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**Post Hearing Information Pack (“PHIP”) of**  
**Zhejiang New Century Hotel Management Co., Ltd.**  
**浙江開元酒店管理股份有限公司**  
**(the “Company”)**

*(A joint stock company incorporated in the People’s Republic of China with limited liability)*

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# Zhejiang New Century Hotel Management Co., Ltd. 浙江開元酒店管理股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

[REDACTED]

Number of [REDACTED] : [REDACTED] H Shares (subject to the [REDACTED])  
Number of [REDACTED] : [REDACTED] H Shares (subject to adjustment)  
Number of [REDACTED] : [REDACTED] H Shares (subject to adjustment and the [REDACTED])  
Maximum [REDACTED] : HK\$[REDACTED] per H Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars, subject to refund on final pricing)  
Nominal Value : RMB1.00 per H Share  
Stock Code : [REDACTED]

Joint Sponsors, [REDACTED]



[REDACTED]

## Morgan Stanley

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We are incorporated, and all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and the different risks relating to investment in PRC incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our H Shares. Such differences and risk factors are set out in the sections headed "Risk Factors", "Appendix V – Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions" and "Appendix VI – Summary of the Articles of Association" in this document.

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[REDACTED]

## **EXPECTED TIMETABLE<sup>(1)</sup>**

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**[REDACTED]**

## **EXPECTED TIMETABLE<sup>(1)</sup>**

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**[REDACTED]**



## **EXPECTED TIMETABLE<sup>(1)</sup>**

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## SUMMARY

### OVERVIEW

We are one of the leading hotel groups in the PRC, and we principally engage in the operation and management of mid-scale to upscale hotel chains in the PRC. As at August 31, 2018, we operated and/or managed 140 hotels throughout 22 provinces, municipalities and autonomous regions, with over 31,000 hotel rooms in total and out of which, 81 hotels and around 17,000 hotel rooms were located in the Zhejiang Province. According to Horwath, as at March 31, 2018, in terms of number of hotel rooms in operation in China, we were the seventh largest hotel group and second largest domestic hotel group according to the number of upscale hotel rooms, and were the eighth largest hotel group and the fourth largest domestic hotel group according to the number of upscale and mid-scale hotel rooms. In terms of hotel rooms both in operation and under pipeline in China, we were the third largest hotel group and the largest domestic hotel group according to the number of upscale hotel rooms, and were the seventh largest hotel group and the fourth largest domestic hotel group according to the number of upscale and mid-scale hotel rooms. As at August 31, 2018, we have a pipeline of 135 hotels (including 129 full service management agreements, four hotel lease agreements and two franchise agreements) with over 33,000 rooms that are expected to commence operation within the next five years.

Since our inception in Hangzhou, Zhejiang Province, in 1988, we have established the homegrown, widely recognized “New Century (開元)” brand series that principally target the upscale leisure and business travel markets, offering hospitality services of international standards complemented by local Chinese elements. We principally operate hotels that are leased to us, and also adopt an “asset-light” business model through managing hotels under full service management agreements and franchised hotels, as we believe such models allow us to concentrate on our core capabilities – the business of hotel operation and management and will help us expand our presence and scale throughout the PRC more effectively and efficiently.

As at August 31, 2018, we had a portfolio of 12 hotel brands, amongst which nine brands were in operation and three new brands were under development, covering the mid-scale to upscale spectrum of hotels. Our Group manages and/or operates the upscale hotels under four brands, namely “Grand New Century (開元名都)”, “New Century Resort (開元度假村)”, “New Century Grand House (開元觀堂)” and “New Century Wonderland (開元芳草地鄉村酒店)”. We also operate mid-scale hotels to serve the fast-growing number of value-conscious travelers, and boutique hotels targeting leisure travelers and corporate travelers. Under our contracted hotels under pipeline, we expect to introduce new hotel brands including “A.T.K Hotel (阿緹客)”, “Mayart Hotel (開元美途)” and “New Century Senbo (開元森泊)”, targeting leisure and corporate travelers, all of which are expected to be in operation by 2019. We have received numerous awards and recognition in China and worldwide, such as the inclusion as one of the Top 30 Global Hotel Groups (全球酒店集團前30位) under the “Hotels 325 ranking” conducted by *Hotels* magazine (the official publication of The International Hotel & Restaurant Association) for three consecutive years in 2015, 2016 and 2017. Please see the sub-section headed “History, Reorganization and Corporate Structure – Key Milestones” on key business milestones and achievements in the business development of our hotels.

### BUSINESS MODEL

We currently operate hotels that are either owned or leased by us and we also manage and franchise hotels.

#### Hotel operation

- (i) **Leased hotels.** As at August 31, 2018 we had 29 leased hotels with 7,117 hotel rooms, accounting for approximately 22.3% of the hotel rooms in operation. We operate these leased hotels and bear all of the operating expenses. We are responsible for (i) recruiting, training and supervising hotel managers and hotel staff, (ii) rent and hotel renovation expenses, and (iii) purchasing hotel supplies and other required equipment. The terms of our hotel lease agreements typically range from ten to 20 years. It typically takes two to ten months from the execution of a hotel lease agreement to hotel opening, provided that the hotel has completed construction and renovation by the time the hotel is handed over to our management team.
- (ii) **Owned hotels.** As at August 31, 2018, we owned two hotels with 382 hotel rooms, accounting for approximately 1.2% of the hotel rooms in operation. The two owned hotels are both under our brand of “New Century Wonderland (開元芳草地鄉村酒店)”. We own and operate these hotels and bear all of the expenses. We are responsible for recruiting, training and supervising hotel managers and employees, paying for hotel renovation expenses, and purchasing hotel supplies and other required equipment.

## SUMMARY

Our overall occupancy rate, ADR, and RevPAR are affected by factors including our product mix, ramp up period required for new hotels, seasonality factors and the overall industry trend.

The following table sets out a breakdown of the occupancy rate, ADR and RevPAR of our operated hotels for the periods indicated:

|                | For the year ended December 31, |       |       | For the eight months ended August 31, |       |
|----------------|---------------------------------|-------|-------|---------------------------------------|-------|
|                | 2015                            | 2016  | 2017  | 2017                                  | 2018  |
| Occupancy rate | 59.4%                           | 61.4% | 64.6% | 64.6%                                 | 62.0% |
| ADR (RMB)      | 447.4                           | 439.0 | 447.1 | 448.6                                 | 456.0 |
| RevPAR (RMB)   | 265.5                           | 267.0 | 288.9 | 289.9                                 | 282.6 |

According to the Horwath Report, the average occupancy rate of upscale hotels in the PRC increased from 58.0% in 2015 to 63.0% in 2017 whilst occupancy rate for mid-scale hotels remained relatively stable ranging from 64.0% to 66.0% during 2015 to 2017. In line with the overall industry trend, the overall average occupancy rate of our Group's operated hotels increased from 59.4% in 2015 to 64.6% in 2017. This led to the increase in the RevPAR of our Group's operated hotels from RMB265.5 in 2015 to RMB288.9 in 2017. The occupancy rate of our Group's operated hotels has decreased from 64.6% for the eight months ended August 31, 2017 to 62.0% for the eight months ended August 31, 2018 due to the relatively lower occupancy rate for our four newly-opened mid-scale select service leased hotels, which in turn caused our average RevPAR to decrease from RMB289.9 to RMB282.6 for the corresponding period.

### Hotel management

- (i) **Full service managed hotels.** As at August 31, 2018, we had 96 hotels under full service management agreements, with 20,938 hotel rooms, accounting for approximately 65.6% of the hotel rooms in operation. Under our full service management, we are responsible for hotel openings preparation, conduct trial operations, appoint management personnel and manage the hotel according to our standards and procedures. Hotel owners are responsible for making capital contributions in relation to hotel construction, decoration and operations and annual budget proposal approval. A full service management agreement typically has an initial term of ten to 15 years and may be extended, upon further negotiation. It typically takes ten to 40 months from the execution of a full service management agreement to hotel opening, depending on construction schedules and progress controlled by third-party hotel owners.
- (ii) **Franchised hotels.** As at August 31, 2018, we had granted franchises to 13 hotels owned by Independent Third Parties with 3,465 hotel rooms, accounting for approximately 10.9% of the hotel rooms in operation. Pursuant to the franchise agreement, the franchisee will be granted the use of the "New Century (開元)" brand name and the relevant registered trademarks during the term of the agreement. We are responsible for providing training to the hotel staff and supervising the opening and operation of the franchised hotel. The franchised hotels would be operated by the franchisee unless they hire third-party hotel management companies to operate their hotels. A franchise agreement typically ranges from three to ten years and may be extended by mutual agreement generally before six months prior to expiration of the franchise agreement.

The table below sets forth a breakdown of our revenue generated by our owned and leased hotels for the periods indicated:

| Business models                                 | For the years ended December 31, |           |           | For the eight months ended August 31, |
|-------------------------------------------------|----------------------------------|-----------|-----------|---------------------------------------|
|                                                 | 2015                             | 2016      | 2017      | 2018                                  |
|                                                 | RMB'000                          | RMB'000   | RMB'000   | RMB'000                               |
| <b>Hotel operation</b>                          |                                  |           |           |                                       |
| Owned hotels                                    | –                                | 19,662    | 35,914    | 56,528                                |
| Leased hotels                                   | 1,343,190                        | 1,417,361 | 1,431,429 | 910,352                               |
| <b>Revenue generated by our operated hotels</b> | 1,343,190                        | 1,437,023 | 1,467,343 | 966,880                               |

## SUMMARY

| Business models                               | For the years ended December 31, |                  |                  | For the eight months ended August 31, |
|-----------------------------------------------|----------------------------------|------------------|------------------|---------------------------------------|
|                                               | 2015                             | 2016             | 2017             | 2018                                  |
|                                               | RMB'000                          | RMB'000          | RMB'000          | RMB'000                               |
| Others <sup>(Note)</sup>                      | 57,402                           | 53,116           | 60,523           | 46,768                                |
| <b>Revenue of our hotel operation segment</b> | <b>1,400,592</b>                 | <b>1,490,139</b> | <b>1,527,866</b> | <b>1,013,648</b>                      |

*Note:* This primarily includes revenue that cannot be directly attributable to a particular operated hotel including revenue from (i) sales of goods or products such as wine, seafood, moon cakes and rice dumplings; and (ii) the provision of room reservation services, in aggregate amounted to RMB57.4 million, RMB53.1 million, RMB60.5 million and RMB46.8 million for the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, respectively.

The table below sets forth a breakdown of our revenue generated by our full-service managed and franchised hotels for the periods indicated:

| Business models                                | For the years ended December 31, |                |                | For the eight months ended August 31, |
|------------------------------------------------|----------------------------------|----------------|----------------|---------------------------------------|
|                                                | 2015                             | 2016           | 2017           | 2018                                  |
|                                                | RMB'000                          | RMB'000        | RMB'000        | RMB'000                               |
| <b>Hotel management</b>                        |                                  |                |                |                                       |
| Full-service managed hotels                    | 118,465                          | 106,205        | 130,584        | 100,428                               |
| Franchised hotels                              | 3,025                            | 5,662          | 6,193          | 5,173                                 |
| <b>Revenue generated by our managed hotels</b> | <b>121,490</b>                   | <b>111,867</b> | <b>136,777</b> | <b>105,601</b>                        |

The tables below set forth the breakdowns of our revenue generated by our operated hotels by (i) category and brand; and (ii) city tiers for the periods indicated:

| Hotel categories                                       | For the years ended December 31, |         |         | For the eight months ended August 31, |
|--------------------------------------------------------|----------------------------------|---------|---------|---------------------------------------|
|                                                        | 2015                             | 2016    | 2017    | 2018                                  |
|                                                        | RMB'000                          | RMB'000 | RMB'000 | RMB'000                               |
| Upscale business hotels                                |                                  |         |         |                                       |
| <i>Grand New Century</i>                               | 779,699                          | 841,850 | 840,449 | 539,401                               |
| Revenue generated by our upscale business hotels       | 779,699                          | 841,850 | 840,449 | 539,401                               |
| Upscale resort hotels                                  |                                  |         |         |                                       |
| <i>New Century Resort</i>                              | 57,547                           | 64,553  | 71,479  | 50,720                                |
| <i>New Century Grand House</i>                         | 39,570                           | 44,182  | 43,659  | 19,089                                |
| <i>New Century Wonderland</i>                          | –                                | 19,662  | 35,914  | 56,528                                |
| Revenue generated by our upscale resort hotels         | 97,117                           | 128,397 | 151,052 | 126,337                               |
| Mid-scale full service hotels                          |                                  |         |         |                                       |
| <i>New Century Hotel</i>                               | 361,783                          | 376,655 | 375,840 | 229,595                               |
| <i>Maison New Century</i>                              | 19,596                           | 17,277  | 15,173  | 7,932                                 |
| Revenue generated by our mid-scale full service hotels | 381,379                          | 393,932 | 391,013 | 237,527                               |
| Mid-scale select service hotels                        |                                  |         |         |                                       |
| <i>New Century Manju</i>                               | 84,995                           | 72,844  | 79,462  | 60,584                                |
| <i>New Century Wonderland RV Camp</i>                  | –                                | –       | 5,367   | 3,031                                 |

## SUMMARY

| Hotel categories                                         | For the years ended December 31, |                  |                  | For the eight months ended August 31, |
|----------------------------------------------------------|----------------------------------|------------------|------------------|---------------------------------------|
|                                                          | 2015                             | 2016             | 2017             | 2018                                  |
|                                                          | RMB'000                          | RMB'000          | RMB'000          | RMB'000                               |
| Revenue generated by our mid-scale select service hotels | 84,995                           | 72,844           | 84,829           | 63,615                                |
| <b>Revenue generated by our operated hotels</b>          | <b>1,343,190</b>                 | <b>1,437,023</b> | <b>1,467,343</b> | <b>966,880</b>                        |

| City tiers                                      | For the years ended December 31, |                  |                  | For the eight months ended August 31, |
|-------------------------------------------------|----------------------------------|------------------|------------------|---------------------------------------|
|                                                 | 2015                             | 2016             | 2017             | 2018                                  |
|                                                 | RMB'000                          | RMB'000          | RMB'000          | RMB'000                               |
| First-tier cities                               | 81,203                           | 81,737           | 65,975           | 24,769                                |
| New first-tier cities <sup>(Note)</sup>         | 837,762                          | 889,329          | 931,635          | 642,151                               |
| Second-tier cities                              | 358,943                          | 373,912          | 360,566          | 216,486                               |
| Third-tier cities                               | 65,282                           | 92,045           | 109,167          | 83,474                                |
| <b>Revenue generated by our operated hotels</b> | <b>1,343,190</b>                 | <b>1,437,023</b> | <b>1,467,343</b> | <b>966,880</b>                        |

*Note:* city categorization of new first-tier cities according to Horwath, which is based on the report published by YICAI (Yicai Media Group (第一财经)), which was founded in 2003 and is one of the largest financial media conglomerate in China) in May 2017.

The table below sets forth a breakdown of our gross profit and gross profit margin generated by our owned and leased hotels for the periods indicated:

| Business model                                                                                | For the years ended December 31, |                          |                         |                          |                         |                          | For the eight months ended August 31, |
|-----------------------------------------------------------------------------------------------|----------------------------------|--------------------------|-------------------------|--------------------------|-------------------------|--------------------------|---------------------------------------|
|                                                                                               | 2015                             |                          | 2016                    |                          | 2017                    |                          | 2018                                  |
|                                                                                               | Gross profit<br>RMB'000          | Gross profit margin<br>% | Gross profit<br>RMB'000 | Gross profit margin<br>% | Gross profit<br>RMB'000 | Gross profit margin<br>% | Gross profit<br>RMB'000               |
| <b>Hotel operation</b>                                                                        |                                  |                          |                         |                          |                         |                          |                                       |
| Owned hotels                                                                                  | –                                | –                        | (4,165)                 | N/A                      | 6,027                   | 16.8                     | 12,923                                |
| Leased hotels                                                                                 | 112,219                          | 8.4                      | 198,526                 | 14.0                     | 274,678                 | 19.2                     | 135,071                               |
| <b>Gross profit and gross profit margin generated by our operated hotels<sup>(Note)</sup></b> | <b>112,219</b>                   | <b>8.4</b>               | <b>194,361</b>          | <b>13.5</b>              | <b>280,705</b>          | <b>19.1</b>              | <b>147,994</b>                        |

*Note:* This primarily excludes gross profit and gross profit margin that cannot be directly attributable to a particular operated hotel including gross profit and gross profit margin from (i) sales of goods or products such as wine, seafood, moon cakes and rice dumplings; and (ii) the provision of room reservation services.

The table below sets forth a breakdown of our gross profit and gross profit margin generated by our full service managed and franchised hotels for the periods indicated:



## SUMMARY

| Business model                                                              | For the years ended December 31, |                       |                         |                       |                         |                       | For the eight months ended August 31, |                       |
|-----------------------------------------------------------------------------|----------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|-----------------------|---------------------------------------|-----------------------|
|                                                                             | 2015                             |                       | 2016                    |                       | 2017                    |                       | 2018                                  |                       |
|                                                                             | Gross profit<br>RMB'000          | Gross profit margin % | Gross profit<br>RMB'000 | Gross profit margin % | Gross profit<br>RMB'000 | Gross profit margin % | Gross profit<br>RMB'000               | Gross profit margin % |
| <b>Hotel management</b>                                                     |                                  |                       |                         |                       |                         |                       |                                       |                       |
| Full-service managed hotels                                                 | 103,412                          | 87.3                  | 95,255                  | 89.7                  | 118,315                 | 90.6                  | 91,865                                | 91.5                  |
| Franchised hotels                                                           | 2,641                            | 87.3                  | 5,078                   | 89.7                  | 5,611                   | 90.6                  | 4,732                                 | 91.5                  |
| <b>Gross profit and gross profit margin generated by our managed hotels</b> | <u>106,053</u>                   | 87.3                  | <u>100,333</u>          | 89.7                  | <u>123,926</u>          | 90.6                  | <u>96,597</u>                         | 91.5                  |

The tables below set forth the breakdown of our gross profit and gross profit margin generated by our operated hotels by (i) category and brand; and (ii) city tiers for the periods indicated:

| Hotel categories                                                                      | For the years ended December 31, |                       |                         |                       |                         |                       | For the eight months ended August 31, |                       |
|---------------------------------------------------------------------------------------|----------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|-----------------------|---------------------------------------|-----------------------|
|                                                                                       | 2015                             |                       | 2016                    |                       | 2017                    |                       | 2018                                  |                       |
|                                                                                       | Gross profit<br>RMB'000          | Gross profit margin % | Gross profit<br>RMB'000 | Gross profit margin % | Gross profit<br>RMB'000 | Gross profit margin % | Gross profit<br>RMB'000               | Gross profit margin % |
| <b>Upscale business hotels</b>                                                        |                                  |                       |                         |                       |                         |                       |                                       |                       |
| <i>Grand New Century</i>                                                              | <u>56,717</u>                    | 7.3                   | <u>125,272</u>          | 14.9                  | <u>149,250</u>          | 17.8                  | <u>84,880</u>                         | 15.7                  |
| Gross profit and gross profit margin generated by our upscale business hotels         | 56,717                           | 7.3                   | 125,272                 | 14.9                  | 149,250                 | 17.8                  | 84,880                                | 15.7                  |
| <b>Upscale resort hotels</b>                                                          |                                  |                       |                         |                       |                         |                       |                                       |                       |
| <i>New Century Resort</i>                                                             | 4,388                            | 7.6                   | 6,406                   | 9.9                   | 9,897                   | 13.8                  | 6,341                                 | 12.5                  |
| <i>New Century Grand House</i>                                                        | 9,125                            | 23.1                  | 7,830                   | 17.7                  | 10,618                  | 24.3                  | (3,753)                               | N/A                   |
| <i>New Century Wonderland</i>                                                         | <u>–</u>                         | –                     | <u>(4,165)</u>          | N/A                   | <u>6,027</u>            | 16.8                  | <u>12,923</u>                         | 22.9                  |
| Gross profit and gross profit margin generated by our upscale resort hotels           | 13,513                           | 13.9                  | 10,071                  | 7.8                   | 26,541                  | 17.6                  | 15,511                                | 12.3                  |
| <b>Mid-scale full service hotels</b>                                                  |                                  |                       |                         |                       |                         |                       |                                       |                       |
| <i>New Century Hotel</i>                                                              | 26,523                           | 7.3                   | 52,853                  | 14.0                  | 82,353                  | 21.9                  | 40,182                                | 17.5                  |
| <i>Maison New Century</i>                                                             | <u>(1,787)</u>                   | N/A                   | <u>(1,631)</u>          | N/A                   | <u>3,819</u>            | 25.2                  | <u>1,904</u>                          | 24.0                  |
| Gross profit and gross profit margin generated by our mid-scale full service hotels   | 24,736                           | 6.5                   | 51,222                  | 13.0                  | 86,172                  | 22.0                  | 42,086                                | 17.7                  |
| <b>Mid-scale select service hotels</b>                                                |                                  |                       |                         |                       |                         |                       |                                       |                       |
| <i>New Century Manju</i>                                                              | 17,253                           | 20.3                  | 7,796                   | 10.7                  | 18,309                  | 23.0                  | 5,157                                 | 8.5                   |
| <i>New Century Wonderland RV Camp</i>                                                 | <u>–</u>                         | –                     | <u>–</u>                | –                     | <u>433</u>              | 8.1                   | <u>360</u>                            | 11.9                  |
| Gross profit and gross profit margin generated by our mid-scale select service hotels | 17,253                           | 20.3                  | 7,796                   | 10.7                  | 18,742                  | 22.1                  | 5,517                                 | 8.7                   |
| <b>Gross profit and gross profit margin generated by our operated hotels</b>          | <u>112,219</u>                   | 8.4                   | <u>194,361</u>          | 13.5                  | <u>280,705</u>          | 19.1                  | <u>147,994</u>                        | 15.3                  |

## SUMMARY

| City tiers                                                                   | For the years ended December 31, |                          |                         |                          |                         |                          | For the eight months ended August 31, |                          |
|------------------------------------------------------------------------------|----------------------------------|--------------------------|-------------------------|--------------------------|-------------------------|--------------------------|---------------------------------------|--------------------------|
|                                                                              | 2015                             |                          | 2016                    |                          | 2017                    |                          | 2018                                  |                          |
|                                                                              | Gross profit<br>RMB'000          | Gross profit margin<br>% | Gross profit<br>RMB'000 | Gross profit margin<br>% | Gross profit<br>RMB'000 | Gross profit margin<br>% | Gross profit<br>RMB'000               | Gross profit margin<br>% |
| First-tier cities                                                            | 8,935                            | 11.0                     | 12,086                  | 14.8                     | 24,488                  | 37.1                     | 6,268                                 | 25.3                     |
| New first-tier cities <sup>(Note)</sup>                                      | 61,993                           | 7.4                      | 120,019                 | 13.5                     | 173,762                 | 18.7                     | 85,389                                | 13.3                     |
| Second-tier cities                                                           | 32,053                           | 8.9                      | 51,341                  | 13.7                     | 60,209                  | 16.7                     | 37,766                                | 17.4                     |
| Third-tier cities                                                            | 9,238                            | 14.2                     | 10,915                  | 11.9                     | 22,246                  | 20.4                     | 18,571                                | 22.2                     |
| <b>Gross profit and gross profit margin generated by our operated hotels</b> | <b>112,219</b>                   | <b>8.4</b>               | <b>194,361</b>          | <b>13.5</b>              | <b>280,705</b>          | <b>19.1</b>              | <b>147,994</b>                        | <b>15.3</b>              |

*Note:* city categorization of new first-tier cities according to Horwath, which is based on the report published by YICAI (Yicai Media Group (第一財經)), which was founded in 2003 and is one of the largest financial media conglomerate in China) in May 2017.

Please also refer to section headed “Business – Sales and Marketing” in this document for the breakdown of the number of room nights sold through our reservation channels during the Track Record Period.

### COMPETITIVE STRENGTHS

We believe the following competitive strengths provide the foundation for our position as one of the leading upscale hotel groups in China: (i) one of the leading upscale hotel groups in China with strong brand recognition; (ii) a broad and strong portfolio of hotel brands with extensive network in the PRC and with strong pipeline of new hotel projects; (iii) distinct synergy in executing a business model combining both hotel operation and hotel management businesses; (iv) significant experience as a hotel group in China; (v) our diverse and effective hotel reservation channels and loyalty program provides us with wide hotel guest exposure; and (vi) experienced and professional management team and a dedicated workforce.

### STRATEGIES

Our vision is to provide our hotel guests with an attractive and healthy sojourn experience and to conceptualize the “Poetical Dwelling” (人詩意地棲居) notion by the efficient use of human and natural resources including space and building materials. The successful accomplishment of this mission depends greatly on our sincere, dedicated and creative workforce. Our value system will always be putting the needs of our customers, the development of our employees and enhancing value for our shareholders as our core priorities. We intend to achieve our objectives by implementing the following strategies: (i) attract, retain and promote a dedicated, efficient and creative workforce; (ii) enhance our leading position in the upscale business and resort hotels market through our hotel operation and hotel management business models; (iii) further expand our business in mid-scale hotel chains; (iv) increase marketing activities and crossover marketing initiatives to maintain our strong brand recognition and expand our guests base; and (v) further investment and development in innovative digital strategies and improving operational efficiency.

### OUR INDUSTRY AND COMPETITIVE LANDSCAPE

According to Horwath, the total number of upscale and mid-scale hotel rooms is on the rise and it is estimated that by 2021, the supply of mid-scale and upscale market is expected to increase by more than 5,000 hotels with over 700,000 hotel rooms as compared to 2017. Among all hotel rooms, the increase of mid-scale hotel rooms is expected to be more than 638,000, and the increase of upscale hotel rooms is expected to be more than 135,000. Average occupancy rate of upscale hotel market in the PRC increased steadily from 56% in 2013 to 63% in 2017, whilst ADR has remained relatively stable within the range from RMB727 to RMB778 during the same period. Due to the increase in occupancy for upscale hotels in the PRC, RevPAR has also increased steadily from RMB428 in 2013 to RMB465 in 2017. From 2013 to 2017, average occupancy rate for mid-scale hotel market in the PRC have remained relatively stable, ranging from 64% in 2013 to 66% in 2017. RevPAR for mid-scale hotel market in the PRC decreased slightly from RMB285 in 2013 to RMB266 in 2017 due to decrease in ADR from RMB443 in 2013 to RMB404 in 2017.

There is intense competition in the hotel industry in the first-, new first- and second-tier cities in which we operate. Our principal competitors are other hotel operators, in particular, other major Star-rated hotel chains with well-established and recognized brands. Currently, we

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## SUMMARY

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face competition from well-established international brands and leading Chinese hotel chainoperators. We also compete against independent owners or operators of local five Star-rated hotels. We expect that our mid-scale hotels will compete against other business hotel chains. Please refer to section headed "Industry Overview" in this document for more details of our industry and the ranking data of the key market players.

### PRICING POLICIES

The management fees payable to us under our full service management agreement mainly comprise (i) basic management fee; (ii) an incentive management fee; and (iii) marketing and promotion fee. The franchise fees payable to us under our franchise agreement would mainly comprise, among others, the brand usage fee, operation management audit fee and staff training fee. As for the room rates, they are determined based on various factors, including the hotel rating and class, the service and facilities being provided, the location and local market conditions and demand, the occupancy levels and seasonality. In determining our F&B prices, we make reference to the costs of raw materials and food ingredients, seasonal factors, competition, spending patterns and purchasing power of our hotel guests and other restaurant expenses and costs (such as labor costs and utility expenses). Please refer to sub-section headed "Business – Our Business Operations – Pricing Policies" in this document for more details.

### OUR CUSTOMERS AND SUPPLIERS

Our customers primarily comprise hotel owners, travel agencies, OTAs and corporate clients. For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, our five largest customers in aggregate accounted for 8.7%, 6.9%, 6.9% and 8.0%, respectively, of our total revenue, of which one of them includes the relevant close associates of Mr. Chen Miaolin, one of our Controlling Shareholders. Save for that, none of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5.0% of our issued capital, had any interest in any of our five largest customers during the Track Record Period.

Our suppliers primarily comprise lessors under our hotel operation business, raw materials suppliers, laundry services providers and utilities vendors. For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, our five largest lessor suppliers, in aggregate accounted for 23.3%, 22.9%, 23.8% and 23.0%, respectively, of our total cost of sales, of which one of them, New Century REIT, is a close associate of Mr. Chen Miaolin, one of our Controlling Shareholders. Save for that, none of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued capital, had any interest in any of our five largest lessor suppliers during the Track Record Period. For the years ended December 31, 2015, 2016 and 2017 for the eight months ended August 31, 2018, our five largest other suppliers in aggregate accounted for 4.0%, 3.7%, 4.4% and 4.8%, respectively, of our total cost of sales. Save for one of them which includes the relevant close associates of Mr. Chen Miaolin, one of our Controlling Shareholders, none of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5.0% of our issued capital, had any interest in any of our five largest other suppliers during the Track Record Period. Please refer to the sub-sections headed "Business – Customers" and "Business – Suppliers" in this document for more details.

