Pricing, and Sales Growth Are Key



Source: FactSet, Morgan Stanley Research

Investment Thesis

- Dominant online travel service provider with mid-50% market share (~70% market share in online air ticketing and mid-40% in hotel booking).
- Online travel services account for only 2-3% of total travel industry sales. The transition to online service from "mom-and-pop" travel shops suggests a 5-year CARG of ~35% in 2007-2012 for online travel. We believe Ctrip is well positioned to benefit from the industry trend and should gain market share.

Key Value Drivers

- Robust online travel industry sales growth with 5-year CAGR of ~35% from 2007 to 2012.
- Ctrip likely to gain market share in the number of hotel room nights sold and air tickets.
- New initiatives, such as packaged tours, corporate travel, and inbound travel likely to become new growth engines.

Potential Catalysts

- 2008 Beijing Olympics should boost the sales of air ticketing and hotel booking.
- E-ticketing may help Ctrip gain more market share from those less technologically sophisticated travel agencies.

Key Risks

- Hotel supply constraints during the Olympics may lower Ctrip's bargaining power over hotels in Beijing. On our estimate, Beijing may account for 15-20% of Ctrip's hotel booking revenues.
- Penetration into lower-tier cities may put pressure on commission per hotel.
- Short term impact from the earthquake

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1Q08: Quake Impact Now, Market Share Gain Then

1Q08 Financials

Ctrip's net sales declined 4% QoQ but grew 47% YoY to Rmb367mn (US\$49mn), meeting our forecasts:

- Ctrip's sales from hotel reservations dropped 13% QoQ and climbed 28% YoY to Rmb171mn (US\$24mn), 7% below our forecast. Sequential decline was largely due to decreased hotel booking volume during Chinese New Year holidays.
- Air ticketing revenues increased 3% QoQ and 68% YoY to Rmb159mn (US\$23mn), exceeding our estimates by 9%. The increase was primarily due to the increased air ticketing volume.
- Sales from Ctrip's packaged tours accelerated by 22% QoQ and 67% YoY to Rmb27mn (US\$4mn). The hike was primarily due to the increase leisure travel volumes in 1Q08.

Ctrip's operating profit fell 13% QoQ and advanced 55% YoY to Rmb110mn (US\$16mn), with an operating margin of 32% (vs. 36% in 4Q07 and 31% in 1Q07). Excluding share-based compensation (Rmb33mn or US\$5mn), operating income was Rmb144mn (US\$21mn), slid 4% QoQ and expanded 60% YoY. Non-GAAP operating margin came in at 42%, consistent with 4Q07 and up 3 percentage points to 39% in 1Q07.

Net profit decreased by 27% QoQ and rose 52% YoY to Rmb99mn (US\$14mn). Net profit margin was 29%, vs. 38% in 4Q07 and 28% in 4Q06. Excluding share-based compensation, net profit fell 16% QoQ and 58% YoY to Rmb132mn (US\$19mn).

Ctrip's fully diluted earnings per ADS (EPADS) came in at US\$0.20 (vs. US\$0.22 in 4Q07 and US\$0.13 in 1Q07). EPADS was 5% ahead of our estimates in Rmb. Excluding share-based compensation, EPADS was US\$0.27, vs. US\$0.31 in 4Q07 and US\$0.16 in 1Q07.

For 2Q08, Ctrip guided that its total revenues may increase 30% YoY.

We lowered our net sales forecast to Rmb1.7bn for 2008 (down 8%), Rmb2.4bn for 2009 (down 9%) and Rmb3.3bn for 2010 (down 5%). We have adjusted our estimated earnings per diluted ADS to US\$1.15 for 2008 (down 5.0% vs. our prior

forecast), US\$1.78 (up 3.0%) for 2009, US\$2.36 (up 4.0%) for 2010. Part of the downward revision was due to the earthquake in Sichuan and rescue missions; we adopt 25% tax rate in our forecasts.

Exhibit 1

Ctrip: Performance Analysis

	1Q07	2Q07	3Q07	4Q07	1Q08
Growth analysis (QoQ)					
Revenue	3%	24%	12%	11%	6%
Hotel reservation	-3%	28%	2%	12%	-2%
Air ticketing	9%	24%	18%	12%	15%
Packaged tour	46%	-20%	61%	6%	30%
Others	-17%	56%	50%	-9%	-15%
Operating profit	-5%	34%	17%	14%	-13%
Net profit	-3%	36%	24%	24%	-27%
Margin trend					
Gross margin	79%	80%	80%	81%	80%
Operating margin	31%	33%	34%	36%	32%
Pre-tax profit margin	33%	36%	40%	41%	40%
Net margin	28%	31%	34%	38%	29%
EBITDA Margin	29%	31%	32%	33%	30%
Revenue breakdown					
Hotel reservation	54%	55%	51%	51%	47%
Air ticketing	38%	38%	40%	40%	43%
Packaged tour	6%	4%	6%	6%	7%
Others	2%	3%	3%	3%	3%
Sum	100%	100%	100%	100%	100%

Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates

Exhibit 2

Changes in Diluted EPS Estimates

US\$	2008E	2009E	2010E
Current diluted EPS	1.15	1.78	2.36
Prior diluted EPS	1.20	1.72	2.27
Changes	-5%	3%	4%

Source: Company data, Morgan Stanley Research, E = Morgan Stanley Research estimates

Please refer to the following reports for more of our views:

- "4Q07: Building a Power Brand in Travel Services", dated February 28, 2008
- "3Q07: What is the Upside for Ctrip's Online Leadership", dated November 8, 2007
- "2Q07: Honor Thy Customers as Thyself", dated August 7, 2007

