



# Home Inns & Hotels Management Inc.

A Leading Economy Hotel Chain in China

April 2013





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# Executive Summary

## Emerging Market Dynamics

- High unit growth past 5 years while maintaining high occupancy
- Economy hotels at ~15% of lodging market by room count 1<sup>st</sup> Half '12
- ~53% urbanization currently targeting 65-70% per government planning

## Undisputed Market Leader

- 23.1% market share by room count in economy hotel sector
- 1,772 hotels in 253 cities under three brands as of Dec 31, 2012
- 11.9 million individual frequent guests and 104K corporate accounts

## Asset-Light Models

- LO:10- to 20-yr leases, sub-inflationary escalations, ~ ¥ 65K/room cost
- FM: no capital requirements and high-margin fee revenue
- Early mover with LO and further penetration with FM

## Sustainable Profitable Growth

- Disciplined project investment with hurdle rate of return requirements
- Mid to low single-digit annual price increase protects margin
- SG&A leverage and mix shift towards FM enables margin expansion

## Elite Professional Managers

- Unsurpassed breadth and depth of experience in hospitality and consumer industries and chain operations
- Multinational experience with proven strategies and execution

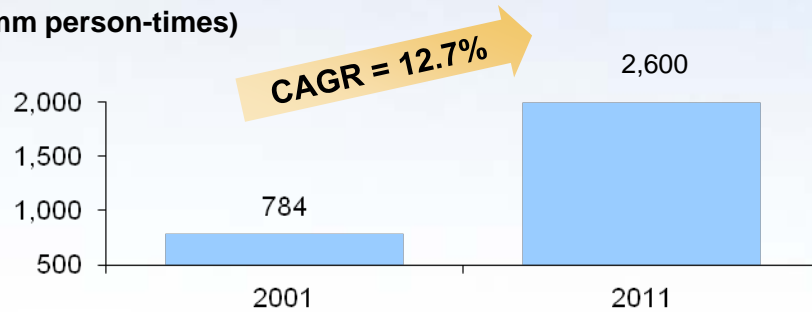


# Long Term Market Potential

## Increasing Domestic Business and Leisure Travel Driving Long-Term Growth

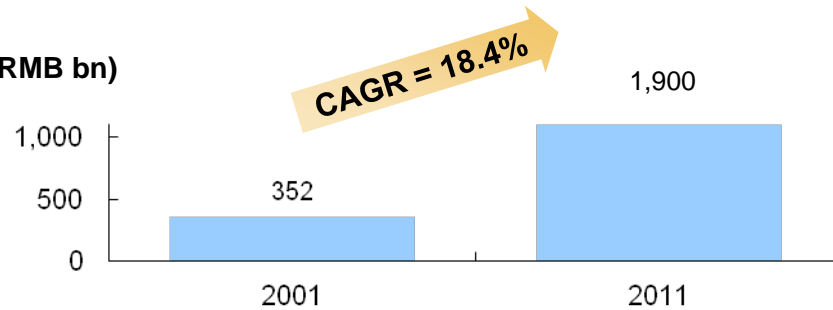
Number of Domestic Trips<sup>(1)</sup>

(mm person-times)

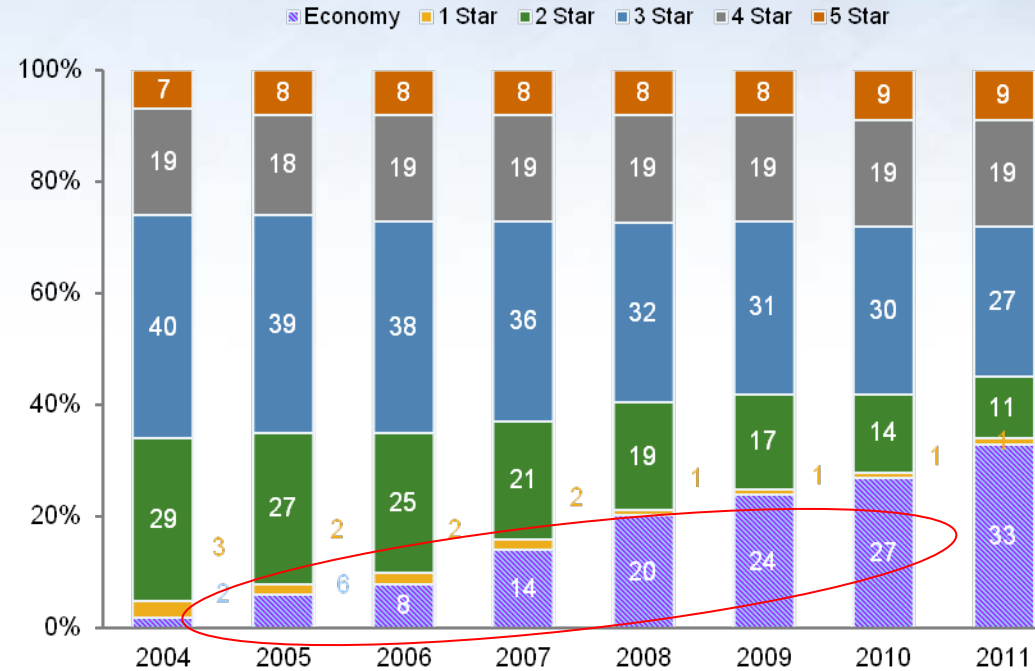


Total Spending on Domestic Travel<sup>(1)</sup>

(RMB bn)



### Ongoing Demand Shift to Economy Hotels <sup>(2)</sup>



- Capturing previous 1-3 star hotels market
- Rapid growth in Chinese travel market drives new demand

(1) Source: Blue Book of China's Tourism (No.4)

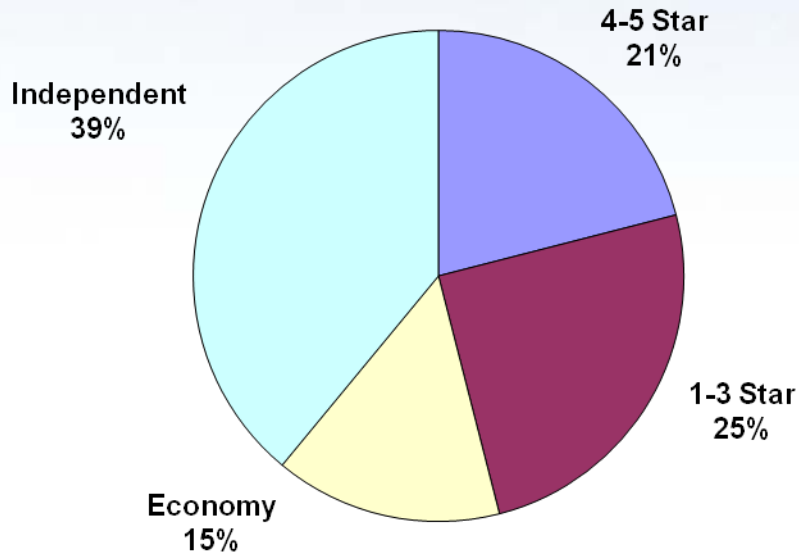
(2) Source: Goldman Sachs Equity Research & National Tourism Administration of China