Hotel guests are able to make room reservations either through our direct or indirect distribution channels. For further details on the different types of sales distribution channels, please see sub-section headed "Business – Sales and Marketing" in this document.

### VALUATION OF OUR PROPERTIES

Our independent property valuer, Cushman & Wakefield Limited, valued our properties based on the assumption that (i) our Group has an enforceable title to the properties and has free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired land use term as granted and that any premium payable has already been fully paid; (ii) all consents, approvals and licenses from relevant government authorities for the developments have been obtained without onerous conditions or delays; and (iii) the design and construction of the properties are in compliance with the local planning regulations and have been approved by the relevant authorities.

In valuing the properties which are hotels operated by our Group in the PRC, Cushman & Wakefield has used discounted cash flow method. In valuing the properties which are held by our Group for own use in the PRC, Cushman & Wakefield has used market comparison method. The properties which are leased to our Group in the PRC are considered to have no commercial value.

Cushman & Wakefield has valued our property interests and the total market value of the properties which are hotels operated by our Group in the PRC and the properties which are held

## SUMMARY

by our Group for own use in the PRC to be RMB442.0 million and RMB85.77 million, respectively as at November 30, 2018. Please see section headed “Appendix III – Property Valuation Report” for more details of our properties. For risks associated with assumptions made in the valuation of our properties, please see sub-section headed “Risk Factors – Risks relating to our business and operations – The appraised value of our properties may be materially different from their actual realizable value and are subject to change” in this document.

### SUMMARY OF FINANCIAL INFORMATION

The following tables set out a breakdown of our summary of financial information for the periods indicated and should be read together with the consolidated financial information in Appendix I to this document, including the accompanying notes, and the information set out in the section headed “Financial Information” in this document.

#### Summary of Consolidated Statements of Comprehensive Income

|                                                           | For the years ended December 31, |           |           | For the eight months ended August 31, |           |
|-----------------------------------------------------------|----------------------------------|-----------|-----------|---------------------------------------|-----------|
|                                                           | 2015                             | 2016      | 2017      | 2017                                  | 2018      |
|                                                           | RMB'000                          | RMB'000   | RMB'000   | RMB'000<br>(unaudited)                | RMB'000   |
| Revenue                                                   | 1,522,082                        | 1,602,006 | 1,664,643 | 1,067,753                             | 1,119,249 |
| Gross profit                                              | 244,103                          | 319,735   | 431,941   | 250,048                               | 249,939   |
| Operating profit                                          | 55,814                           | 119,651   | 225,021   | 127,596                               | 139,498   |
| Profit before income tax                                  | 58,294                           | 117,230   | 223,022   | 123,922                               | 142,196   |
| Profit and total comprehensive income for the year/period | 29,641                           | 84,055    | 166,567   | 89,196                                | 111,555   |

*Note:* Since May 2016, the business tax regime was replaced by the VAT regime in the PRC, which among other factors, contributed to the increase in net profit for the years ended December 31, 2016 and 2017 as compared to the year ended December 31, 2015. Primarily as a result of such tax regime change, taxes and levies expenses recognised in our cost of sales decreased from RMB84.0 million for the year ended December 31, 2015 to RMB33.9 million for the year ended December 31, 2016 and further to RMB4.1 million for the year ended December 31, 2017.

#### Revenue by Segment

The table below sets forth a breakdown of our revenue by segment for the periods indicated:

|                  | For the years ended December 31, |           |           | For the eight months ended August 31, |           |
|------------------|----------------------------------|-----------|-----------|---------------------------------------|-----------|
|                  | 2015                             | 2016      | 2017      | 2017                                  | 2018      |
|                  | RMB'000                          | RMB'000   | RMB'000   | RMB'000<br>(unaudited)                | RMB'000   |
| Segment          |                                  |           |           |                                       |           |
| Hotel Operation  | 1,400,592                        | 1,490,139 | 1,527,866 | 982,353                               | 1,013,648 |
| Hotel Management | 121,490                          | 111,867   | 136,777   | 85,400                                | 105,601   |
| Total Revenue    | 1,522,082                        | 1,602,006 | 1,664,643 | 1,067,753                             | 1,119,249 |

#### Cost of Sales

Our cost of sales primarily consists of (i) operating lease rentals, (ii) costs of materials consumption, (iii) employee benefit expenses, (iv) utilities and electricity, (v) taxes and levies, and (vi) depreciation of property, plant and equipment.

#### Gross Profit and Gross Profit Margin by Segment

The table below sets forth a breakdown of our gross profit and gross profit margin by segment for the periods indicated:

## SUMMARY

| Segment                                    | For the years ended December 31, |                     |              |                     |              |                     | For the eight months ended August 31, |                     |              |                     |
|--------------------------------------------|----------------------------------|---------------------|--------------|---------------------|--------------|---------------------|---------------------------------------|---------------------|--------------|---------------------|
|                                            | 2015                             |                     | 2016         |                     | 2017         |                     | 2017                                  |                     | 2018         |                     |
|                                            | Gross profit                     | Gross profit margin | Gross profit | Gross profit margin | Gross profit | Gross profit margin | Gross profit                          | Gross profit margin | Gross profit | Gross profit margin |
|                                            | RMB'000                          | %                   | RMB'000      | %                   | RMB'000      | %                   | RMB'000<br>(unaudited)                | %                   | RMB'000      | %                   |
| Hotel Operation                            | 138,050                          | 9.9                 | 219,402      | 14.7                | 308,015      | 20.2                | 173,163                               | 17.6                | 153,342      | 15.1                |
| Hotel Management                           | 106,053                          | 87.3                | 100,333      | 89.7                | 123,926      | 90.6                | 76,885                                | 90.0                | 96,597       | 91.5                |
| Total Gross Profit and Gross Profit margin | 244,103                          | 16.0                | 319,735      | 20.0                | 431,941      | 25.9                | 250,048                               | 23.4                | 249,939      | 22.3                |

### Summary of Consolidated Balance Sheets

|                                     | As at December 31, |                  |                  | As at August 31, |
|-------------------------------------|--------------------|------------------|------------------|------------------|
|                                     | 2015               | 2016             | 2017             | 2018             |
|                                     | RMB'000            | RMB'000          | RMB'000          | RMB'000          |
| Total non-current assets            | 485,504            | 573,351          | 622,659          | 711,282          |
| Total current assets                | 649,349            | 679,634          | 689,992          | 722,977          |
| <b>Total assets</b>                 | <b>1,134,853</b>   | <b>1,252,985</b> | <b>1,312,651</b> | <b>1,434,259</b> |
| <b>Total equity</b>                 | <b>262,974</b>     | <b>317,029</b>   | <b>529,093</b>   | <b>601,435</b>   |
| Total non-current liabilities       | 181,029            | 232,090          | 181,851          | 214,644          |
| Total current liabilities           | 690,850            | 703,866          | 601,707          | 618,180          |
| <b>Total liabilities</b>            | <b>871,879</b>     | <b>935,956</b>   | <b>783,558</b>   | <b>832,824</b>   |
| <b>Total equity and liabilities</b> | <b>1,134,853</b>   | <b>1,252,985</b> | <b>1,312,651</b> | <b>1,434,259</b> |
| Net current (liabilities)/assets    | (41,501)           | (24,232)         | 88,285           | 104,797          |

We had net current liabilities of RMB41.5 million and RMB24.2 million as at December 31, 2015 and 2016, respectively, and net current assets of RMB88.3 million and RMB104.8 million as at December 31, 2017 and August 31, 2018, respectively. Our current liability position as at December 31, 2015 and 2016 primarily consisted of (i) trade and other payables, (ii) short-term bank borrowings, and (iii) contract liabilities. The improvement from net current liability position as at 31 December 2015 and 2016 to net assets position as at December 31, 2017 and August 31, 2018 was primarily due to (i) the decrease in our short-term borrowings and (ii) the increase in our cash and cash equivalents.

Although we recorded a net asset position of RMB263.0 million as at December 31, 2015 and generated profit and total comprehensive income of RMB29.6 million for the year ended December 31, 2015, we had net current liabilities of RMB41.5 million as at the same date, primarily due to the expenditure of RMB88.6 million in cash primarily in connection with the construction of Changxing New Century Wonderland Resort (長興開元芳草地鄉村酒店), including purchase of land use right and construction of building and facilities, which were accounted as non-current assets.

Despite recording a net assets position of RMB317.0 million as at December 31, 2016 and generating a profit and total comprehensive income of RMB84.1 million for the year ended December 31, 2016, we had a net current liabilities position of RMB24.2 million as at December 31, 2016, representing a 41.7% decrease as compared to the net current liabilities of RMB41.5 million as at December 31, 2015, primarily due to the expenditure of RMB118.2 million in cash primarily in connection with the construction of Changxing New Century Wonderland Resort (長興開元芳草地鄉村酒店) and Hangzhou Fuchun New Century Wonderland Resort (杭州富春開元芳草地鄉村酒店), which were accounted as non-current assets.



## SUMMARY

Please see sub-section headed "Financial Information – Liquidity and Capital Resources – Net Current Assets and Liabilities" in this document.

### Summary of Consolidated Statements of Cash Flows

|                                                               | For the years ended<br>December 31, |          |           | For the eight months<br>ended August 31, |           |
|---------------------------------------------------------------|-------------------------------------|----------|-----------|------------------------------------------|-----------|
|                                                               | 2015                                | 2016     | 2017      | 2017                                     | 2018      |
|                                                               | RMB'000                             | RMB'000  | RMB'000   | RMB'000<br>(unaudited)                   | RMB'000   |
| Net cash generated from operating activities                  | 97,442                              | 168,931  | 268,073   | 87,883                                   | 33,594    |
| Net cash (used in)/generated from investing activities        | (90,574)                            | (85,377) | 86,885    | 61,943                                   | (143,420) |
| Net cash (used in)/generated from financing activities        | (35,148)                            | (33,775) | (107,013) | (131,613)                                | (26,041)  |
| Net (decrease)/increase in cash and cash equivalents          | (28,280)                            | 49,779   | 247,945   | 18,213                                   | (135,867) |
| Cash and cash equivalents at the beginning of the year/period | 154,665                             | 126,385  | 176,164   | 176,194                                  | 424,109   |
| Cash and cash equivalents at the end of the year/period       | 126,385                             | 176,164  | 424,109   | 194,377                                  | 288,242   |

Although we generated net cash of RMB97.4 million from operating activities for the year ended December 31, 2015, we recorded a net cash outflow of RMB28.3 million during the same period primarily due to cash used in (i) the payment of approximately RMB88.6 million primarily in connection to the construction of Changxing New Century Wonderland Resort (長興開元芳草地鄉村酒店), and (ii) the repayment of other financing instruments of RMB160.7 million partially offset by the contributions to subsidiaries by the Controlling Shareholders of RMB60.0 million and net proceeds from borrowings of RMB56.0 million.

Despite the generation of net cash of RMB33.6 million from operating activities, we also recorded a net cash outflow of RMB135.9 million during the eight months ended August 31, 2018 primarily due to the cash used in investing activities comprising (i) the payment of RMB91.5 million for property, plant and equipment, land use rights, intangible assets and other long-term assets for the operation of Hangzhou Fuchun New Century Wonderland Resort (杭州富春開元芳草地鄉村酒店), (ii) the investment in short-term wealth management products of RMB60.0 million, and (iii) the dividends distributed to the shareholders of RMB41.2 million, partially offset by the proceeds of RMB35.0 million from borrowings.

### Key Financial Ratios

The table below sets forth a summary of the key financial ratios for the periods indicated.

|                                    | For the years ended/<br>As at December 31, |       |       | For the eight months<br>ended/As at August 31, |       |
|------------------------------------|--------------------------------------------|-------|-------|------------------------------------------------|-------|
|                                    | 2015                                       | 2016  | 2017  | 2017                                           | 2018  |
|                                    |                                            |       |       | (unaudited)                                    |       |
| Gross Profit Margin <sup>(1)</sup> | 16.0%                                      | 20.0% | 25.9% | 23.4%                                          | 22.3% |
| Net Profit Margin <sup>(2)</sup>   | 1.9%                                       | 5.2%  | 10.0% | 8.4%                                           | 10.0% |
| Return on equity <sup>(3)</sup>    | 15.4%                                      | 29.8% | 39.6% | N/A                                            | N/A   |
| Current Ratio <sup>(4)</sup>       | 0.9x                                       | 1.0x  | 1.1x  | N/A                                            | 1.2x  |
| Gearing Ratio <sup>(5)</sup>       | 27.3%                                      | 28.3% | 12.6% | N/A                                            | 13.7% |

#### Notes:

- Gross profit margin is calculated by dividing gross profit by revenue.
- Net profit margin is calculated by dividing net profit by revenue.
- Return on equity is calculated by dividing profit and total comprehensive income attributable to owners of our Company for the period by the average total equity attributable to owners of our Company at the beginning and the end of the period.
- Current ratio is calculated by dividing current assets by current liabilities at the end of the period.
- Gearing ratio is calculated by dividing total borrowings by total assets at the end of the period.

## SUMMARY

### Non-IFRS Measures

The following table sets out our EBITDA, EBITDA margin, EBITDAR and EBITDAR margin, all of which are non-IFRS measures:

|                                                           | For the years ended December 31, |                |                | For the eight months ended August 31, |                |
|-----------------------------------------------------------|----------------------------------|----------------|----------------|---------------------------------------|----------------|
|                                                           | 2015                             | 2016           | 2017           | 2017                                  | 2018           |
|                                                           | RMB'000                          | RMB'000        | RMB'000        | RMB'000                               | RMB'000        |
| Profit and total comprehensive income for the year/period | 29,641                           | 84,055         | 166,567        | 89,196                                | 111,555        |
| Adjusted for:                                             |                                  |                |                |                                       |                |
| Income tax expense                                        | 28,653                           | 33,175         | 56,455         | 34,726                                | 30,641         |
| Finance costs                                             | 30,220                           | 16,049         | 10,406         | 9,140                                 | 6,769          |
| Depreciation and amortization                             | 53,120                           | 56,936         | 59,879         | 39,899                                | 38,090         |
| Finance income                                            | (30,968)                         | (12,193)       | (5,402)        | (3,937)                               | (5,140)        |
| EBITDA <sup>(1)</sup>                                     | <u>110,666</u>                   | <u>178,022</u> | <u>287,905</u> | <u>169,024</u>                        | <u>181,915</u> |
| EBITDA Margin <sup>(2)</sup>                              | <u>7.3%</u>                      | <u>11.1%</u>   | <u>17.3%</u>   | <u>15.8%</u>                          | <u>16.3%</u>   |
| Adjusted for:                                             |                                  |                |                |                                       |                |
| Operating lease expenses                                  | 403,026                          | 399,850        | 374,067        | 256,384                               | 255,388        |
| EBITDAR <sup>(3)</sup>                                    | <u>513,692</u>                   | <u>577,872</u> | <u>661,972</u> | <u>425,408</u>                        | <u>437,303</u> |
| EBITDAR Margin <sup>(4)</sup>                             | <u>33.7%</u>                     | <u>36.1%</u>   | <u>39.8%</u>   | <u>39.8%</u>                          | <u>39.1%</u>   |

*Notes:*

1. EBITDA is profit before income tax, finance income, finance costs and depreciation and amortization.
2. EBITDA margin is calculated by dividing EBITDA by revenue.
3. EBITDAR is calculated by EBITDA added by operating lease expenses.
4. EBITDAR margin is calculated by dividing EBITDAR by revenue.
5. EBITDA and EBITDAR are used by management as the primary measurement of operating performance of our Group's hotels and are used as a common performance measurement to compare results or estimate valuations across companies in the hotel industry. By computing the operating income before deducting interest, taxes, depreciation and amortization in the case of EBITDA and also the rent expenses in the case of EBITDAR, its management or potential investors in the hotel industry would be able to more effectively compare and assess the actual underlying operating performance of different hotel operators, by excluding the effect on net profitability position as a result of different capital structure (for example, the use of equity versus debt when developing new hotels) and/or ownership structure (for example, leasing versus owning of hotel assets) adopted by hotel operators.

The measures of financial performance described in this section are non-IFRS measures and accordingly are not audited, not included in the financial statements and not presented in accordance with IFRS. Although these measures of financial performance are reconcilable to line items on the financial statements, they may not be equivalent to similarly named measures used by other companies and should not be considered as measures comparable to income statement items in the financial statements. They have limitations as analytical tools and should not be considered in isolation from, or as a substitute for, an analysis of our financial results presented under IFRS.

### DISTRIBUTABLE RESERVES

As at January 1, 2015 and December 31, 2015, we recorded an accumulated loss of RMB59.2 million and RMB29.1 million, respectively. This was primarily due to (i) the adjustments arisen from the New Century Hotel Investment Reorganization after the distribution of dividend to its then shareholders in 2012, which turned our retained earning position as at January 1, 2012 to an accumulated loss position as at December 31, 2012 under the consolidated PRC GAAP financial statement of our Group; and (ii) the hotel industry in the PRC experiencing a downturn in 2013 to 2014, which in turn adversely affected our Group's principal business particularly our upscale hotel operations. The recovery in the overall market conditions of the hotel industry and the implementation of cost control measures by our Group

## SUMMARY

led to the improved financial performance of our Group since 2015 and we recorded a net profit of RMB29.6 million, RMB84.1 million and RMB166.6 million for the years ended December 31, 2015, 2016 and 2017, respectively. As at December 31, 2016 and August 31, 2018, we recorded RMB55.2 million and RMB105.2 million respectively in retained earnings, as determined under IFRS, available for distribution to our shareholders.

### OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Our Company principally engages in the operation and management of mid-scale to upscale hotel chains in the PRC. Our Predecessor, New Century Hotel Management, was first established in the PRC as a limited liability company with a registered capital of RMB5,000,000 by New Century Hotel Investment and New Century Tourism on December 17, 2008, and it was subsequently converted into a joint stock company with limited liability on June 28, 2017 as part of our Reorganization. Please refer to section headed “History, Reorganization and Corporate Structure” in this document for more information about our history, our Reorganization, our Pre-[REDACTED] Investors and our corporate structure.

For the acquisitions and disposals of our Group that had taken place during and after the Track Record Period, please refer to sub-section headed “History, Reorganization and Corporate Structure – Acquisitions and Disposals during the Track Record Period” and “History, Reorganization and Corporate Structure – Acquisition after the Track Record Period” in this document.

### RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the [REDACTED], New Century Tourism will control approximately [REDACTED]% of our share capital, assuming the [REDACTED] is not exercised, and will continue to be our direct Controlling Shareholder. New Century Tourism is in turn indirectly held as to 85.2% by Mr. Chen Miaolin, 8.5% by Mr. Chen Canrong and 6.3% by Mr. Zhang Guanming, which form a group of Controlling Shareholders, given that Mr. Chen Miaolin, Mr. Chen Canrong and Mr. Zhang Guanming hold their interests in our Company collectively through New Century Tourism.

Except as disclosed in the section headed “Relationship with our Controlling Shareholders” in this document, none of our Controlling Shareholders is interested in any business which is, whether directly or indirectly, in competition with our business. Each of the Controlling Shareholders has entered into the Deed of Non-Competition in favor of our Company to the effect that each of them will not, and will procure each of their respective associates not to, directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with our business. Please refer to the section headed “Relationship with our Controlling Shareholders” in this document for more details.

We have entered into a number of agreements with our connected persons which will constitute continuing connected transactions under Chapter 14A of the Listing Rules upon [REDACTED]. Please refer to the section headed “Connected Transactions” in this document for more details. Our Company has also applied to the Stock Exchange and [obtained] a waiver from strict compliance with the relevant requirements under Chapter 14A of the Listing Rules.

### PRE-[REDACTED] INVESTMENTS

On December 11, 2015, Hangzhou Qianhe Qiju Investment Management Partnership (Limited Partnership)\* (杭州謙和祺聚投資管理合夥企業(有限合夥)) subscribed for registered capital in the amount of RMB8.7 million, representing approximately 5.0% equity interests, in New Century Hotel Management. On November 17, 2016, Clear Ocean Holdings Limited (“Clear Ocean”) entered into an equity transfer agreement with (i) NC Hotels Investment Holding Pte. Ltd., (ii) Shanghai Bohui Investment Center (Limited Partnership)\* (上海鉅卉投資中心(有限合夥)) (currently known as Shanghai Ouling Bohui Investment Center (Limited Partnership)\* (上海鷗翎鉅卉投資中心(有限合夥))) (“Bohui Investment”) and (iii) Ocean Century Hotels Limited (“OC Hotels”), pursuant to which Clear Ocean agreed to transfer its equity interests in New Century Hotel Management to NC Hotels, Bohui Investment and OC Hotels, respectively. On April 24, 2017, Bohui Investment entered into an equity transfer agreement with Ningbo Meishan Bonded Area Kairui Shiqi Investment Management Partnership (Limited Partnership)\* (寧波梅山保稅港區開瑞世祺投資管理合夥企業(有限合夥)) (“Kairui Shiqi”), pursuant to which Bohui Investment agreed to transfer certain of its equity interests in New Century Hotel Management to Kairui Shiqi. On the same date, pursuant to a capital increase agreement entered into between New Century Hotel Management, Kairui Shiqi and Ningbo Meishan Bonded Area Kaihui Taiheng Investment Management Partnership (Limited Partnership)\* (寧波梅山保稅港區開匯泰亨投資管理合夥企業(有限合夥)) (“Kaihui Taiheng”), Kairui Shiqi and Kaihui Taiheng subscribed for registered capital in New Century Hotel Management in the amount of RMB15.1 million in aggregate.



## SUMMARY

On June 9, 2017, Mr. Chen Miaolin, New Century Tourism, Qianhe Qiju, NC Hotels, Bohui Investment, OC Hotels, Kairui Shiqi and Kaihui Taiheng entered into a supplemental promoters' agreement. Pursuant to the terms of the supplemental promoters' agreement, Qianhe Qiju, NC Hotels, Bohui Investment, OC Hotels, Kairui Shiqi and Kaihui Taiheng have been granted certain special rights, each of which has been suspended as at the Latest Practicable Date and will be automatically terminated upon the [REDACTED].

For further details on the principal terms of the pre-[REDACTED] investments and special rights granted to the pre-[REDACTED] investors, please refer to the sub-section headed "History, Reorganization and Corporate Structure – Pre-[REDACTED] Investments" in this document.

### RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Our business operations had remained stable after the Track Record Period and up to the Latest Practicable Date as there were no material changes to our business model and the general economic and regulatory environment in which we operate.

During the period from August 31, 2018 up to December 31, 2018, we have increased our total hotel portfolio to 150 hotels with around 34,200 hotel rooms, of which 31 hotels and around 7,400 hotel rooms are operated by us and 119 hotels and around 26,800 hotel rooms are managed by us. During the same period, we have also increased our pipeline from 135 hotels as at August 31, 2018 to 169 hotels.

Our Directors have confirmed that there has been no material adverse change in our financial or trading position since August 31, 2018, the date of our consolidated financial statements set out in the Accountant's Report included in Appendix I to this document, and up to the date of this document.

### [REDACTED] STATISTICS

All statistics in this table are based on the assumption that the [REDACTED] is not exercised.

|                                                            | Based on minimum<br>indicative [REDACTED]<br>of HK\$[REDACTED]<br>per [REDACTED] | Based on maximum<br>indicative [REDACTED]<br>of HK\$[REDACTED]<br>per [REDACTED] |
|------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| Market capitalization of the<br>H Shares <sup>(Note)</sup> | HK\$[REDACTED]<br>million                                                        | HK\$[REDACTED]<br>million                                                        |

*Note:* The calculation of market capitalization is based on [REDACTED] H Shares to be [REDACTED] under the [REDACTED].

### UNAUDITED [REDACTED] CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited [REDACTED] consolidated net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the [REDACTED] on our net tangible assets as at August 31, 2018 as if they had taken place on that date. The unaudited [REDACTED] consolidated net tangible assets of our Group have been prepared for illustrative purposes only and, because of their hypothetical nature, may not give a true picture of our net tangible assets had the [REDACTED] been completed as at August 31, 2018 or at any future date.

|                                                                                      | Audited<br>Consolidated Net<br>Tangible Assets<br>of the Group<br>attributable to<br>the equity<br>holders of the<br>Company as at<br>August 31,<br>2018 <sup>(1)</sup> | Estimated<br>[REDACTED]<br>from the<br>[REDACTED] <sup>(2)</sup> | Unaudited<br>[REDACTED]<br>adjusted<br>Net Tangible<br>Assets of<br>the Group<br>attributable to<br>the equity<br>holders of the<br>Company | Unaudited [REDACTED]<br>Consolidated Net Tangible<br>Assets per Share <sup>(3)</sup> |            |
|--------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|------------|
|                                                                                      | RMB'000                                                                                                                                                                 | RMB'000                                                          | RMB'000                                                                                                                                     | RMB                                                                                  | HK\$       |
| Based on the minimum indicative<br>[REDACTED] of<br>HK\$[REDACTED]<br>per [REDACTED] | [REDACTED]                                                                                                                                                              | [REDACTED]                                                       | [REDACTED]                                                                                                                                  | [REDACTED]                                                                           | [REDACTED] |

## SUMMARY

| Audited<br>Consolidated Net<br>Tangible Assets<br>of the Group<br>attributable to<br>the equity<br>holders of the<br>Company as at<br>August 31,<br>2018 <sup>(1)</sup> | Estimated<br>[REDACTED]<br>from the<br>[REDACTED] <sup>(2)</sup> | Unaudited<br>[REDACTED]<br>adjusted<br>Net Tangible<br>Assets of<br>the Group<br>attributable to<br>the equity<br>holders of the<br>Company | Unaudited [REDACTED]<br>Consolidated Net Tangible<br>Assets per Share <sup>(3)</sup> |            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|------------|
|                                                                                                                                                                         |                                                                  |                                                                                                                                             | RMB                                                                                  | HK\$       |
|                                                                                                                                                                         | RMB'000                                                          | RMB'000                                                                                                                                     | RMB                                                                                  | HK\$       |
| Based on the maximum indicative<br>[REDACTED] of<br>HK\$[REDACTED]<br>per [REDACTED]                                                                                    | [REDACTED]                                                       | [REDACTED]                                                                                                                                  | [REDACTED]                                                                           | [REDACTED] |

### Notes:

1. The audited consolidated net tangible assets information of the Group attributable to the equity holders of the Company as at August 31, 2018 is extracted from the Accountant's Report set out in Appendix I, which is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company as at August 31, 2018 of RMB582,532,000 with an adjustment for the intangible assets attributable to the equity holders of the Company as at August 31, 2018 of RMB[REDACTED].
2. The estimated [REDACTED] to be received by our Company from the [REDACTED] are based on the indicative [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per Share, respectively, after deduction of the [REDACTED] fees and other related expenses payable by our Company and takes no account of any Shares which may fall to be issued upon the exercise of the [REDACTED].
3. The unaudited [REDACTED] net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] Shares were in issue assuming that the [REDACTED] has been completed on August 31, 2018.
4. For further details, please refer to the section headed "Appendix IIA – Unaudited [REDACTED] Financial Information" in this document.

## DIVIDENDS

As at the Latest Practicable Date, we did not have a formal dividend policy. Our board of directors is responsible for submitting proposals in respect of dividend payments to the shareholders' general meeting for approval. The determination of whether to pay a dividend and in what amount is based on our general business conditions, our financial results, our capital requirements, payment by our subsidiaries of cash dividends to our Company, interests of our shareholders and any other factors which the Board may deem relevant.

We generally do not distribute dividends in a year in which there is no profit available for distribution. The payment of any dividend by us must also be approved at a shareholders' general meeting. We are not allowed to distribute profits to our Shareholders until we have made up our losses and made appropriations to our statutory reserves. The statutory reserve can be utilized to offset prior years' losses, if any, and may be converted into paid-in-capital.

During the Track Record Period, a dividend of RMB59,690,000 and RMB41,238,000 were declared on April 24, 2017 and June 15, 2018, respectively, to the shareholders of our Company and fully paid subsequently. For details, please refer to sub-section headed "Financial Information – Dividends" in this document.

## [REDACTED] EXPENSES

[REDACTED] expenses represent professional fees, [REDACTED] commissions and other fees incurred in connection with the [REDACTED] and the [REDACTED]. Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the stated range of the [REDACTED] of between HK\$[REDACTED] and HK\$[REDACTED] per [REDACTED]), [REDACTED] expenses to be borne by us are estimated to be approximately RMB[REDACTED] million (equivalent to HK\$[REDACTED] million), of which RMB[REDACTED] million (equivalent to HK\$[REDACTED] million) is directly attributable to the [REDACTED] of H Shares to the [REDACTED] and to be capitalized, whereas the remainder is expected to be reflected in the consolidated statements of comprehensive income for the year ending December 31, 2019. Our Directors do not expect such expenses to materially impact our results of operations for 2018 and 2019.