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Exhibit 4

Ctrip: Highlights of Quarterly Income Statement

(RmbMM)	1Q07	2Q07	3Q07	4Q07	1Q08	1Q08E	QoQ	YoY	vs. Est.	Comments
Total Revenue	249	309	346	383	367	362	-4%	47%	1%	
Hotel reservation	133	171	176	196	171	183	-13%	28%	-7%	Sequential decrease in hotel booking was due to Chinese New Year holidays
Air - Ticketing	95	117	138	154	159	146	3%	68%	9%	Increase in air ticketing was due to volume increase
Packaged tour	16	13	21	22	27	22	22%	67%	22%	Increase was due to leisure travel volume increase
Others	5	8	12	11	10	11	-7%	99%	-7%	
Business taxes	(17)	(21)	(23)	(27)	(26)	(25)	-3%	54%	6%	
Net revenue	232	288	323	356	340	337	-4%	47%	1%	
% change QoQ	3%	24%	12%	10%	-4%	-5%				
Cost of services	(49)	(57)	(64)	(66)	(68)	(69)	2%	40%	-1%	
Gross Profit	184	231	259	290	272	268	-6%	48%	2%	
% change QoQ	2%	26%	12%	12%	-6%	-8%				
Gross margin (%)	79%	80%	80%	81%	80%	80%				
Product development	(34)	(42)	(48)	(54)	(54)	(53)	0%	57%	2%	
Sales and marketing	(48)	(59)	(63)	(72)	(66)	(72)	-9%	36%	-8%	
General and administrative	(30)	(35)	(36)	(36)	(43)	(38)	17%	42%	13%	
Share-based compensation	(19)	(23)	(23)	(22)	(33)	(26)	50%	80%	28%	
Operating expenses	(113)	(136)	(148)	(163)	(162)	(162)	0%	44%	0%	
Operating income	71	95	111	127	110	106	-13%	55%	4%	Non-GAAP operating profit was Rmb144mn (-4% QoQ, +60% YoY)
% change QoQ	-5%	34%	17%	14%	-13%	-17%				
Operating margin (%)	31%	33%	34%	36%	32%	31%				Non-GAAP operating margin was 42% in 1Q08, flat QoQ and 39% in 1Q07
Pre-tax income	77	104	129	146	137	115	-6%	77%	19%	
Income tax benefit (expense)	(12)	(16)	(20)	(11)	(38)	(21)	260%	208%	83%	Applying 25% statutory tax rate from Jan. 1 2008
Net income	65	88	110	135	99	94	-27%	52%	5%	Non-GAAP net profit was Rmb132mn (-16% QoQ and 58% YoY)
% change QoQ	-3%	36%	24%	24%	-27%	-31%				
Net income margin (%)	28%	31%	34%	38%	29%	28%				Non-GAAP net profit margin was 39% (44% in 4Q07 and 34% in 1Q07)
Earnings per ADS, basic (\$)	0.14	0.18	0.23	0.28	0.23	0.19	-19%	66%	16%	In Rmb term, basic EPADS exceeds our estimates by 5%
Earnings per ADS, diluted (\$)	0.13	0.18	0.22	0.27	0.22	0.19	-19%	65%	17%	Non-GAAP EPADS was US\$0.27, vs. US\$0.31 of 4Q07 and US\$0.16 of 1Q07

Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates

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What We Liked? Strong Growth Momentum Maintained despite the Snowstorm

No. 1 – Hotel booking sales (47% of total) soared 28% YoY:

- Hotel partners rose 7%+ QoQ and 31% YoY to 6,400, accounting for 80~90% of the 3-star or above hotels in China. Over 60% of hotel partners offered guaranteed room allotments to Ctrip.
- The revenue growth was mainly driven by the faster growth in tier-2 cities (30% or plus YoY).

No. 2 – Air ticket sales (43% of total) surged 68% YoY, outpacing the level of overall air ticketing industry (+11%).

- Ctrip sold around 4mn air tickets in 1Q08, up ~50% QoQ and YoY.
- Ctrip continues gaining market share from mom-and-pop shops via its advanced e-ticketing fulfillment capability.

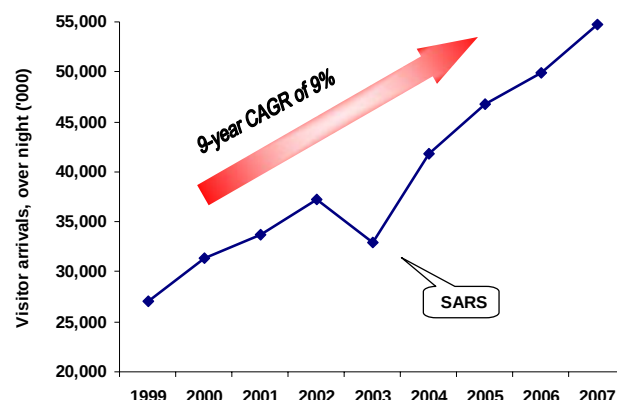
No. 3 – Packaged tour sales (7% of total) escalated 22% QoQ and 67% YoY, due to the soaring leisure travel volume in China.

Finally yet importantly, we believe inbound travel could emerge as a new growth driver for Ctrip.

- According to the management, the revenue contribution from inbound traveling may climb to 5-10% in 5 years vs. minimal currently.
- Inbound travel has been steadily growing in the past decades. Total overnight visitor arrivals doubled from 1999 to 2007, according to CEIC. In 2004, China surpassed Italy to be the No. 4 largest international tourism destination in the world (*World Tourism Organization*). In 2007, total international visitors and total overnight visitors to China reached 132mn and 55mn, respectively. We believe this trend should continue, as the *China National Tourism Administration (CNTA)* predicts that China should be the largest international tourism destination worldwide. Interestingly, despite their smaller sizes in territory and population, France and Spain have ranked No.1 and No.2 in terms of international tourist arrivals in the past 6 years, with inbound tourist arrivals 59% and 18% more than China in 2006 (*World Tourism Organization*).

