



# Home Inns & Hotels Management Inc.

A Leading Economy Hotel Chain in China

September 2012





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# Executive Summary

## Emerging Market Dynamics

- Economy hotels represents ~15% of lodging industry by room count
- Current 40% urbanization targeting 65-70% by government planning
- 44.7% 3-yr CAGR, 7-yr average occupancy rates of 90.1% at HMIN

## Undisputed Market Leader

- 23.07% market share by room count<sup>1</sup> in economy hotel sector
- 1,580 hotels in 233 cities under three brands
- 9.2 million individual frequent guests and 1,400 corporate accounts

## Asset-Light Models

- LO:10 to 20 yr leases, sub inflationary escalations, ~ ¥ 65K per key
- 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 & execution

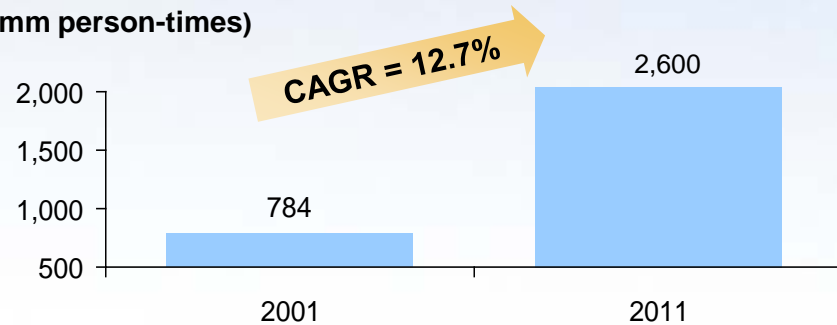


# Market Potential

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

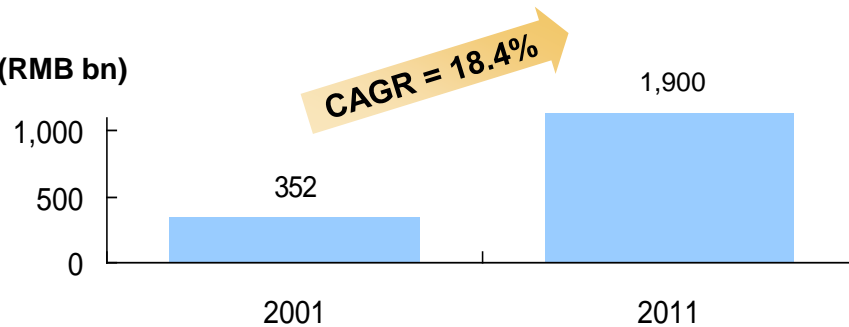
Number of Domestic Trips<sup>(1)</sup>

(mm person-times)