## SUMMARY

### [REDACTED]

Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the stated range of the [REDACTED] of between HK\$[REDACTED] and HK\$[REDACTED] per [REDACTED]), we estimate that we will receive [REDACTED] of approximately HK\$[REDACTED] from the [REDACTED], assuming the [REDACTED] is not exercised, after deducting the [REDACTED] commissions and other estimated expenses in connection with the [REDACTED] payable by our Company. We intend to use the [REDACTED] from the [REDACTED] for the following purposes and in the amounts set out below, subject to changes in light of our evolving business needs and changing market conditions:

| Amount of the estimated [REDACTED]          | Intended use of [REDACTED]                                                                                                                                  |
|---------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Approximately [REDACTED]% or HK\$[REDACTED] | The development of our upscale business and resort hotels                                                                                                   |
| Approximately [REDACTED]% or HK\$[REDACTED] | The development of our mid-scale hotels                                                                                                                     |
| Approximately [REDACTED]% or HK\$[REDACTED] | Brand building and promotion including but not limited to, engaging in marketing and promotional activities, sponsorship of industry events and advertising |
| Approximately [REDACTED]% or HK\$[REDACTED] | Recruitment of more talent and strengthening our implementation of training to our staff and recruitment programs for supporting our business expansion     |
| Approximately [REDACTED]% or HK\$[REDACTED] | Development of our information technology system by upgrading existing operational and IT system infrastructure                                             |
| Approximately [REDACTED]% or HK\$[REDACTED] | Our general corporate purposes and working capital                                                                                                          |

For further details, please see the section headed “Future Plans and [REDACTED]” in this document.

### RISK FACTORS

There are certain risks and uncertainties involved in our business and operations and in connection with the [REDACTED]. We believe that the following are some of the major risks that we face: (i) we operate in a highly competitive industry, thus our revenues, profits or market share could be harmed if we are unable to compete successfully; (ii) there is no assurance that we will be able to achieve our current business goals and plans for growth; (iii) we may not be successful in expanding into the geographic areas that we do not currently serve; (iv) our full service management or franchise agreements with third-party hotel owners or franchisees may be affected or terminated if third-party hotel owners or franchisees fail to make investments necessary to maintain or improve their properties to the requisite standard or are unable to afford the mortgages; and (v) we are exposed to the risks resulting from significant investments in owned and leased hotels, which may increase our costs, reduce our profits, limit our ability to respond to market conditions or restrict our growth strategy.

As different interpretations and standards may be applied for determining the materiality of a risk, you should carefully consider all of the information set out in this document, including the risks and uncertainties described in the section headed “Risk Factors” in this document.

### HISTORICAL NON-COMPLIANCE INCIDENTS

Our Directors confirm that we have complied with all applicable laws and regulations in all material respects in the PRC (being the principal jurisdiction in which we operate) during the Track Record Period and up to the Latest Practicable Date. We have historically had incidents of non-compliance with PRC laws and regulations. Please refer to sub-sections headed “Business – Legal and Regulatory Matters” and “Business – Properties” for more details.

## SUMMARY

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### PROFIT ESTIMATE FOR THE YEAR ENDED DECEMBER 31, 2018

|                                                                                              |                                     |
|----------------------------------------------------------------------------------------------|-------------------------------------|
| Estimated unaudited consolidated profit attributable to owners of our Company <sup>(1)</sup> | not less than<br>[RMB185.0 million] |
| Unaudited [REDACTED] estimated earnings per Share <sup>(2)</sup>                             | not less than<br>[RMB[REDACTED]]    |

*Notes:*

1. The bases on which the above profit estimate for the year ended December 31, 2018 has been prepared and summarized in Appendix IIB to this document. The estimated unaudited consolidated profit attributable to owners of our Company for the year ended December 31, 2018 is based on the audited consolidated results of the Group for the eight months ended August 31, 2018, the unaudited consolidated results based on management accounts of the Group for the three months ended November 30, 2018 and an estimate of the consolidated results of the Group for the month ended December 31, 2018. The profit estimate has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in note 2.1 of the Accountant's Report, the text of which is set out in Appendix I to this document.
2. The calculation of the unaudited [REDACTED] estimated earnings per Share is based on the estimated unaudited consolidated profit attributable to owners of our Company for the year ended December 31, 2018 and the weighted average number of [REDACTED] Shares that are outstanding during the year ended December 31, 2018 and on the assumption that the [REDACTED] had been completed on January 1, 2018, but takes no account of any Shares which may fall to be issued upon the exercise of the [REDACTED].

## DEFINITIONS

*In this document, unless the context otherwise requires, the following terms shall have the meanings set out below.*

|                                         |                                                                                                                                                                                                                                                                                                 |
|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Accountant’s Report”                   | the report of our reporting accountants, the text of which is set out in Appendix I to this document                                                                                                                                                                                            |
| “affiliate”                             | any other person, directly or indirectly, controlling or controlled by or under or indirect common control with such specific person                                                                                                                                                            |
| [REDACTED]                              |                                                                                                                                                                                                                                                                                                 |
| “Articles” or “Articles of Association” | our amended and restated articles of association, adopted by our Shareholders on June 15, 2018, which will become effective upon the [REDACTED], the same may be amended, supplemented or otherwise modified from time to time, a summary of which is set forth in Appendix VI to this document |
| “associate(s)”                          | has the meaning ascribed thereto under the Listing Rules                                                                                                                                                                                                                                        |
| “Audit Committee”                       | the audit committee of our Board of Directors                                                                                                                                                                                                                                                   |
| “Base Rent”                             | the base rent guaranteed by our Company or New Century Hotel Management (as the case may be) to New Century Hotel Investment pursuant to the Master Hotel Lease and Management Agreement                                                                                                        |
| “Beijing Gehua”                         | Beijing Gehua New Century Hotel Co., Ltd.* (北京歌華開元大酒店有限公司), a company incorporated in the PRC on September 19, 2005, and is owned as to 49% by our Company and 51% by Beijing Huabei Hotel Management Center* (北京華北酒店管理中心), an Independent Third Party                                          |
| “Birot by New Century”                  | Birot by New Century, a company incorporated in France on December 11, 2014, and is indirectly owned as to 83.9% by Mr. Chen Miaolin                                                                                                                                                            |
| “Board” or “Board of Directors”         | the board of Directors of our Company                                                                                                                                                                                                                                                           |

## DEFINITIONS

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|                                     |                                                                                                                                                    |
|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| “Business Day” or<br>“business day” | any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open to the public for normal banking business |
| “BVI”                               | the British Virgin Islands                                                                                                                         |
| “CAGR”                              | compound annual growth rate                                                                                                                        |

[REDACTED]

|                                                                 |                                                                                                                                                                              |
|-----------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “China” or “PRC”                                                | the People’s Republic of China, excluding, for the purpose of this document, Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan |
| “close associate(s)”                                            | has the meaning ascribed to it under the Listing Rules                                                                                                                       |
| “Companies Ordinance”                                           | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time                                             |
| “Companies (Winding Up and Miscellaneous Provisions) Ordinance” | the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time     |

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## DEFINITIONS

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|                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Company”, “our Company”,<br>“we” or “us” | Zhejiang New Century Hotel Management Co., Ltd. (浙江開元酒店管理股份有限公司), a joint stock company with limited liability incorporated in the PRC on June 28, 2017, and except where the context indicates otherwise, includes (i) our predecessors and (ii) with respect to the period before our Company became the holding company of its present subsidiaries, the businesses operated by it and its present subsidiaries or (as the case may be) their predecessors |
| “connected person(s)”                     | has the meaning ascribed to it under the Listing Rules                                                                                                                                                                                                                                                                                                                                                                                                        |
| “Controlling Shareholder(s)”              | has the meaning ascribed to it under the Listing Rules and for the purposes of this document, means New Century Tourism, Mr. Chen Canrong, Mr. Chen Miaolin and Mr. Zhang Guanming                                                                                                                                                                                                                                                                            |
| “core connected person(s)”                | has the meaning ascribed to it under the Listing Rules                                                                                                                                                                                                                                                                                                                                                                                                        |
| “CSRC”                                    | the China Securities Regulatory Commission (中國證券監督管理委員會)                                                                                                                                                                                                                                                                                                                                                                                                      |
| “Deed of Non-Competition”                 | a deed of non-competition dated February 12, 2019 executed by our Controlling Shareholders in favor of our Company (for itself and as trustee for its subsidiaries), the particulars of which are set out in the sub-section headed “Relationship with our Controlling Shareholders – Non-Competition Undertaking” in this document                                                                                                                           |
| “Director(s)”                             | director(s) of our Company                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| “Domestic Share(s)”                       | ordinary shares in our capital, with the nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi                                                                                                                                                                                                                                                                                                                                      |
| “EIT Law”                                 | the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) amended by the NPC and became effective on February 24, 2017                                                                                                                                                                                                                                                                                                                                         |
| “GDP”                                     | gross domestic product (all references to GDP growth rates are real as opposed to nominal rates of GDP growth)                                                                                                                                                                                                                                                                                                                                                |

[REDACTED]



## DEFINITIONS

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[REDACTED]

|                               |                                                                                                                                                                                                                        |
|-------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Group” or “our Group”        | our Company and its subsidiaries or, in respect of the period before our Company became the holding company of such subsidiaries, the entities which carried on the business of the present Group at the relevant time |
| “HK\$” or “Hong Kong dollars” | Hong Kong dollars, the lawful currency of Hong Kong                                                                                                                                                                    |
| “H Share(s)”                  | overseas listed foreign shares in our ordinary share capital with a nominal value of RMB1.00 each, to be subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange                               |

[REDACTED]

|                     |                                                                               |
|---------------------|-------------------------------------------------------------------------------|
| “Hong Kong” or “HK” | the Hong Kong Special Administrative Region of the People’s Republic of China |
|---------------------|-------------------------------------------------------------------------------|

[REDACTED]

## DEFINITIONS

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[REDACTED]

|                                           |                                                                                                                                                                                                           |
|-------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Horwath”                                 | Horwath HTL (Beijing) Co., Ltd. (浩華酒店管理顧問(北京)有限公司), a market research consultant engaged by us and an Independent Third Party                                                                             |
| “Hotel Lease and Management Agreement(s)” | separate hotel lease and management agreement(s) in respect of each of the New Century REIT Hotel Properties entered into pursuant to the Master Hotel Lease and Management Agreement                     |
| “IFRS”                                    | the International Financial Reporting Standards, which include standards, amendments and interpretations issued by the International Accounting Standards Board                                           |
| “Independent Third Party(ies)”            | an individual(s) or a company(ies) who, as far as our Directors are aware after having made all reasonable enquiries, is/are not connected persons of our Company within the meaning of the Listing Rules |

[REDACTED]

## DEFINITIONS

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[REDACTED]

|                  |                                                                                                       |
|------------------|-------------------------------------------------------------------------------------------------------|
| “Joint Sponsors” | China Galaxy International Securities (Hong Kong) Co., Limited and BOCOM International (Asia) Limited |
|------------------|-------------------------------------------------------------------------------------------------------|

|                           |                                                                                                                                                             |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Latest Practicable Date” | February 8, 2019, being the latest practicable date for the purpose of ascertaining certain information contained in this document prior to its publication |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|

[REDACTED]

|                     |                                             |
|---------------------|---------------------------------------------|
| “Listing Committee” | the Listing Committee of the Stock Exchange |
|---------------------|---------------------------------------------|

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## DEFINITIONS

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[REDACTED]

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|-----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Listing Rules”                               | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time                                                                                                                                                                                                                                                |
| “Main Board”                                  | the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange                                                                                                                                                                                                                                         |
| “Mandatory Provisions”                        | the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, promulgated by the former State Council Securities Commission and other PRC Government departments on August 27, 1994, as amended, supplemented or otherwise modified from time to time |
| “Master Hotel Lease and Management Agreement” | a framework agreement dated June 14, 2013 entered into between New Century Hotel Investment, New Century Hotel Management, New Century Tourism and New Century Asset Management Limited, which sets out the general guidelines and principles for the lease and management of the New Century REIT Hotel Properties                                                                                       |
| “Mid-scale Hotel”                             | the mid-scale hotels mainly refer to the four and three Star-rated hotels by China National Star Rating System which are rated by China Tourism Hotel Association, as well as the hotels which have similar product positioning and quality, service quality, and relatively comprehensive facilities as four and three Star-rated hotels rated by China National Star Rating System                      |
| “MOF”                                         | the Ministry of Finance of the PRC (中華人民共和國財政部)                                                                                                                                                                                                                                                                                                                                                           |
| “MOFCOM” or “MOC”                             | the Ministry of Commerce of the PRC (中華人民共和國商務部)                                                                                                                                                                                                                                                                                                                                                          |
| “Mr. Chen Miaolin”                            | one of our non-executive Directors and our Controlling Shareholders                                                                                                                                                                                                                                                                                                                                       |

## DEFINITIONS

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|-----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “NDRC”                                        | the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)                                                                                                                                                                                                                                         |
| “New Century Group”                           | New Century Holdings Group and New Century Tourism Group                                                                                                                                                                                                                                                              |
| “New Century Holdings”                        | New Century Holdings Group Ltd* (開元控股集團有限公司), a company established in the PRC on April 6, 2004, and is owned as to 85.2% by Mr. Chen Miaolin, 8.5% by Mr. Chen Canrong and 6.3% by Mr. Zhang Guanming                                                                                                                |
| “New Century Holdings Group”                  | New Century Holdings and its subsidiaries                                                                                                                                                                                                                                                                             |
| “New Century Hotel Investment”                | Zhejiang New Century Hotel Investment and Management Group Co., Ltd.* (浙江開元酒店投資管理集團有限公司), a company established in the PRC on November 30, 2001 and owned as to 60.1% and 40.0% by Spearhead Investments Ltd and Sky Town Investment Ltd, respectively, both of which are indirectly wholly-owned by New Century REIT |
| “New Century Hotel Investment Reorganization” | the reorganization undergone by our Controlling Shareholders in preparation for the listing of New Century REIT in 2013, details of which are set out in the section headed “History, Reorganization and Corporate Structure – Our Company” in this document                                                          |
| “New Century REIT”                            | New Century Real Estate Investment Trust, a Hong Kong collective investment scheme constituted as a unit trust and authorized under section 104 of the SFO, the units of which are listed on the Stock Exchange (Stock code: 1275), a connected person by virtue of being an associate of Mr. Chen Miaolin            |
| “New Century REIT Group”                      | New Century REIT and its subsidiaries                                                                                                                                                                                                                                                                                 |
| “New Century REIT Hotel Property(ies)”        | New Century Grand Hotel Hangzhou* (杭州開元名都大酒店), New Century Hotel Xiaoshan Zhejiang* (浙江開元蕭山賓館), New Century Resort Qiandao Lake Hangzhou* (杭州千島湖開元度假村), New Century Grand Hotel Ningbo* (寧波開元名都大酒店) and New Century Grand Hotel Changchun* (長春開元名都大酒店)                                                                |

## DEFINITIONS

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| “New Century Tourism”       | New Century Tourism Group Co., Ltd* (開元旅業集團有限公司), a company established in the PRC on January 9, 2001, and is one of our Controlling Shareholders and is indirectly owned as to 85.2% by Mr. Chen Miaolin, 8.5% by Mr. Chen Canrong and 6.3% by Mr. Zhang Guanming |
| “New Century Tourism Group” | New Century Tourism and its subsidiaries                                                                                                                                                                                                                           |
| “Nomination Committee”      | the nomination committee of the Board                                                                                                                                                                                                                              |
| “NPC”                       | the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)                                                                                                                                                                                                        |

[REDACTED]

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|--------|-------------------------------------|
| “PBOC” | the People’s Bank of China (中國人民銀行) |
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## DEFINITIONS

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|-------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “PRC Company Law”                                     | the Company Law of the PRC as amended and adopted by the Standing Committee of the Tenth National People’s Congress on December 28, 2013 and effective on March 1, 2014, as amended, supplemented and otherwise modified from time to time |
| “PRC GAAP”                                            | the Accounting Standards for Business Enterprises issued by the MOF of the PRC in 2006, and other related regulations issued by the MOF                                                                                                    |
| “PRC Government”                                      | the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities or, as the context requires, any of them                |
| “PRC Legal Adviser”                                   | King & Wood Mallesons, our Company’s legal adviser as to PRC law                                                                                                                                                                           |
| “Predecessor” or<br>“New Century Hotel<br>Management” | Zhejiang New Century Hotel Management Limited* (浙江開元酒店管理有限公司), a limited liability company established in the PRC on December 17, 2008, the predecessor of our Company                                                                     |

[REDACTED]

|                             |                                                                                                                                                                                  |
|-----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Property Valuation Report” | the property valuation report prepared by Cushman & Wakefield Limited, an independent property valuer, as set out in “Appendix III – Property Valuation Report” to this document |
| “RMB” or “Renminbi”         | the lawful currency of the PRC                                                                                                                                                   |
| “Regulation S”              | Regulation S under the U.S. Securities Act                                                                                                                                       |
| “Remuneration Committee”    | the remuneration committee of our Board of Directors                                                                                                                             |



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## DEFINITIONS

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|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Reorganization” | the reorganization undergone by our Group in preparation for [REDACTED] as described in the section headed “History, Reorganization and Corporate Structure – Reorganization” in this document |
| “SAFE”           | the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)                                                                                                                       |
| “SAIC”           | the State Administration for Industry & Commerce of the PRC (中華人民共和國國家工商行政管理總局)                                                                                                                |
| “SAT”            | the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)                                                                                                                                |
| “SCNPC”          | the Standing Committee of the National People’s Congress of the PRC (中華人民共和國全國人民代表大會常務委員會)                                                                                                     |
| “SFC”            | the Securities and Futures Commission of Hong Kong                                                                                                                                             |
| “SFO”            | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time                                                  |
| “Share(s)”       | ordinary shares of our Company with a nominal value of RMB1.00 each, including our Domestic Shares, Unlisted Foreign Shares and H Shares                                                       |
| “Shareholder(s)” | the holder(s) of the Share(s)                                                                                                                                                                  |
| “sq.m.”          | square meter                                                                                                                                                                                   |

### [REDACTED]

|                           |                                                        |
|---------------------------|--------------------------------------------------------|
| “State Council”           | State Council of the PRC (中華人民共和國國務院)                  |
| “Stock Exchange”          | The Stock Exchange of Hong Kong Limited                |
| “subsidiary(ies)”         | has the meaning ascribed to it under the Listing Rules |
| “substantial shareholder” | has the meaning ascribed to it under the Listing Rules |
| “Supervisor(s)”           | supervisor(s) of our Company                           |

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## DEFINITIONS

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|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| “Takeovers Code”          | The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time |
| “Track Record Period”     | the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018                                                |
| “US\$” or “U.S. dollars”  | United States dollars, the lawful currency of the United States                                                                            |
| “U.S.” or “United States” | the United States of America, its territories, its possessions and all areas subject to its jurisdiction                                   |

[REDACTED]

|                             |                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Unlisted Foreign Share(s)” | ordinary shares in our capital, with the nominal value of RMB1.00 each and are held by persons other than PRC nationals or PRC incorporated entities and are not listed on any stock exchange                                                                                                                                                             |
| “Upscale Hotel”             | the upscale hotels mainly refer to hotels by China National Star Rating System as five Star-rated hotels which are rated by China Tourism Hotel Association, as well as hotels which have similar product positioning and quality, service quality, and comprehensive facilities as the five Star-rated hotels rated by China National Star Rating System |
| “U.S. Securities Act”       | the U.S. Securities Act of 1933, as amended, supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder                                                                                                                                                                                                   |
| “VAT”                       | value-added tax                                                                                                                                                                                                                                                                                                                                           |

[REDACTED]

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## DEFINITIONS

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|------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Yuyao Manju”    | Yuyao New Century Manju Hotel Management Co., Ltd.* (余姚開元曼居酒店管理有限公司), a company incorporated in the PRC on November 23, 2015, and owned as to 55.7% by Zhejiang New Century Manju Hotel Management Co., Ltd., our wholly-owned subsidiary, and as to 44.3% by five employees of our Group and six individuals who are Independent Third Parties                                                                                                                                       |
| “Zhejiang Haogu” | Zhejiang Haogu Internet Technology Co., Ltd.* (浙江皓谷網絡科技有限公司), a company incorporated in the PRC on May 20, 2016, owned as to 20% by our Company and as to 20% by each of New Beacon Hotel Group (Wuhan) Co., Ltd.* (紐賓凱酒店集團(武漢)有限公司), Guangdong International Hotel Management (China) Co., Ltd.* (粵海國際酒店管理(中國)有限公司), Shuguang Hotel Management (Shanghai) Co., Ltd.* (曙光酒店管理(上海)有限公司), and Huatian Hotel Group Co., Ltd.* (華天酒店集團股份有限公司), all of which are Independent Third Parties |
| “%”              | per cent                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

*Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*If there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “\*” and the Chinese translation of company names in English which are marked with “\*” is for identification purpose only.*

## GLOSSARY

*This glossary contains explanations and definitions of certain technical terms used in this document in connection with our business. These terms and their given meanings may not correspond to standard industry definitions or usage of these terms.*

|                                       |                                                                                                                                                                                                                            |
|---------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “ADR”                                 | average daily rate, which means room revenue divided by rooms in use                                                                                                                                                       |
| “available room(s)”                   | number of rooms available for a hotel after deducting permanent house use                                                                                                                                                  |
| “CRS”                                 | central reservation system                                                                                                                                                                                                 |
| “DRMS”                                | disaster recovery management system                                                                                                                                                                                        |
| “EBITDA”                              | profit before income tax, interest income, finance costs, share of results of associates and jointly controlled entities, depreciation and amortization, other gains and other non-recurring items                         |
| “EBITDAR”                             | profit before income tax, interest income, finance costs, share of results of associates and jointly controlled entities, depreciation and amortization, other gains, other non-recurring items, and lease rental expenses |
| “first-tier cities” <sup>(Note)</sup> | Beijing, Shanghai, Guangzhou and Shenzhen                                                                                                                                                                                  |
| “F&B”                                 | operating activities in connection with food and beverage                                                                                                                                                                  |
| “GFA”                                 | gross floor area                                                                                                                                                                                                           |
| “GOP”                                 | gross operating profit                                                                                                                                                                                                     |
| “IT”                                  | information technology                                                                                                                                                                                                     |
| “LPS”                                 | loyalty program system                                                                                                                                                                                                     |
| “MICE”                                | meeting, incentive, conference and exhibition                                                                                                                                                                              |
| “mid-scale full service hotels”       | hotels with standard comparable to four Star-rated hotels which offer full range of hotel services                                                                                                                         |

*Note:* only include cities that our Group had operated and managed hotels during the Track Record Period.

## GLOSSARY

|                                           |                                                                                                                                                                                                                                                      |
|-------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “mid-scale select service hotels”         | hotels with standard comparable to four Star-rated hotels which offer selected hotel services                                                                                                                                                        |
| “new first-tier cities” <sup>(1)(2)</sup> | Nanjing, Dalian, Tianjin, Ningbo, Chengdu, Hangzhou, Suzhou, Xi’an, Zhengzhou, Chongqing, Changsha, Qingdao                                                                                                                                          |
| “OPERA system”                            | OPERA enterprise solution, a scalable suite of products consisting of modules for the hotel industry                                                                                                                                                 |
| “occupancy rate”                          | rooms in use divided by available rooms for a given period                                                                                                                                                                                           |
| “OTA”                                     | online travel agency                                                                                                                                                                                                                                 |
| “PMS”                                     | property management system                                                                                                                                                                                                                           |
| “permanent house use”                     | guestrooms which have been removed from the saleable inventory for a period longer than six months                                                                                                                                                   |
| “RevPAR”                                  | revenue per available room, calculated by room revenue during a period divided by the available room of such hotel during the same period                                                                                                            |
| “third-tier cities” <sup>(1)</sup>        | Sanya, Sanming, Shangrao, Linyi, Lishui, Lijiang, Jiujiang, Baoding, Baotou, Jilin, Tangshan, Xiaogan, Zhuzhou, Gulin, Cangzhou, Tai’an, Taizhou, Huai’an, Huzhou, Zhangzhou, Yancheng, Zhoushan, Quzhou, Lianyungang, Zhenjiang, Ma’anshan, Longyan |
| “second-tier cities” <sup>(1)</sup>       | Lanzhou, Nanchang, Nantong, Taizhou, Hefei, Jiaxing, Changzhou, Xuzhou, Yangzhou, Wuxi, Jinan, Haikou, Wenzhou, Yantai, Shaoxing, Jinhua, Changchun                                                                                                  |
| “Star-rated”                              | number of stars conferred by the PRC Tourism Board to a hotel according to the Star-rating Standard Manual and a Star-rated hotel refers to a hotel with star-rating conferred as mentioned above                                                    |

*Notes:*

- (1) only include cities that our Group had operated and managed hotels during the Track Record Period.
- (2) city categorization of new first-tier cities according to Horwath, which is based on the report published by YICAI (Yicai Media Group (第一財經)), which was founded in 2003 and is one of the largest financial media conglomerate in China) in May 2017.

## FORWARD-LOOKING STATEMENTS

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This document contains forward-looking statements and information. Such forward-looking statements relate to events that are subject to significant risks and uncertainties, including the risks described in the section headed "Risk Factors" in this document. These forward-looking statements include (but are not limited to) words and expressions such as "aim", "expect", "believe", "plan", "intend", "project", "seek", "anticipate", "may", "will", "should", "would" and "could" or similar words, expressions or statements or the negative thereof, in particular, in the sections headed "Business" and "Financial Information" in this document in relation to future events, including our strategies, plans, objectives, goals, targets, future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets, as well as the national and global economy.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future and the information currently available to our management. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance, which is subject to known and unknown risks, uncertainties, assumptions and other factors, some of which are beyond our control, and may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These risks and uncertainties include, but are not limited to, those discussed under "Risk Factors" and the following:

- (i) the competition in the market in which we operate;
- (ii) our business development, operating results and performance and financial condition;
- (iii) future development, trends and environment of the industry and markets in which we operate;
- (iv) general domestic and global economic conditions, including those related specifically to China;
- (v) changes in the regulatory policies of the PRC Government and other relevant government authorities relating to the industries discussed herein and their potential impact on our business;
- (vi) the effects of domestic and overseas competition in our industry and their potential impact on our business;

## **FORWARD-LOOKING STATEMENTS**

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- (vii) changes in pricing for our services;
- (viii) our ability to expand and manage our business and to introduce new services;
- (ix) our ability to attract customers and further enhance our brand recognition;
- (x) our financial conditions, operating results and performance;
- (xi) our ability to reduce costs; and
- (xii) our capital expenditure plans.

We caution you not to place undue reliance on these forward-looking statements, which reflect our management's view only as at the date of this document. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this document might not occur. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set out in this section.

## RISK FACTORS

*You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an investment in our H Shares. These risks could materially adversely affect our business, financial condition and results of operations. The trading price of our H Shares could significantly decrease if any of these risks materializes, and you may lose all or part of your investment. You should note that we are a PRC company governed by a legal and regulatory regime that differs from that of other countries. For more information concerning PRC and certain related matters discussed below, please see the sections headed "Supervision and Regulation" and "Appendix VI – Summary of the Articles of Association" to this document.*

There are certain risks and uncertainties involved in our business and operations and in connection with the [REDACTED]. These risks and uncertainties can be categorized as: (i) risks relating to our business and operations; (ii) risks relating to the hotel industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the [REDACTED]. Additional risks and uncertainties that are not presently known to us or that we currently deem immaterial may develop and become material and could also harm our business, financial position and results of operations.

### RISKS RELATING TO OUR BUSINESS AND OPERATIONS

**We operate in a highly competitive industry, thus our revenues, profits or market share could be harmed if we are unable to compete successfully.**

The segments of the hotel industry in which we operate are subject to intense competition. Our principal competitors are other hotel groups, including other major hospitality chains with well-established and recognized brands. If we are unable to compete successfully, our revenues or profits may decline or our ability to maintain or increase our market share may be diminished.

We compete for hotel guests based primarily on brand recognition and reputation, location, guest satisfaction, room rates, quality of service, amenities and quality of accommodations. Some of our competitors are larger than we are based on the number of properties they manage, franchise, lease or own, or based on the number of rooms or geographic locations where they operate. Our competitors may also have greater financial and marketing resources than we do, which could allow them to improve their properties and expand and improve their marketing efforts in ways that could affect our ability to compete for guests effectively.

We compete to enter into full service management agreements and franchise agreements. Our ability to compete successfully is based primarily on the value and quality of our management services, brand recognition and reputation, availability of suitable properties in certain geographic areas which meet our selection criteria for hotel operation or management (such as those which are in central or highly accessible locations), and the overall economic terms of our agreements and the economic advantages to the property owner of retaining our



## RISK FACTORS

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management services and using our brands. The location of the properties for our hotel operation and management would directly affect the performance of our hotels as hotel guests would normally consider the accessibility of the hotel as one of the factors when choosing hotels as accommodation. If the properties that we manage or franchise perform less successfully than those of our competitors or if we are unable to offer terms as favorable as those offered by our competitors, our ability to compete successfully for new full service management agreements or franchise agreements could be reduced.

Further, we also compete with other hotel chains to enter into hotel lease agreements with third-party hotel owners. Our ability to compete is dependent mainly on the level of rent to be paid by us, value and quality of our management services, brand recognition and reputation, availability of suitable properties in certain geographic areas, and the overall economic terms of our agreements and the economic advantages to the property owner. If we are unable to offer terms as favorable as those offered by our competitors, or if the availability of suitable properties is limited, our ability to compete successfully for new hotel lease agreements could be affected.