# Long Term Market Potential (continued)

## Significant Upside Potential for Economy Hotel Chains in Fragmented Hotel Industry

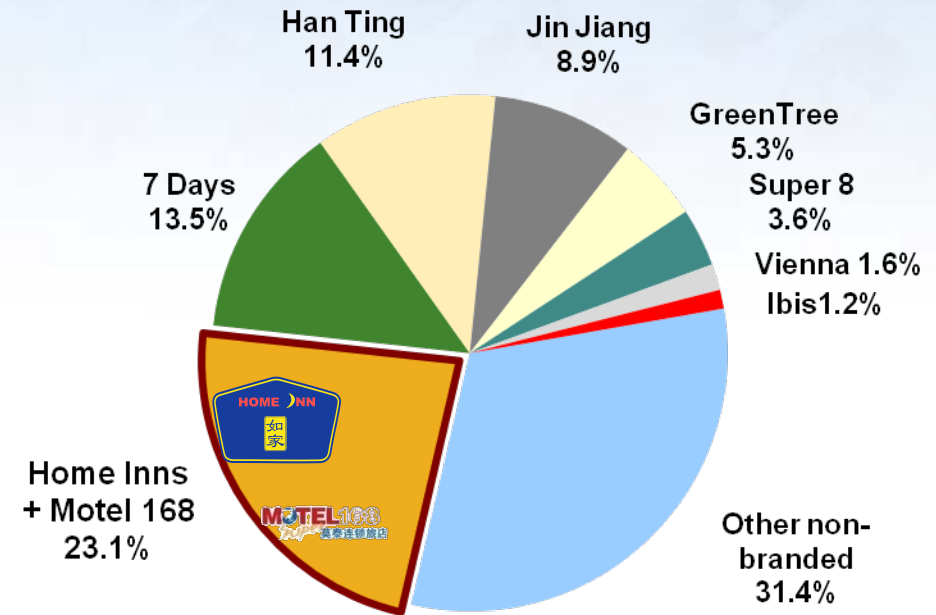
Chinese Lodging Market Share By Room<sup>(1)</sup>



- As of 1H2012, economy hotels\* represent 15% of Chinese lodging market

\* Economy hotels do not participate in star-rating system in China

Economy Hotel Market Share By Room<sup>(2)</sup>



- As of June 30, 2012, there were 8,313 economy hotels in China

(1) Source: Ministry of Commerce of China; China National Tourism Administration, <http://www.inn.net.cn>

(2) Source: <http://www.inn.net.cn>



# Company Overview

## Mission

To become the leader within the Chinese hotel industry providing lodging services to the general public

## Company

- A leading economy hotel chain in China by number of hotels and geographic coverage
- A consistent product and high-quality services catering to value-conscious business and leisure travel individuals

## Growth

- Founded in 2002; 10 hotels in 4 cities at the end of 2003
- 1,772 hotels in 253 cities as of December 31, 2012 under 3 brands
- RMB 5.77 billion (US\$ 926.1 million) gross revenue in year 2012

## Recognitions



- The Chinese Brand of the Year 2012 by CCTV
- 2010 International Franchisor of the Year by FLA
- 2010 China's Most Popular Brand in Green Economy Hotels
- Consecutive Golden Pillow Award for Best Brand in Economy Hotels in China since 2005



# Sound Strategies

## Number of hotels

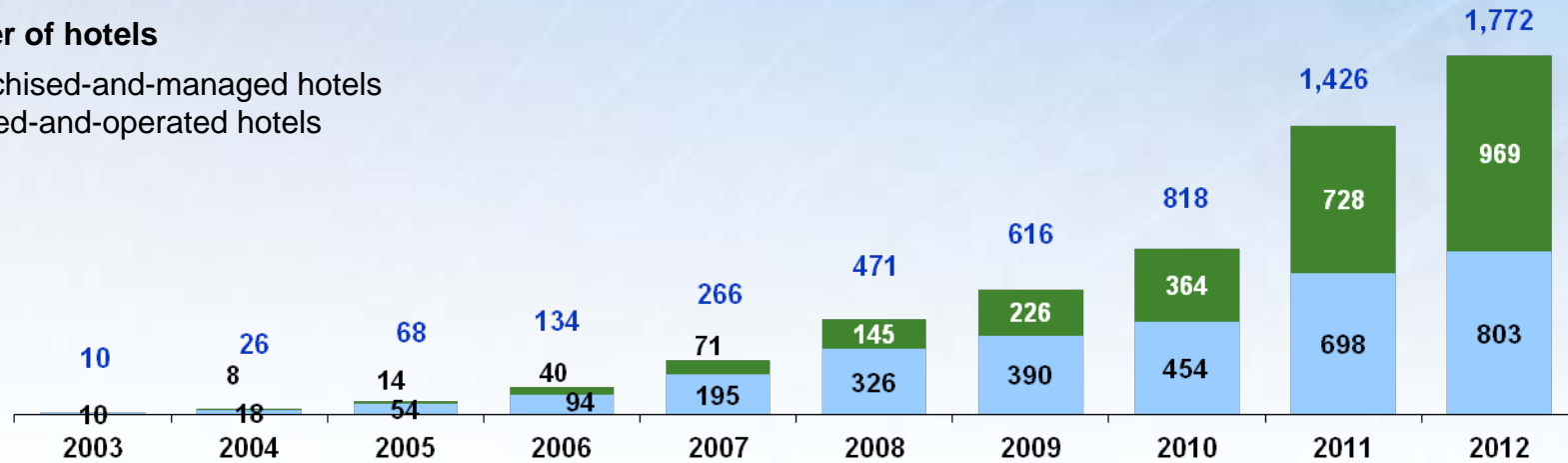
- Franchised-and-managed hotels
- Leased-and-operated hotels