Exhibit 5

Steadily Growing Overnight Visitor Arrivals to China



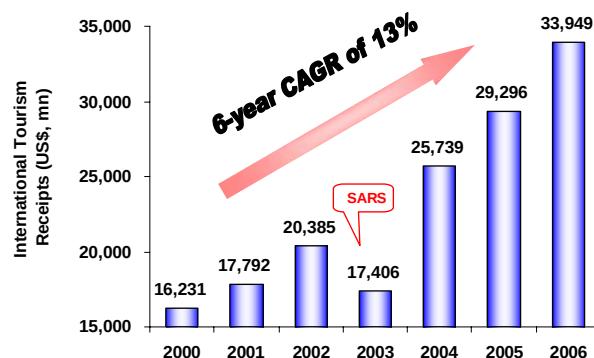
Note: SARS refers to severe acute respiratory syndrome; a pandemic broke out between November 2002 and July 2003.

Source: CEIC, the Yearbook of China Tourism Statistics (2004)

- The revenue opportunity for inbound travel not only comes from the volume but more on spending. Spending from international travelers in China grew at a 6-year CAGR of 13% from '00-'06, outpacing the visitor volume expansion (~8%). On average, spending per visitor has increased 40% in the six years from 2000 to 2006.

Exhibit 6

Expanding International Tourism Spending on China



Note: SARS refers to severe acute respiratory syndrome; a pandemic broke out between November 2002 and July 2003.

Source: World Tourism Organization, National Bureau of Statistics of China

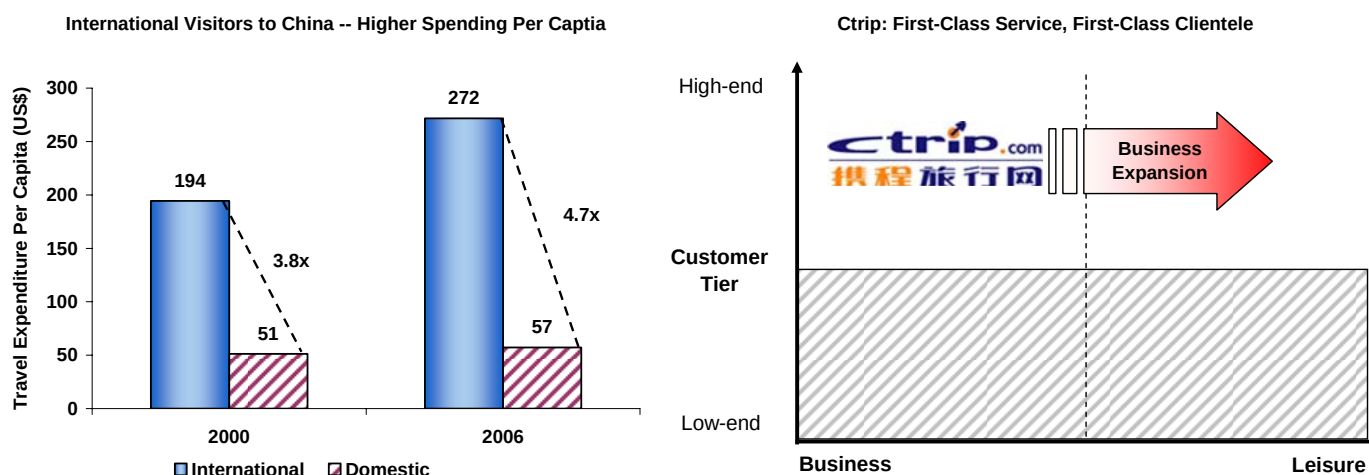
- On our calculation, on average international visitors spend ~US\$270 per capita in China in 2006, ~5 times the level of average domestic travel expenditure per head, partly due to higher spending power and lower price sensitivity. On our observation, Ctrip targets high-end

customers in China, making international visitors a

natural fit for Ctrip to capture.

Exhibit 7

International Visitors to China: A Natural Fit for Ctrip



Source: World Tourism Organization, National Bureau of Statistics of China, Morgan Stanley Research

- On our observation, international travelers tend to use online services instead of the offline call center due to the long distance and language barriers. Ctrip is one of the few Chinese travel booking websites providing inbound travel services. The company launched an English website *english.ctrip.com* in March '08, offering services, such as international flight booking, hotel booking, car rent and flexible packaged tours. Although the English site contributes only 1% of total traffics (*Alexa.com*) to Ctrip and revenue contribution from inbound travel is minimal so far, we are optimistic about the growth outlook.
- The major challenge for Ctrip is to build brand recognition among international travelers, making Ctrip as their default choice for online travel services in China. Ctrip already enjoys the best brand value amid Chinese Internet players. Several events could further boost inbound travel and help Ctrip's brand building in international markets: 1) the 2008 Beijing Olympic Games. According to BOCOG (*The Beijing Organizing Committee for the Games of the XXIX Olympiad*), there will be 2.5-3mn incremental inbound visitors (5% of the total overnight visitor volume in 2007 and 15-18% of Beijing's total population) as boosted by the Olympics, with Beijing as the main destination. Note that in the Sydney, Atlanta and Barcelona Olympics, international visitors were increased by about 1mn, 0.29mn and 0.3mn, respectively during the Olympics (*ChinaIRN.com*). 2) the 2010 Shanghai World Expo, which may have similar impact on inbound travel to Shanghai.
- In the long term, Ctrip should benefit from the Olympics from international brand building and inbound travel boom. In the short term, the Beijing Olympics may be a double-side sword for Ctrip's financials. On one hand, the Olympics may bolster the demand for air-ticket and hotel accommodations (5% incremental international traffic). On the other hand, hotels in Beijing may be in shortage and hotel managers may thus rely less on Ctrip for promotion. On our analysis, Beijing may account for 15-20% of Ctrip's hotel booking revenues.
- Ctrip has formed alliance with Taiwan's ezTravel, the second largest travel site in Taiwan, back in 2006, to explore the travel opportunities across the Taiwan Strait. We believe Ctrip could co-operate with other international sites to extend its reach globally.

For further details on brand building, please refer to our report '*Ctrip: Building a Power Brand in Travel Services...*', dated February 28, 2008.