**There is no assurance that we will be able to achieve our current business goals and plans for growth.**

We currently plan to increase our profits and revenues by entering into more full service management agreements or hotel lease agreements. In 2015, 2016, 2017 and the eight months ended August 31, 2018, we entered into 23, 33, 48 and 45 new full service management agreements, respectively. We also entered into one, two, seven and two new hotel lease agreement(s) in 2015, 2016, 2017 and the eight months ended August 31, 2018, respectively. As at August 31, 2018, we had (i) 29 leased hotels with 7,117 hotel rooms, (ii) 96 full service managed hotels with 20,938 hotel rooms in operation and (iii) 13 franchised hotels with 3,465 hotel rooms. The identification and completion of new full service management agreements or hotel lease agreements are dependent upon various factors, including (a) satisfactory completion of due diligence, (b) negotiation of the terms and conditions of the definitive agreements with the hotel owners and (c) our ability to compete with other competitors in obtaining suitable full service management agreements or entering into hotel lease agreements. Our ability to implement business plans and realize business goals is further subject to a range of uncertainties, including economic conditions, obtaining the requisite financing, the timely delivery of supplies by contractors and other third-party suppliers, the receipt of required government and shareholders' approvals, value and quality of our management services, our ability to fulfill the performance standards under the full service management agreements, the recognition and reputation of our brands, the pricing of our management fees and the terms and conditions of our full service management agreements.

We cannot assure you that we will be able to enter into suitable full service management agreements and/or hotel lease agreements in the future, or that we will have sufficient capital to fund such operations. If we are unable to implement these plans or we fail to achieve these goals, our expansion may not yield the planned benefits, which could have a material adverse effect on our growth and financial performance and the trading price of our H Shares.

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## RISK FACTORS

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As at August 31, 2018, our hotel network comprised 140 hotels with over 31,000 rooms in the PRC. During the Track Record Period, we had experienced: (i) one hotel lease agreement that was terminated due to the hotel owner selling the hotel to a third party; and (ii) 12 full service management agreements that were terminated due to, amongst others: (a) the hotel was not able to satisfy the standard as required by our management team, or (b) the hotel owner decided to sell the hotel or change the business model of the hotel, or (c) financial difficulties of the hotel owner. The commitments of owners with whom we have agreements are subject to numerous conditions, and the eventual development and construction of our pipeline not currently under construction is subject to numerous risks, including, in certain cases, obtaining governmental and regulatory approvals and adequate financing. Further, the full service management agreements or hotel lease agreements that we have contracted but have not yet commenced operations may encounter delays in opening schedule, change of number of rooms being built or early termination of agreements. As a result, we cannot assure you that our entire development pipeline will develop into new hotels as scheduled or at all, which may in turn affect our financial performance. Further, any early termination of our full service management agreement or hotel lease agreement may also affect our results of operations and financial condition.

**We may not be successful in expanding into the geographic areas that we do not currently serve.**

While we had, in the past, primarily focused on building our business and operations in second- and third-tier cities in the Yangtze River Delta and surrounding regions, we have also expanded into Beijing, Shanghai, and other cities, including a number of first-, new first-, second- and third-tier cities in other provinces and areas. We are currently seeking new business opportunities in other tourist destinations and commercial and business zones throughout China. Our expansion, and the need to integrate operations arising from our expansion into other cities and provinces, may place a significant strain on our managerial, operational and financial resources and may further increase our financing requirements. In addition, we may encounter strong competition from other hotel operators who are already well-established in these cities. If our plans to expand into the geographical areas that we do not currently serve are unsuccessful, our growth and financial performance may be materially and adversely affected.

**Our full service management or franchise agreements with third-party hotel owners or franchisees may be affected or terminated if third-party hotel owners or franchisees of the properties fail to make investments necessary to maintain or improve their properties to the requisite standard or are unable to afford the mortgages.**

We manage and franchise properties owned by third parties under the terms of the full service management agreements or franchise agreements. All of these agreements require third-party hotel owners to comply with standards that are essential to maintaining our brand integrity and reputation. We depend on third-party hotel owners to comply with these requirements by maintaining and improving properties through investments, including investments in furniture, fixtures, amenities and personnel.

## RISK FACTORS

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Third-party hotel owners or franchisees may not inject capital into the hotel for the requisite improvement on the hotel when necessary, even if it is required by the terms of our full service management or franchise agreements. If our third-party hotel owners or franchisees fail to make investments necessary to maintain or improve the properties we manage or franchise, our brand preference and reputation may suffer. In addition, if third-party hotel owners or franchisees breach the terms of our agreements with them, we may elect to exercise our termination rights.

Further, if the third-party hotel owners or franchisees are unable to afford the mortgages for their properties, this may lead to adverse effect to their title to the properties and in turn may affect the operation of the hotels on the properties. We cannot assure you that our hotel lease agreements, full service management agreements or franchise agreements will not be terminated prior to the expiration or will be renewed when their terms expire. Termination or non-renewal of the abovementioned agreements could have a material adverse impact on our business, financial position and results of operations.

**We are exposed to the risks resulting from significant investments in owned and leased properties, which may increase our costs, reduce our profits, limit our ability to respond to market conditions or restrict our growth strategy.**

As at August 31, 2018, we had two owned hotels and 29 leased hotels. Hotel operation is subject to risks not applicable to our managed hotels, including:

- (i) governmental regulations relating to real estate ownership;
- (ii) real estate, insurance, zoning, tax, environmental and eminent domain laws;
- (iii) the ongoing need for owner funded capital improvements and expenditures to maintain or upgrade properties;
- (iv) risks associated with mortgage debt, including the possibility of default, fluctuating interest rate levels and the availability of replacement financing;
- (v) fluctuations in real estate values or potential impairments in the value of our assets;  
and
- (vi) the relative illiquidity of real estate compared to other assets.

The negative impact on profitability and cash flow generation from a decline in revenue is significant in owned properties due to their high fixed-cost structure. The need to maintain and renovate owned and leased properties can present challenges, especially when cash generated from operations has declined. These challenges could hinder our plans for developing or renovating our leased or owned properties. The effectiveness of any cost-cutting efforts is limited by the fixed-cost nature of our business. As a result, we may not be able to offset further revenue reductions through cost cutting, which could further reduce our margins. During times of economic distress, declining demand and declining earnings often result in declining asset values.

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## RISK FACTORS

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### **Our Group's business and reputation can be affected by mismanagement of any of its hotels by franchisees.**

As at August 31, 2018, there were 140 hotels in operation that are operated or managed by our Group, of which 13 were operated under the franchise agreement. Even though we require all hotel owners to comply with our standards that are essential to maintaining our brand integrity and reputation, we do not exercise full control over the actions of such franchisees pursuant to the franchise agreements. If any of such franchisees fail to comply with the terms of the franchise agreements and perform to the standards of our hotels, or if such franchisees fail to obtain proper title certificates for their respective properties and are required to vacate such premises, the hotels managed by them will lose hotel guests and revenues, which in turn could have an adverse effect on the revenue and reputation of our Group.

In addition, if the trademarks of our Group are misused by certain franchisees, there may be an adverse impact on our Group's business reputation and brand image. Some defaulting franchisees may not be in a financial position to compensate for any direct and indirect losses which our Group may suffer as a result of any wrongdoing of such franchisees. There is also a risk of third party lawsuits against our Group for any wrongdoing of the franchisees, and our Group may incur additional litigation costs and expenses to defend such litigation. Such additional costs and expenses may have an adverse impact on our Group's business, financial conditions and results of operations. In addition, our Group may, from time to time, be the subject of complaints from dissatisfied hotel guests who are unhappy with the standard of service provided by franchisees. All complaints, regardless of their validity, may affect the reputation of our Group, thereby adversely affecting the results of operations of our Group.

### **If we fail to maintain our relationships with our third-party distribution channels (including OTAs and travel agencies) for the sales of our hotel rooms, our business and growth prospects could be materially and adversely affected.**

Historically, we have derived a portion of our revenues from our indirect reservation channels mainly comprising hotel reservation websites maintained by third-party operators and our cooperation arrangements with travel agencies. In 2015, 2016 and 2017 and the eight months ended August 31, 2018, we sold in aggregate 18.2%, 20.6%, 20.9% and 19.8%, respectively, of our room nights through our indirect reservation channels.

We cannot assure you that we are able to maintain our relationship with the OTAs and that our corporate account clients and tourists group clients will agree to renew the relevant cooperation agreements upon their expiration, or enter into new agreements with us on substantially similar terms. If we fail to enhance or maintain our relationships with the above stakeholders, and the frequency of member stays at our hotels declines as a result, or if our corporate account clients decline to renew their cooperation agreements or propose new agreements with commercial terms less favorable to us, our business and growth prospects could be materially and adversely affected.

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## RISK FACTORS

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**We are exposed to geographical concentration risks as a majority of our hotels are currently located in Zhejiang Province.**

As at August 31, 2018, 81 of our 140 hotels were located in Zhejiang Province. The revenue generated from our operated hotels located in Zhejiang Province represented 66.4%, 68.2%, 68.2% and 68.8% of our total revenue for the year ended December 31, 2015, 2016, 2017 and the eight months ended August 31, 2018, respectively. While we may expand into other cities and provinces in the future, we anticipate that the vast majority of our business operations in the foreseeable future will likely be concentrated in Zhejiang Province, and hotels in this region will continue to generate a significant majority of our revenue. As such, if any event negatively affecting the hotel and tourism industries in Zhejiang Province occur, such as negative changes in local government policies relating to tourism industry, a serious economic downturn, a natural disaster or epidemic, our business and financial condition, result of operations and growth prospects could be materially and adversely affected.

**We may not be able to maintain our historical growth rates or profit margins, and our operating results may fluctuate significantly as a result of factors beyond our control.**

We experienced growth in our revenue and net profit during the Track Record Period. Our revenue increased from RMB1,522.1 million in 2015 to RMB1,664.6 million in 2017, representing a CAGR of 4.6%. We recorded a net profit of RMB29.6 million in 2015, RMB84.1 million in 2016 and RMB166.6 million in 2017, representing a CAGR of 137.2%. Our net profit margin increased from 1.9% in 2015 to 5.2% in 2016 and further to 10.0% in 2017. We cannot assure you that we will be able to maintain our revenue, profit growth or profit margins at historical levels, or at all.

Our operating results may fluctuate significantly as a result of non-recurring events or factors beyond our control. We may be required to pay the salaries of the general manager and financial controller being assigned to the full service managed hotels, which such costs will subsequently be reimbursed to us by hotel owners. Under such arrangement, as the employee benefit expenses of our hotel management segment would be increased, this may impact on the gross profit margin of our hotel management segment. These conditions could make our operating results difficult to predict. Fluctuations in our operating results may also result in substantial volatility in the trading price of our H Shares. We operate in a rapidly changing and evolving industry and, as a result, you should not rely on our historical operating or financial results as an indication of our future performance.

**We recorded net current liabilities during the Track Record Period and may not generate sufficient cash flows in the future to fulfill our ability to expand our business.**

We had incurred net current liabilities of RMB41.5 million and RMB24.2 million as at December 31, 2015 and 2016, respectively. Our net current liability positions as at December 31, 2015 and 2016 primarily consisted of (i) trade and other payables; (ii) short-term bank borrowings and (iii) contract liabilities. Our net current liabilities position would expose us to liquidity risk, and could constrain our operational flexibility and adversely affect our ability to

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## RISK FACTORS

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expand our business. We cannot assure you that we will be able to obtain adequate financing to meet our future working capital requirements, or that we will be able to maintain our net current assets position in the future. If we do not have sufficient working capital and are unable to generate sufficient revenues or raise additional funds, we may significantly reduce the scope of our current business plan or substantially curtail our operations, any of which could materially and adversely affect our business, financial conditions and results of operations. Please see the sub-section headed “Financial Information – Liquidity and Capital Resources – Net Current Assets and Liabilities” in this document for further information.

### **Our finance costs are subject to fluctuations in interest rates.**

Fluctuations in interest rates have affected and will continue to affect our financing costs. For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, our finance costs were RMB30.2 million, RMB16.0 million, RMB10.4 million and RMB6.8 million, respectively. As all of our bank borrowings are denominated in RMB, the interest rates on our bank borrowings are primarily impacted by the benchmark interest rates set by the PBOC. As at the Latest Practicable Date, the one-year and above-five-year benchmark lending rates were 4.4% and 4.9%, respectively. Future increases in the PBOC benchmark interest rates may raise lending rates, which would increase our financing costs and could materially and adversely affect our business, financial conditions and results of operations.

### **The operating results of our Group may be adversely affected by the departure of our Directors and senior management.**

We have been, and will continue to be, dependent on the continued efforts of our Directors, senior management team and other key employees, such as our hotel managers for our success. In particular, we rely heavily on the expertise and experience of our Directors, most of whom have played major roles in our Group since its establishment as described in the section headed “Directors, Supervisors and Senior Management” in this document. Our Directors devise our strategic direction and manage our businesses, and the loss of a substantial number of them could impair our ability to operate our business and execute our strategies. Our Directors and senior management have significant experience in hotel operation and management in China.

The continued success of our Group also depends upon our ability to attract and retain a group of skilled employees who are experienced in hotel operations and management business. Qualified and talented individuals are scarce and in high demand. Our ability to retain experienced employees will, to a certain extent, depend on the adoption of appropriate remuneration (including salary, housing or other benefits) and incentive schemes by our Group. The loss of a substantial number of our Directors or senior management or our inability to recruit and retain a sufficient number of experienced employees could have a material and adverse effect on the business, financial conditions and results of operations of our Group.



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**Any failure to develop, maintain and protect our brands and trademarks could have an adverse impact on our business.**

We have developed our (i) upscale business hotel under our “Grand New Century (開元名都)” brand; (ii) upscale resort hotels under four brands, namely, “New Century Resort (開元度假村)”, “New Century Grand House (開元觀堂)”, “New Century Wonderland (開元芳草地鄉村酒店)” and “New Century Senbo (開元森泊)”; (iii) mid-scale full service hotels under two brands, namely “New Century Hotel (開元大酒店)” and “Maison New Century (開元名庭)”; and (iv) mid-scale select service hotels under five brands, namely “New Century Manju Hotel (開元•曼居酒店)”, “Kaiyuan Life (開元頤居)”, “Wonderland RV Camp (芳草青青房車營地)”, “Mayart Hotel (開元美途)” and “A.T.K Hotel (阿緹客)”. We believe that the development and protection of our brands are critical to the growth and success of our business. “New Century (開元)” is our primary trademark. As at the Latest Practicable Date, we have registered 58 trademarks and have submitted applications for the registration of 34 additional trademarks in the PRC.

According to PRC regulations, the owner of trademarks registered with the State Intellectual Property Office is entitled to the exclusive use of those trademarks. We may not be successful in further developing our brand identity and reputation. The brands we use and have established over the years may be damaged by actions taken by third parties, and once damaged, may be very difficult to rebuild. Moreover, any infringement or unauthorized use of our brands by others could adversely affect our business and prospects. The measures we take to protect our brands and trademarks may not be adequate to prevent their unauthorized use. Furthermore, the application of laws governing intellectual property rights in the PRC is uncertain and evolving. Historically, China has not protected intellectual property rights to the same extent as other developed countries, and infringement of intellectual property rights continues to pose a serious risk of doing business in China. Monitoring and preventing unauthorized use of our intellectual property rights may be difficult. If we are unable to adequately develop and protect our brands and trademarks, we may lose these rights and our business, in particular our business under the franchise model, financial condition and results of operation may be materially and adversely affected.

**Refurbishment or further development of our existing leased and owned properties from time to time could result in cost overruns and disruptions to our hotel operations.**

We believe, as a hotel group, our success in maintaining and enhancing the recognition of our brand depends, to a large extent, on our ability to provide consistent and high-quality accommodation and services across our hotel portfolio, as well as our ability to respond to competitive pressures. In addition, we must maintain our hotels’ condition and appearance, which requires ongoing renovations and other improvements, including periodic repair and replacement of furniture, fixtures and equipment. Such renovations or refurbishments may be more costly than expected and are subject to the risk of delays and cost overruns. In addition, even though hotels under refurbishment may not need to be closed down entirely, there may be instances where refurbishment would seriously disrupt hotel operations and adversely affect the revenues of the relevant hotels. The disruptions and other risks associated with refurbishments and further development or our failure to improve and maintain the conditions of the hotels could have an adverse effect on our business, financial conditions and results of operations.

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## RISK FACTORS

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### **Our hotel licenses are subject to renewal.**

The hotel industry in China is subject to a number of laws and regulations, including laws and regulations relating specifically to hotel operation and management as well as those relating to environmental and consumer protection. We cannot assure you that the conditions or requirements we may be required to satisfy or meet will not change or become more stringent from year-to-year. If we are unable to renew our licenses in a timely manner or if the relevant government authority does not approve our application for a renewal of licenses in the future, we may be subject to fines or penalties and may be required to cease our hotel operations, which may have an adverse effect on our financial condition and results of operations.

### **Our business, financial condition and results of operations may be adversely affected as a result of the failure of hotel owners to obtain certain permits for our managed hotels.**

As advised by our PRC Legal Adviser, the permits required to be obtained by hotel owners for our managed hotels before commencement of their operations include Food Distribution Permit, Special Trade Permit, Public Place Sanitation Permit and Certificate of qualified fire safety inspection over a public gathering place before it is put into use or open for business ("**Fire Safety Certificate**"). Pursuant to the relevant laws and regulations and the provisions of the relevant hotel management agreements, the hotel owners are the parties responsible for obtaining these four types of permits. In particular, as advised by our PRC Legal Adviser, the lack of the Special Trade Permit, Public Place Sanitation Permit or the Fire Safety Certificate could result in warning or fines for the hotel owners, and in the worst case scenario, the operations of the relevant hotels will be suspended until the relevant permits are obtained. As at the Latest Practicable Date, the relevant hotel owners have not yet obtained the Food Distribution Permit, the Special Trade Permit, the Public Place Sanitation Permit and the Fire Safety Certificate for 21 of our managed hotels that were in operation as at August 31, 2018.

During the Track Record Period, the hotel management fee we received from these 21 managed hotels with outstanding permits as set out above amounted to RMB13.7 million, RMB12.0 million, RMB13.5 million and RMB10.0 million, respectively, representing 0.9%, 0.7%, 0.8% and 0.9% of the total revenue of our Group for the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, respectively. We cannot assure you that no actions will be taken against the relevant managed hotels or the hotel owners by any governmental authorities in relation to the lack of the Food Distribution Permit, the Public Place Sanitation Permit, the Fire Safety Certificate and/or Special Trade Permit in the future. As we provide management services to the hotel owners in return for management fees, suspension of business for such hotels may result in loss of our hotel management income. Pursuant to the relevant hotel management agreements and as confirmed by our PRC Legal Adviser, we are entitled to seek compensation from the hotel owners for our losses arising from their failure to obtain such permits. If actions are taken against our managed hotels or us or that we seek compensation from the hotel owners, we may have to incur substantial legal costs. We cannot assure you that we will be able to recover all our losses from hotel owners. Our business, financial condition and results of operations may be adversely affected as a result of these actions and our inability to recover all our losses from hotel owners.



## RISK FACTORS

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**Our leased and owned hotel properties are located on land which is under long-term land use rights granted by the PRC Government.**

All of our leased and owned hotel properties are situated on land that is subject to long-term land use rights granted by the PRC Government. These land use rights generally expire in 40 to 50 years. These land use rights do not have automatic rights of renewal and require application for renewal of the land use right one year prior to the expiration of its term. If the PRC Government approves the renewal, the land will be regranted to us, and we shall pay the land use rights grant fee and other relevant fees for the land.

In certain circumstances, the PRC Government may, where it considers it to be in the public interest, terminate a land use right before the expiration of its term. In addition, the PRC Government has the right to terminate long-term land use rights and expropriate the land in the event the grantee fails to observe or perform certain terms and conditions pursuant to the land use rights grant contracts. The imposition of terms and conditions, or the non-renewal of the land use rights grant contracts by the PRC Government, may have an adverse effect on our hotel business, financial condition and results of operations.

**We may incur additional operating expenses and depreciation expenses from our expansion plan, which may adversely affect our financial conditions.**

In view of our business strategies and expansion plans, we anticipate that our future operating expenses will increase as our hotel portfolio grows and develops. We anticipate that our capital expenditure will also increase as we will, amongst others, renovate and purchase fixed assets, supplies and other required equipments for development of our hotel portfolio, and also carry out on-going maintenance and upgrading of our existing hotels. Such capital expenditure may result in increase in depreciation expenses, which may in turn adversely affect our financial conditions. Based on our current expansion plan, our depreciation and amortisation expenses are expected to increase by RMB20.3 million from new operated hotels in 2019 provided that such hotels will be developed in accordance with our expansion plan.

**We have limited insurance to cover potential losses and claims.**

Our hotel operations may be affected by a number of risks, including business interruption or potential damage to our facilities and equipment caused by inclement weather, human error, terrorist attacks, pollution, labor disputes or war. In addition, we face risks relating to the provision of services to customers, including damage to customer property. We do not maintain insurance against all risks associated with our operation, either because we have deemed it commercially unfeasible to do so, or because our insurers have excluded certain risk events from coverage under their standard policies. These risk events include, but are not limited to, the loss of any business resulting from negative effects on the changing business cycles and the loss of business arising from increased competition or supply of rooms. Should an incident occur in relation to which we have inadequate insurance coverage, our business, financial position and operating results could be materially and adversely affected. Further, we cannot assure you that we will be able to renew existing insurance coverage on commercially reasonable terms, or at all.

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## RISK FACTORS

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There are certain types of losses, such as due to earthquakes, typhoons, flooding, war and civil disorder, for which insurance coverage is not available on what we believe to be commercially reasonable terms in China. If we suffer any losses, damages or liabilities in the course of our business operations, we may incur a significant amount of cash outflow to cover such losses, damages or liabilities or to replace any property that has been destroyed. Therefore, there may be instances when we will sustain losses, damages and liabilities because of our limited insurance coverage, which may in turn adversely affect our financial condition and results of operations.

**We may be subject to administrative fines, or our right to use our leased or owned properties may be materially and adversely affected, resulting from certain non-compliances with relevant PRC laws and regulations in relation to our leased and owned properties.**

As at November 30, 2018, we owned nine properties in the PRC, amongst which we had not obtained the building title certificate to a hotel building owned by our subsidiary, Jiande New Century Wonderland Resort Co., Ltd.\* (建德開元芳草酒店有限公司). As at November 30, 2018, we leased 31 properties, amongst which the lessor of one leased property had not obtained the building title certificate. We are in the process of applying for the building title certificate for such property and/or working with our landlords to obtain the relevant building title certificate, but the timing for obtaining such relevant certificates is beyond our control. Before we or our landlords obtain the proper building title certificates, our rights in relation such properties might not be entirely protected. If we or our landlords cannot obtain the relevant building title certificates in a timely manner and our legal right to use or occupy the relevant properties is challenged, we may have to find alternative properties, incur additional relocation costs, or our business operations may be disrupted, any of which may have an adverse effect on our business, financial condition, results of operations and prospects.

In addition, the specified use of land on the relevant land use rights certificates for five of our hotels which we lease from third-party landlords is inconsistent with the operation of such hotels. Our PRC Legal Adviser has advised us that under relevant PRC laws and regulations, the purpose of land use shall not be changed, with the exception of the change being approved by competent authorities, the contract on transfer of land being re-executed and additional land premium being paid. If the authority in charge of land administration issues an order to revoke the grant of the land use rights certificate of these hotels, the relevant landlords may be required to terminate their hotel lease agreement with us. The termination of these hotel lease agreements and the operation of these hotels may have an adverse effect on our business, results of operations and financial position.

Furthermore, as at the Latest Practicable Date, we had not completed the administrative filings of the hotel lease agreements relating to 13 properties we leased. According to applicable PRC administrative regulations, a lease agreement is required to be filed with relevant governmental authorities within 30 days after the execution of the lease agreement. If the filing is not made, the governmental authorities may require that the filing be made within a stated period of time, failing which, they may impose a fine ranging from RMB1,000 to

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## RISK FACTORS

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RMB10,000 for each lease agreement that has not been properly filed. It is not clear under PRC law if the fine will be borne by the lessor or lessee. According to applicable PRC administrative regulations, lessors of the related leases need to provide us with certain documents (such as their business licenses or identification information) in order to complete the administrative filing. There can be no assurance that the lessors of our leased properties will be cooperative in the process of completing the filings. If we fail to complete the administrative filings within a period required by the relevant governmental authorities and it is determined that we shall be liable for the aforesaid possible fines to be imposed on our Group, such imposition may have an adverse effect on our business, results of operations and financial position.

For further details, please refer to the sub-section headed "Business – Properties" in this document.

**We may be involved in legal and other disputes from time to time arising out of our operations and may face significant liabilities as a result.**

We may be involved in disputes with various parties involved in the operation and development of our hotels, including contractual disputes with third-party hotel owners or franchisees in relation to the hotel lease agreement, full service management agreement or franchise agreement or third-party intellectual property infringement claims. These disputes may lead to legal, administrative or other proceedings, damage to our reputation, additional operational costs and diversion of resources and management attention from our core business activities. We may have compliance issues with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that result in pecuniary liabilities. We may be involved in legal and other proceedings in the future that may have a material adverse effect on our financial condition, results of operations or cash flow.

**Interruption or failure of our hotel management systems and information technology systems ("IT systems") could impair our ability to effectively provide services and maintain customer data, which could damage our reputation or subject us to lawsuits.**

Our ability to provide consistent and high-quality services and effectively manage operations across our hotel chain depends on the continued operation of our IT systems. Any damage to, or failure of, our IT systems could interrupt our services and daily operations. Our IT systems are vulnerable to damage or interruption as a result of power loss, telecommunication failures, computer viruses, hackers, fires, floods, earthquakes, interruptions in access to our toll-free numbers, or other attempts to harm our systems, and similar events. Some of our systems are not fully backed up and our disaster recovery planning cannot account for all possible scenarios. In addition, our IT systems and related technologies may become outdated and we may not be able to replace or introduce upgrades as quickly as our competitors or within budgeted costs for such upgrades. If we experience frequent, prolonged or persistent IT system failures, the quality of our services and our reputation could be harmed. The steps we need to take to increase the reliability of our IT systems may be costly, which could reduce our operating margins, and may not be successful in reducing the frequency or duration of any failures or service interruptions.

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Our business involves collecting and retaining large volume of internal and customer data, including credit card numbers and other personal information as our various information technology systems enter, process, summarize and report such data. We also maintain information about various aspects of our operations as well as our employees. We are required by applicable laws to keep strictly confidential the personal information that we collect, and to take adequate security measures to safeguard such information. Our security measures and those of our third-party service providers may not be adequate for the protection of data on our Company, customers and employees.

In addition, computer hackers, foreign governments or cyber terrorists may attempt to penetrate our network security and our website. Unauthorized access to our proprietary internal and customer data may be obtained through break-ins, sabotage, breach of our secure network by an unauthorized party, computer viruses, computer denial-of-service attacks, employee theft or misuse, breach of the security of the networks of our third-party service providers, or other misconduct. The laws and regulations applicable to security and privacy are becoming increasingly important in China. The theft, loss, fraudulent or unlawful use of data on our Company, customers and employees could harm our reputation or result in remedial and other costs, liabilities, fines or lawsuits.

### **The restaurants operated by our hotels face risks related to instances of food-borne illnesses and other food safety accidents.**

Some of our hotels directly operate the restaurant located therein. The restaurant business is susceptible to food-borne illnesses and other food safety accidents. We cannot assure you that our internal controls and training will be fully effective in preventing all food-borne illnesses. The service of food and beverage products for human consumption involves an inherent risk of injury or illness to consumers. Such injuries or illnesses may result from tampering by unauthorized third parties or product contamination or degeneration, including the presence of foreign contaminants, chemicals, substances or other agents or residues during the various stages of the procurement, production and serving. While food and beverage operations are subject to governmental inspection and regulations, we cannot assure you that our service of food and beverages will not cause injury or illness in the future, or that we will not be subject to claims or lawsuits relating to such matters. Our insurance coverage may not be adequate to cover the financial damage and our reputation, business, financial condition and results of operations may be adversely affected.

Furthermore, our reliance on third-party food suppliers and distributors increases the risk that food-borne illness incidents could be caused by third-party food suppliers and distributors outside of our control and the risk of multiple locations being affected rather than a single restaurant. Reports in the media of instances of food-borne illnesses could, if highly publicized, negatively impact restaurant sales, forcing the closure of some restaurants and affect our customers' confidence in our hotel business. Furthermore, other illnesses, such as hand, foot and mouth disease or avian influenza, could adversely affect the supply of some of the restaurants' food products and significantly increase such restaurants' costs, which may also adversely affect the results of operations of the relevant hotels.

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## RISK FACTORS

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**We may be subject to fines or penalties under PRC laws and regulations for our failure to register for and/or make appropriate contributions to social insurance and housing provident funds on behalf of some of our employees.**

During the Track Record Period, we did not register for and/or fully contribute to the social insurance and housing provident funds for certain employees. As advised by our PRC Legal Adviser, the relevant PRC authorities may demand that we pay the outstanding social insurance contributions by a stipulated deadline and we may be liable to a late payment fee equal to 0.05% of the outstanding amount for each day of delay; if we fail to make such payments, we may be liable to a fine of one to three times the amount of the outstanding contributions. Our PRC Legal Adviser has also advised us that, under the relevant PRC laws and regulations, we may be ordered to pay the outstanding housing provident fund contributions within a prescribed time period, and if we fail to make such payments, application may be made to a People's Court in the PRC for compulsory enforcement.