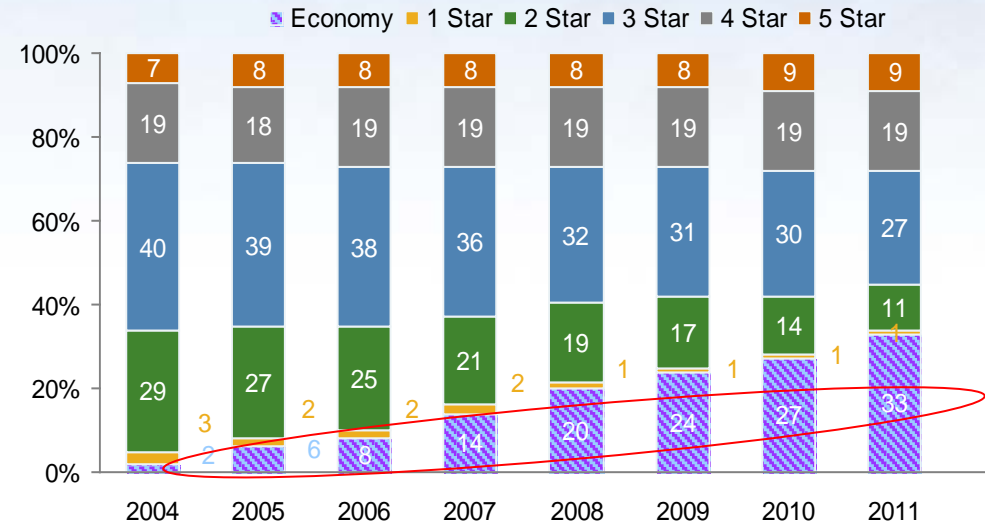


Total Spending on Domestic Travel<sup>(1)</sup>

(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

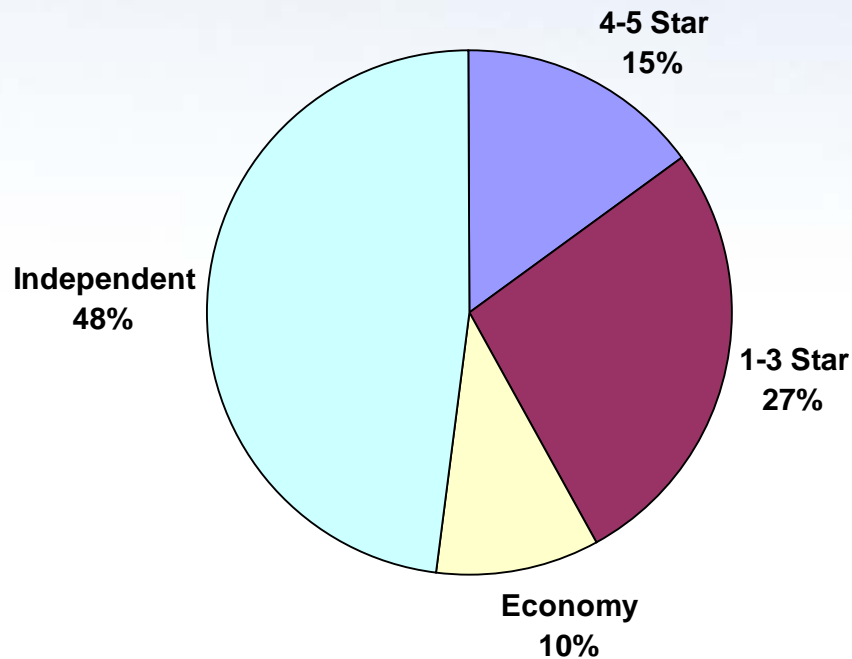




# Market Potential (continued)

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

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

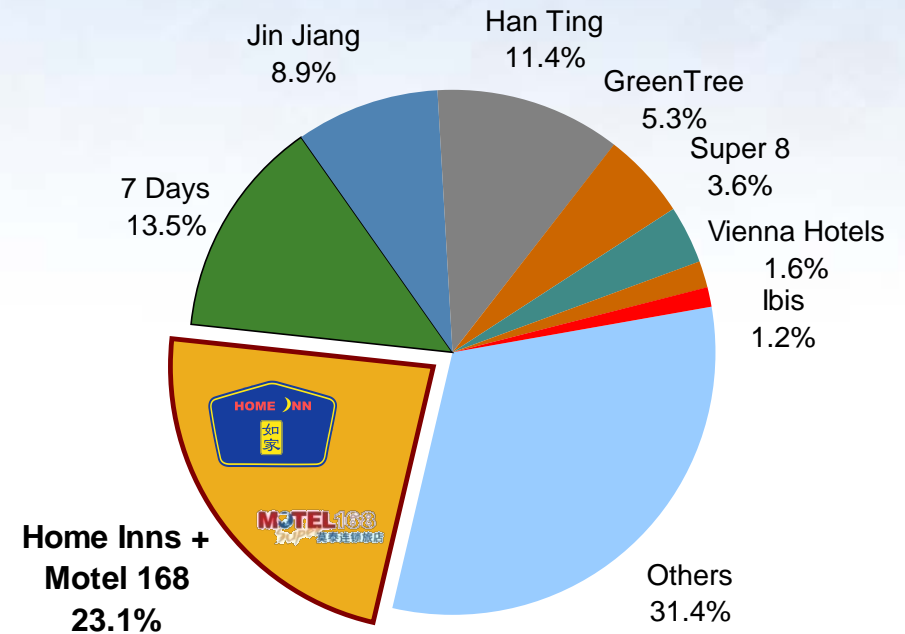


- As of 2009, there were approximately 4 million rooms in the lodging industry in China

(1) Source: Ministry of Commerce of China; China National Tourism Administration

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

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



- As of June 30, 2012, there were 8,313 economy hotels in China
- Economy hotels do not participate in star-rating system



# 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 individual

## Growth

- Founded in 2002; 10 hotels in 4 cities at the end of 2003
- 1,580 hotels in 233 cities as of June 30, 2012 under 3 brands
- RMB 3.96 billion (US\$ 629.1 million) gross revenue in year 2011

## Recognitions

- 🏆 Consecutive Golden Pillow Award for Best Brand in Economy Hotels in China since 2005
- 🏆 2010 International Franchisor of the Year by FLA
- 🏆 Official status of Well-Known Trademark within China 2008
- 🏆 2010 China's Most Popular Brand in Green Economy Hotels



# Strategy

## *Healthy Sustainable Long-Term Growth*



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



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



**Implement multi-brand strategy and strengthen customer loyalty and brand awareness**



**Enhance information infrastructure to enable operational excellence**



**Balance growth and profitability with investment discipline and productivity focus**



# People

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





# Operations Control Programs

*Well-integrated, Centrally Managed and Locally Executed*



## Training and Advancement

- Home Inns Academy
- Multi-channel pipeline for qualified General 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 tie to KPI

## Performance-based Incentives

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

## Budgeting and Monitoring

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



# Operations Control Programs (Cont'd)

**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

1,580 hotel locations in 233 cities across China as of June 30, 2012<sup>(1)</sup>



- **Leading economy hotel brand**
- **Brand perception: warmth and home-like fee**
- **Fast growing economy hotel brand**
- **Brand perception: trendiness and efficiency**
- **Mid-scale business hotel brand**
- **Brand perception: quality and attentiveness**

<sup>(1)</sup>247 additional hotels contracted (75 leased-and-operated hotels and 172 franchised-and-managed hotels) as of June 30, 2012  
First hotel in Xizang province opened in August 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