What Concerned Us? 2Q Outlook Guidance Soft

The company guided a soft sales growth (+30% YoY) in 2Q08, vs. 47% YoY in 1Q08. It is mainly due to the earthquake. On our analysis, the earthquake in May '08 may cause 1) limited flight routes to the impacted areas, 2) fewer travels to these areas, and 3) more flight allocation for rescuing efforts. However,

- Sichuan province, the major earthquake-affected area, contributes less than 10% of Ctrip's total revenues.
- About 70% of Ctrip's clients are business travelers and top tier cities contributed ~50% of total revenues, which are less affected by this catastrophe and shorter holidays.
- In our view, Ctrip has demonstrated its ability to gain market share, especially during the market slowdown –

its air ticketing sales advanced 70%+ YoY in '07 and 68% YoY in 1Q08 vs. 15~20% YoY and ~10% YoY for the overall air-ticketing service industry. We believe it is largely thanks to 1) its industry leading client services (it implemented the industry's only 'six-sigma' service standard); 2) advanced technology capabilities ("mom-and-pop" travel agencies own 70%+ of China's air ticketing market vs. 6% for Ctrip but they lag far behind in e-ticketing capacity, which contributed 90%+ of Ctrip's air ticketing order fulfillment), and 3) high customer loyalty (repeat customers account for ~60% of cumulative customers and contribute ~80% of its hotel and air ticket sales, likely the highest in the industry) On our analysis, its air ticket market share may enlarge to 25-30% in five to ten years from ~6% now.

May 15, 2008

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Valuation and Recommendation

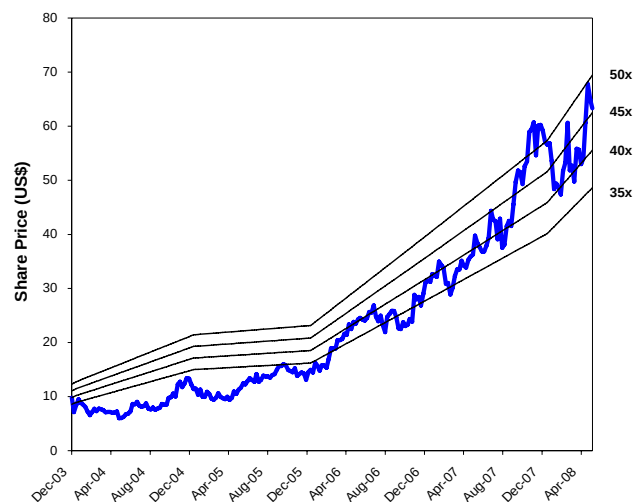
We maintain our Overweight-V rating on Ctrip. Discounted cash flow (DCF) valuation is our preferred methodology as it incorporates our long-term view about the company's operations. For our DCF valuation, we assume a discount rate of 12% and a free cash flow exit multiple of 16x at a terminal growth rate of 5%. Note that we estimate the average cost of capital or the average discount rate for Chinese companies and the US Internet companies under Morgan Stanley coverage at around 10% and 12%, respectively.

- Our base-case DCF valuation yields a fair value of US\$80.30 for the stock (we assume that Ctrip's long-term hotel booking market share expands to 1% from 0.4% in 2008, and its long-term air ticketing market share climbs to 30% from 5% in 2008).
- Our bull-case DCF valuation produces a value of US\$110.40 for the stock, implying 74% upside relative to our base-case value (we assume Ctrip's long-term hotel booking market share expands to 2% from 0.4% in 2008 and its long-term air ticket market share climbs to 35% from 5% in 2008).
- Our bear-case DCF valuation generates a value of US\$51.50 for the stock, implying 19% downside relative to our base-case value (we assume Ctrip's long-term hotel booking market share increases to 0.5% from 0.4% in 2008 and its long-term air ticket market share grows to 25% from 5% in 2008).

At the current share price, Ctrip is trading at nearly 55x our forecast 2008 earnings, implying a P/E vs. growth ratio (or PEG ratio) of around 1.3, based on our projected three-year operating profit CAGR of 43% from 2008 to 2011.

Exhibit 80

Ctrip: P/E Bands



* P/E is based on our estimated 12-month forward earnings per ADS.
Source: Company data, Morgan Stanley Research

The downside risks to our valuation include softness in the economy, which may adversely affect business travel, and slower growth in hotel room reservations in tier-1 cities.

Exhibit 9

Ctrip: Discounted Cash Flow Valuation for Base Case

Discounted cash flow											
(RmbMM)	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Revenue	1,735	2,423	3,306	4,353	5,577	6,943	8,465	10,012	11,591	13,125	14,610
% revenue growth	45%	40%	36%	32%	28%	25%	22%	18%	16%	13%	11%
EBIT	612	858	1,175	1,552	1,995	2,491	3,046	3,614	4,196	4,752	5,292
+ Other income	56	28	28	28	28	28	28	28	28	28	28
- Cash tax	(171)	(177)	(265)	(379)	(506)	(630)	(769)	(910)	(1,056)	(1,195)	(1,330)
+ Depreciation and amortization	54	57	83	96	108	120	132	145	157	169	182
+ Share-based compensation expense	144	177	224	274	323	367	405	429	439	432	438
- Change in working capital	25	40	39	31	17	9	7	(5)	(35)	(63)	(73)
- Capital expenditure	(253)	(266)	(213)	(223)	(235)	(246)	(259)	(272)	(285)	(299)	(314)
+ Minority interests (net)	0	0	0	0	0	0	0	0	0	0	0
Free cash flows	468	717	1,072	1,379	1,731	2,140	2,593	3,029	3,445	3,824	4,222
FCF conversion rate	76%	84%	91%	89%	87%	86%	85%	84%	82%	80%	80%
% +/- FCF	89%	53%	50%	29%	26%	24%	21%	17%	14%	11%	10%
Exit value											68,748
Year from now	0	1	2	3	4	5	6	7	8	9	10
Discount factor	100%	90%	80%	72%	65%	58%	52%	47%	42%	38%	34%
Present value	468	643	862	994	1,120	1,242	1,349	1,414	1,442	1,436	24,570
Sum	35,072										
Net cash	1,510										
Net equity value (US\$MM)	5,543										
Per ADS value (US\$)	80.3										
DCF sensitivity analysis											
	Exit multiple (x)	Discount rate									
		10%	11%	12%	13%	14%					
	14	84.1	78.5	73.3	68.6	64.2					
	15	88.2	82.3	76.8	71.8	67.2					
	16	92.3	86.0	80.3	75.0	70.2					
	17	96.4	89.8	83.8	78.2	73.1					
	18	100.5	93.6	87.2	81.4	76.1					