We cannot assure you that the relevant PRC authorities would not notify and require us in the future to complete registration and/or pay the outstanding contributions by a stipulated deadline. In the case we fail to pay the outstanding contributions, or to complete the housing fund registration in accordance with PRC laws and as required by the relevant PRC authorities, we may be subject to a penalty fine and/or an order from the relevant people's court to enforce such payment. For further details, please refer to the sub-section headed "Business – Legal and Regulatory Matters – Historical Non-compliance Incidents" in this document.

**The appraised value of our properties may differ materially from their actual realizable value and are subject to change.**

The appraised value of our properties as contained in the Property Valuation Report was prepared by Cushman & Wakefield Limited based on multiple assumptions containing elements of subjectivity and uncertainty, including, among other things, that:

- (i) our Group has an enforceable title to the properties and has free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired land use term as granted and that any premium payable has already been fully paid;
- (ii) all consents, approvals and licenses from relevant government authorities for the developments have been obtained without onerous conditions or delays;
- (iii) the design and construction of the properties are in compliance with the local planning regulations and have been approved by the relevant authorities;
- (iv) no allowance has been made for any charges, mortgages or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a [REDACTED]; and
- (v) the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

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The assumptions adopted by Cushman & Wakefield Limited when preparing the Property Valuation Report may prove to be incorrect. As a result, the appraised values of our properties may differ materially from the price we could receive in an actual sale of the properties in the market and should not be taken as their actual realizable value or a forecast of their realizable value. Unforeseeable changes to the development of the property development projects, as well as national and local economic conditions, may affect the value of our properties.

**Negative publicity, including adverse information on the internet, about us or our Controlling Shareholders and affiliates, may have a material adverse effect on our business, reputation and the trading price of our H Shares.**

Negative publicity about us or our Controlling Shareholders and affiliates, may arise from time to time. Any degradation or adverse market developments relating to the “New Century (開元)” brand name or the New Century Tourism Group in general may adversely affect the results of operations of our hotels since most of our hotels includes the “New Century” name. Any future financial challenges experienced by the New Century Tourism Group may in some circumstances result in negative perceptions of our Group, which could have a material adverse effect on our Group’s financial condition, operating results and, in turn, its ability to make distributions to our Shareholders.

Our business operations and management may appear in internet postings and other media sources from time to time and we cannot assure you that other types of negative publicity will not arise in the future. Any such negative publicity, regardless of veracity, may have a material adverse effect on our business, our reputation and the trading price of our H Shares.

**Our Controlling Shareholders have the ability to exercise substantial control over us and can influence our business in ways which may not be in the best interests of our other Shareholders.**

Our Controlling Shareholders (through New Century Tourism) will control approximately [REDACTED]% of the issued share capital of our Company upon completion of the [REDACTED] assuming no exercise of the [REDACTED] (or approximately [REDACTED]% assuming the [REDACTED] is exercised in full). Accordingly, our Controlling Shareholders, in particular Mr. Chen Miaolin who holds a majority stake in New Century Tourism, will (subject to the Articles of Association and the applicable laws and regulations) be able to control or otherwise influence our major policy decisions in ways that may not always be in the interests of other Shareholders, including overall strategic and investment decisions, dividend plans, issuances of securities and adjustments to the capital structure and other actions that require the approval of the Shareholders, which could result in decisions which may not be in the interests of our other Shareholders.



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**The application of IFRS 16 may affect our financial position and results of operations when it becomes effective due to our operating lease arrangements.**

IFRS 16 was published in January 2016 and will be effective for accounting periods beginning on or after 1 January 2019. It addresses the definition of a lease, recognition and measurement of leases and principles for reporting useful information to users of financial information about the leasing activities of both lessees and lessors. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. During the Track Record Period, our Group acted as lessee in relation to various properties and equipment, which are currently classified as operating leases. As at August 31, 2018, our operating lease commitment amounted to RMB1,685.8 million. IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognize certain leases outside of the balance sheets. Instead, all non-current leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). It is expected therefore that the new standard under IFRS 16 will result in an increase in right-of-use assets and financial liabilities in the consolidated balance sheets. This will affect related ratios, such as an increase in debt to equity ratio. As for the impact on our results of operations in the consolidated statements of comprehensive income, it is expected that our operating lease expenses will decrease, while depreciation and amortization and interest expense will increase.

**The uncertainty relating to recoverability of deferred tax assets may adversely affect our financial results.**

In the application of our accounting policies, our management is required to make judgments, estimates and assumptions about the carrying amounts of certain assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Therefore, actual results may differ from these accounting estimates. Our deferred tax assets amounted to RMB24.7 million, RMB25.2 million, RMB19.6 million and RMB25.3 million as at December 31, 2015, 2016 and 2017 and August 31, 2018, respectively.

Based on our accounting policies, deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different. If there is a significant adverse change in our performance, some or all of the relevant deferred tax assets may need to be written-off and charged to the income statement, which could have an adverse effect on our financial condition. Moreover, utilization of deferred tax assets significantly depends on our management's judgment as to whether sufficient profits or taxable temporary differences will be available in the future.

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## RISK FACTORS

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**Our financial position and results of operations may be adversely affected by the performance of our investments in joint ventures and associates.**

As of December 31, 2015, 2016 and 2017 and August 31, 2018, our investments in a joint venture and associates amounted to RMB108.4 million, RMB115.9 million, RMB118.4 million and RMB119.3 million, respectively. And the share of net profit of associates and joint ventures accounted for using the equity method were RMB1.7 million, RMB1.4 million, RMB3.0 million and RMB4.3 million, respectively. The success of a joint venture and an associated company depends on a number of factors, some of which are beyond our control. As a result, we may not be able to realize the anticipated economic and other benefits from our joint venture and associated companies.

In addition, our investment in associates and joint ventures are subject to liquidity risk. Our investments in associates and joint ventures are not as liquid as other investment products as there is no cash flow until dividends are received even if our associates and joint ventures reported profits under the equity accounting. Furthermore, our ability to promptly sell one or more of our interests in the associates or joint ventures in response to changing economic, financial and investment conditions is limited. The market is affected by various factors, such as general economic conditions, availability of financing, interest rates and supply and demand, many of which are beyond our control. We cannot predict whether we will be able to sell any of our interests in the associates or joint ventures for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a purchaser and to complete the relevant transaction. Therefore, the illiquidity nature of our investment in associates or joint ventures may significantly limit our ability to respond to adverse changes in the performance of our associates and joint ventures.

In addition, if there is no share of results or dividends from our associates or joint ventures, we will also be subjected to liquidity risk and our financial condition or result of operations could be materially affected.

**The compensation income that we received during the Track Record Period are non-recurring in nature.**

For the year ended December 31, 2017 and the eight months ended August 31, 2018, we received compensation income of RMB19.6 million and RMB8.4 million, respectively. These compensation income mainly represents the compensation made by a third party lessor who early terminated a hotel lease agreement with us.

As such compensation income would only arise when hotel lease agreement is being terminated, the compensation income are non-recurring in nature and if we do not receive any compensation income in the future, it may have an adverse effect on our results of operations and profitability.



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## RISK FACTORS

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### **Accidents, injuries or prohibited activities in our hotels may adversely affect our reputation and subject us to liability.**

There are inherent risks of accidents, injuries or prohibited activities (such as illegal drug use, gambling, violence or prostitution by guests) that take place in hotels. The occurrence of one or more accidents, injuries or prohibited activities at any of our hotels could adversely affect our reputation among guests, harm our brand, decrease our overall occupancy rates, and increase our costs by requiring us to implement additional safety measures. In addition, if accidents, injuries or prohibited activities occur at any of our hotels, we may be held liable for costs or damages and fines. Our current property and liability insurance policies may not provide adequate or any coverage for such losses, and we may be unable to renew our insurance policies or obtain new insurance policies without increases in premiums and deductibles or decreases in coverage levels, or at all. Further, in the event that any of our customers conduct illegal activities, our reputation may be affected.

### **Acts of God, epidemics, war, and other disasters could affect our business.**

Natural disasters, epidemics, acts of God and other disasters that are beyond our control may materially and adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some cities in the PRC are under the threat of floods, earthquakes, sandstorms or droughts, for example, Sichuan Province, Qinghai Province, and Yunnan Province experienced earthquakes in 2008, 2010 and 2011, respectively. If a natural disaster occurs in areas where we operate our business, our business, financial conditions and operating results may be materially and adversely affected.

Epidemics threaten people's lives and may materially and adversely affect their livelihood as well as their living and consumption patterns and may have a significant impact on people's willingness to travel. The occurrence of an epidemic is beyond our control, and there is no assurance that another outbreak of severe acute respiratory syndrome or avian influenza will not occur. If an epidemic or pandemic occurs in areas in which we operate, or even in areas in which we do not operate, our operations may be disrupted, and the number of guests in our Group's hotels may decrease, which may materially and adversely affect our business, financial condition and operating results.

## **RISKS RELATING TO THE HOTEL INDUSTRY**

### **We are subject to the business, financial, and operating risks inherent to the hotel industry, any of which could reduce our revenues and limit opportunities for growth.**

Our business is also subject to a number of business, financial and operating risks inherent to the hotel industry, including:

- (i) significant competition from multiple hotel groups in the PRC;
- (ii) changes in tax and governmental regulations that influence or set wages, prices, interest rates or maintenance procedures and costs;

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- (iii) the costs and administrative burdens associated with complying with applicable laws and regulations;
- (iv) the availability and cost of capital necessary for us and third-party hotel owners to fund investments, capital expenditures and service debt obligations;
- (v) delays in or cancellations of planned or future development or refurbishment projects, which in the case of our managed and franchised hotels are generally not within our control;
- (vi) the quality of services provided by franchisees;
- (vii) the financial condition of third-party hotel owners and franchisees;
- (viii) relationships with third-party hotel owners and franchisees, including the risk that owners may terminate our hotel lease agreements, full service management agreements or franchise agreements;
- (ix) changes in desirability of geographic regions of the hotels, geographic concentration of our operations and customers, and shortages of desirable locations for development;
- (x) changes in the supply and demand for hotel services (including rooms, food and beverage, and other products and services);
- (xi) the ability of third-party internet and other travel intermediaries to attract and retain customers; and
- (xii) decreases in the frequency of business travel as a result of alternatives to in-person meetings, including virtual meetings hosted on-line or over private teleconferencing networks.

Any of these factors could increase our costs or limit or reduce the prices we are able to charge for hotel services, or otherwise affect our ability to maintain existing properties or develop new properties. As a result, any of these factors can reduce our revenues and limit our opportunities for growth.

### **The PRC hotel industry is subject to intense and growing competition.**

Our success is substantially dependent on our ability to compete in an industry characterized by intense and growing competition. Our principal competitors are other operators of Star-rated hotels, in particular, other major hotel chains with well-established and recognized international and domestic brands. We also compete against independent owners or operators of local mid-scale to upscale hotels and international and domestic business hotel chains.

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We compete for guests based primarily on brand recognition and reputation, location, customer satisfaction, room rates, quality of service, amenities and quality of accommodations. Many of our competitors have operated in the industry for substantially longer periods of time than us and have accumulated more operational, managerial, sales and marketing experience, brand recognition, human resources and financial resources. Further, the barriers to entry into the hotel industry for new participants, particularly in the value and mid-scale categories, are relatively low given the limited capital required to convert or re-develop existing buildings into value and mid-scale hotels. We cannot assure you that some or many of our competitors will not engage in significant building of new hotels in markets in which we operate or plan to operate, which will increase the supply of available hotel rooms in those areas and thereby increase competition and negatively impact occupancy levels and room rates. We also cannot assure you that we will be able to successfully compete against our current and future competitors. In particular, if our more established competitors engage in significant and sustained price discounting to attract customers and we are forced to substantially reduce our own prices to maintain occupancy levels, it would have a material adverse effect on our revenues, profit margins and results of operations.

**Our hotel business may be adversely affected by a reduction in business travelers, affluent leisure travelers or discretionary consumer spending as a result of a downturn in the PRC or global economy or any acts or threats of terrorism.**

Our hotel business may be adversely affected by a reduction in business travelers, affluent leisure travelers or discretionary consumer spending as a result of a downturn in the PRC or global economy. Consumer demand for hotel accommodations, trade show and convention amenities provided by us are particularly sensitive to downturns in the economy. In particular, a significant portion of our revenue is derived from our upscale and mid-scale hotels and is vulnerable to a decline in demand from business and affluent leisure travelers. Changes in consumer preferences, the level of business travel, or discretionary consumer spending brought about by factors such as fear of war and future acts of terrorism, deterioration in general economic conditions, decreases in disposable consumer income, fear of recession or decline in consumer confidence in the economy may adversely affect our business. Furthermore, any increase in anti-terrorism measures and the tightening of visa or other entry requirements may also deter our customers from travelling. These factors could reduce consumers' demand for the products and leisure services provided by us, and consequently will have an adverse effect on our business, financial conditions and results of operations.

**Labor shortages could restrict our ability to operate our hotels or grow our business or result in increased labor costs that could reduce our profits.**

Our success depends in large part on our ability to attract, retain, train and manage our employees. As at August 31, 2018, our hotels have 88 general managers, 68 of whom have been with our hotels for over five years. Any unanticipated departure of members of the management team without appropriate replacement may have a material adverse impact on our business operation and future growth. Our hotels are staffed 24 hours a day, seven days a week. We had 5,135 full time employees as at August 31, 2018, all located in the PRC. As we face

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intense and growing competition from other international and domestic hotel brands, if we are unable to attract, retain, train and manage our skilled employees, our ability to manage and staff our hotels adequately could be impaired, which could reduce customer satisfaction. Staffing shortages could also hinder our ability to grow and expand our business. As payroll costs are a major component of the operating expenses at our hotels, a shortage of skilled labor could also require us to pay higher wages, which would reduce our profits and have a material adverse effect on our operation results and financial performance.

**The seasonality of the hotel industry could materially and adversely affect our revenues and financial condition.**

The hotel industry, particularly the resort hotel business, is seasonal in nature. Based upon the historical results, our upscale business hotels and mid-scale full service hotels typically generate higher revenue during the fourth quarter of each year. We typically witness higher demand for our ballroom and conference room facilities at our upscale and mid-scale full service hotel in the fourth quarter of each year, primarily due to the year-end festivity season such as the golden week holiday in October and end of year demand for business functions and annual dinners. Our upscale resort hotels typically generate higher revenue during the third quarter of each year which coincide with the summer season and school summer holidays in the PRC. The revenue of our mid-scale select service hotels remains relatively stable throughout the year. This seasonality can be expected to cause periodic fluctuations in our hotel room and restaurant revenues, occupancy levels, room rates and operating expenses. We can provide no assurances that our cash flows will be sufficient to offset any shortfalls that occur as a result of these fluctuations, and we may have to enter into short-term borrowings in order to enhance our cash flow position at any time during the financial year. As a result, volatility in our financial performance resulting from the seasonality of the hotel industry could have a material adverse effect on our revenues and financial position.

### **RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC**

**As all of our operations are conducted in the PRC, any adverse change in the PRC's political, economic and social conditions and government policies may have a material and adverse effect on us.**

During the Track Record Period, our business operations were conducted in the PRC and all our revenue was derived from the PRC. As a result, we are susceptible to changes in the economic, political and social conditions in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including but not limited to:

- (i) structure;
- (ii) level of governmental involvement;
- (iii) level of development;
- (iv) growth rate;

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(v) control of foreign exchange; and

(vi) allocation of resources.

In the past, the PRC Government has implemented measures emphasising the utilisation of market forces for economic reform. However, the PRC Government continues to play a significant role in regulating industrial development and the allocation, production, pricing and management of resources. We may not in all cases be able to capitalise on the economic reform measures adopted by the PRC Government. In addition, the implementation of PRC laws and regulations involves a degree of uncertainty. We cannot predict the future development of the PRC legal system, including any promulgation of new laws, change to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws, and the effect it may have on us. Changes in the economic, political and social conditions or the relevant policies of the PRC Government, such as changes in laws and regulations (or the interpretation thereof) and fiscal or financial measures, could have an adverse effect on the overall economic growth of the PRC, which could subsequently hinder our business, growth strategies, financial condition and results of operations.

### **Our business operations may be affected by regulatory changes.**

The establishment and many aspects of the business operations of our PRC subsidiaries are governed by various local, provincial and national regulations. The PRC legal framework, qualification requirements and enforcement trends in the hotel industry may change, and we may not be able to respond to such changes in a timely manner. Such changes may also cause the compliance cost to increase, which may materially and adversely affect our business, financial conditions and results of operations.

### **Uncertainties with respect to the PRC legal system could have a material and adverse effect on our business and operations.**

Our business and operations are conducted in the PRC and governed by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes and their interpretations in terms of application and enforcement by relevant legislative and judicial authorities, various administrative regulations and decrees. There is only a limited number of published court decisions which may be cited for reference and in any case, unlike in the common law system, prior cases have limited precedential value in deciding subsequent cases in the civil law legal system. Since the late 1970s, the PRC Government has committed to building up a socialistic legal system to regulate business practices and the overall economic order of the country. The PRC has made significant progress in the promulgation of laws and regulations dealing with business and commercial affairs of various participants of the economy, involving shareholders' rights, foreign investment, corporate organization and governance, commercial transactions, taxation and trade. However, the PRC has not developed a fully-integrated legal system, and its laws and regulations may not sufficiently cover all aspects of economic activity in the PRC, including those governing the resolution of disputes arising from the PRC issuer's articles of association and the transfer of the PRC issuer's shares.

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As many of these laws and regulations are relatively new, and given the limited volume of published decisions and the involvement of different enforcement bodies of the relevant laws and regulations and the non-binding nature of prior court decisions and administrative rulings, the interpretation and enforcement of these laws and regulations involve significant uncertainties.

Agreements which are governed under PRC laws may be more difficult to enforce by legal or arbitral proceedings in the PRC than in countries with more mature legal systems. Even if the agreements generally provide for arbitral proceedings for disputes arising out of the agreements to be in another jurisdiction, it may be difficult for us to obtain effective enforcement in the PRC of an arbitral award obtained in that jurisdiction.

**You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on foreign laws against us and our Directors and senior management.**

We are a company incorporated under the laws of the PRC and all of our assets and all of our subsidiaries are located in the PRC. Most of our Directors, Supervisors and senior management reside within the PRC. Most of the assets of these Directors, Supervisors and senior management may also be located within the PRC. As a result, it may not be possible to effect service of process outside the PRC upon most of our Directors, Supervisors and senior management. Moreover, the PRC does not have treaties providing for reciprocal recognition and enforcement of court judgments in the United States, the United Kingdom, Japan or most other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, in the PRC or Hong Kong, recognition and enforcement of court judgments from the jurisdictions mentioned above may be difficult or impossible in relation to any matter that is not subject to a binding arbitration provision. On July 14, 2006, the Supreme People's Court of the PRC and the Government of Hong Kong signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》). Under this arrangement, where any designated People's Court of the PRC or Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement, any party concerned may apply to the relevant People's Court of the PRC or Hong Kong court for recognition and enforcement of the judgment. Although this arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the arrangement remain uncertain.

Our Articles of Association provide that disputes between holders of our H Shares and our Company, our Directors, Supervisors or senior management, arising out of our Articles of Association, the PRC Company Law and related regulations, concerning the affairs of our Company, are to be resolved through arbitration by the China International Economic and Trade Arbitration Commission or the Hong Kong International Arbitration Centre. Awards made by PRC arbitral authorities recognized under the Hong Kong Arbitration Ordinance can be enforced in Hong Kong. Hong Kong arbitral awards are also enforceable in the PRC, subject to the satisfaction of certain PRC legal requirements. However, it is uncertain whether any action brought in the PRC to enforce an arbitral award made in favor of holders of H Shares would succeed.



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### **The PRC Government's control over foreign currency conversion may limit our foreign exchange transactions, including dividend payment to holders of our H Shares.**

Currently, RMB cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. There is no assurance that we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the requisite licenses to conduct foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by SAFE.

Under the existing foreign exchange regulations, following the completion of the [REDACTED], we will be able to pay dividends in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or to satisfy other foreign exchange requirements. If we fail to obtain approval from SAFE to convert RMB into any foreign exchange for any of the above purposes, our capital expenditure plans and our business, operating results and financial conditions, may be materially and adversely affected.

### **Dividends is subject to PRC withholding tax.**

Under the applicable PRC tax laws, dividends of a PRC resident enterprise paid to, and gains realized through the sale or transfer by other means of shares in a PRC resident enterprise by, a non-PRC resident individual are both subject to PRC individual income tax at a rate of 20%. Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax following the Repeal of Guo Shui Fa [1993]045 (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) dated June 28, 2011 issued by the SAT, dividends paid by H Share issuers to a non-PRC resident individual holder of H Shares are subject to PRC individual income tax at the rates determined in accordance with applicable tax treaties or arrangements between the PRC and the jurisdiction in which the shareholder resides. Such tax rates range from 5% to 20%. This circular further provides that, in general, the tax rate applicable to dividend income as stipulated in relevant tax treaties or arrangements is 10%; therefore, H Share issuers can withhold 10% of the dividend without seeking prior consent from competent tax authorities.

Any shareholder residing in a jurisdiction where the applicable tax rate for such dividends, as stipulated in the relevant tax treaties or arrangements, is lower than 10% shall be entitled to a refund of the excess tax withheld by H Share issuers; however, such refund shall be applied for by the shareholder directly or through a tax agent and will be subject to the approval of the competent tax authority. For a shareholder residing in a jurisdiction where the



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applicable tax rate for such dividends, as stipulated in the relevant tax treaties or arrangements, is more than 10% but less than 20%, H Share issuers shall withhold the individual income tax at the actual tax rate, as stipulated in the relevant tax treaties or arrangements, without seeking prior consent from competent tax authorities. For a shareholder residing in a jurisdiction where the applicable tax rate for such dividends, as stipulated in the relevant tax treaties or arrangements, is 20% or where there is no relevant tax treaty or arrangement with the PRC, H Share issuers shall withhold the individual income tax at the rate of 20%.

Despite these arrangements, there are significant uncertainties as to the interpretation and application of applicable PRC tax laws and rules due to several factors, including the relatively short history of such laws and rules, and whether the relevant preferential tax treatment will be revoked in the future such that all non-PRC resident individual holders of H Shares will be subject to PRC individual income tax at a flat rate of 20%.

According to the PRC Enterprise Income Tax Law and the rules relating to the implementation thereof, non-PRC resident enterprises that do not have any establishment or premises within the PRC are subject to enterprise income tax at a rate of 10% on any income generated within the PRC. Furthermore, pursuant to the Notice of Withholding and Payment of Enterprise Income Tax for PRC Resident Enterprises Paying Dividends to Overseas Nonresident Enterprise Shareholders of H Shares (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) issued by the SAT on November 6, 2008, PRC resident enterprises are required to withhold enterprise income tax at a flat rate of 10% on distributions of dividends to overseas non-PRC resident enterprise holders of H Shares for the year 2008 and thereafter.

According to relevant PRC tax laws, non-PRC resident enterprise holders of H Shares are subject to enterprise income tax at a rate of 10% on profit from the sale or transfer of H Shares as well as dividends received from H Shares. In addition, it is also unclear whether and how the PRC individual income tax and enterprise income tax on gains realized by non-PRC resident holders of H Shares through the sale, or transfer by other means, of H Shares will be collected by the PRC tax authorities in the future. Considering these uncertainties, non-PRC resident holders of our H Shares should be aware that they may be obligated to pay PRC income tax on gains realized through the sale, or transfer by other means of our H Shares.

### **Payment of dividends is subject to restrictions under PRC Law.**

Under PRC law, we may only pay dividends out of distributable profits. Distributable profits are our after-tax profits as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we require to make. As a result, we may not have sufficient or any distributable profit to enable us to make dividend distributions to our Shareholders, including periods in which our financial statements indicate we are profitable. Any distributable profit not distributed in a given year is retained and available for distribution in subsequent years.

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Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay us dividends could materially and adversely impact our cash flow and ability to make dividend distributions to our Shareholders in the future, including periods in which our financial statements indicate we are profitable.

### RISKS RELATING TO THE [REDACTED]

**There has been no prior public market for our H Shares, thus an active or liquid trading market for the Shares may not develop and the trading price of our H Shares may be volatile.**

Prior to the [REDACTED], there has been no public market of our H Shares. The initial [REDACTED] for our H Shares to the public will be agreed by us and the [REDACTED], and the [REDACTED] may differ significantly from the market price of the H Shares following this [REDACTED]. We have applied to the Stock Exchange for the [REDACTED] of, and permission to deal in, the H Shares. A listing on the Stock Exchange, however, does not guarantee that an active and liquid trading market for the H Shares will develop, or if it does develop, that it will be sustained. In addition, the trading price and trading volume of the H Shares may be subject to significant volatility as a result of various factors, including:

- (i) variations in our operating results or differences between our operating results and those expected by investors and analysts;
- (ii) changes in securities analysts' estimates of our financial performance;
- (iii) announcements made by us or our competitors;
- (iv) regulatory developments or market changes in the PRC affecting us or our industry;
- (v) any business interruptions resulting from natural disasters or accidents;
- (vi) investors' perception of us and of the investment environment in Asia, including Hong Kong and the PRC;
- (vii) announcements of or completions of acquisitions, strategic alliances, or joint ventures by us or our competitors;
- (viii) addition or departure of our key personnel;
- (ix) release or expiration of lock-up or other transfer restrictions on our H Shares;
- (x) liability claims brought against us;

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(xi) involvement in litigation; and

(xii) general political, economic, financial, social development and stock market conditions and other factors.

Moreover, in recent years, stock markets in general, and the H shares issued by other issuers in the PRC and listed on the Stock Exchange both have experienced price and volume fluctuations, some of which were unrelated or did not fully correspond to the operating performance of related companies. These broad market and industry fluctuations may adversely affect the market price of our H Shares in a similar manner.

**Future sales, or market perception of sales, of substantial amounts of our H Shares or other securities relating to our H Shares in the public market could materially and adversely affect the prevailing market price of our H Shares.**

Any future sale or availability for sale of the Shares could have an adverse effect on the Share price. The sale of a significant amount of Shares in the public market after the [REDACTED], or the perception that such sales may occur, could adversely affect the market price of the Shares. Future sale of a significant amount of our H Shares or other related securities in the public market, or issuance of new H Shares or other related securities in the public market, or the perception that such sales or issuance may occur, after the expiration of relevant restrictions, could make the market price of our H Shares decline. In addition, such sales may make it more difficult for us to issue new Shares in the future at a time and price we deem appropriate, thereby limiting our ability to raise capital.

According to the stipulations by the State Council's securities regulatory authority and the Articles of Association, our Domestic Shares and Unlisted Foreign Shares may be converted into H Shares and such converted H Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares, the requisite internal approval processes have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. We can apply for the listing of all or any portion of our Domestic Shares or Unlisted Foreign Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of shares for entry on the H Share register. This could further increase the supply of H Shares in the market, and future sales, or perceived sales, of the converted Shares may adversely affect the trading price of H Shares.

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**There can be no assurance of the accuracy or comparability of facts and statistics contained in this document with respect to the PRC, its economy or its hotel industry.**

Facts and statistics in this document relating to the PRC, its economy and its hotel industry, including its market share information, are derived from various official and other publicly available sources which are generally believed by us to be reliable. However, there can be no assurance as to the quality and reliability of such official source materials. In addition, these facts and statistics have not been independently verified by us, the Joint Sponsors, the [REDACTED] or their advisers and therefore none of us, the Joint Sponsors, the [REDACTED] or its advisers makes any representation as to the accuracy or fairness of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up to date. We have taken reasonable care in reproducing or extracting the information from such sources. However, because of possibly flawed or ineffective methodologies underlying the published information or discrepancies between the published information and market practice and other problems, these facts and other statistics may be inaccurate or may not be comparable from period to period or be comparable to facts or statistics produced for other economies and should not be unduly relied upon by investors.

**There will be a time gap of several business days between pricing and trading of our H Shares [REDACTED] under the [REDACTED].**

The [REDACTED] of our H Shares sold to the public under the [REDACTED] will be determined on the [REDACTED]. However, trading of our H Shares on the Stock Exchange will not commence until they are delivered, which is expected to be several business days after the [REDACTED]. During that period, investors of our H shares may not be able to sell or otherwise deal in our H Shares. Accordingly, holders of our H Shares may be subject to the risk that our H Share trading price could fall before trading begins as a result of adverse market conditions or other unfavorable circumstances that may arise during the period between the [REDACTED] and the date on which the dealing begins.