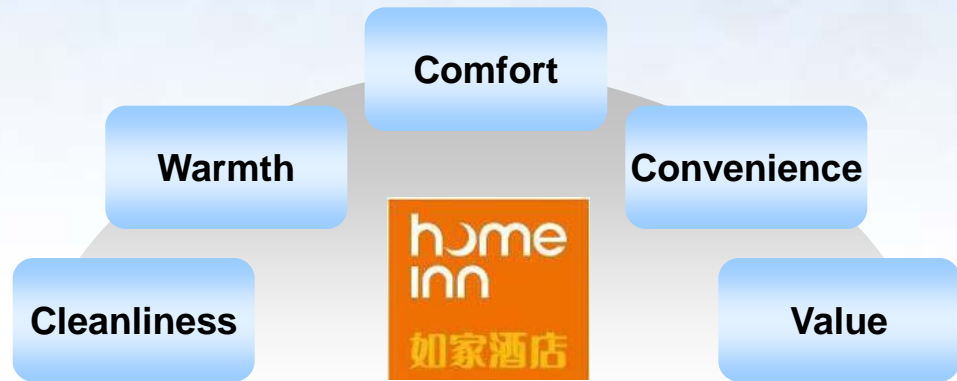
#### Other Amenities

- 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 provinces



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







# Yitel

## Emerging market segment

**Mid-scale Pricing,  
High Class Experience**

### In-Room Facilities

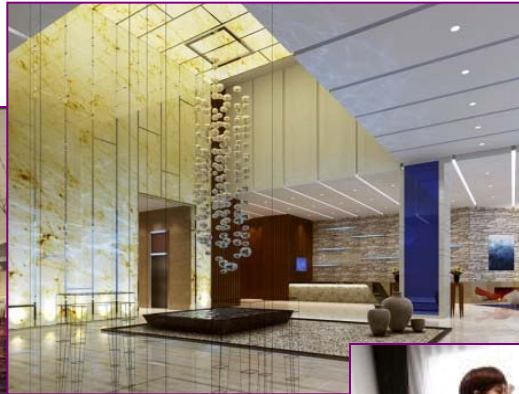
- High quality bed and bedding, refrigerator, complete toiletries, multi-media, free WiFi

### Other Amenities

- Dining room, business center, and wellness facilities

### Signature Services

- Guest Relationship 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 Model

*Balanced approach in continued market expansion and penetration*

## Business Models

### Leased-and-Operated

- Home Inns leases property from a 3rd party, invests in hotel conversion CapEx, ongoing R&M and pays rent
- Typical lease term is 10-20 years with fixed rental amount and nominal escalations
- Home Inns retains revenues and profits from hotel operations after expenses

### Franchised-and-Managed

- Franchisee owns or secures property and invests in conversion CapEx and ongoing R&M
- Home Inns franchises brand and manages the hotel
- Home Inns earns a one-time initial fee and ongoing franchise and management fee
- Franchisee retains profits after fees and expenses

733

Number of Hotels<sup>(1)</sup>

847

89.7%

Revenue Contribution<sup>(2)</sup>

10.3%

(1) As of June 30, 2012

(2) Per result of the Second quarter of 2012 operations

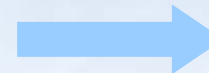


# Development Process

*Ample Opportunities Still Exist for Continued Expansion*

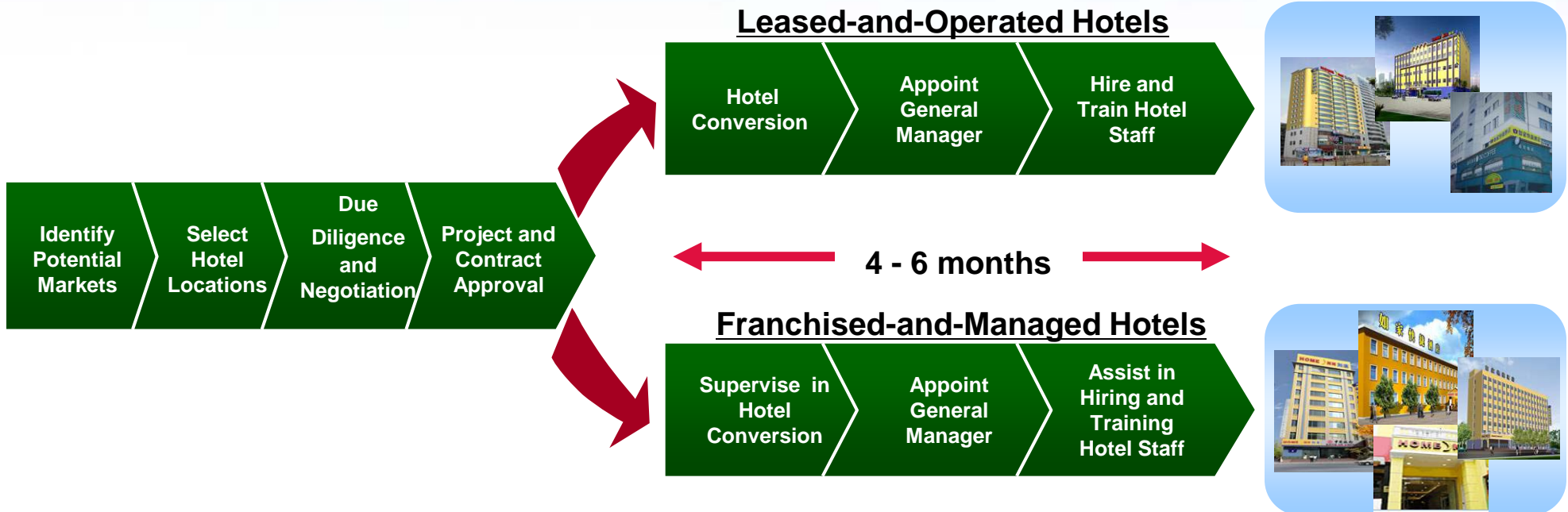
## Basic Selection Criteria:

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



**250**  
~~~220~~ cities targeted

*Replicable, Standard Process Run by Experienced Teams*

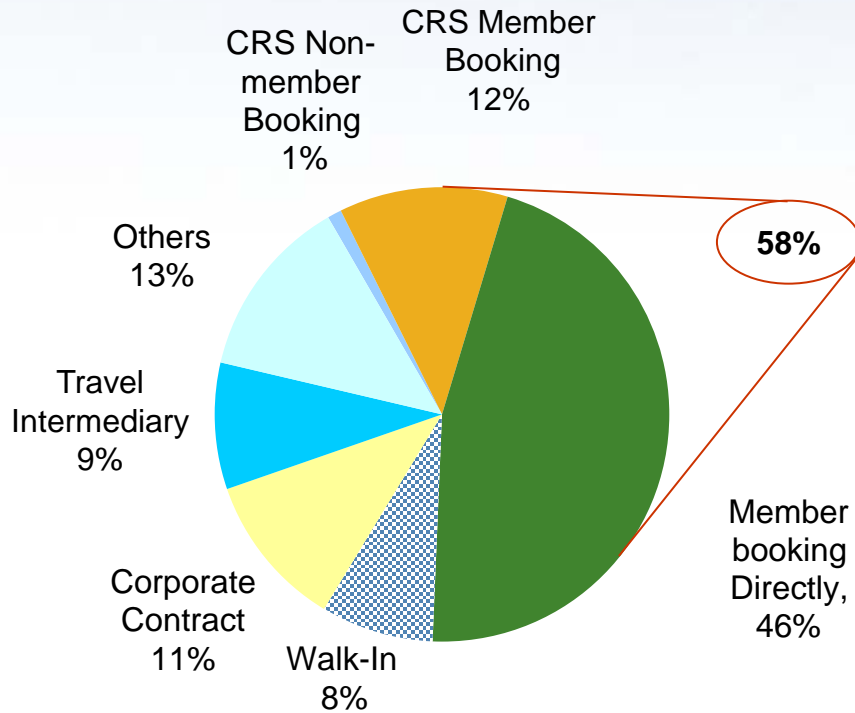




# Customers

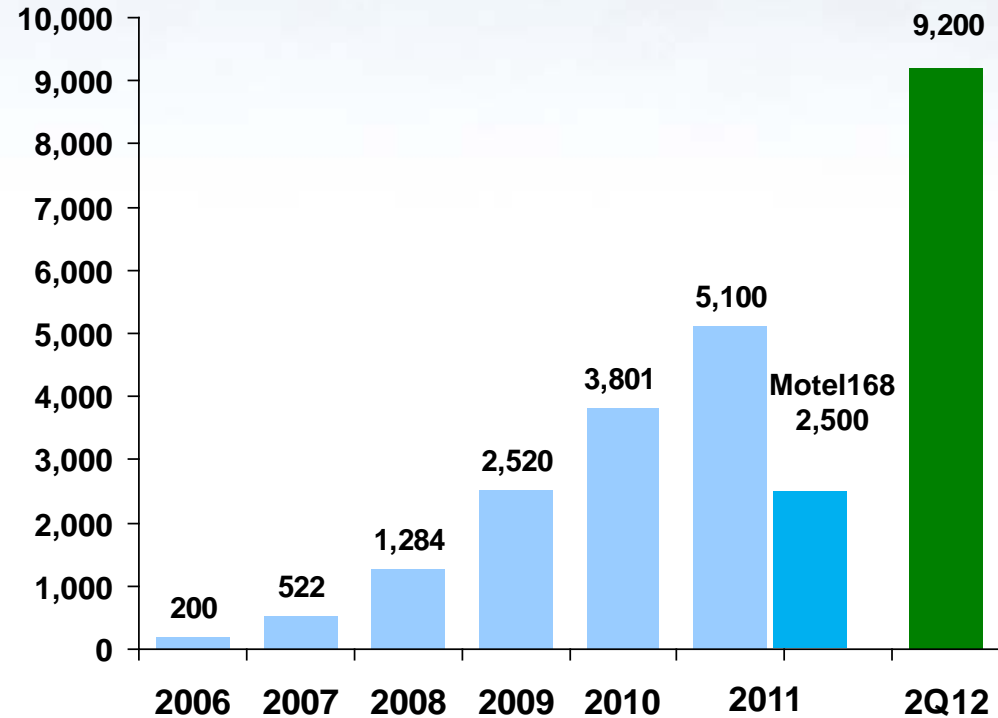
## Favorable Channel Mix

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



## Strong Brand Loyalty

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



CRS = Central Reservation Service

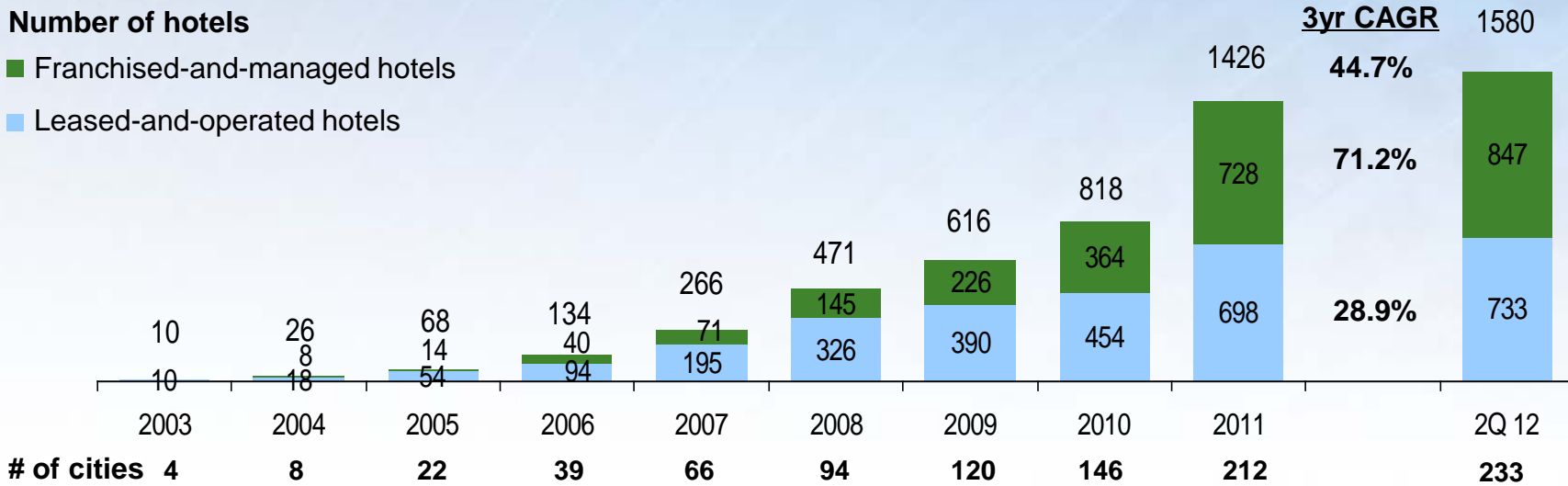
(1) For second quarter of 2012. (2) "Active" members paid a one-time membership fee and stay at Home Inns at least once within two years to remain active



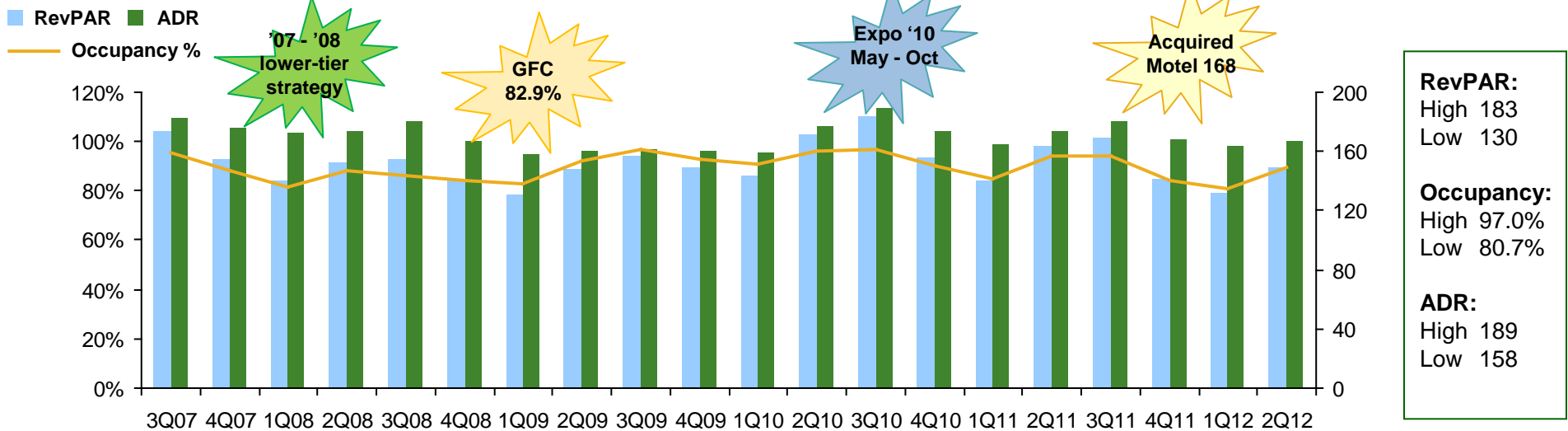
# Performance

## Number of hotels

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



## Key performance indicators







# Performance (Cont'd)

**Stable Average Daily Rates, Occupancy Rates and RevPAR**

**Like-for-Like Performance Comparison**  
**All Hotels in Operation for At Least 18 Months During the Quarter, excluding Motel 168**

| Number of Hotels    | 569 |     | 607 |     | 547 <sup>1</sup> |     | 626 |     | 565 <sup>1</sup> |     | 663 |     | 598 <sup>1</sup> |     | 716 |     | 790 |     |
|---------------------|-----|-----|-----|-----|------------------|-----|-----|-----|------------------|-----|-----|-----|------------------|-----|-----|-----|-----|-----|
|                     | 1Q  | 1Q  | 2Q  | 2Q  | 2Q               | 2Q  | 3Q  | 3Q  | 3Q               | 3Q  | 4Q  | 4Q  | 4Q               | 4Q  | 1Q  | 1Q  | 2Q  | 2Q  |
| Quarter End         | 10  | 11  | 10  | 11  | 10               | 11  | 10  | 11  | 10               | 11  | 10  | 11  | 10               | 11  | 11  | 12  | 11  | 12  |
| Occupancy           | 92% | 90% | 98% | 97% | 97%              | 98% | 98% | 98% | 98%              | 99% | 93% | 92% | 94%              | 93% | 89% | 89% | 97% | 96% |
| ADR (RMB)           | 159 | 166 | 177 | 175 | 169              | 174 | 189 | 182 | 173              | 181 | 173 | 176 | 168              | 175 | 167 | 170 | 175 | 176 |