3-yr CAGR

42.2%

62.5%

27.2%



# of cities 4 8 22 39 66 94 120 146 212 253



Expand foot print and deepen penetration and capitalize on early-mover advantage



Implement multi-brand strategy and strengthen customer loyalty and brand value



Attract, train, retain and continuously develop all levels of people in the organization



Enhance information infrastructure to enable operational excellence



Balance growth and profitability with investment discipline and productivity focus



# Dedicated People

## Seasoned Management Team with Breadth and Depth of Experience in Hospitality, Consumer and Other Service Industries

**David Sun**  
**CEO, 2004**

- 10 years of prior experience in consumer industry
- Former vice president of operations for B&Q China, a subsidiary of Kingfisher

**Huiping Yan**  
**CFO, 2009**

- 20 years of prior experience in accounting and corporate financial management
- 11 years at GE in US and Asia, 9 years in public accounting and tax consulting

**Jason Zong**  
**COO, 2006**

- 10 years of prior experience in consumer industry
- Former Operation Vice President and General Manager of the east region of B&Q China

**May Wu**  
**CSO<sup>(1)</sup>, 2006**

- 11 years of prior experience in consulting and investment in lodging and consumer sectors
- Former First Vice President at Schroeder Investment Management, North America

## Motivated and Well-Trained Employees

**Career-oriented Training at Home Inns Academy and On-the-Job**

**Internal Promotion and Career Development Opportunities**

**Performance-based Bonus and Share-based Compensation**

(1) Chief Strategy Officer



# Operational Excellence

*Well-integrated, Centrally Managed and Locally Executed*



## Training and Advancement

- Home Inns Academy
- Multi-channel pipeline for qualified hotel Managers
- e-Learning platform open to all employees

## Quality Assurance Programs

- Consistent measures for “hardware” and “software”
- Scheduled inspections and “secret customers” programs
- Quality score cards tied to KPI

## Performance-based Incentives

- Comprehensive and result-driven KPIs
- Integrated with planning and measurement cycle
- Dynamically aligned with corporate directives

## Budgeting and Monitoring

- Detailed hotel-level budget and operating plan
- Real-time online monitoring and analyses
- Weekly status reviews with city/regional managers



# Controls Framework

**Proprietary, Integrated, Efficient and Scalable  
Hotel Management Platform**

**Central Reservation System (CRS)**

**Call centers and internet orders processing**

**Customer Relationship  
Management System (CRM)**

**Member information database and analytics**

**Property Management System (PMS)**

**Room rates and inventory control  
synchronized with CRS and CRM**

**Management Reporting System**

**Real-time central repository and reporting of operating data**



# Brand Portfolio

1,772 hotel locations in 253 cities across China as of December 31, 2012 <sup>(1)</sup>



(1) 241 additional hotels contracted (71 leased-and-operated hotels and 170 franchised-and-managed hotels) as of December 31, 2012



# Home Inns

## A Value Proposition

### Standardized Yet Differentiated Product

#### In-Room Facilities

- Comfortable bed, free broadband, cold and hot drinking water supply, 24x7 in-room hot water

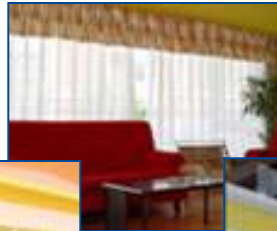
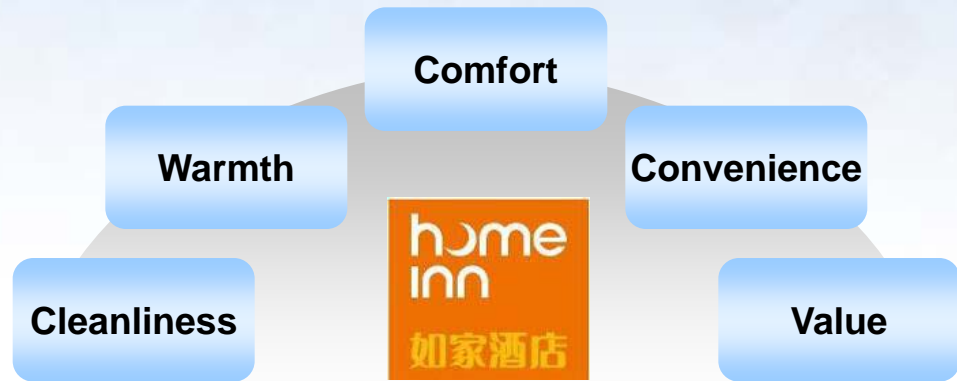
#### Other Amenities

- Basic meals, business center, vending machine, etc.

#### Look & Feel

- Consistent design, appearance, color scheme, decoration, lighting

### Significant Brand Recognition as a Leader in the Economy Hotel Chain Sector





# Motel 168

**The 5th Largest Economy Hotel Brand in China Poised for Growth**

**An Economy Hotel Product with Unique Personality**

**In-Room Facilities**

- Comfortable bed, free broadband, cold and hot drinking water supply, 24x7 in-room hot water

**Other Amenities**

- Basic meals, business center, vending machine, etc.

**Look & Feel**

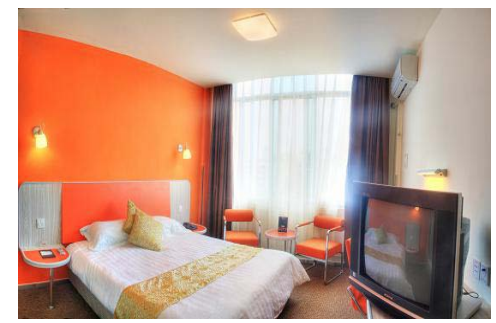
- Bold and contemporary design with emphasis on facade and lobby guest impression

**A Widely Recognized Brand in Key Gateway Cities**

**High geographic concentration in the more developed markets of Shanghai and surrounding gate-way cities**



**Strong appeal to young travelers, leisure customers, and creative industry professionals**





# Yitel Hotels

## Emerging Market Segment

### Mid-scale Pricing, Upgraded Experience

#### In-Room Facilities

- High quality bed and bedding, refrigerator, complete toiletries, multi-media, free WiFi