**We may not be able to pay any dividends on the Shares.**

Following completion of the [REDACTED], our Shareholders will be entitled to receive dividends only when declared at a Shareholders' meeting. The payment and the amount of any future dividend will be decided of Shareholders' meetings and will depend on, among others, our earnings, financial condition, cash requirement and availability, and other factors as our Directors may deem relevant. As such, factors and the payment of dividends are at the discretion of our Board which reserves the right to change its plan on the payment of dividends, there can be no assurance that any particular dividend amount, or any dividend at all, will be declared and paid in the future. Prospective investors should note that historical dividend payments should not be regarded as an indication of our future dividend policy.

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**We have significant discretion as to how we will use the [REDACTED] of the [REDACTED], and you may not necessarily agree with how we use them.**

Our management may use the [REDACTED] of the [REDACTED] in ways with which you may disagree with or that do not yield a favorable return to the Shareholders. We plan to use the [REDACTED] of the [REDACTED] to enhance our core capital to support our business growth. See the sub-section headed "Future Plans and [REDACTED] – [REDACTED]" in this document. However, our management will have the discretion as to the actual use of the [REDACTED]. You are entrusting your funds to our management with respect to the specific use of the [REDACTED] from the [REDACTED].

**You should rely only on this document, and not place any reliance on any information contained in press articles or other media, in making your investment decision.**

We have not authorized anyone to provide you with information that is not contained in, or is different from information contained in, this document. Prior or subsequent to the publication of the document, there may have been or may be press and media coverage regarding us and the [REDACTED], in addition to marketing materials we have published in compliance with the Listing Rules. We have not authorized any such press and media reports, and the financial information, financial projections, valuations and other information about us in unauthorized press and media coverage may be untrue and may not reflect what is disclosed in this document.

We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication, and accordingly do not accept any responsibility for any such press or media coverage or the inaccuracy or incompleteness of any such information. If any information in the press and media is inconsistent or conflicts with the information in this document, we disclaim it, and you should not rely on any such information. In making your decision as to whether to purchase the H Shares, you should rely only on the information included in this document and the [REDACTED].

## **WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

In preparation for the [REDACTED], we have applied for the following waivers from strict compliance with the relevant provisions for the Listing Rules and exemption from strict compliance with the relevant provisions of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

### **MANAGEMENT PRESENCE IN HONG KONG**

Rules 8.12 and 19A.15 of the Listing Rules require a PRC-incorporated issuer to have sufficient management presence in Hong Kong. This normally means that at least two of the PRC incorporated issuer's executive directors must be ordinarily resident in Hong Kong. Currently, none of our executive directors resides in Hong Kong. Since our principal operations are in China, we do not and, for the foreseeable future, will not have executive directors who are ordinarily resident in Hong Kong for the purposes of satisfying the requirements of Rules 8.12 and 19A.15 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with Rules 8.12 and 19A.15 of the Listing Rules, subject to among other conditions, our appointment of:

- (i) two authorized representatives, Mr. Jin Wenjie and Ms. Chan Suet Lam, who will act at all times as our principal channel of communication with the Stock Exchange; and
- (ii) our compliance adviser, BOCOM International (Asia) Limited who will act as our principal channel of communication with the Stock Exchange, in addition to our authorized representatives, pursuant to Rules 3A.19 and 19A.06(4) of the Listing Rules.

We have made arrangements to maintain effective communication with the Stock Exchange as follows:

- (i) each of our authorized representatives referred to above will have access to our Board and senior management at all times as and when the Stock Exchange wishes to contact them for any matter. All of our Directors have provided their respective mobile phone numbers, office phone numbers, email addresses and facsimile numbers to the Stock Exchange. We will also inform the Stock Exchange promptly in respect of any change in our authorized representatives;
- (ii) Ms. Chan Suet Lam, one of our authorized representatives and joint company secretaries, ordinarily resides in Hong Kong and will be readily contactable by the Stock Exchange at all times for any matters. All Directors who are not ordinary residents in Hong Kong have confirmed that they possess or may apply for valid travel documents to visit Hong Kong for business purposes and would be able to meet with the Stock Exchange in Hong Kong upon reasonable notice; and

## **WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

- (iii) in accordance with Rules 3A.19 and 19A.05 of the Listing Rules, we have appointed BOCOM International (Asia) Limited as our compliance adviser for the period commencing on the date of [REDACTED] and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the date of [REDACTED]. The compliance adviser will act as our additional channel of communication with the Stock Exchange and the compliance adviser shall have access at all times to our authorized representatives, our Directors and other officers to ensure that they are in a position to promptly respond to queries or requests from the Stock Exchange.

### **QUALIFICATION OF COMPANY SECRETARY**

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary must be an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. Pursuant to Note (1) to Rule 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (i) a member of The Hong Kong Institute of Chartered Secretaries;
- (ii) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); or
- (iii) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Pursuant to Note (2) to Rule 3.28 of the Listing Rules, in assessing "relevant experience", the Stock Exchange will consider the individual's:

- (i) length of employment with the issuer and other issuers and the roles he or she played;
- (ii) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (iv) professional qualifications in other jurisdictions.



## **WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

Mr. Li Donglin has been the secretary to the Board since January 2017 and was appointed as a joint company secretary in July 2018 with effect from the [REDACTED]. As Mr. Li does not have the qualifications stipulated under Rules 3.28 and 8.17 of the Listing Rules, we have appointed Ms. Chan Suet Lam, who is an associate of The Hong Kong Institute of Chartered Secretaries and is ordinarily resident in Hong Kong. Ms. Chan therefore has the requisite knowledge and experience under Rules 3.28 and 8.17 of the Listing Rules, to act as the joint company secretary and assist Mr. Li in discharging his duties as our company secretary. This appointment has a term of three years with effect from the [REDACTED]. We will also implement procedures to provide Mr. Li with appropriate training in order to enable him to acquire such necessary experience upon the expiry of the three-year period.

We have applied to the Stock Exchange for, and the Stock Exchange [has granted] us, a waiver from strict compliance with requirements of Rules 3.28 and 8.17 of the Listing Rules for a three-year period on the condition that Ms. Chan is appointed as a joint company secretary of our Company. The waiver will be revoked if Ms. Chan ceases to be the other joint company secretary and we fail to appoint another qualified joint company secretary to assist Mr. Li during the three years after the [REDACTED]. Upon the expiry of the three-year period, we will re-evaluate whether Mr. Li has acquired the skills necessary to carry out the duties of company secretary and the relevant experience within the meaning of Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

### **CONTINUING CONNECTED TRANSACTIONS**

Our Company has entered into, and expect to continue after the [REDACTED], certain transactions which will constitute non-exempt continuing connected transactions under the Listing Rules upon the [REDACTED]. Our Company has applied to the Stock Exchange for and has been granted, a waiver from strict compliance with the relevant requirements under Chapter 14A of the Listing Rules in respect of these non-exempt continuing connected transactions. For further details, see the section headed "Connected Transactions" in this document.

### **FINANCIAL STATEMENTS REQUIRED TO BE INCLUDED IN THIS DOCUMENT**

Rule 4.04(1) of the Listing Rules requires that the accountant's report to be included in a listing document must include the consolidated results of the listing applicant in respect of each of the three financial years immediately preceding the issue of the listing document or such shorter period as may be acceptable to the Stock Exchange.

Section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires all prospectuses to include an accountant's report which contains the matters specified in the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

## **WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

Paragraph 27 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires that a statement as to the gross trading income or sales turnover of the listing applicant for each of the three financial years preceding the issue of this document including an explanation of the method used for the computation of such income or turnover, and a reasonable breakdown between the more important trading activities, be included in this document.

Paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance further requires that a report by the auditors of the listing applicant with respect to (i) the profits and losses of the listing applicant for each of the three financial years immediately preceding the issue of this document; and (ii) the assets and liabilities of the listing applicant at the last date to which the accounts of the listing applicant were made up, be included in this document.

Pursuant to section 342A(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from compliance with any or all of the requirements of the relevant provisions under the Companies (Winding Up and Miscellaneous Provisions) Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interest of the investing public and compliance with any or all of such requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

The Accountant's Report of our Group for each of the three financial years ended December 31, 2017 and the eight months ended August 31, 2018 has been prepared and is set out in Appendix I to this document.

However, as this document [is issued] within a short period of the time after December 31, 2018, the Accountant's Report of our Group will not be prepared for the full year ended December 31, 2018. In such circumstance, we have applied for, and the Stock Exchange [has granted], a waiver from strict compliance with Rules 4.04(1) of the Listing Rules subject to the following conditions:

- (a) this document will be issued on or before [REDACTED] and our Company will [REDACTED] on the Stock Exchange on or before March 31, 2019 (i.e. within three months after the end of the Company's latest financial year immediately preceding the issue of this document);
- (b) we will obtain a certificate of exemption from the SFC from strict compliance with section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to Paragraph 27 of Part I and Paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (the "**Ordinance Requirements**"); and
- (c) this document contains a profit estimate of our Group for the Group's latest financial year (i.e. the year ended December 31, 2018) prepared in compliance with Rules; 11.17 to 11.19 of the Listing Rules; and

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

- (d) this document contains our Directors' statement that after performing all due diligence work which they consider appropriate, there is no material adverse change to our Group's financial and trading positions or prospects, with specific reference to our trading results from the end of the stub period (i.e. August 31, 2018) to the Group's latest financial year end (i.e. December 31, 2018).

We have also applied for, and the SFC [has agreed to grant us], a certificate of exemption from strict compliance with the Ordinance Requirements on the conditions that: (a) particulars of the exemption will be set out in this document; (b) this document will be issued on or before [REDACTED]; and (c) the Company will be [REDACTED] on the Stock Exchange on or before March 31, 2019.

The applications to Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules and to the SFC for a certificate of exemption from strict compliance with the Ordinance Requirements were made on the grounds, among others, that strict compliance with the above requirements would be unduly burdensome and the exemption would not prejudice the interests of the investing public as:

- (a) there would not be sufficient time for us to prepare the full year financial statements for the year ended December 31, 2018 and for our reporting accountants to complete the audit thereon prior to the issue of this document;
- (b) in accordance with Guidance Letter HKEx-GL-25-11, an estimate of the consolidated profit of our Group for the year ended December 31, 2018 has been included in this document. The investing public would thus be given some guidance as to our Group's financial performance for the year ended December 31, 2018;
- (c) our Directors have confirmed that they have ensured that sufficient due diligence has been performed and that up to December 31, 2018 (being the latest financial year end), there has been no material adverse change in our Group's financial or trading position since August 31, 2018 (being the date to which the latest consolidated financial statements of our Group were made up) and there has been no event since August 31, 2018 which would materially affect the information shown in the Accountant's Report of our Group (as set out in Appendix I to this document), the profit estimate for the year ended December 31, 2018 and the section headed "Financial Information" in this document and other parts of this document;
- (d) based on the due diligence work performed by the Joint Sponsors so far, nothing has come to the attention of the Joint Sponsors for it to cast doubt on the views of our Directors expressed above. Our Directors and the Joint Sponsors confirm that all information which is necessary for the investing public to make an informed assessment of our Group's business, assets and liabilities, financial position, trading position, management and prospects has been included in this document; and
- (e) we will comply with Rules 13.46(1) and 13.49(1) of the Listing Rules in respect of the publication of our annual results announcement and annual report after the [REDACTED].

## **INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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**[REDACTED]**

## **INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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**[REDACTED]**

## **INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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**[REDACTED]**

## **INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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**[REDACTED]**



**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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**[REDACTED]**

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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**DIRECTORS**

| <b>Name</b>                           | <b>Address</b>                                                                                                           | <b>Nationality</b> |
|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------|--------------------|
| <i><b>Executive Directors</b></i>     |                                                                                                                          |                    |
| Mr. Jin Wenjie (金文杰)                  | Room 1204<br>13, Lane 718, Huamu Road<br>Pudong New District, Shanghai<br>PRC                                            | Chinese            |
| Mr. Chen Miaoqiang (陳妙強)              | Room 202<br>34, Hengshiban Lane<br>Chengxiang Street<br>Xiaoshan District<br>Hangzhou, Zhejiang Province<br>PRC          | Chinese            |
| <i><b>Non-executive Directors</b></i> |                                                                                                                          |                    |
| Mr. Chen Miaolin (陳妙林)                | Room 2703<br>J Residence<br>60 Johnston Road, Wanchai<br>Hong Kong                                                       | Chinese            |
| Mr. Chen Canrong (陳燦榮)                | Room 2603<br>Block 1, New Century Grand City<br>Beigan Street<br>Xiaoshan District<br>Hangzhou, Zhejiang Province<br>PRC | Chinese            |
| Mr. Jiang Tianyi (江天一)                | Room 2501<br>8, Lane 989, Xikang Road<br>Shanghai<br>PRC                                                                 | Chinese            |
| Mr. Zhang Chi (張弛)                    | Room C<br>8/F, Block 1, Phase 4<br>Residence Bel-Air<br>Hong Kong                                                        | Chinese            |

## DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

### *Independent non-executive Directors*

|                         |                                                                          |         |
|-------------------------|--------------------------------------------------------------------------|---------|
| Mr. Zhang Rungang (張潤鋼) | 2-1-1402<br>Block 28, Shilipu Beili<br>Chaoyang District, Beijing<br>PRC | Chinese |
|-------------------------|--------------------------------------------------------------------------|---------|

|                                   |                                                                                        |         |
|-----------------------------------|----------------------------------------------------------------------------------------|---------|
| Mr. Khoo Wun Fat William<br>(丘煥法) | Room E<br>5/F, Block 3, The Sherwood<br>8 Fuk Hang Tsuen Road<br>Tuen Mun<br>Hong Kong | Chinese |
|-----------------------------------|----------------------------------------------------------------------------------------|---------|

|                  |                                                                                                   |         |
|------------------|---------------------------------------------------------------------------------------------------|---------|
| Ms. Qiu Yun (邱媛) | Room 401<br>101, Block 33, Tianshui Home<br>Jiangbei District<br>Ningbo, Zhejiang Province<br>PRC | Chinese |
|------------------|---------------------------------------------------------------------------------------------------|---------|

### *Supervisors*

|                         |                                                                                                                            |         |
|-------------------------|----------------------------------------------------------------------------------------------------------------------------|---------|
| Ms. Zha Xianghong (查向宏) | Room 202<br>West Building 5, Tongda Community<br>Xintang Street<br>Xiaoshan District<br>Hangzhou, Zhejiang Province<br>PRC | Chinese |
|-------------------------|----------------------------------------------------------------------------------------------------------------------------|---------|

|                         |                                                           |         |
|-------------------------|-----------------------------------------------------------|---------|
| Mr. Guo Mingchuan (郭名川) | Room 1301<br>2, Lane 999, Dongxiu Road<br>Shanghai<br>PRC | Chinese |
|-------------------------|-----------------------------------------------------------|---------|

|                   |                                                                                                                               |         |
|-------------------|-------------------------------------------------------------------------------------------------------------------------------|---------|
| Ms. Liu Hong (劉虹) | Room 1002<br>Block 15, Jasmine Court, Taihe Garden<br>Gaoqiao Road<br>Xiaoshan District<br>Hangzhou, Zhejiang Province<br>PRC | Chinese |
|-------------------|-------------------------------------------------------------------------------------------------------------------------------|---------|

For further information, please refer to the section headed “Directors, Supervisors and Senior Management” in this document.

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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**PARTIES INVOLVED IN THE [REDACTED]**

**Joint Sponsors**

**China Galaxy International Securities**

**(Hong Kong) Co., Limited**

20th Floor, Wing On Centre

111 Connaught Road Central

Sheung Wan

Hong Kong

**BOCOM International (Asia) Limited**

9/F, Man Yee Building

68 Des Voeux Road Central

Hong Kong

[REDACTED]

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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[REDACTED]

**Legal advisers to our Company**

*As to Hong Kong law:*

**Dechert**

31/F Jardine House  
One Connaught Place  
Central  
Hong Kong

*As to PRC law:*

**King & Wood Mallesons**

17/F, One ICC, Shanghai ICC  
999 Middle Huai Hai Road  
Xuhui District  
Shanghai  
PRC

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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**Legal advisers to the Joint Sponsors  
and the [REDACTED]**

*As to Hong Kong law:*  
**[REDACTED]**

*As to PRC law:*

**Chen & Co. Law Firm**  
51/F, Shanghai World Financial Center  
100 Century Avenue  
Pudong New District  
Shanghai  
PRC

**Auditor and reporting accountant**

**PricewaterhouseCoopers**  
*Certified Public Accountants*  
22/F, Prince's Building  
Central  
Hong Kong

**Industry expert**

**Horwath HTL (Beijing) Co., Ltd**  
Unit 903-904, Tower E3  
Oriental Plaza  
No. 1 East Chang-An Avenue  
Dongcheng District  
Beijing  
PRC

**Property valuer**

**Cushman & Wakefield Limited**  
16/F, Jardine House  
One Connaught Place  
Central  
Hong Kong

**Compliance Adviser**

**BOCOM International (Asia) Limited**  
9/F, Man Yee Building  
68 Des Voeux Road Central  
Central  
Hong Kong

**[REDACTED]**

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## CORPORATE INFORMATION

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|                                                 |                                                                                                                                                                                                                                                                                                       |
|-------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Registered office</b>                        | 18th Floor<br>No. 818 Shixinzhong Road<br>Beigan Subdistrict<br>Xiaoshan District<br>Hangzhou<br>Zhejiang Province<br>PRC                                                                                                                                                                             |
| <b>Principal place of business in the PRC</b>   | 18th Floor<br>No. 818 Shixinzhong Road<br>Beigan Subdistrict<br>Xiaoshan District<br>Hangzhou<br>Zhejiang Province<br>PRC                                                                                                                                                                             |
| <b>Principal place of business in Hong Kong</b> | 54/F, Hopewell Centre<br>183 Queen's Road East<br>Hong Kong                                                                                                                                                                                                                                           |
| <b>Company's website</b>                        | <u><a href="http://www.kaiyuanhotels.com">http://www.kaiyuanhotels.com</a></u><br>(A copy of this document is available on our Company's website. Except for the information contained in the document, none of the other information contained on our Company's website forms part of this document) |
| <b>Joint company secretaries</b>                | Mr. Li Donglin (李東林)<br>Room 403, Unit 3-2<br>New Century Flower Garden<br>1105 Gudun Road<br>Xihu District<br>Hangzhou<br>Zhejiang Province<br>PRC<br><br>Ms. Chan Suet Lam (陳雪霖) (HKICS, ICSA)<br>54/F, Hopewell Centre<br>183 Queen's Road East<br>Hong Kong                                       |



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## CORPORATE INFORMATION

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### Authorized representatives

Mr. Jin Wenjie (金文杰)  
Room 1204  
13, Lane 718, Huamu Road  
Pudong New District  
Shanghai  
PRC

Ms. Chan Suet Lam (陳雪霖)  
54/F, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### Audit Committee

Ms. Qiu Yun (邱耘) (*Chairperson*)  
Mr. Jiang Tianyi (江天一)  
Mr. Khoo Wun Fat William (丘煥法)

### Nomination Committee

Mr. Zhang Rungang (張潤鋼) (*Chairperson*)  
Mr. Chen Canrong (陳燦榮)  
Mr. Khoo Wun Fat William (丘煥法)

### Remuneration Committee

Mr. Zhang Rungang (張潤鋼) (*Chairperson*)  
Mr. Chen Miaolin (陳妙林)  
Ms. Qiu Yun (邱耘)

[REDACTED]

## CORPORATE INFORMATION

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### Principal Bankers

#### **Agricultural Bank of China, Xiaoshan Branch**

No. 156 Renmin Road  
Xiaoshan District  
Hangzhou  
Zhejiang Province  
PRC

#### **Bank of Communications, Zhong'an Branch**

No. 173 Qingchun Road  
Shangcheng District  
Hangzhou  
Zhejiang Province  
PRC

#### **Industrial and Commercial Bank of China, Xiaoshan Branch**

No. 54 Chenghe Street  
Xiaoshan District  
Hangzhou  
Zhejiang Province  
PRC

## INDUSTRY OVERVIEW

*The information that appears in this section contains information and statistics on the industry in which we operate and reflects estimates of market conditions based publicly available sources and trade opinion surveys, as well as a commission report from Horwath HTL (Beijing) Co., Ltd. (the "Horwath Report"), and is prepared primarily as a market research tool. References to the Horwath Report should not be considered as the opinion of Horwath HTL (Beijing) Co., Ltd. as to the value of any security or the advisability of investing in our Group. We believe that the sources of information contained in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Horwath HTL (Beijing) Co., Ltd. and set out in this section has not been independently verified by our Group, the Joint Sponsors, [REDACTED] or any other party involved in the [REDACTED] (which, for the purpose of this paragraph, excludes Horwath HTL (Beijing) Co., Ltd.) and neither do we give any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decisions.*

### SOURCE OF INFORMATION, KEY BASES AND ASSUMPTIONS

We commissioned Horwath, an independent market research consultancy firm, to conduct a detailed analysis of the hotel industry in China.

Established in 1915, Horwath is a leading provider of global market intelligence, providing strategy research for both consumer and industrial markets. It has 46 offices in 35 countries and has served over 100 clients. We are contracted to pay a fee of RMB650,000 to Horwath in connection with its preparation of the Horwath Report. We have extracted certain information and statistics from the Horwath Report in this section, as well as in the sections headed "Summary", "Risk Factors", "Business" and "Financial Information" to provide our potential investors with a more comprehensive presentation of the industry in which we operate.

In connection with the preparation of the Horwath Report, Horwath performed both primary and secondary researches, and obtained latest data, projected data, insights on future trends involving the hotel industry in China. Primary research involves interviews with a sample of leading industry participants and industry experts. Secondary research involves reviewing published sources, including PRC national and local statistics and official sources, company reports and data from Horwath's proprietary research database.

The major findings and conclusions are based, in part, on the following critical assumptions: (i) there will be no political or administrative developments that will significantly impact general confidence in China, specifically in Zhejiang, Jiangsu, and Shanghai to the detriment of business activities, tourist arrivals and domestic travel; (ii) support infrastructure such as fresh water, sewage treatment, electricity and gas will be supplied/generated at a consistent and reliable level to maintain end-user satisfaction; (iii) the existing transportation system to, from and within China, especially Zhejiang, Jiangsu and Shanghai will be maintained or improved to meet the accessibility requirements; and (iv) the economies of the major trading, investor and tourist generating countries to the PRC, specifically Zhejiang, Jiangsu and Shanghai, will not experience significant and sustained recession in the near future.

Our Directors confirm that, after making reasonable enquiries, there is no material adverse change in the overall market information since the date of the Horwath Report that would materially qualify, contradict or have an impact on such information.

### MACROECONOMY IN CHINA

In 2017, China's GDP reached approximately RMB82.7 trillion, with a CAGR of 8.6% from 2013 to 2017. By the end of 2017, the contribution of China's GDP to the world economy has risen from 12.5% in 2013 to 15.3%. According to "Thirteenth Five-Year Plan", China's GDP is expected to exceed RMB90 trillion by 2020. China's economic growth will also result in the growing affluence of the increasing population. China's per capita GDP and disposable income has recorded a rapid growth representing a CAGR of 8.0% and 9.1% respectively from 2013 to 2017. The growing GDP and sustainable macro-economic development have laid a solid foundation for the growth of the tourism industry.

## INDUSTRY OVERVIEW

### China's Macroeconomy Performance, 2013-2017

|                                       | 2013   | 2014   | 2015   | 2016   | 2017   | CAGR |
|---------------------------------------|--------|--------|--------|--------|--------|------|
| GDP (RMB Billion)                     | 59,524 | 64,397 | 68,905 | 74,359 | 82,712 | 8.6% |
| GDP Per Capita (RMB)                  | 43,852 | 47,203 | 50,251 | 53,935 | 59,660 | 8.0% |
| Disposable Income Per Capita (RMB)    | 18,311 | 20,167 | 21,966 | 23,821 | 25,974 | 9.1% |
| Fixed Assets Investment (RMB Billion) | 44,629 | 51,202 | 56,200 | 60,647 | 64,124 | 9.5% |

Source: National Bureau of Statistics, Horwath Report

## THE TOURISM INDUSTRY IN CHINA

### Global Tourism Overview and Tourism Revenue by Country

According to the Horwath Report, China, India and the United States ranked top 3 globally in terms of tourist arrivals in 2017. China accounted for 38.1% of the global tourist arrivals in 2017, followed by U.S. and India, which accounted for 13.0% and 10.5% respectively. Based on the Horwath Report, it is expected that China will remain the top destination for tourist arrivals in the foreseeable future.

### Ranking of Global Tourist Arrivals in 2017 (in percentage)

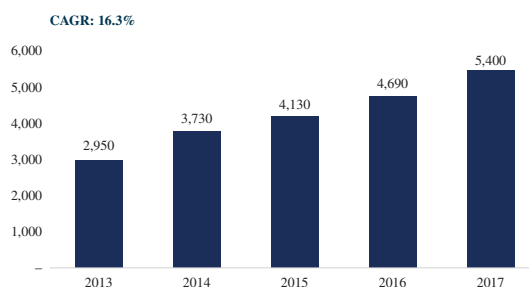
| China | India | United States | Japan | France | Indonesia | Spain | Brazil | Germany | United Kingdom |
|-------|-------|---------------|-------|--------|-----------|-------|--------|---------|----------------|
| 38.1% | 13.0% | 10.5%         | 2.7%  | 2.4%   | 2.2%      | 1.7%  | 1.5%   | 1.4%    | 1.3%           |

Source: World Tourism Cities Federation, Horwath Report

### China's Tourism Industry Development Overview

The continuing growth of China's macroeconomy in the past years has contributed to the development of China's tourism industry. According to data released by National Tourism Administration Policy and Regulation Department, China's total tourism revenue has maintained a rapid growth with a CAGR of 14.3% from 2013 to 2017.

### China Tourism Revenue (RMB Billion), 2013-2017



Source: National Tourism Administration Policy and Regulation Department, Horwath Report

Boom in tourism is expected to drive the continued development of hotel industry in China. According to the Tourism Development Plan of the Thirteenth Five-Year Plan, the number of domestic tourists (which includes business and leisure travelers) and tourism revenue is expected to reach 6.4 billion and RMB7,000 billion by 2020, respectively. The overall tourism industry in China is expected to maintain a healthy growth trend. The hotel industry, as an important component of tourism industry, will also be expected to grow.

## INDUSTRY OVERVIEW

### China Tourism Industry Development Goals during “the Thirteenth Five-year Plan ”

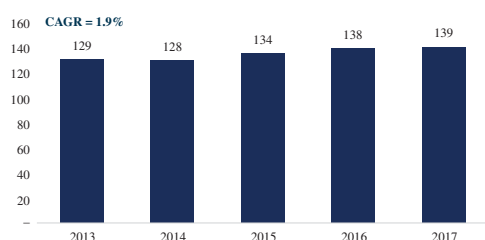
|                                          | 2020 Goal | CAGR  |
|------------------------------------------|-----------|-------|
| Domestic Tourists (Billion)              | 6.4       | 9.9%  |
| International Arrivals (Million)         | 150       | 2.3%  |
| Outbound Tourists (Million)              | 150       | 5.1%  |
| Total Tourism Revenue (RMB Billion)      | 7,000     | 11.2% |
| Tourism Investment Scale (Billion)       | 2,000     | 14.7% |
| Contribution of Tourism to Total GDP (%) | 12%       | N/A   |

Source: Tourism Development Plan of the Thirteenth Five-year Plan, Horwath Report

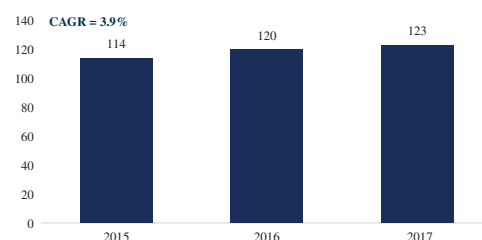
### International Arrivals in China

Over the past five years, the total international tourist arrivals in China has increased steadily from 129 million in 2013 to 139 million in 2017 at a CAGR of 1.9%. Tourism revenue from international arrivals has grown from US\$114 billion in 2015 to US\$123 billion in 2017 growing at a CAGR of 3.9%.

#### International Arrivals in China (Million), 2013-2017



#### International Tourism Revenue in China (US\$ Billion), 2015-2017

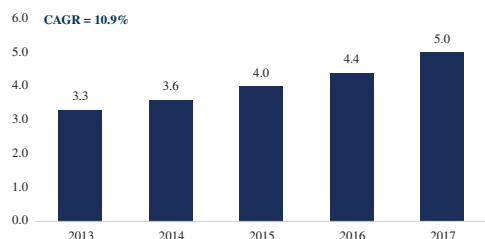


Source: National Tourism Bureau Data Center, Horwath Report

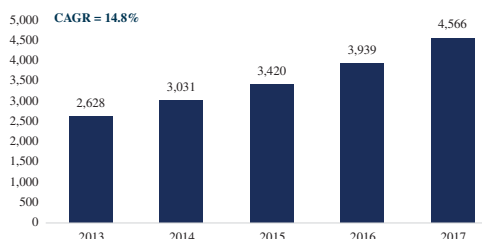
### Domestic Tourists in China

Significant increase in the number of domestic tourists has led to a strong growth in China's tourism revenue. According to data from the National Bureau of Statistics, the number of domestic tourists increased from 3.3 billion in 2013 to 5.0 billion in 2017, with a CAGR of 10.9%. Domestic tourism revenue increased from RMB2,628 billion in 2013 to RMB4,566 billion in 2017, with a CAGR of 14.8%. The continuing growth of China's disposable income per capita, the rapid development of transport infrastructure and the changes in people's lifestyle and consumption patterns have all contributed to the sustainable development of China's domestic tourism industry. It is estimated that by 2020, the total domestic tourists will reach 6.4 billion, and domestic tourism revenue will be at approximately RMB7.0 trillion.