| RevPAR (RMB)        | 147 | 149 | 173 | 170 | 163              | 169 | 185 | 179 | 168              | 178 | 162 | 163 | 157              | 162 | 149 | 151 | 168 | 168 |
| RevPAR change (YoY) | 2   |     | -3  |     | 6                |     | -6  |     | 10               |     | 1   |     | 5                |     | 2   |     | 0   |     |

<sup>1</sup>Excluding World Expo-impacted hotels in Shanghai



# Financial Highlights

## Strong Cash Generation

| (RMB mm except Earnings per ADS in RMB Yuan)                                                                                                                                                                                                                                                                                                                                                                                                                                 | 2009           | 2010           | 2Q11  | 2011           | 2Q12    |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|-------|----------------|---------|
| <b>Revenues from Leased-and-Operated Hotels</b>                                                                                                                                                                                                                                                                                                                                                                                                                              | <b>2,453.1</b> | <b>2,910.5</b> | 809.2 | <b>3,559.7</b> | 1,300.2 |
| <b>Revenues from Franchised-and-Managed Hotels</b>                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>147.5</b>   | <b>256.8</b>   | 96.0  | <b>400.0</b>   | 149.7   |
| <b>Total Revenue</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>2,600.6</b> | <b>3,167.3</b> | 905.2 | <b>3,959.7</b> | 1449.9  |
| <b>Revenue Growth %</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <b>39.0%</b>   | <b>21.8%</b>   | 12.2% | <b>25.0%</b>   | 60.2%   |