Source: Morgan Stanley Research
E = Morgan Stanley Research Estimates

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Exhibit 10

Morgan Stanley's Valuation Comparison for Internet / Media Companies

May 15, 2008

Company Name	Ticker	MS Rating	Currency ¹	Price	Market Cap (US\$MM)	EV (US\$MM)	P/E 2008E	2009E	P/E Ex-cash 2008E	2009E	PEG 2008E	2009E	EV/EBITDA 2008E	2009E	EV/Sales 2008E	2009E	52 week price High	Low
China Internet																		
Alibaba	1688.HK	E-V	HK\$	15.1	9,810	9,057	59.9	39.0	54.1	35.4	1.3	0.9	41.9	28.6	20.2	14.6	41.8	11.7
Baidu	BIDU.O	E-V	US\$	361.2	12,556	12,315	88.7	56.3	91.1	57.6	1.5	1.2	62.9	36.8	27.4	18.0	429.2	127.2
Ctrip	CTRP.O	O-V	US\$	63.3	4,372	4,144	55.2	35.7	52.9	33.8	1.8	1.1	41.0	27.2	16.7	12.0	70.9	35.3
51job	JOBS.O	E	US\$	18.2	514	385	29.7	18.9	15.3	16.1	3.6	(4.5)	14.8	9.7	2.8	2.4	25.4	15.6
NetEase	NTES.O	O-V	US\$	24.4	3,164	3,164	15.9	12.3	13.6	10.6	0.8	0.8	13.8	11.6	8.1	6.8	25.4	13.5
Perfect World	PWRD.O	O-V	US\$	30.0	1,770	1,556	15.3	10.9	13.5	9.6	0.2	0.3	13.5	9.2	7.5	5.1	37.0	17.4
Shanda	SNDA.O	O-V	US\$	37.3	2,726	2,328	16.2	12.2	14.5	11.1	0.7	0.8	10.3	8.9	4.8	3.9	40.7	22.1
Sina	SINA.O	O-V	US\$	53.2	3,218	2,840	39.5	32.5	45.8	36.5	1.0	1.2	30.3	24.6	7.8	6.2	59.3	31.5
Sohu	SOHU.O	O-V	US\$	80.3	3,135	2,948	27.9	22.7	45.6	21.6	0.6	1.0	16.3	13.9	7.2	5.8	85.0	24.4
Tencent	0700.HK	O-V	HK\$	69.9	16,521	15,502	44.3	29.8	43.5	29.3	0.9	1.2	22.6	18.1	16.1	12.3	72.8	28.5
CDC Corp.	CHINA.O	NR	US\$	3.4	362	374	15.5	—	—	—	—	—	10.2	—	0.8	—	10.2	3.2
China Finance Online	JRJC.O	NR	US\$	21.4	420	324	23.8	11.6	—	—	—	—	—	—	5.6	2.7	47.7	6.5
eLong	LONG.O	NR	US\$	9.3	235	75	119.9	40.6	—	—	—	—	—	—	1.6	1.3	13.2	7.1
Giant	G.A.N	NR	US\$	15.5	3,998	2,997	18.9	15.1	—	—	—	—	15.3	12.9	10.5	8.4	20.5	9.1
Hurray!	HRAY.O	NR	US\$	3.0	64	—	73.0	19.1	—	—	—	—	—	—	0.0	0.0	6.0	2.4
Kingsoft	3888.HK	NR	HK\$	4.0	540	372	16.2	12.1	—	—	—	—	10.1	6.5	3.6	2.8	6.4	1.7
Kongzhong	KONG.O	NR	US\$	5.0	177	54	40.4	26.8	—	—	—	—	22.3	14.5	0.7	0.7	9.1	3.5
NetDragon	8288.HK	NR	HK\$	11.3	618	385	11.6	9.6	—	—	—	—	—	—	—	—	19.0	7.9
The9	NCTY.O	NR	US\$	25.4	731	428	15.2	12.0	—	—	—	—	5.5	4.5	1.6	1.3	52.4	15.1
China Media																		
AirMedia	AMCN.O	O-V	US\$	17.8	1,310	1,100	31.0	20.8	25.9	17.2	—	0.5	23.7	15.2	8.9	6.0	26.5	14.8
China Digital TV	STV.N	O-V	US\$	20.2	1,183	940	24.2	17.9	21.8	15.9	0.6	0.6	17.4	12.1	11.2	7.8	55.3	15.0
Clear Media	0100.HK	O	HK\$	6.5	449	470	13.5	13.5	14.9	14.6	0.5	1.2	6.7	6.3	2.5	2.3	8.8	5.5
Focus Media	FMCN.O	O-V	US\$	39.1	5,082	4,541	45.7	18.1	42.1	16.4	0.9	0.2	22.3	10.2	5.1	3.6	66.3	29.3
Gehua	600037.SS	E	CNY	20.2	3,054	2,757	61.4	49.9	—	—	—	—	29.5	22.2	15.2	11.7	37.4	15.5
Oriental Pearl Group	600832.SS	U	CNY	13.7	3,887	3,552	47.4	42.6	—	—	—	—	35.5	31.3	12.5	10.3	23.6	9.9
Acorn	ATV.O	NR	US\$	7.8	240	196	19.0	17.8	—	—	—	—	9.0	—	0.6	—	32.3	6.3
CITIC Guoan	000839.SZ	NR	CNY	31.9	3,553	3,896	34.7	23.9	—	—	—	—	—	—	6.2	—	43.6	21.1
DVN	0500.HK	NR	HK\$	0.8	114	63	6.5	—	—	—	—	—	—	—	—	—	2.4	0.6
Gigamedia	GIGM.O	NR	US\$	18.6	995	969	23.1	16.5	—	—	—	—	16.6	12.7	4.3	3.3	25.4	9.0
New Oriental Education	EDU.O	NR	US\$	78.0	2,887	2,679	44.5	27.2	—	—	—	—	39.8	20.4	10.0	6.9	92.2	42.9
Tom Group	2383.HK	NR	HK\$	0.6	275	407	32.4	—	—	—	—	—	—	—	—	—	1.0	0.4
VisionChina Media	VISN.O	NR	US\$	19.9	1,360	1,228	26.6	18.6	—	—	—	—	—	—	9.0	7.0	20.4	5.3
Xinhua Finance Media	XFML.O	NR	US\$	3.8	265	422	8.5	7.2	—	—	—	—	8.6	6.0	1.9	1.6	12.5	2.0
Asia Internet																		
Daum	035720.KQ	U-V	KRW	65,800	860	810	27.8	20.1	—	—	—	—	10.4	8.8	1.2	1.1	92,200	56,900
NHN	035420.KQ	O	KRW	206,500	9,434	9,137	25.2	19.7	—	—	—	—	16.6	13.1	7.6	5.9	300,000	147,200
NCsoft	036570.KS	E-V	KRW	54,600	1,126	809	22.9	15.4	—	—	—	—	9.6	6.8	2.4	1.9	89,900	38,300
Rakuten	4755.Q	E-V	JPY	60,800	7,554	9,780	29.4	24.7	—	—	—	—	20.1	15.7	4.1	3.9	67,600	33,300
Softbank Corp	9984.T	E-V	JPY	1,975	21,395	38,941	52.3	30.4	—	—	—	—	6.3	5.8	1.4	1.4	2,885	1,653