#### Other Amenities

- Dining room, business center, and wellness facilities

#### Signature Services

- Guest relations manager and member welcome amenities

### Deliver High Customer Satisfaction from Multiple Dimensions

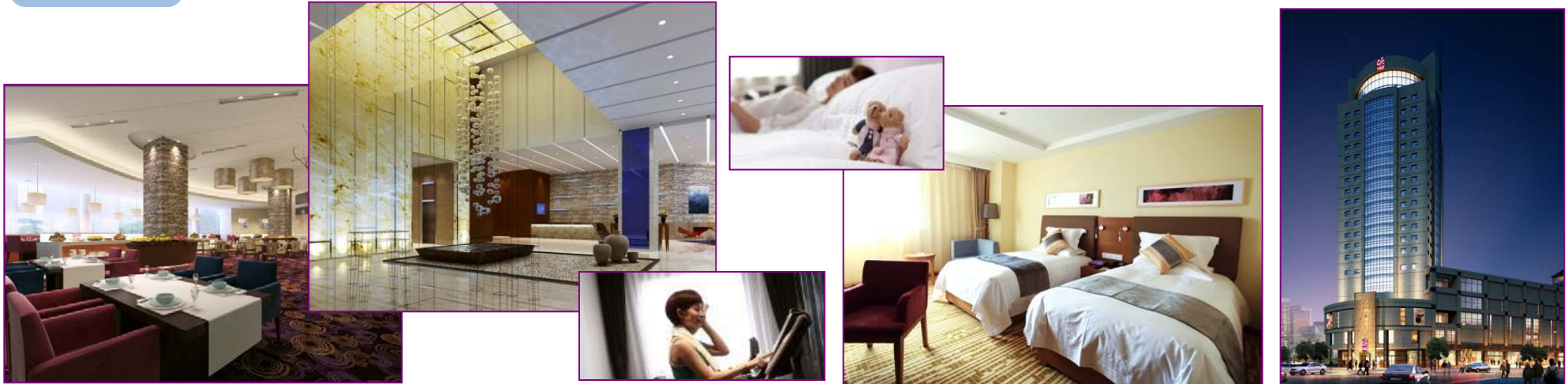
#### Achieving balance

#### Design and functionality



#### Feels like home, works like business

#### Modern design incorporating natural elements





# Business Models

*Balance and timing in continued expansion and penetration*

## Business Models

### Leased-and-Operated

- Home Inns leases property from a 3rd party, invests in hotel conversion CapEx and ongoing R&M
- Typical 10 to 20-year lease term with sub-inflationary escalations
- Home Inns retains revenues and profits from hotel operations after expenses
- Typical model used to open new markets

### Franchised-and-Managed

- Franchisee owns or secures property and invests in conversion CapEx and ongoing R&M
- Home Inns franchises brand and send GMs to manages the hotels\*
- Home Inns earns a one-time initiation fee and ongoing franchise and management fee
- Franchisee retains profits after fees and operating expenses

803	Number of Hotels <sup>(1)</sup>	969
89.5%	Revenue Contribution <sup>(2)</sup>	10.5%

(1) As of December 31, 2012

(2) Per result of FY 2012 operations

\* GM's personnel costs are reimbursed by franchisee

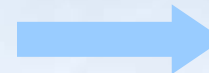


# Development Process

*Ample Opportunities Still Exist for Continued Expansion*

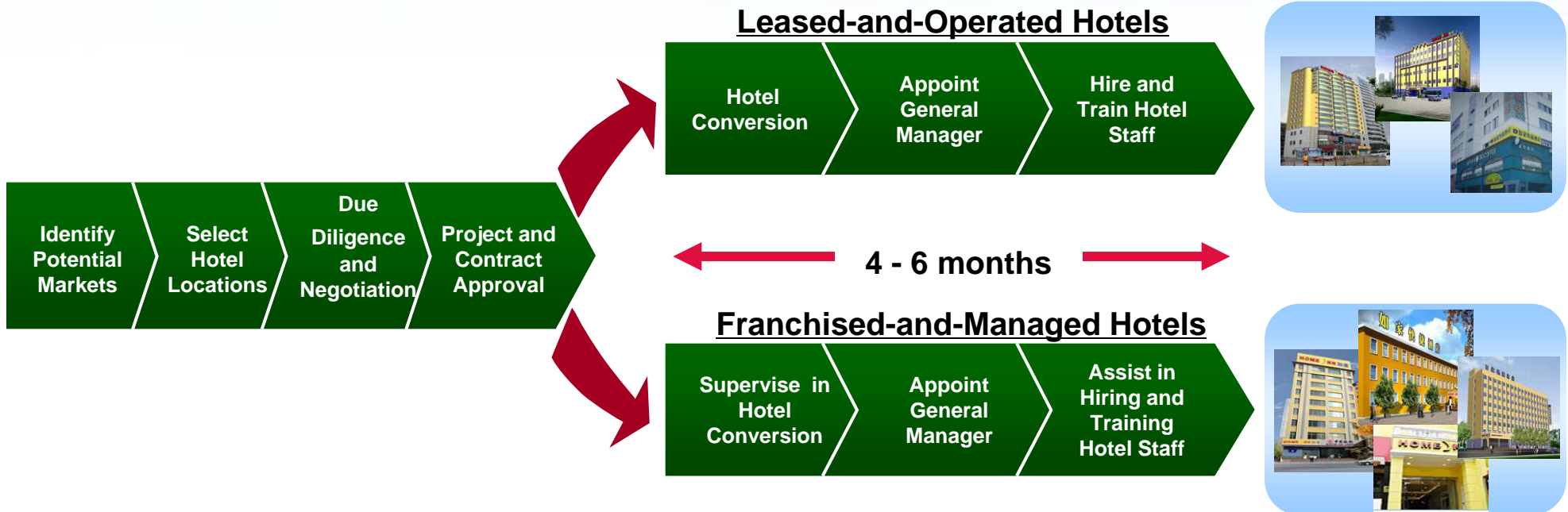
## Basic Selection Criteria:

- Provincial capitals or equivalent cities
- Population of over 800,000
- Annual GDP Per Capita above 1,500 USD