#### Domestic Tourists (Billion), 2013-2017



#### Domestic Tourism Revenue (RMB Billion), 2013-2017



Source: National Tourism Bureau Data Center, Horwath Report

According to the Horwath Report, the major destination cities for China domestic tourists in 2017 are Beijing, Chongqing, Shanghai, Tianjin, Guangzhou, Chengdu, Wuhan, Hangzhou, Suzhou, Nanjing. Popular domestic tourism cities generally have abundant tourism resources, strong economic foundation, fully developed transport infrastructure, and well-equipped tourism facilities.

## INDUSTRY OVERVIEW

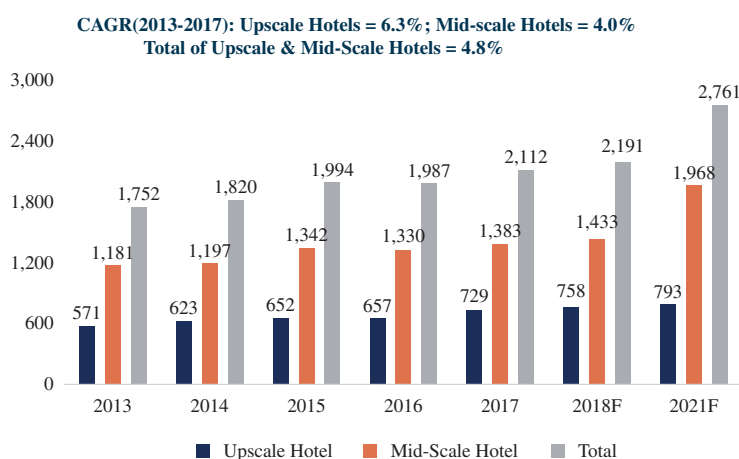
### HOTEL INDUSTRY IN CHINA

#### Hotel Supply Overview

According to the Horwath Report, the total number of upscale and mid-scale hotel rooms has been increasing during the period from 2013 to 2017. In an environment where the investment and consumer markets are active, the supply of rooms in the overall hotel market has been increasing during the period from 2013 to 2017, and the overall market remains active.

According to Horwath Report, the total number of upscale and mid-scale hotel rooms increased from 1.75 million in 2013 to 2.11 million in 2017, with a CAGR of 4.8%. It is expected that the new supply of upscale and mid-scale hotel room number will continue to increase rapidly at 2.76 million rooms in 2021 with a CAGR of 6.9%. It is estimated that the number of upscale hotel rooms and midscale hotel rooms would reach around 0.79 million and 1.97 million respectively by 2021. With the growth rate difference between upscale and mid-scale hotels, the market share of mid-scale hotels will increase.

#### Number of Upscale and Mid-Scale Hotel Rooms (Thousand), 2013-2017 and 2018 & 2021 (Forecast)



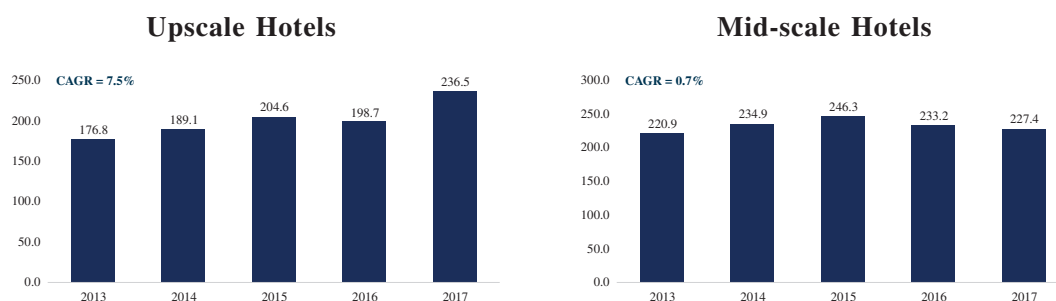
Source: Horwath Report

According to Horwath, based on the total hotel room supply by the end of 2017, the hotel rooms per 1,000 people of U.S. are 12.56 and that of China are 1.52, which indicates there is still considerable room for hotel development in China.

#### Hotel Market Size

According to Horwath, the hospitality industry revenue is highly related to the total number of hotel rooms and RevPAR. The revenue of upscale hotels in China increased from RMB176.8 billion in 2013 to RMB236.5 billion in 2017, representing a CAGR of 7.5%. For mid-scale hotels in China, the total revenue had a modest increase from RMB220.9 billion to RMB227.9 billion at a CAGR of 0.7%. According to Horwath, with the continued growth of macroeconomy and tourism market in China, the total revenue of upscale and mid-scale hotels is expected to maintain a long term growth trend.

#### Revenue of the Upscale and Mid-scale Hotels in China (RMB Billion)



Source: Hotel management companies' annual reports, China Hotel Chain Development and Investment Report, China Hotel Association star statistics, Horwath report

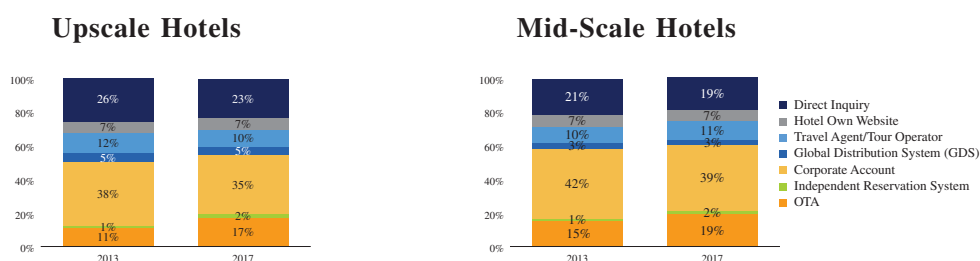
## INDUSTRY OVERVIEW

### Distribution Channels

In terms of distribution channels for upscale and mid-scale hotels in 2013 and 2017, the proportion of direct inquiry and corporate account declined at different degrees, while the proportion of OTA channel increased significantly. For the upscale hotel market, the proportion of OTA channel bookings increased by 6% from 2013 to 2017, which is higher than the increase in the mid-scale market at 4%. In recent years, with the rapid development of OTA and its ever-increasing market influence, hotel guests can conduct one-stop search through OTA channel and make reservations at lower cost. Therefore, this booking channel is increasingly favoured by guests. In addition, with the booming demand of business meetings from small and medium-sized companies and upscale individual tourist demand, more and more guests are willing to make reservations through OTA.

Our Group has an established sales platform network which enable us to promote room sales through online and offline channels such as websites, mobile client apps, and sales offices, which can improve the overall operating margin. In addition, the corporate booking channel percentage of our Group is higher than the average of comparable hotels, demonstrating the strength in our sale team.

### Distribution Channels, 2013 & 2017



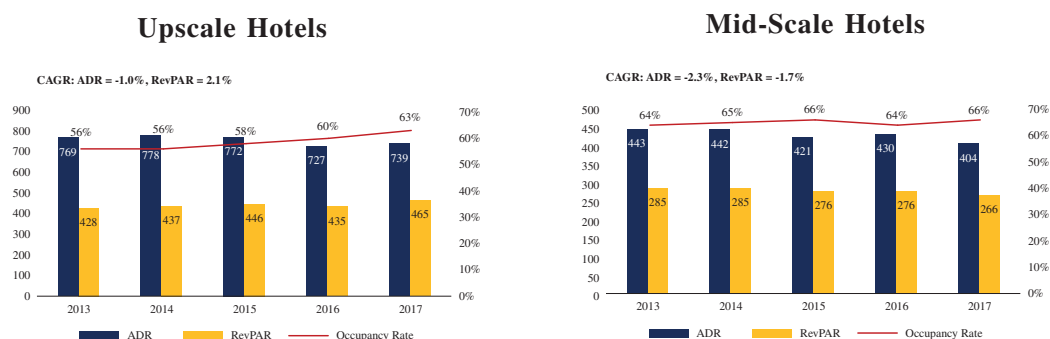
Source: Horwath Report

### Hotel Operating Performance

#### Operating Performance

Average occupancy rate of upscale hotel market in the PRC increased steadily from 56% in 2013 to 63% in 2017, whilst ADR has remained relatively stable within the range from RMB727 to RMB778 during the same period. Due to the increase in occupancy, upscale hotel's RevPAR has also increased steadily from RMB428 in 2013 to RMB465 in 2017 representing a CAGR of 2.1%. From 2013 to 2017, average occupancy rate for mid-scale hotel market in the PRC have remained relatively stable, ranging from 64% in 2013 to 66% in 2017. RevPAR for mid-scale hotel market decreased slightly from RMB285 in 2013 to RMB266 in 2017 due to decrease in the ADR from RMB443 in 2013 to RMB404 in 2017.

### Operating Performance, 2013-2017



Source: Horwath Report

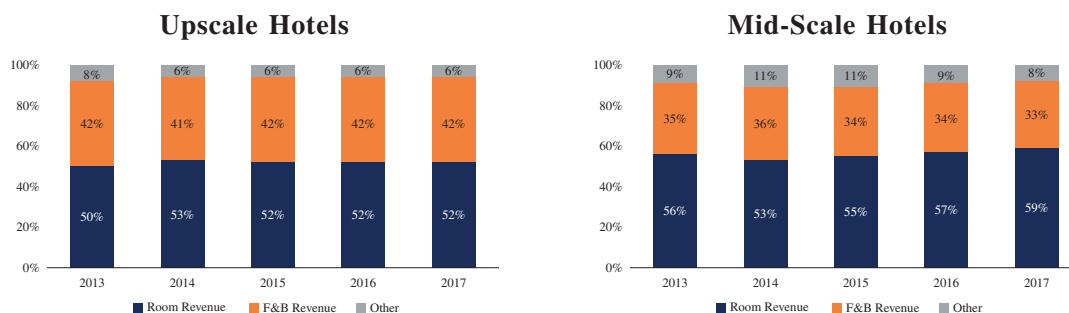


## INDUSTRY OVERVIEW

### Hotel Revenue Breakdown

The revenue breakdown of upscale hotels was relatively stable during the past five years. Room revenue continued to be the major source of total revenue, followed by food and beverage (F&B) revenue, with lower proportion than the rooms revenue by around 10%. In the mid-scale hotel market, room revenue has accounted for higher revenue contribution than upscale market. In addition, the proportion of room revenue has increased slightly in recent years, which has increasingly highlighted the importance of room revenue in the mid-scale hotel market.

Hotel Revenue Breakdown, 2013-2017



Source: Horwath Report

## THE ECONOMY AND HOTEL INDUSTRY OF THE ZHEJIANG PROVINCE

### Zhejiang Province Economy

The macroeconomic development in Zhejiang province remains buoyant with most indicators higher than the national average, laying a strong economic foundation for the development of various industries in Zhejiang Province. According to the Zhejiang government, GDP of Zhejiang is expected to reach RMB7,000 billion by 2022.

Zhejiang Macroeconomy Performance, 2013-2017

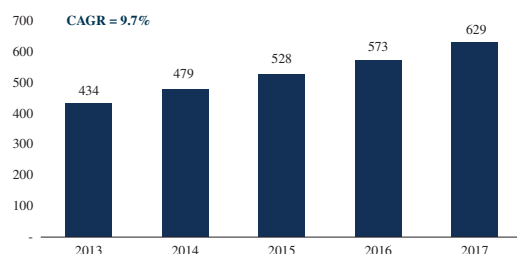
|                                       | 2013   | 2014   | 2015   | 2016   | 2017   | CAGR  |
|---------------------------------------|--------|--------|--------|--------|--------|-------|
| GDP (RMB Billion)                     | 3,776  | 4,017  | 4,289  | 4,725  | 5,177  | 8.2%  |
| GDP Per Capita (RMB)                  | 68,805 | 73,002 | 77,644 | 84,916 | 92,057 | 7.5%  |
| Disposable Income Per Capita (RMB)    | 29,775 | 32,658 | 35,537 | 38,529 | 42,046 | 9.0%  |
| Fixed Assets Investment (RMB Billion) | 2,078  | 2,426  | 2,732  | 3,028  | 3,113  | 10.6% |

Source: Zhejiang Provincial Bureau of Statistics, Horwath Report

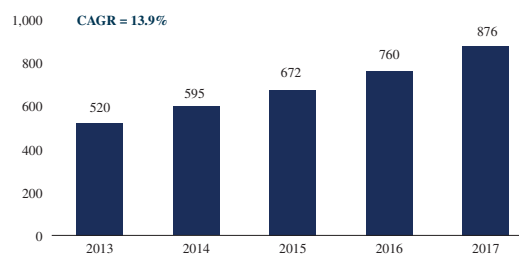
### Zhejiang Tourism Industry

Zhejiang has a strong and vibrant economy, abundant natural resources and pleasant climate. Its local consumer spending is also strong. The total tourist arrivals and total tourism revenue in Zhejiang have maintained a high growth rate in recent five years. The domestic tourism arrivals and tourism revenue in Zhejiang had a CAGR of 9.7% and 13.9%, respectively from 2013 to 2017. During the same period, the international tourism arrivals and tourism revenue in Zhejiang had a CAGR of 8.6% and 11.3%. It is expected in the future that based on a vibrant regional economy and abundant natural resources, the tourism and hotel industry in Zhejiang will maintain its momentum of vigorous growth. Especially in the field of leisure and vacation, with the advantage of having unique resources, more featured leisure and vacation products will be developed in Zhejiang.

Domestic Tourist Arrivals in Zhejiang (Million), 2013-2017



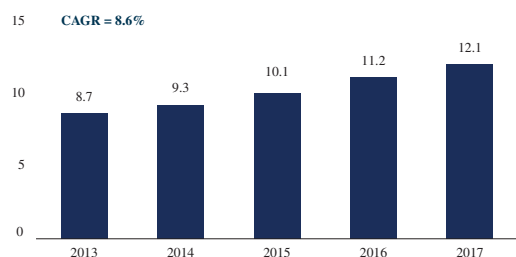
Domestic Tourism Revenue in Zhejiang (RMB Billion), 2013-2017



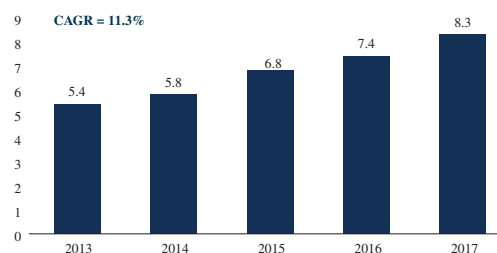


## INDUSTRY OVERVIEW

### International Tourist Arrivals in Zhejiang (Million), 2013-2017



### International Tourism Revenue in Zhejiang (US\$ Billion), 2013-2017

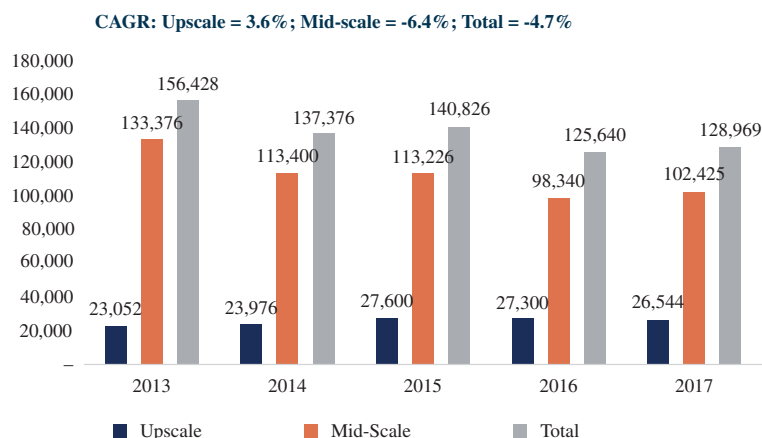


Source: Tourism Bureau of Zhejiang Province, Horwath Report

### Hotel Industry in Zhejiang

According to Horwath, the number of Star-rated upscale hotel rooms in Zhejiang has showed a growing trend from 2013 to 2017 at a CAGR of 3.6%. Various upscale hotel brands have entered the market and the overall hotel market will maintain vigorous development in the future. Notwithstanding a decline in the number of Zhejiang's Star-rated mid-scale hotel rooms from 2013 to 2017, according to Horwath, the mid-scale hotels market has significant development potential and the number of mid-scale hotel rooms is expected to grow in the future due to sustainable development of tourism industry and consumption upgrade.

### Number of Star-rated\* Upscale and Mid-Scale Hotel Rooms 2013-2017



Source: Ministry of Culture and Tourism of PRC, local tourism bureau of individual cities, Horwath Report

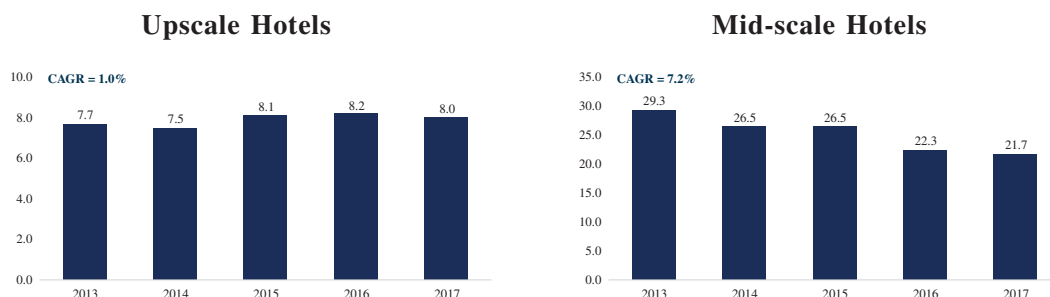
\* Due to a lack of official data compilation on the total number of upscale and mid-scale hotels and hotel rooms outside the China National Star Rating System in Zhejiang Province, therefore only officially star rated upscale and mid-scale hotel rooms are included above. According to Horwath, the total number of hotel rooms under the upscale and mid-scale category is expected to be more than the Star-rated figures, given the robust economy and tourism industry in Zhejiang Province.

### Hotel Market Size

According to Horwath, total revenue of Star-rated upscale hotels in Zhejiang Province increased from RMB7.7 billion in 2013 to RMB8.0 billion in 2017 with a CAGR of 1.0%. In the mean time, total revenue of Star-rated mid-scale hotels in Zhejiang Province decreased from RMB29.3 billion in 2013 to RMB21.7 billion in 2017. This decrease is mainly due to the decreased number of Star-rated mid-scale hotels, because an increasing number of mid-scale hotels with great quality of facilities, environment, service and relatively high market influence decide not to participate in or drop out of the star-rating system as the rigorous grading criteria such as qualified swimming pools or ballroom/meeting rooms. Notwithstanding a modest increase in upscale hotels revenue and downtrend in mid-scale hotels revenue in Zhejiang Province, according to Horwath, as one of the most economically developed provinces in China and major tourism destination region, Zhejiang has shown great potential in hospitality industry and the revenue of upscale and mid-scale market are expected to grow in the future.

## INDUSTRY OVERVIEW

### Revenue of the Star-rated\* Upscale and Mid-scale Hotels in Zhejiang (RMB Billion)



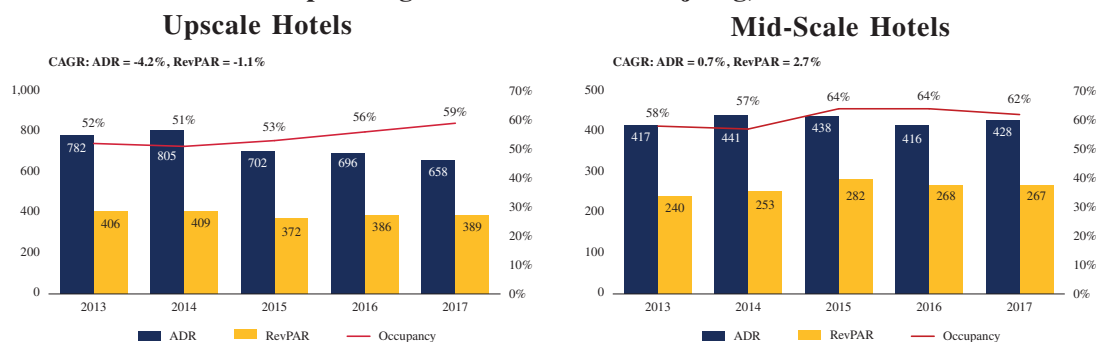
Source: China Hotel Association star statistics, and Horwath HTL

\* Due to a lack of official data compilation on the total number of upscale and mid-scale hotels outside the China National Star Rating System in Zhejiang Province, therefore only officially Star-rated upscale and mid-scale hotel revenue are included above. According to Horwath, the total revenue under the upscale and mid-scale category is expected to be more than the revenue attributed to star-rated hotels, given the robust economy and tourism industry in Zhejiang Province.

### Hotel Operating Performance in Zhejiang

In terms of hotel operating performance in Zhejiang. The upscale hotels occupancy rate has increased steadily from 52% to 59% during the past five years. Notwithstanding the ADR has decreased from 2013 to 2017, the RevPAR has bottomed out in 2015 and increased steadily in 2016 and 2017. ADR and occupancy rate of mid-scale hotels slightly fluctuated over the past five years. The RevPAR peaked in 2015, followed by a modest drop in 2016 and 2017.

#### Hotel Operating Performance in Zhejiang, 2013-2017

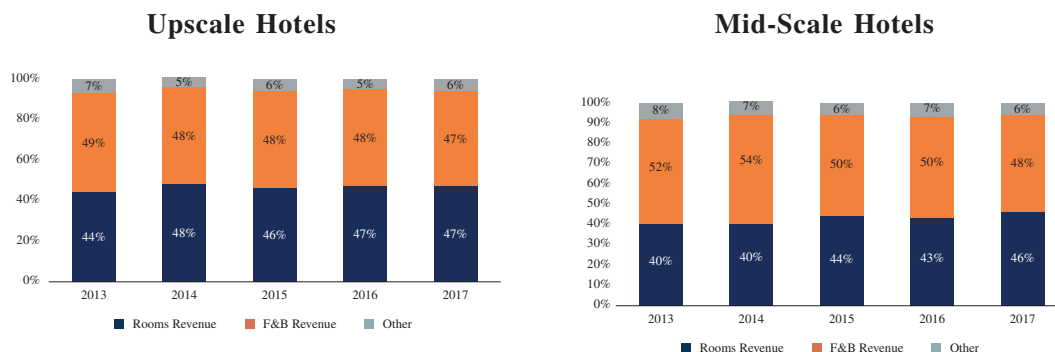


Source: Horwath Report

### Hotel Revenue Breakdown in Zhejiang

In terms of upscale hotels revenue breakdown, the proportions of room and F&B revenues both remained stable over the past five years. For mid-scale hotels, the proportion of rooms revenue has shown upward trend from 40% in 2013 to 46% in 2017 while proportion of F&B revenue slightly decreased.

#### Hotel Revenue Breakdown in Zhejiang, 2013-2017



Source: Horwath Report

## INDUSTRY OVERVIEW

### Market Drivers, Trends and Further Opportunities in China

The following are the key market drivers of the hotel market in China:

- **Brand influence and reputation**

Under the trend of integration and the transformation among the hotel industry in China, the well-recognized hotel brand with track record can largely ensure the comprehensive customer experience. Moreover, with the wide application of social media, especially the tourism user generated content and rating platform, the hotel groups will get more attention and thus gain more market share.

- **Business travel market growth**

The total business travel expenses in China has taken over the first position from the U.S. since 2016, and it is expected that the total business travel expenses will continue to grow rapidly in next five years. Besides, increasing business activities taken place in more developed cities and areas in China will require more mid to upscale hotels which can provide the required hospitality services.

- **Consumption upgrade**

Driven by the consumption upgrade in recent years, consumers have a stronger awareness of the hospitalities quality and have put forward more requirements on hotel equipments and services. As a result, the change of consumption emphasis has speeded up the hospitality industry innovation and iterative upgrade.

- **New technology development**

The application of technology in hotels can effectively improve operation efficiency and reduce labor costs by online check in/out and order room service system through mobile apps. In addition, new technologies such as artificial intelligence and cloud computing technology can help collect and analyze the customer preferences to meet their individualized and customized demand and further enhance guests experience during stays and bring about increasing revisits.

- **OTA**

The OTA is rapidly penetrating the market share of the traditional travel services in China, which have improved the scale of China's hotel industry in recent years. The hotel groups have gained earning certainty, risk decentralization and stable occupancy rate through working with OTA.

### Analysis of Hotel Market Demand in China

The following are the major factors affecting market demand:

- With continued increase in national income level and upgrade in consumption structure, level of domestic tourism has increased driving increase in tourism demand and continue to lay a good foundation for tourists' travel needs. In terms of business demand, despite the 2008 financial crisis, the number of actual enterprises in China has maintained a rapid growth and especially after the reform of the commercial system in 2014 (商事制度改革), the business travel market has become more active and business demand is expected to grow steadily.
- According to the statistics of the World Travel & Tourism Council, leisure and business travel consumption in the PRC will maintain a medium to high growth rate. Such increase in spending power will contribute to boost the overall hotel industry revenue growth:

| China Tourism Related Spending & Forecast |                       |                       |                   |
|-------------------------------------------|-----------------------|-----------------------|-------------------|
| Spending Type                             | 2016<br>(USD billion) | 2028<br>(USD billion) | CAGR<br>2016-2028 |
| Leisure Spending                          | 536                   | 1,620                 | 9.7%              |
| Business Spending                         | 127                   | 377                   | 9.5%              |
| <b>Total</b>                              | <b>663</b>            | <b>1,997</b>          | <b>9.6%</b>       |

Source: The World Travel & Tourism Council, Horwath

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## INDUSTRY OVERVIEW

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- According to Horwath, as reported by the Economist Intelligent Unit, by 2030, it is expected that around 75% of Chinese urban consumers (or around 1.1 billion people) will be classified as middle class as compared to 60% (or around 0.8 billion people) in 2015. That means that discerning and experienced travelers who are able and willing to pay higher prices for higher quality accommodation will soon become the backbone of the hotel market. While upscale and mid-scale hotels will benefit from the rising of middle class, it is expected that mid-scale hotels will not only need to be able to provide quality facilities but also be stylish and cost-effective.

### ENTRY BARRIERS

There are significant entry barriers in a large-scale hotel management group. Principal entry barriers include:

- (i) *Initial capital* for newly set-up investment on self-owned or rental property, renovation cost, equipment cost and staff recruiting;
- (ii) *Hotel differentiation* such as brand positioning and range of facilities provided;
- (iii) *Management capability and resources* including service standard and operational requirements in order to ensure hotel room and services quality, a diverse range of distribution channel to reach a wide pool of potential hotel guests;
- (iv) *Hotel management technology* including membership management system and central purchasing system to ensure supply quality and to control costs, in order to ensure operational efficiency and profitability; and
- (v) *Strong management team and stable hotel professionals* required for daily operation and management in order to be competitive.

Such track record is important to both hotel guests and hotel owners looking for hotel management partners. New entrants whom do not have enough experience and resources to build up such operational track record will find it difficult to attract hotel owners as business partners and hotel guests.

### COMPETITIVE LANDSCAPE

#### Market Share in China

The mid to upscale hotel market in China which includes both domestic and international market players is highly fragmented. The total room number (in operation and under pipeline) market share of top 11 market players is 32.8% as at March 31, 2018, and our Group ranked 7th. As of upscale hotel market share, our Group ranked 3rd in China and had the highest market share among domestic hotel groups. According to Horwath, as at March 31, 2018, in terms of number of hotel rooms in operation in China, we were the seventh largest hotel group and second largest domestic hotel group ranked according to the number of upscale hotel rooms, and were the eighth largest hotel group and the fourth largest domestic hotel group ranked according to the number of upscale and mid-scale hotel rooms. The leading market share of our Group is supported by, including but not limited to, our strong portfolio of hotel brands, increasing market reputation and established sales distribution channels and systems.