Currency is for the stock price. Estimates for non-covered companies (NR) are based on the mean of FactSet consensus estimates.

E= Morgan Stanley Research estimates, except where noted. NR = No Rating available.

We use the No. of diluted shares as of the latest quarter to calculate related ratios for companies under our coverage, which might be different from the No. of basic shares used by ModelWare. As a result, the ratios in this table might be different from the corresponding ones listed in the databox on the front page.

Source: Company data, FactSet, Morgan Stanley Research (Prices as of May 15, 2008)

Exhibit 11

Ctrip: Income Statement, 2003-10E

(RmbMM)	2003	2004	2005	2006	2007	2008E	2009E	2010E
Total Revenue	183	354	556	834	1,287	1,868	2,609	3,560
Hotel reservation	153	276	363	476	677	849	1,051	1,270
Air ticketing	20	63	163	293	503	840	1,286	1,900
Packaged tour	5	10	23	42	71	127	202	299
Others	4	5	8	23	36	52	70	91
Business taxes	(10)	(20)	(35)	(54)	(88)	(133)	(186)	(254)
Net revenue	173	334	521	780	1,199	1,735	2,423	3,306
% change Y/Y	73%	93%	56%	50%	54%	44.7%	40%	36%
Cost of services	(26)	(48)	(89)	(153)	(236)	(340)	(482)	(668)
Gross Profit	147	285	433	627	963	1,395	1,940	2,638
Gross margin (%)	85%	85%	83.0%	80.4%	80.3%	80.4%	80.1%	79.8%
% change Y/Y	71%	93%	52%	45%	54%	45%	39%	36%
Product development	(21)	(38)	(57)	(106)	(177)	(249)	(362)	(487)
Sales and marketing	(48)	(73)	(112)	(172)	(243)	(313)	(425)	(576)
General and administrative	(21)	(38)	(43)	(93)	(138)	(220)	(295)	(400)
Share-based compensation	(2)	(2)	(2)	(55)	(87)	(144)	(177)	(224)
Operating expenses	(89)	(150)	(213)	(372)	(559)	(783)	(1,082)	(1,463)
Operating income	58	136	220	255	404	612	858	1,175
Operating margin (%)	34%	41%	42%	32.7%	33.7%	35.3%	35.4%	35.5%
% change Y/Y	150%	134%	62%	16%	58%	51%	40%	37%
Interest income	0	6	13	16	17	33	34	48
Interest expense	0	0	0	0	0	0	0	0
Other income (expense)	5	4	23	11	35	56	28	28
Pre-tax income before extraordinary	64	146	255	282	456	702	920	1,251
Income tax expense	(10)	(13)	(31)	(41)	(58)	(179)	(184)	(275)
Minority interests	(0)	(0)	(0)	(0)	0	0	0	0
Share of Income (loss) of JV	1	0	0	0	0	0	0	0
Net income	54	133	224	241	398	523	736	976
Net income margin (%)	31%	40%	43%	30.8%	33.2%	30.1%	30.4%	29.5%
% change Y/Y	279%	147%	68%	7%	66%	31%	41%	33%
Net income attributed to ordinary shareholders	1	133	224	241	398	523	736	976
Excl. Share based compensation	3	135	226	295	485	666	912	1,201
Other comprehensive income: translation adjustments	1	0	(9)	(8)	0	0	0	0
Comprehensive income (loss)	55	133	215	232	398	523	736	976
Earning per share, basic (Rmb)	0.13	4.39	7.06	7.44	12.10	15.73	22.14	29.38
Earning per share, diluted (Rmb)	0.10	4.23	6.91	7.23	11.67	15.14	21.31	28.27
Earning per ADS, basic (\$)	0.01	0.27	0.44	0.48	0.83	1.19	1.85	2.45
Earning per ADS, diluted (\$)	0.01	0.26	0.43	0.46	0.80	1.15	1.78	2.36