**280**  
~~~250~~ cities targeted

*Standardized and Replicable Process Run by Disciplined and Experienced Teams*



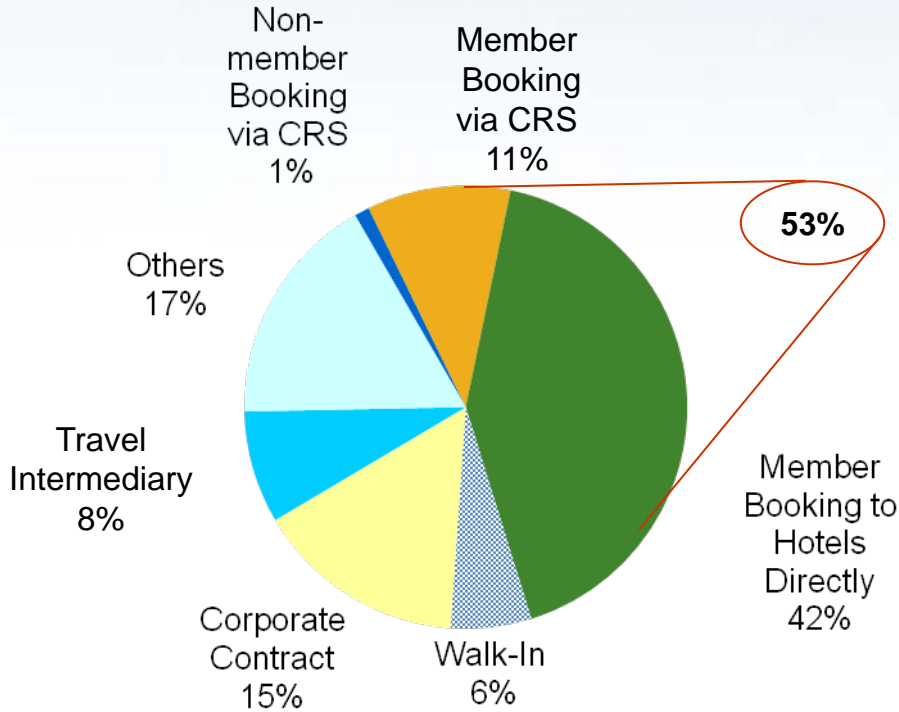


# Customers

## Stable Repeat Customer Base and Increasing Customer Loyalty

### Favorable Channel Mix

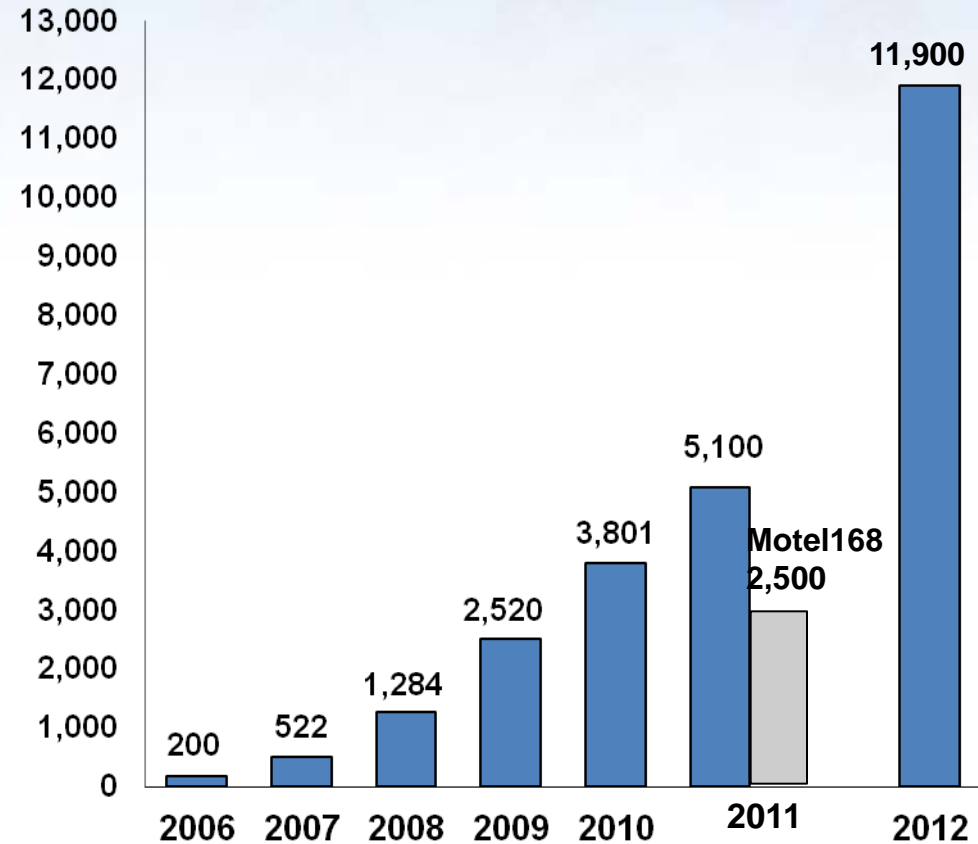
Room Nights Stayed by Customer Channel<sup>(1)</sup>



CRS = Central Reservation System

### Strong Brand Loyalty

Growth of "Active" Membership<sup>(2)</sup> ('000)

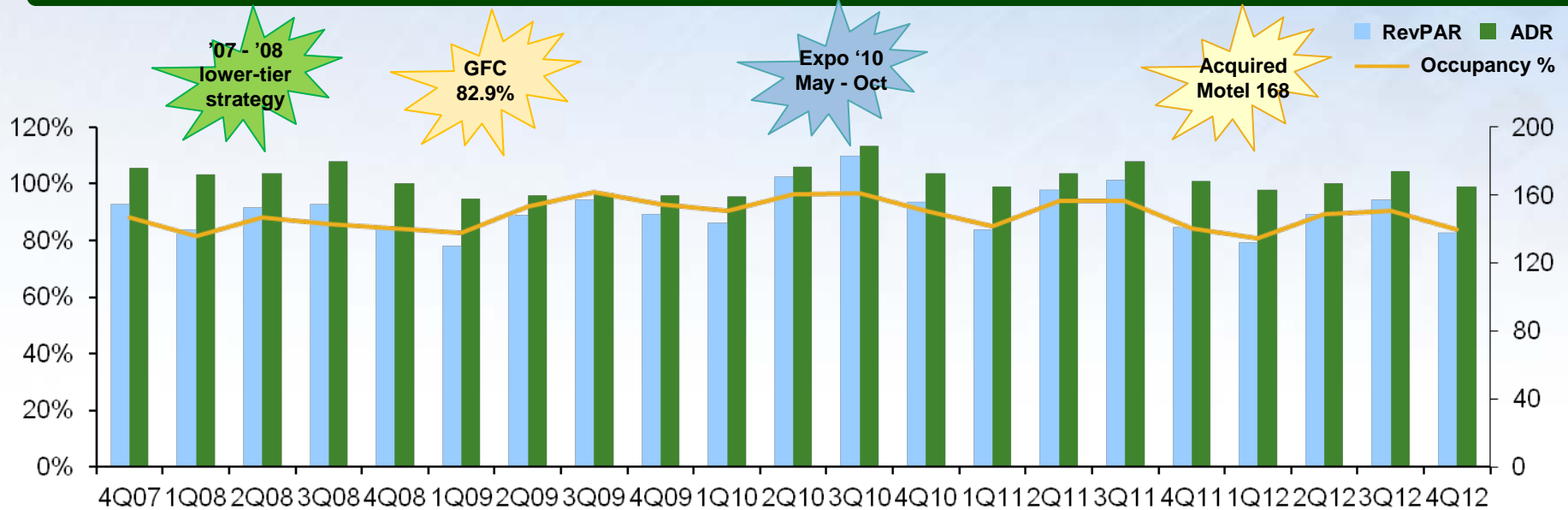


(1) For fourth quarter of 2012. (2) "Active" members paid a one-time membership fee and stay at Home Inns at least once within two years to remain active



# Performance

## Key performance metrics



- Consistently high occupancy rates supported by a demand-driven market
- Inflationary-like price increases designed to offset cost increases
- Resilient lodging product against recession or market slow-down
- Lower tier positioning secures long-term growth prospects
- A second economy brand allows greater access to customers



# Performance (Cont'd)

**High Occupancy Rate and Improving ADR, Expanding RevPAR**

## Like-for-Like Performance Comparison Hotels in Operation for At Least 18 Months During the Quarter

|                     | Core HMIN |     | Core HMIN         |     | Core HMIN         |     | Core HMIN        |     | Core HMIN |     | Core HMIN |     | Core HMIN |     | Group                |     | Core HMIN |     | Motel 168 |     |
|---------------------|-----------|-----|-------------------|-----|-------------------|-----|------------------|-----|-----------|-----|-----------|-----|-----------|-----|----------------------|-----|-----------|-----|-----------|-----|
| Number of Hotels    | 569       |     | 607               |     | 626               |     | 663              |     | 716       |     | 790       |     | 833       |     | 1,201 <sup>(2)</sup> |     | 919       |     | 282       |     |
| Quarter End         | 1Q        | 1Q  | 2Q                | 2Q  | 3Q                | 3Q  | 4Q               | 4Q  | 1Q        | 1Q  | 2Q        | 2Q  | 3Q        | 3Q  | 4Q                   | 4Q  | 4Q        | 4Q  | 4Q        | 4Q  |
|                     | 10        | 11  | 10                | 11  | 10                | 11  | 10               | 11  | 11        | 12  | 11        | 12  | 11        | 12  | 11                   | 12  | 11        | 12  | 11        | 12  |
| Occupancy           | 92%       | 90% | 98%               | 97% | 98%               | 98% | 93%              | 92% | 89%       | 89% | 97%       | 96% | 98%       | 97% | 86%                  | 87% | 92%       | 90% | 74%       | 78% |
| ADR (RMB)           | 159       | 166 | 177               | 175 | 189               | 182 | 173              | 176 | 167       | 170 | 175       | 176 | 181       | 182 | 167                  | 169 | 172       | 172 | 154       | 161 |
| RevPAR (RMB)        | 147       | 149 | 173               | 170 | 185               | 179 | 162              | 163 | 149       | 151 | 168       | 168 | 177       | 177 | 144                  | 146 | 158       | 156 | 113       | 125 |
| RevPAR change (YoY) | 2         |     | -3 <sup>(1)</sup> |     | -6 <sup>(1)</sup> |     | 1 <sup>(1)</sup> |     | 2         |     | 0         |     | 0         |     | 2                    |     | -2        |     | 12        |     |

(1) Excluding World Expo-impacted hotels in Shanghai, RevPAR improved RMB 6 in 2Q11, RMB10 in 3Q11 and RMB 5 in 4Q11

(2) Consolidation of Motel 168 commenced Oct. 1, 2011. 4Q2012 comparative group results includes Motel 168 hotels