| <b>Adjusted Income from Operations<sup>1</sup></b>                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>273.6</b>   | <b>583.7</b>   | 158.8 | <b>457.3</b>   | 170.4   |
| <b>Operating Margin %</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <b>10.5%</b>   | <b>18.4%</b>   | 17.5% | <b>11.5%</b>   | 11.8%   |
| <b>Adjusted Net Income<sup>1</sup></b>                                                                                                                                                                                                                                                                                                                                                                                                                                       | <b>219.0</b>   | <b>466.2</b>   | 119.2 | <b>326.1</b>   | 108.5   |
| <b>Adjusted EBITDA<sup>1</sup></b>                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>577.5</b>   | <b>918.8</b>   | 247.5 | <b>900.2</b>   | 331.6   |
| <b>EBITDA Margin %<sup>1</sup></b>                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>22.2%</b>   | <b>29.0%</b>   | 27.3% | <b>22.7%</b>   | 22.9%   |
| <b>Earnings per ADS<sup>1</sup></b>                                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>5.41</b>    | <b>11.00</b>   | 2.58  | <b>6.92</b>    | 2.16    |
| (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>37.0</b>    | <b>-106.7</b>  | 2.9   | <b>25.4</b>    | -72.1   |
| <b>Operating Cash Flow</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <b>648.7</b>   | <b>880.0</b>   | 254.3 | <b>726.1</b>   | 259.3   |
| <b>Total Capital Expenditures</b>                                                                                                                                                                                                                                                                                                                                                                                                                                            | <b>250.4</b>   | <b>546.4</b>   | 243.8 | <b>909.3</b>   | 224.5   |