E = Morgan Stanley Research Estimates

Source: Company data, Morgan Stanley Research

Exhibit 12

Ctrip: Balance Sheet, 2003-10E

(RmbMM)	2003	2004	2005	2006	2007	2008E	2009E	2010E
Cash and cash equivalents	472	616	735	844	1,083	1,510	2,154	3,106
Restricted short-term investment	0	0	7	7	7	7	7	7
Accounts receivables	29	35	63	137	262	379	527	715
Due from related parties	1	0	1	1	1	2	3	4
Prepayments and other current assets	7	19	43	62	90	121	161	209
Deferred tax assets, current	1	1	2	3	4	4	5	6
Total Current Assets	509	671	851	1,053	1,447	2,023	2,857	4,047
Investments in JV	0	0	0	0	0	0	0	0
LT Investments				80	80	80	80	80
LT loans to related parties	2	1	0	0	0	0	0	0
LT deposits	11	27	54	80	80	80	80	80
Property, equipment and software	23	32	54	154	433	628	833	958
Long Term Prepayment	0	0	66	66	0	0	0	0
Goodwill	10	10	10	15	15	15	15	15
Other intangible assets	2	1	1	3	3	3	3	2
Deferred tax assets, non-current	0	0	0	0	0	0	0	0
Total Assets	557	741	1,036	1,452	2,059	2,829	3,867	5,183
Short-term bank loans	0	0	0	0	0	0	0	0
Accounts payables	15	30	72	151	221	302	405	530
Due to a related party	4	3	2	0	0	0	0	0
Salary and welfare payables	10	14	21	33	46	59	74	90
Taxes payable	9	23	16	35	45	56	78	107
Advances from customers	4	7	28	38	54	74	100	133
Provisions for customer rewards	5	10	20	30	43	62	84	112
Deferred acquisition costs	0	0	0	0	0	0	0	0
Dividend Payable		40	67	72	120	157	221	312
Other payables and accruals	18	11	43	62	89	121	160	208
Total current liabilities	64	139	270	421	618	830	1,123	1,492
Other long-term payables				2	2	2	2	2
Total Liabilities	64	139	270	423	621	833	1,126	1,494
Minority Interests	1	1	1	1	1	1	1	1
Commitments and contingencies	0	0	0	0	0	0	0	0
Shareholders' equity								
Share capital	2	3	3	3	3	3	3	3
Series A convertible preferred shrs	0	0	0	0	0	0	0	0
Series B convertible preferred shrs	0	0	0	0	0	0	0	0
Additional paid-in capital	499	511	525	627	759	951	1,181	1,464
Statutory reserves	6	19	42	54	54	54	54	54
Deferred share-based compensation	(5)	(2)	(0)	0	0	0	0	0
Cumulative translation adjustments	2	1	(8)	(16)	(16)	(16)	(16)	(16)
Retained earnings	(10)	69	203	360	639	1,005	1,520	2,183
Shareholder equity	493	601	765	1,028	1,438	1,996	2,741	3,688
Total liabilities and shareholders' equity	557	741	1,036	1,452	2,059	2,829	3,867	5,183

E = Morgan Stanley Research Estimates

Source: Company data, Morgan Stanley Research

Exhibit 13

Ctrip: Cash Flow Statement, 2003-10E

(RmbMM)	2003	2004	2005	2006	2007	2008E	2009E	2010E
Net Income (loss) for the year	54	133	224	241	398	523	736	976
<i>Adjusted for:</i>								
Share-based compensation costs	2	2	2	55	87	144	177	224
Depreciation/amortization of PPE	5	7	8	14	22	54	57	83
Minority interests	0	0	0	0	0	0	0	0
Amortization of intangibles	0	0	0	0	0	0	0	0
Share of (income) loss of JVs	(1)	0	0	0	0	0	0	0
Loss from disposal of property		1	0	1	0	0	0	0
Appropriations to statutory reserves	0	0	0	0	0	0	0	0
Increase in restricted cash			(7)					
Increase in accounts receivables	(15)	(6)	(28)	(77)	(126)	(117)	(148)	(188)
Increase in due from related parties	4	1	(1)	(0)	(1)	(1)	(1)	(1)
(Increase)/decrease in prepaymts and others	(3)	(6)	(21)	(15)	(28)	(31)	(40)	(48)
(Increase)/decrease in long term deposits	(10)	(16)	(28)	(26)	0	0	0	0
(Increase)/decrease in deferred tax assets	0	(0)	(1)	(1)	(1)	(1)	(1)	(1)
Change in accounts payables	14	15	42	79	70	80	103	125
Change in due to related parties	3	(1)	0	(1)	0	0	0	0
Change in salary payables	7	4	7	11	13	13	15	16
Change in taxes payables	7	14	(7)	19	10	11	22	28
Change in advances from customers	2	3	22	11	15	21	26	32
Change in provisions for customer rewards	2	6	9	10	14	18	23	28
Change in other payables and accruals	3	6	7	27	28	31	40	47
Net cash from operating activities	74	163	231	348	502	746	1,009	1,323
Proceeds from disposal of interests subsidiary	0	0	0	0	0	0	0	0
Purchase of property, equipment and software	(9)	(16)	(32)	(97)	(235)	(249)	(262)	(208)
Purchase of land use right			(41)	(27)				
Purchase of Intangible Assets	(1)	0	0	(2)	0	0	0	0
Increase in long-term loans to related parties	(0)	2	1	0	0	0	0	0
(Increase) decrease in restricted ST investment	0	0	0	0	0	0	0	0
Decrease in cash from deconsolidation of subsidiary	(2)	0	0	0	0	0	0	0
Purchase of a subsidiary	0	0	0	(1)	0	0	0	0
Purchase of a business	0	0	0	0	0	0	0	0
Investments in JV	0	0	0	0	0	0	0	0
Other Investments				(80)	0	0	0	0
Net cash from investment	(12)	(14)	(73)	(207)	(235)	(249)	(262)	(208)
Proceeds from (repayment of) short-term bank loan	0	0	0	0	0	0	0	0
Proceeds from issuances of series A	0	0	0	0	0	0	0	0
Convertible preferred shares and series B	0	0	0	0	0	0	0	0
Cash fm subsidiary on issuance of ordinary shars	0	0	0	0	0	0	0	0
Dividends paid	0	0	(40)	(67)	(72)	(120)	(157)	(221)
Proceed from exercise of share option	1	8	10	40	44	49	53	59
Proceed from IPO, net of issuance costs	369	0	0	0	0	0	0	0
Payment of IPO issuance costs		(12)						
Net cash for financing activities	370	(4)	(30)	(27)	(28)	(71)	(103)	(162)
Effect of foreign exchange rate change on cash	1	(0)	(9)	(4)	0	0	0	0
Net increase (decrease) in cash	433	144	119	109	239	426	645	952
Cash, beginning of year	39	472	616	735	844	1,083	1,510	2,154
Cash, end of year	472	616	735	844	1,083	1,510	2,154	3,106