# Financial Highlights

## *Increasing Scale and Stable Core Performance*

| (RMB mm except Earnings per ADS in RMB yuan)                                                                                                                                                                                                                                                                                                                                                                                                                                  | 4Q11           | 2011    | 4Q12           | 2012    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|---------|----------------|---------|
| <b>Revenues from Leased-and-Operated Hotels</b>                                                                                                                                                                                                                                                                                                                                                                                                                               | <b>1,181.2</b> | 3,559.7 | <b>1,305.0</b> | 5,164.8 |
| <b>Revenues from Franchised-and-Managed Hotels</b>                                                                                                                                                                                                                                                                                                                                                                                                                            | <b>128.7</b>   | 400.0   | <b>160.7</b>   | 604.9   |
| <b>Total Revenue</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>1,309.9</b> | 3,959.7 | <b>1,465.7</b> | 5,769.7 |
| <b>Revenue Growth %</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <b>64.2%</b>   | 25.0%   | <b>11.9%</b>   | 45.7%   |
| <b>Adjusted Income from Operations<sup>‡</sup></b>                                                                                                                                                                                                                                                                                                                                                                                                                            | <b>78.5</b>    | 457.3   | <b>79.2</b>    | 464.1   |
| <b>Operating Margin %</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <b>6.0%</b>    | 11.5%   | <b>5.4%</b>    | 8.0%    |
| <b>Adjusted Net Income<sup>1</sup></b>                                                                                                                                                                                                                                                                                                                                                                                                                                        | <b>36.6</b>    | 326.1   | <b>80.6</b>    | 300.3   |
| <b>Adjusted EBITDA<sup>1</sup></b>                                                                                                                                                                                                                                                                                                                                                                                                                                            | <b>227.4</b>   | 900.2   | <b>260.5</b>   | 1,133.4 |
| <b>EBITDA Margin %<sup>1</sup></b>                                                                                                                                                                                                                                                                                                                                                                                                                                            | <b>17.4%</b>   | 22.7%   | <b>17.8%</b>   | 19.6%   |