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



# Financial Highlights (Cont'd)

## Well-Capitalized Balance Sheet

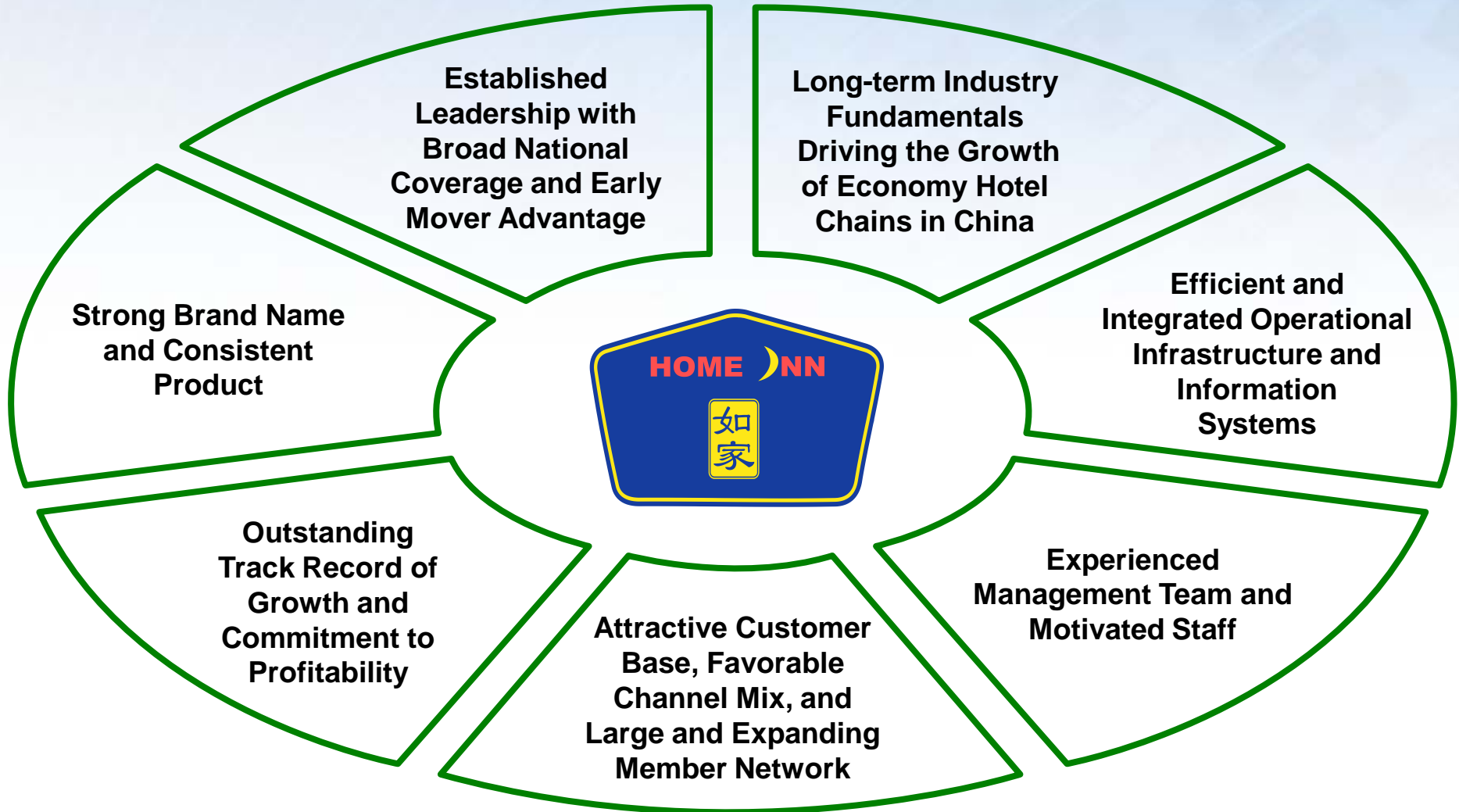
| (RMB mm)                                        | FY 2009        | FY 2010        | FY 2011        | 2Q 2012        |
|-------------------------------------------------|----------------|----------------|----------------|----------------|
| <b>Cash and Cash Equivalents</b>                | 829.6          | 2,404.2        | 1,786.0        | 1,007.6        |
| <b>Other Current Assets</b>                     | 142.5          | 194.9          | 560.7          | 573.7          |
| <b>Non Current Assets</b>                       | 2,482.9        | 2,687.1        | 7,203.1        | 7,288.2        |
| <b>Total Assets</b>                             | <b>3,455.0</b> | <b>5,286.2</b> | <b>9,549.8</b> | <b>8,869.5</b> |
| <b>Short-term and Long-term Borrowings</b>      | -              | -              | 1,512.2        | 917.1          |
| <b>Convertible Bonds (2007CB)</b>               | 363.5          | 159.4          | 113.1          | 113.3          |
| <b>Other Liabilities</b>                        | 809.9          | 1,144.8        | 3,065.6        | 2,981.7        |
| <b>Financial Liabilities (2010CB)</b>           | -              | 1,227.6        | 979.0          | 997.7          |
| <b>Total Liabilities</b>                        | <b>1,173.4</b> | <b>2,531.8</b> | <b>5,669.9</b> | <b>5,009.8</b> |
| <b>Total Shareholders' Equity<sup>(1)</sup></b> | <b>2,281.6</b> | <b>2,754.4</b> | <b>3,879.9</b> | <b>3,859.7</b> |

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



# Investment Highlights

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





# Appendix

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





# Motel 168 Acquisition Overview

## Transaction

- On September 30, 2011, Home Inns completed the acquisition of 100% ownership interest of Motel 168 International Holdings Limited (“Motel 168”)