E = Morgan Stanley Research Estimates

Source: Company data, Morgan Stanley Research

May 15, 2008

Ctrip.com

Exhibit 14

Ctrip: Quarterly Income Statement, 2006-08E

(RMBMM)	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08E	3Q08E	4Q08E
Total Revenue	167	203	223	242	249	309	346	383	367	418	516	568
Hotel reservation	96	118	125	138	133	171	176	196	171	200	228	250
Air - Ticketing	58	70	78	87	95	117	138	154	159	180	238	263
Packaged tour	9	9	13	11	16	13	21	22	27	25	35	41
Others	5	6	6	6	5	8	12	11	10	13	15	14
Business taxes	(11)	(13)	(14)	(16)	(17)	(21)	(23)	(27)	(26)	(30)	(37)	(41)
Net revenue	156	190	208	226	232	288	323	356	340	388	479	528
% change Q/Q	0%	22%	10%	8%	3%	24%	12%	10%	-4%	14%	23%	10%
Cost of services	(28)	(36)	(44)	(46)	(49)	(57)	(64)	(66)	(68)	(76)	(93)	(103)
Gross Profit	128	154	165	180	184	231	259	290	272	312	386	425
% change Q/Q	2%	21%	7%	9%	2%	26%	12%	12%	-6%	14%	24%	10%
Gross margin (%)	81.9%	81.3%	79.0%	79.7%	79.1%	80.1%	80.2%	81.4%	80.0%	80.3%	80.5%	80.5%
Product development	(23)	(25)	(27)	(31)	(34)	(42)	(48)	(54)	(54)	(57)	(66)	(73)
Sales and marketing	(35)	(42)	(48)	(49)	(48)	(59)	(63)	(72)	(66)	(71)	(83)	(93)
General and administrative	(21)	(22)	(25)	(25)	(30)	(35)	(36)	(36)	(43)	(51)	(60)	(67)
Share-based compensation	(13)	(13)	(14)	(14)	(19)	(23)	(23)	(22)	(33)	(34)	(37)	(39)
Amortization of goodwill and other intangibles	0	0	0	0	0	0	0	0	(0)	(0)	(0)	(0)
Other expenses incurred for JV	0	0	0	0	0	0	0	0	0	0	0	0
Operating expenses	(78)	(88)	(100)	(105)	(113)	(136)	(148)	(163)	(162)	(179)	(209)	(232)
Operating income	50	66	64	75	71	95	111	127	110	133	177	193
% change Q/Q	-19%	33%	-3%	17%	-5%	34%	17%	14%	-13%	20%	33%	9%
Operating margin (%)	31.9%	34.8%	30.8%	33.2%	30.6%	33.1%	34.4%	35.7%	32.4%	34.2%	36.9%	36.5%
Interest income	4	5	4	3	3	3	5	6	7	8	9	9
Interest expense	0	0	0	0	0	0	0	0	0	0	0	0
Other income (expense)	3	1	8	(0)	3	6	14	13	19	14	12	12
Pre-tax income	57	71	76	78	77	104	129	146	137	154	197	214
Income tax benefit (expense)	(9)	(11)	(11)	(11)	(12)	(16)	(20)	(11)	(38)	(39)	(49)	(53)
Minority interests	0	(0)	(0)	(0)	(0)	0	(0)	0	(0)	0	0	0
Share of Income (loss) of JV	0	0	0	0	0	0	0	0	0	0	0	0
Net income	48	61	65	67	65	88	110	135	99	116	148	160
% change Q/Q	-23%	25%	7%	3%	-3%	36%	24%	24%	-27%	17%	28%	8%
Net income margin (%)	31.0%	31.9%	31.1%	29.6%	28.0%	30.6%	34.0%	38.0%	29.0%	29.9%	30.9%	30.4%
Net income to ordinary shareholders	48	61	65	67	65	88	110	135	99	116	148	160
Translation adjustments	0	0	0	(8)	0	0	0	0	0	0	0	0
Comprehensive income	48	61	65	58	65	88	110	135	99	116	148	160
Earning per share, basic (Rmb)	1.51	1.87	1.99	2.06	1.99	2.69	3.32	4.09	2.97	3.49	4.45	4.82
Earning per share, diluted (Rmb)	1.48	1.82	1.94	2.00	1.92	2.60	3.21	3.92	2.86	3.36	4.28	4.64
Earnings per ADS, basic (\$)	0.10	0.12	0.13	0.13	0.14	0.18	0.23	0.28	0.23	0.26	0.34	0.37
Earnings per ADS, diluted (\$)	0.09	0.12	0.12	0.13	0.13	0.18	0.22	0.27	0.22	0.25	0.32	0.35

E = Morgan Stanley Research Estimates

Source: Company data, Morgan Stanley Research

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1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe

25 Cabot Square, Canary Wharf
London E14 4QA
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan

4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Tel: +81 (0) 3 5424 5000

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Ctrip.com (CTRP.O)	O-V (09/12/2005)	US\$63.33
Netease.com (NTES.O)	O-V (09/12/2005)	US\$24.41
Perfect World (PWRD.O)	O-V (09/05/2007)	US\$30
Shanda Interactive Entertainment Limited (SNDA.O)	O-V (05/23/2007)	US\$37.27
Sina Corporation (SINA.O)	O-V (02/08/2007)	US\$53.15
Tencent Holdings Ltd. (0700.HK)	O-V (09/12/2005)	HK\$69.85
Jenny Wu, CFA		
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