| <b>Earnings per ADS<sup>1</sup></b>                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>0.73</b>    | 6.92    | <b>1.74</b>    | 6.62    |
| (1) Exclude share-based compensation expenses, foreign exchange gain/(loss), gain from repurchase of convertible bonds, issuance cost for convertible notes, gain/(loss) from fair value change of convertible notes, acquisition expenses and withholding tax for profit distribution of previous periods, Non-operating expenses - Loss on change in fair value of interest swap transaction, Integration cost, Interest expenses -- Upfront fee amortization of term loans | <b>-4.0</b>    | 25.4    | <b>-74.3</b>   | -327.1  |
| <b>Operating Cash Flow</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <b>139.5</b>   | 726.1   | <b>186.8</b>   | 716.9   |
| <b>Total Capital Expenditures</b>                                                                                                                                                                                                                                                                                                                                                                                                                                             | <b>238.3</b>   | 909.3   | <b>250.4</b>   | 1,002.6 |

Note: Started consolidation of Motel 168's results on Oct 1, 2011



# Financial Highlights (Cont'd)

## *Well-Capitalized Balance Sheet*

| (RMB mm)                                  | FY 2010 | FY 2011 | FY 2012 |
|-------------------------------------------|---------|---------|---------|
| Cash and Cash Equivalents                 | 2,382.6 | 1,786.0 | 663.2   |
| Other Current Assets                      | 216.4   | 560.7   | 605.2   |
| Non Current Assets                        | 2,687.1 | 7,203.1 | 7,685.6 |
| Total Assets                              | 5,286.1 | 9,549.8 | 8,954.0 |
| Short-term and Long-term Borrowings       | -       | 1,512.2 | 786.3   |
| Convertible Bonds(2007 CB)                | 159.4   | 113.1   | -       |
| Other Liabilities                         | 1,144.8 | 3,065.6 | 3,917.6 |
| Financial Liabilities                     | 1,227.6 | 979.0   | 1,066.8 |
| Total Liabilities                         | 2,531.8 | 5,669.9 | 4,984.4 |
| Total Shareholders' Equity <sup>(1)</sup> | 2,754.3 | 3,879.9 | 3,969.6 |

<sup>(1)</sup> includes minority interests



# Profitable Growth

## *External Conditions and Internal Readiness*

### Balanced Revenue Growth and Margin Expansion

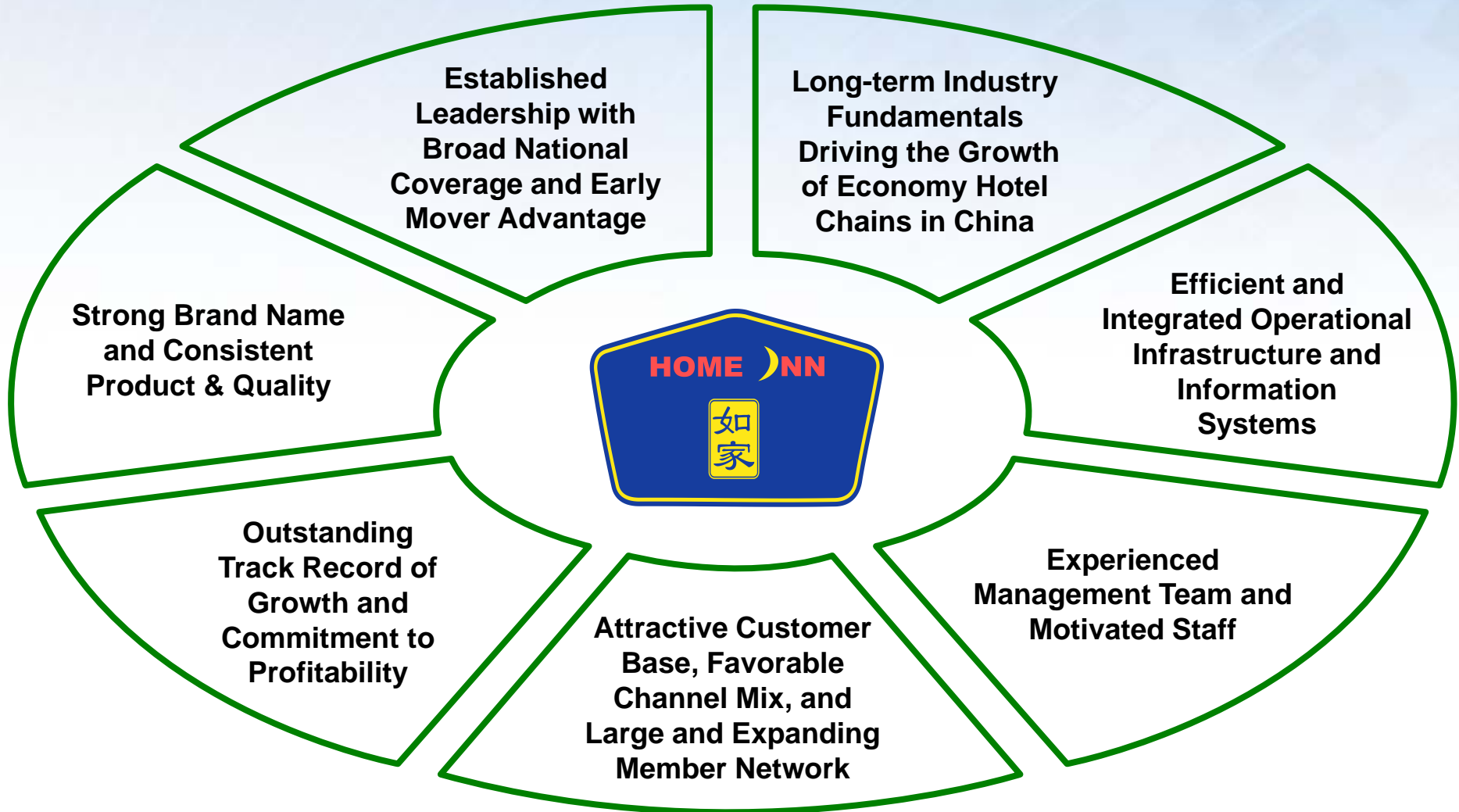
- Continued economic development in China
- Secular favoritism in travel industry
- Increasing awareness of and demand for franchise

- Leading scale and geographic diversity, developing multi-brands
- Franchise mix-shift supported by well-run franchise operations
- Returning of normal pricing practices as market rebounds
- Cost control culture and discipline, productivity focus and HQ leverage



# Investment Highlights

*A Unique Investment Opportunity with the Right Market, the Right Product and the Right People*





# Appendix

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- **Motel 168 acquisition & integration**
- **Multi-brands recent development**



# Motel 168 Acquisition Overview

## Transaction

- On October 1, 2011, Home Inns completed the acquisition of 100% ownership interest of Motel 168 International Holdings Limited (“Motel 168”)
- Motel 168 was the 5th largest economy hotel operator with 295 hotel locations, including 144 leased-and-operated hotels, and 151 franchised-and-managed hotels in over 80 cities across China
- Gross revenue of RMB1.7 billion (US\$262 million) in 2010
- Strong presence in key gateway city of Shanghai and affluent Yangtze River Delta region. ~81% of leases have more than 10 years remaining tenure

## Price

- US\$470 million purchase price, subject to customary price adjustments