- Motel 168 is the 5th largest economy hotel operator with 295 hotel locations, including 144 leased-and-operated hotel locations, and 151 franchised-and-managed hotel locations in over 80 cities across China.
- Gross revenue of RMB1.7 bn (US\$262 mm) 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 thousand guest rooms in approximately 180 cities across China as of Sept 30.
  - Strengthen Home Inns' presence in key gateway city of Shanghai
  - 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 headquarter 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 |
|------------------|--------|--------|--------|
| ADR              | 154    | 158    | 159    |
| Occ%             | 73.50% | 70.40% | 80.80% |
| RevPAR           | 113    | 111    | 129    |
| Adjusted EBITDA% | 10.7%  | 3.8%   | 15.2%  |

### 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 70% 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



# Home Inn (Cont'd)

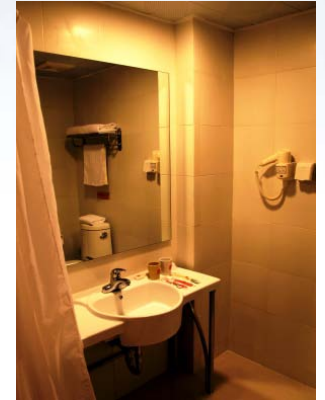
## Recent developments



1,264 hotels as of June 30, 2012

Continued steady pace expansion

Recent product updates reinforce brand image without increased investments







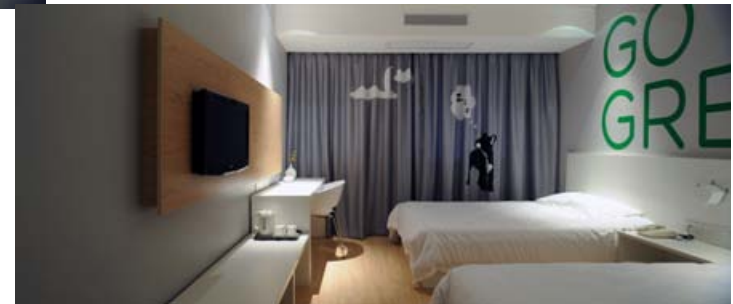
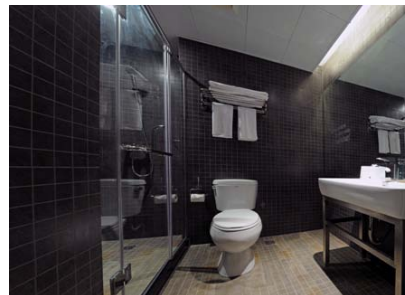
# Motel 168 (Cont'd)

## Recent Developments



Acquired in September 2011; 316 hotels as of June 30, 2012  
12-18 months integration and improvement underway, with actions taken in:

- Enhancing customer experience
- Revamping sales and marketing programs
- Intense managerial personnel training
- Compensation and reward systems re-design and implementation
- Product modification to further differentiate from other brands



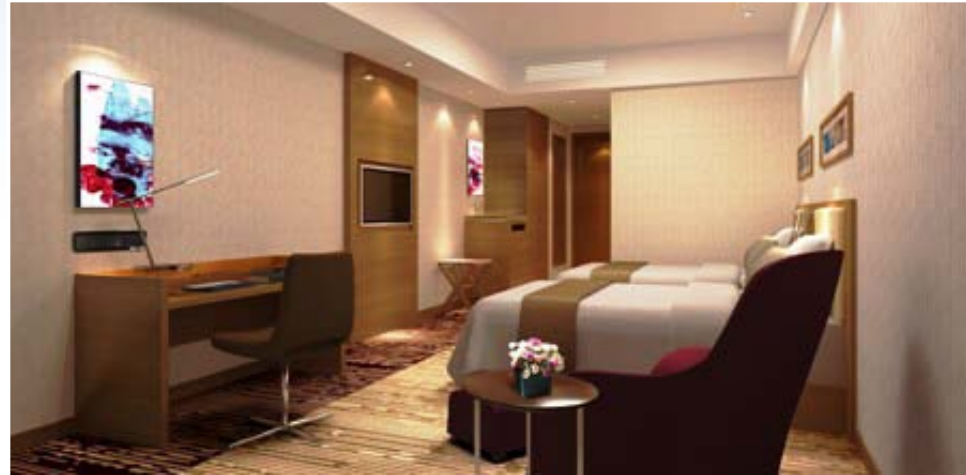


# Yitel (Cont'd)

## Recent developments



- Eight hotels in operation or expected to open by end of 2012
- Current focus is on expanding footprint, building brand awareness and customer base
- Aim to achieve substantially higher quality room and other hotel amenities than economy hotels with reasonable and high efficiency investment requirement







Different Cities...The Same Home!



IR Manager: Ethan Ruan  
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