  - Approximately US\$305 million cash portion will be funded with a combination of cash on hand and a new US\$240 million, 4-year term loan with LIBOR-based interest rate
  - 8.15 million new ordinary shares (4.08 million ADS) issued at a price equivalent to a per-ADS price of US\$40.37 (each Home Inns' Nasdaq-traded American Depository Share represents two Home Inns' ordinary shares)



# Motel 168 Acquisition Overview (cont'd)

## Rationale

- To form the largest and most geographically diverse economy hotel operations in China
  - Combined portfolio with 1,299 hotel locations and over 160,000 guest rooms in approximately 180 cities across China as of Oct 1, 2011.
  - Strengthen Home Inns' presence in key gateway city of Shanghai and Yangtze Delta region
  - Attractive leases with pre-2008 rates and long remaining tenure
- Additional growth engine to Home Inns' existing core budget brand and mid-scale brand furthering Home Inns' multi-brand strategy
  - Flagship brand "Motel 168" is well known among domestic business and leisure travelers, particularly in Shanghai and eastern costal regions

## Integration

- Consolidate Motel 168's results into Home Inns' financial reporting starting October 1, 2011
- Retain and operate Motel 168 brand and achieve revenue synergies leveraging Home Inns' proven operational expertise to further develop the brand
- Integrate back-office and headquarters functions over time to enhance the Group's total economy of scale



# Integration

## Retain Motel 168 Brand, Improve Performance and Grow

Enhance customer experience

Revamp sales and marketing program

Train, empower and reward people

**Stabilize,  
Improve and  
Grow**

|                  | 4Q2011 | 1Q2012 | 2Q2012 | 3Q2012 | 4Q2012 | FY2012 |
|------------------|--------|--------|--------|--------|--------|--------|
| ADR              | 154    | 158    | 159    | 162    | 160    | 160    |
| Occ%             | 73.5%  | 70.4%  | 80.8%  | 82.7%  | 77.4%  | 78.0%  |
| RevPAR           | 113    | 111    | 129    | 134    | 124    | 125    |
| Adjusted EBITDA% | 10.7%  | 3.8%   | 15.2%  | 13.3%  | 7.2%   | 10.2%  |

### Integration Progress Update: Key Milestones

- A Home Inns veteran regional manager appointed as the brand COO, 2/3 of district managers replaced with former Home Inns senior managers and 75% hotel general managers retained
- Hotels facility renovation or upgrade 80% completed (US\$15-20 million budget in total)
- Sales and marketing platform established and member royalty programs integrated as well as customer call centers put on combined information and technology platform
- Budgeting and planning process and KPI implemented
- Consolidated two economy hotel brands to leverage institutional strength and maximize resource utilization
- ~30 dual-brand conversions to drive increases in occupancy rates of hotels with large room counts



# Home Inn

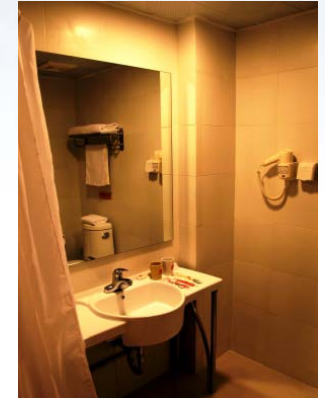
## Recent developments



1,431 hotels as of December 31, 2012

Continued steady pace expansion refocused in established markets

Product modernization reinforce brand image without increased investments





# Motel 168

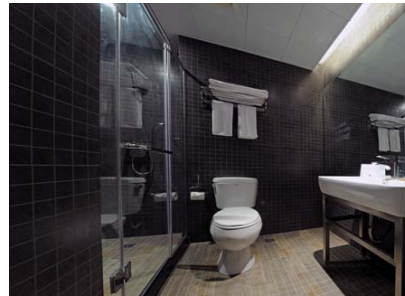
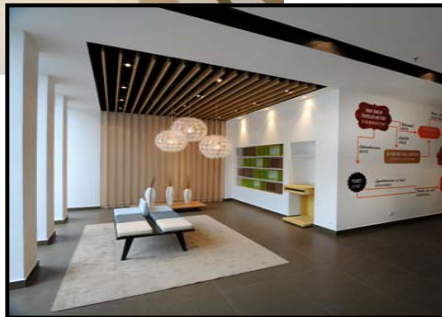
**Recent Developments - Integration on track and expect to conclude by 2<sup>nd</sup> half of 2013**

334 hotels as of December 31, 2012



Facelift facility to enhancing customer experience

Streamline product designs and highlight differentiated look and feel





# Yitel

## Recent developments

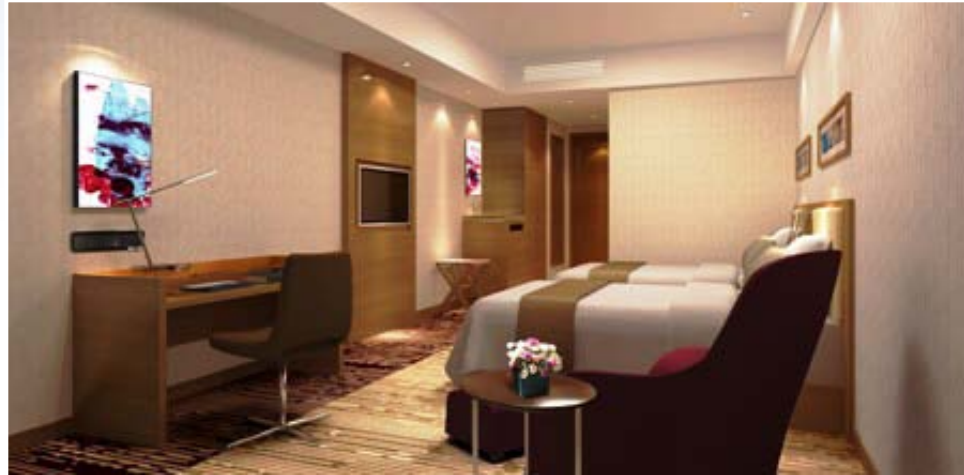


7 hotels in operation as of December 31, 2012

Finalized design specs and financial blue print

Steady development of scale upon proven concept and execution

Introduction of varied business models including franchise, JV and management contract





Different Cities...The Same Home!