## INDUSTRY OVERVIEW

### Market Share in China Ranking by Number of Rooms (In operation, as at March 31, 2018)

| Ranking | Company          | Mid to upscale |
|---------|------------------|----------------|
| 1       | Company A        | 5.7%           |
| 2       | Company B        | 4.5%           |
| 3       | Company D        | 4.3%           |
| 4       | Company C        | 4.1%           |
| 5       | Company F        | 3.1%           |
| 6       | Company E        | 3.0%           |
| 7       | Company G        | 1.6%           |
| 8       | <b>OUR GROUP</b> | <b>1.5%</b>    |
| 9       | Company J        | 1.0%           |
| 10      | Company H        | 0.6%           |
| 11      | Company I        | 0.6%           |

| Ranking | Company          | Upscale     |
|---------|------------------|-------------|
| 1       | Company C        | 9.7%        |
| 2       | Company B        | 6.4%        |
| 3       | Company D        | 3.4%        |
| 4       | Company E        | 2.8%        |
| 5       | Company J        | 2.8%        |
| 6       | Company G        | 2.7%        |
| 7       | <b>OUR GROUP</b> | <b>2.6%</b> |
| 8       | Company F        | 2.4%        |
| 9       | Company H        | 1.8%        |
| 10      | Company I        | 1.5%        |
| 11      | Company A        | 0.8%        |

| Ranking | Company          | Mid-scale   |
|---------|------------------|-------------|
| 1       | Company A        | 8.3%        |
| 2       | Company D        | 4.8%        |
| 3       | Company E        | 3.7%        |
| 4       | Company F        | 3.4%        |
| 5       | Company B        | 3.4%        |
| 6       | Company C        | 1.2%        |
| 7       | Company G        | 1.0%        |
| 8       | <b>OUR GROUP</b> | <b>0.9%</b> |
| 9       | Company I        | 0.1%        |
| 10      | Company J        | -           |
| 11      | Company H        | -           |

### Market Share in China Ranking by Number of Rooms (In operation and under pipeline, as at March 31, 2018)

| Ranking | Company          | Mid to upscale |
|---------|------------------|----------------|
| 1       | Company A        | 6.1%           |
| 2       | Company B        | 4.9%           |
| 3       | Company C        | 4.8%           |
| 4       | Company D        | 3.7%           |
| 5       | Company E        | 3.1%           |
| 6       | Company F        | 2.8%           |
| 7       | <b>OUR GROUP</b> | <b>2.3%</b>    |
| 8       | Company G        | 1.9%           |
| 9       | Company H        | 1.1%           |
| 10      | Company I        | 1.1%           |
| 11      | Company J        | 1.0%           |

| Ranking | Company          | Upscale     |
|---------|------------------|-------------|
| 1       | Company C        | 12.4%       |
| 2       | Company B        | 7.5%        |
| 3       | <b>OUR GROUP</b> | <b>4.3%</b> |
| 4       | Company H        | 3.7%        |
| 5       | Company I        | 3.7%        |
| 6       | Company D        | 3.4%        |
| 7       | Company E        | 3.3%        |
| 8       | Company J        | 3.3%        |
| 9       | Company G        | 3.2%        |
| 10      | Company F        | 2.6%        |
| 11      | Company A        | 0.9%        |

| Ranking | Company          | Mid-scale   |
|---------|------------------|-------------|
| 1       | Company A        | 8.1%        |
| 2       | Company D        | 3.9%        |
| 3       | Company B        | 3.8%        |
| 4       | Company E        | 3.4%        |
| 5       | Company F        | 2.9%        |
| 6       | Company C        | 1.7%        |
| 7       | <b>OUR GROUP</b> | <b>1.4%</b> |
| 8       | Company G        | 1.4%        |
| 9       | Company H        | -           |
| 10      | Company I        | -           |
| 11      | Company J        | -           |

Source: Horwath Report

Notes:

- 1 Among ranking company, domestic hotel groups has been shaded.
- 2 Identities: Company A is a domestic hotel group which mostly concentrated in mid-scale hotel market; Company B is a European international hotel group and has operations in more than 100 countries across the globe; Company C is an American multinational diversified hotel group that manages and franchises a broad portfolio of hotels and related lodging facilities.; Company D is a domestic hotel management company which has wide range of hotel brands covering mid to upscale market; Company E is one of the world's leading and most diverse hotel group, encompassing hotels in more than 80 countries under a series of hotel brands; Company F is a domestic hotel group which covers mid to upscale hotel brands; Company G is an international hotel group founded in the U.S. with properties across 90 countries; Company H is a domestic hotel group which has single brand positioning as a high-end hotel; Company I is a domestic tourism company, whose hotel segment are concentrated in upscale hotels; Company J, as the largest hotel group in Europe, is a French multinational hotel management company that owns, manages and franchises hotels, resorts, and vacation properties.

### Competitive Landscape by Individual City Tiers

**First-tier cities:** The first-tier cities have solid economic foundation and highly developed transportation infrastructure, providing a relatively mature market environment to hotel industry and driving hotel industry to a healthy development stage. In terms of hotel supply and demand increment, because of the high development level and limited available land in central areas of first-tier cities, hotel supply of first-tier cities has grown slowly in recent years. However, with the optimization of industrial structure and consumption upgrade, the hotel demand continues to increase. Driven by strong demand, hotels in first-tier cities have reached great performance and entered a rising period. With brand popularity and high product quality, the international hotel brands reach a considerable premium in first-tier cities' hotel market, bringing great competitive advantages for those brands. In the foreseeable future, hotel market of first-tier cities will continue to maintain a positive development momentum. International hotel management companies will further strengthen their competitiveness by improving their advantages in product, brand and operation.

## INDUSTRY OVERVIEW

**New first-tier cities<sup>(Note)</sup>:** The economic development of the new first-tier cities steps into an expansion period. Infrastructure construction such as transportation and exhibitions speeds up. Various types of favourable policies continue to emerge. Such active market environment has brought the hotel industry into a phase of explosive growth in supply. Due to the relatively concentrated supply of hotels in new first-tier cities, short-term hotel performance faces great pressure. Although many international hotel brands have entered new first-tier cities, brand premium is limited due to the competitive pressure brought by rapid supply growth. As a result, the gap between international hotel brands and domestic brands is not as obvious as that of first-tier cities. It is expected that in the short to medium term, the hotel market in new first-tier cities will continue to expand, and international hotel management companies will further strengthen their penetration in new first-tier cities hotel markets to enlarge market share. As for domestic brands, they will take the advantage of localization to acquire chances to occupy a place in intense market competition.

**Second-tier cities:** Compared with the new first-tier cities, the economic vitality of second-tier cities is relatively low, and the optimizing adjustment of industrial structure is slower. Moreover, because of the vast territory, the development pace of second-tier cities varies in the coastal, central and western regions. As a result, hotel markets of different second-tier cities are at different stages of the rising period. Limited by the scale of hotel market demand and hotel guest's ability to pay, hotel performance has reached bottleneck. Although international hotel brands have gradually entered second-tier cities, because of the pressure from improvement of hotel performance, especially ADR, the brand value cannot be effectively recognized. However, domestic hotel brands have accelerated the speed of developing high quality hotel products and services through their geographical advantages and keen perception of market trends. Therefore, the difference of hotel performance between domestic hotel brands and international brands has narrowed significantly in second-tier cities. In the short to medium term, even though the development speed of the second-tier city hotel market will still be slower than that of the new first-tier cities and the hotel operation will continue to face certain challenges, as regional development centres, second-tier cities will remain to be the focus of domestic and international hotel management companies.

**Third-tier cities and others:** The overall economic scale of the third- or fourth-tier cities is small, and the hotel market is still at an early stage of development. As the limited hotel market capacity of the third- or fourth-tier cities and slow growth of demand, the overall hotel operating performance of these cities is poor and ADR falls at a low level. Although in recent years, in response to the consumption level, mid-scale international brands have accelerated the penetration to the massive third- and fourth-tier cities, domestic brands still have stronger competitive advantages due to greater regional influence. In the near future, the hotel market in the third- or fourth-tier cities has opportunities for development. However, limited by the city scale, industrial structure and consumption level, the hotel development at third- or fourth-tier cities will be dominated by mid-scale hotel brands. Domestic management companies' competitive advantages will contribute to enhance their penetration level in third- and fourth-tier cities.

### TRENDS OF LABOR COSTS

The labor cost of upscale hotels experienced a relatively stable increase from 2013 to 2017 while mid-scale hotels labor has shown a slight downward trend. Both upscale and mid-scale hotel labor costs are expected to fluctuate modestly, with CAGR of -0.6% and 1.1% respectively from 2017 to 2022. Due to ongoing development of hospitality related technology and improvement of hotel management efficiency, the labor supply is expected to meet the hotel operation requirements in the foreseeable future. According to Horwath, the overall industry staff turnover ratio ranged between 20% to 40% in 2017.

#### Payroll cost (RMB Per Available Room Per Year), 2013-2022E

|           | 2013   | 2014   | 2015   | 2016   | 2017   | 2013-<br>2017<br>CAGR | 2022E  | 2017-<br>2022E<br>CAGR |
|-----------|--------|--------|--------|--------|--------|-----------------------|--------|------------------------|
| Upscale   | 85,723 | 88,204 | 91,467 | 89,965 | 95,734 | 2.8%                  | 92,745 | -0.6%                  |
| Mid-Scale | 55,445 | 60,867 | 58,039 | 58,675 | 54,055 | -0.6%                 | 57,053 | 1.1%                   |

Source: Horwath Report

Note: city categorization of new first-tier cities which is based on the report published by YICAI (Yicai Media Group (第一財經), which was founded in 2003 and is one of the largest financial media conglomerate in China) in May 2017.



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## SUPERVISION AND REGULATION

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This section sets forth a summary of the most significant rules and regulations that affect our business activities in China or our shareholders' rights to receive dividends and other distributions from us.

The hotel industry in China is subject to a number of laws and regulations, including laws and regulations relating specifically to hotel operation and management and commercial franchising, as well as those relating to environmental and consumer protection. As with other industries in China, regulations governing the hotel industry in China are still developing and evolving and might be amended, upgraded or reenacted from time to time. As a result, when any prevailing regulations are amended or upgraded, the hotel industry may be required to meet new or stricter standards, criteria or requirements. This section summarizes the principal PRC regulations currently relevant to our business and operations. Laws and regulations relating to taxation and foreign exchange in the PRC are discussed separately in Appendix IV – Taxation and Foreign Exchange to this document.

### REGULATIONS ON FOREIGN OWNERSHIP

The principal and most current regulations governing foreign ownership of hotel businesses in the PRC is the Special Management Measures (Negative List) for the Access of Foreign Investment (2018) (《外商投資准入特別管理措施》(負面清單)) issued on June 28, 2018 and effective as of July 28, 2018, both by the NDRC and MOFCOM. Pursuant to this regulation, there are no restrictions on foreign investment in hotel businesses in China aside from business licenses and other permits that every hotel must obtain.

In addition, under the Interim Provisions on the Investment of Foreign-invested Companies in China (《關於外商投資企業境內投資的暫行規定》) promulgated on July 25, 2000 and amended on October 28, 2015, any foreign invested enterprise that intends to invest within the territory of China shall abide by the state laws and regulations, and the investment by the foreign invested enterprises shall follow the Foreign Investment Industrial Guidance Catalog as updated from time to time by reference, according to which, foreign invested enterprises are not permitted to invest in fields where foreign investment is prohibited, such as Internet news information services and online publication services.

Furthermore, under the Interim Administrative Measures for the Record-filing of the Incorporation and Change of Foreign-invested Enterprises (Revised in 2018) (《外商投資企業設立及變更備案管理暫行辦法》) which was promulgated and entered into effect on June 30, 2018, if foreign-invested enterprises or their investors conduct investment and operation activities in restricted investment sectors listed in the special access administrative measures prescribed by the state without approval, the competent commerce departments shall order them to make corrections within a prescribed time limit, and impose a fine of less than RMB30,000. In the case of violation of other laws and regulations, the relevant departments shall investigate the corresponding legal liability. In addition, if foreign-invested enterprises or their investors conduct investment and operation activities in forbidden investment sectors listed in the special access administrative measures prescribed by the state, the competent commerce departments shall order them to make corrections within a prescribed time limit, and impose a fine of less than RMB30,000. In the case of violation of other laws and regulations, the relevant departments shall investigate the corresponding legal liability.

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As a foreign-invested company, our company has acquired necessary regulatory approvals for the Reorganization and internal approvals for the [REDACTED] and [REDACTED]. Please refer to section headed "History, Reorganization and Corporate Structure" and section headed "Appendix VII – Statutory and General Information" in this document for further details.

### **REGULATIONS ON HOTEL OPERATION**

#### **Regulations on Security Control**

In November 1987, the Ministry of Public Security issued the Measures for the Control of Security in the Hotel Industry (《旅館業治安管理辦法》) which was subsequently revised on November 8, 2011, and in June 2004, the State Council promulgated the Decision of the State Council on Establishing Administrative License for the Administrative Examination and Approval Items Really Necessary To Be Retained (《國務院對確需保留的行政審批項目設定行政許可的決定》), which was amended on August 25, 2016. Under these two regulations, anyone who applies to operate a hotel is subject to examination and approval by the local public security authority and must obtain a special industry license. The Measures for the Control of Security in the Hotel Industry impose certain security control obligations on the operators. For example, the hotel must examine the identification card of any guest to whom accommodation is provided and make an accurate registration. The hotel must also report to the local public security authority if it discovers anyone violating the law or behaving suspiciously or an offender wanted by the public security authority. The Law of the PRC on Penalties for the Violation of Public Security Administration (《中華人民共和國治安處罰法》) (Revised in 2012) was promulgated on October 26, 2012 and entered into force on January 1, 2013. Pursuant to the Measures for the Control of Security in the Hotel Industry, the Law of the PRC on Penalties for the Violation of Public Security Administration and relevant local regulations, operating a hotel business without having obtained a special industry license may subject the operator to being banned, detention of between 10 and 15 days as well as fines of RMB500 to RMB1,000. Operators of hotel businesses who obtained the special industry license but have violated applicable administrative regulations, may also be subject to revocation of such license in serious circumstances.

#### **Regulations on Public Area Hygiene**

In April 1987, the State Council promulgated the Public Area Hygiene Administration Regulation (《公共場所衛生管理條例》) which was subsequently amended on February 6, 2016, and on March 10, 2011, the Ministry of Health promulgated the Implementing Measures for the Public Area Hygiene Administration Regulation (《公共場所衛生管理條例實施細則》) and the National Health and Family Planning Commission amended this regulation on January 19, 2016 and December 26, 2017. According to these regulations, a hotel must obtain a public area hygiene license before opening for business. Pursuant to these regulations, hotels failing to obtain a public area hygiene license or comply with other requirements set forth in such regulations may be subject to the following administrative penalties depending on the seriousness of their respective activities: (i) warnings; (ii) fines between RMB500 and RMB30,000; (iii) orders to correction within a stipulated period or (iv) orders to suspend operations for rectification, or to revoke the public hygiene license.



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### Regulations on Food Safety

With the purpose of guaranteeing food safety and safeguarding the health and life safety of the public, SCNPC, enacted the PRC Law on Food Safety (《中華人民共和國食品安全法》) in February 2009 which was amended on April 24, 2015. Also, the State Council adopted the Implementation Rules of the Food Safety Law (《中華人民共和國食品安全法實施條例》) which came into effect on July 20, 2009 and was amended on February 6, 2016. In August 2015, the China Food and Drug Administration ("the CFDA") promulgated the Administrative Measures for Food Operation Licensing (《食品經營許可管理辦法》) which was subsequently amended on November 17, 2017. Also, the CFDA adopted the Announcement on Launching the Use of Food Business License (《關於啟用<食品經營許可證>的公告》) which came into effect on September 30, 2015. Under above measures, a food operation permit shall be obtained in accordance with the law to engage in food selling and catering services within the territory of the People's Republic of China. The former food catering service or circulation license will be de-registered by the authority that has issued the license upon its expiration. However, a former food catering service or circulation license that does not expire will continue to be valid; if, during the validity period thereof, the food business operator applies for replacing it with food business license, the licensing authority shall make the replacement according to relevant provisions. Each of our hotels providing food catering services is required to obtain a food business or catering service or food circulation license in order to offer food services. Pursuant to the PRC Law on Food Safety, hotels failing to obtain a food service license (or formerly food hygiene license) may be subject to: (i) confiscation of illegal gains, food illegally produced for sale and tools, facilities and raw materials used for illegal production; and (ii) fines between RMB50,000 and RMB100,000 if the value of food illegally produced is less than RMB10,000 or fines equal to 10 to 20 times of the value of food if such value is equal to or more than RMB10,000.

### Regulations on Fire Prevention

The PRC legal framework governing fire prevention is set forth in the Fire Prevention Law (《中華人民共和國消防法》) which was adopted on April 29, 1998 and amended on October 28, 2008 by SCNPC. According to the Fire Prevention Law and other relevant laws and regulations of the PRC, the Ministry of Public Security and its local counterparts at or above county level shall monitor and administer the fire prevention affairs. The Fire Prevention Law provides that the fire prevention design or construction of a construction project must conform to the national fire prevention technical standards. Before construction and decoration of a hotel, the construction entity shall submit the fire prevention design documents to the local fire prevention department of the public security authority for examination and approval. Upon completion, the construction entity must go through the fire prevention acceptance check with the relevant fire prevention department and no construction may be put into use before it is accepted by the relevant authorities. For each public assembly venue such as a hotel, the construction entity or entity using such venue shall, prior to use and operation of any business thereof, apply for a safety check on fire prevention with the relevant fire prevention department under the public security authority at or above the county level where the venue is located, and such place could not be put into use and operation if it fails to pass the safety check on fire

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prevention or fails to conform to the safety requirements for fire prevention after such check. Pursuant to these regulations, hotels failing to obtain approval of fire prevention design plans or failing fire prevention safety inspections (including acceptance check and safety check on fire prevention) may be subject to: (i) orders to suspend the construction of projects, use or operation of business; and (ii) fines between RMB30,000 and RMB300,000. Pursuant to the Administrative Regulations Concerning Supervision on the Fire Safety of Construction Projects (《建設工程消防監督管理規定》) and Regulations Concerning Supervision and Inspection on Fire Safety (《消防監督檢查規定》), both as amended on July 17, 2012 and effective on November 1, 2012, for each hotel with a construction area of no less than 10 thousand square meters, the construction entity or entity operating such hotel shall, prior to putting it in use and operating it for business, submit the fire prevention design documents to the fire prevention department of the public security authority for approval, go through acceptance check on fire prevention thereby and thereafter go through fire safety inspection on public assembly venues; for each hotel with a construction area of less than 10 thousand square meters, the construction entity or entity operating such hotel shall, prior to putting it in use and operating it for business, submit the documents in relation to the fire prevention design and acceptance check on fire prevention to the fire prevention department of the public security authority for filing purpose, and go through fire safety inspection on public assembly venues. Each hotel passing the fire safety inspection on public assembly venues will obtain a certificate for fire safety inspection on public assembly venues.

Save as disclosed in the section headed "Business – Licenses, Permits and Approvals" in this document, our subsidiaries/branches have obtained aforementioned certificates necessary for hotel operation. Please refer to section headed "Business" in this document for further details.

### **Regulations on Hotels Rating**

In 1988, the National Tourism Administration of China promulgated the PRC Regulations on the Assessment of the Star Rating of (Foreign-related) Tourist Hotels and amended the same on February 6, 2016, or ("the Star Rating Regulations") (《中華人民共和國評定旅遊(涉外)飯店星級的規定》). Under the Star Rating Regulations, all hotels with operations of over one year are eligible to apply for a star rating assessment. There are five ratings from one star to five stars for tourist hotels, assessed based on the level of facilities, management standards and quality of service. According to the Classification and Assessment of the Star Rating of Tourist Hotels (GB/T14308-2010) (《旅遊飯店星級的劃分與評定》) issued by the National Tourism Administration of China, a star rating, once granted, is valid for three years. All of the foregoing regulations on hotel operation apply to our company as the operator of our leased-and-operated hotels.

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### **REGULATIONS ON LEASING**

Under the Law on Urban Real Estate Administration (《中華人民共和國城市房地產管理法(2009修正)》) promulgated by the SCNPC, which took effect as of January 1995 with the latest amendment in August 2009, lessors and lessees are required to enter into a written lease contract, containing such provisions as the term of the lease, the use of the premises, liability for rent and repair, and other rights and obligations of both parties, which is required to be registered with the real estate administration department.

In March 1999, the National People's Congress, the China legislature, passed the PRC Contract Law (《中華人民共和國合同法》), of which Chapter 13 governs hotel lease agreements. According to the PRC Contract Law, subject to consent of the lessor, the lessee may sublease the leased item to a third party. Where the lessee subleases the lease item, the leasing contract between the lessee and the lessor remains valid. The lessor is entitled to terminate the contract if the lessee subleases the lease item without the consent of the lessor.

On December 1, 2010, the Ministry of Housing and Urban-Rural Development promulgated the Administrative Measures for Commodity Housing Tenancy (《商品房屋租賃管理辦法》), which took effect on February 1, 2011. Under this regulation, a property may not be leased in some circumstances, including if the designated use of the property is changed in violation of applicable regulations. This regulation further provides that the competent real estate departments of the people's governments of the municipalities directly under the central government, cities and counties shall urge those who violate above provisions to make corrections within a specified time limit, and impose a fine below RMB5,000 on those who have not obtained illegal income. A fine between one and three times the amount of illegal income up to RMB30,000 may be imposed on those who have obtained illegal gains.

In March 16, 2007, the National People's Congress passed the PRC Property Law (《中華人民共和國物權法》), pursuant to which where a mortgagor leases the mortgaged property before the mortgage contract is concluded, the previously established leasing relation shall not be affected; and where a mortgagor leases the mortgaged property after the creation of the mortgage interest, the leasing interest will be subordinated to the registered mortgage interest.

### **REGULATIONS ON USAGE OF LAND OR PROPERTY**

The regulations governing the land or property usage mainly include the Land Administration Law of the People's Republic of China (《中華人民共和國土地管理法》) adopted by the Standing Committee of the National People's Congress on June 25, 1986, and most recently amended on August 28, 2004, and the Regulations on the Implementation of the Land Administration Law of the People's Republic of China (《中華人民共和國土地管理法實施條例(2014修訂)》) promulgated according to the Order of the State Council No. 256 on December 27, 1998 and further revised in accordance with the Decision of the State Council on Revising Certain Administrative Regulations on July 29, 2014.

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According to the above regulations, construction entities shall use state-owned land according to the stipulations of the land use right lease contract or according to the provisions of the approval documents relevant to the allocation of land use rights. The conversion of the construction purposes of the land shall receive the consent of the competent land administrative departments of relevant people's governments and be submitted to the people's governments that originally granted land use approval. When changing the purpose of land within urban planning areas, consent shall be obtained from the relevant urban planning administration departments before submission; without such approvals, the use of land specified in the relevant overall land utilization plan shall not be changed. Under these regulations, failure to comply with the approved usage may subject the owners of such properties and/or the tenants to fines or other penalties, including potentially being required to cease such non-compliant operations and being requested by the relevant land administrative authority to return the land.

### REGULATIONS ON CONSUMER PROTECTION

In October 1993, the SCNPC promulgated the Law on the Protection of the Rights and Interests of Consumers ("the Consumer Protection Law") (《中華人民共和國消費者權益保護法》) which has been amended on October 25, 2013. Under the Consumer Protection Law, a business operator providing a commodity or service to a consumer is subject to a number of requirements, including the following:

- to ensure that commodities and services meet with certain safety requirements;
- to disclose serious defects of a commodity or a service and to adopt preventive measures against damage occurrence;
- to provide consumers with accurate information and to refrain from conducting false advertising;
- not to set unreasonable or unfair terms for consumers or alleviate or release itself from civil liability for harming the legal rights and interests of consumers by means of standard contracts, circulars, announcements, shop notices or other means; and
- not to insult or slander consumers or to search the person of, or articles carried by, a consumer or to infringe upon the personal freedom of a consumer.

Business operators may be subject to civil liabilities for failing to fulfill the obligations discussed above. These liabilities include restoring the consumer's reputation, eliminating the adverse effects suffered by the consumer, and offering an apology and compensation for any losses incurred. The following penalties may also be imposed upon business operators for the infraction of these obligations: issuance of a warning, confiscation of any illegal income, imposition of a fine, an order to cease and rectify business operation, revocation of its business license or imposition of criminal liabilities under circumstances that are specified in laws and statutory regulations.

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On December 26, 2003, the PRC Supreme People's Court published the Interpretation of Some Issues Concerning the Application of Law for the Trial of Cases on Compensation for Personal Injury (《最高人民法院關於審理人身損害賠償案件適用法律若干問題的解釋》) which took effect on May 1, 2004. On December 26, 2009, the SCNPC promulgated the Tort Law of the People's Republic of China (《中華人民共和國侵權責任法》) which took effect on July 1, 2010. The above interpretation and law further increase the liabilities of business operators engaged in the operation of hotels, restaurants, or entertainment facilities and subject such operators to compensatory liabilities for failing to fulfill their statutory obligations to a reasonable extent or to guarantee the personal safety of others.

### **REGULATIONS ON ENVIRONMENTAL PROTECTION**

According to the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) promulgated by the SCNPC on December 26, 1989 and amended on April 24, 2014 and the Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》) promulgated by the SCNPC on October 28, 2002 and amended on July 2, 2016, environmental impact assessment shall be carried out pursuant to the environmental protection law for the construction of projects which have an impact on environment. Where the environmental impact assessment documents of a construction project are not examined or approved by the relevant examination and approval authorities, the construction unit shall not commence construction. Relevant entities may be subject to punishments such as fines, an order to obtain approval within a specified time limit in violation of the aforementioned laws.

### **REGULATIONS ON COMMERCIAL FRANCHISING**

Franchise operations are subject to the supervision and administration of the MOC, and its regional counterparts. Such activities are currently regulated by the Regulations for Administration of Commercial Franchising (《商業特許經營管理條例》) promulgated by the State Council on February 6, 2007, effective as of May 1, 2007. The Regulations for Administration of Commercial Franchising were supplemented by the new Administrative Measures for Archival Filing of Commercial Franchises (《商業特許經營備案管理辦法》) which were issued by the MOC on December 12, 2011 and took effect on February 1, 2012 and the new Administrative Measures for Information Disclosure of Commercial Franchises (《商業特許經營信息披露管理辦法》) which were issued by the MOC on February 23, 2012 and took effect on April 1, 2012.

Under the above applicable regulations, a franchisor must have certain prerequisites including a mature business model, the capability to provide long-term business guidance and training services to franchisees and ownership of at least two directly-managed storefronts that have been in operation for at least one year within China. Franchisors engaged in franchising activities without satisfying the above requirements may be subject to penalties such as forfeit of illegal income and imposition of fines between RMB100,000 and RMB500,000 and may be bulletined by the MOC or its local counterparts. Franchise contracts shall include certain required provisions, such as terms, termination rights and payments.

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A franchisor is required to file its business license, sample franchise agreement and other documents to the provincial commerce authority where it is registered for record within fifteen days following the execution of its first franchise agreement with a franchisee inside the PRC. If the franchisor conducts franchise business in two or more municipalities, provinces or autonomous regions, it is required to file with the MOC. Franchisors who comply with the provisions of the above applicable regulations shall, in accordance with the law, make filing through commercial franchise information management system established by the Ministry of Commerce. Moreover, the franchisor shall file information regarding the execution, withdrawal, renewal of and amendment to franchise agreements to the commerce authority for record before March 31 of each year.

Any changes in the recorded information of the franchisor should also be filed with the relevant commerce authority following the occurrence of these changes. For a franchisor failing to file in accordance with these regulations, the relevant commerce authority may order it to comply within a designated time frame and impose a fine ranging from RMB10,000 to RMB50,000. If the franchisor fails to comply as ordered, the relevant commerce authority may impose another fine ranging from RMB50,000 to RMB100,000 and publicly announce the franchisor's violation.

According to the 2008 Handbook of Market Access of Foreign Investment (《外商投資准入管理指引手冊》(2008年版)) promulgated by the MOFCOM in December 2008, if an existing foreign-invested company wishes to operate a franchise in China, it must apply to the appropriate commerce authorities to expand its business scope to include "engaging in commercial activities by way of franchise."

## REGULATIONS ON INTELLECTUAL PROPERTY RIGHTS

The PRC has adopted comprehensive legislation governing intellectual property rights, including copyrights, patents, trademarks and domain names.

**Copyright.** Copyright in the PRC, including copyrighted software, is principally protected under the Copyright Law (《中華人民共和國著作權法》) and related rules and regulations. Under the Copyright Law, the term of protection for copyrighted software is 50 years.

**Trademark.** The PRC Trademark Law (《中華人民共和國商標法》) and its implementation rules protect registered trademarks. The PRC Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. The Trademark Office under the SAIC is responsible for the registration and administration of trademarks throughout the PRC, and grants a term of ten years to registered trademarks and another ten years if requested upon expiry of the initial or extended term. Trademark license agreements must be filed with the Trademark Office for record.



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**Patent.** Pursuant to the PRC Patent Law (《中華人民共和國專利法》) and its implementation rules, once a patent for an invention or utility model has been granted, unless otherwise provided by the Patent Law, no entity or individual may use the patent, patented product or patented process for production or business purposes without the authorization of the patent owner. Once a patent has been granted for a design, no entity or individual may manufacture, sell or import any product containing the patented design without the permission of the patent owner. If a patent is found to have been infringed, the infringer must, in accordance with relevant regulations, cease such infringement, take remedial action and pay damages.

**Domain Name.** Domain names are protected under the Administrative Measures on Internet Domain Names (《互聯網域名管理辦法》) promulgated by the Ministry of Industry and Information Technology of PRC (the "MIIT") in August 24, 2017 and took effect on November 1, 2017. The MIIT is the major regulatory authority responsible for the administration of the PRC Internet domain names. The registration of domain names in PRC is on a "first-apply-first-registration" basis. A domain name applicant will become the domain name holder upon the completion of the application procedure.

### REGULATIONS ON DIVIDEND DISTRIBUTION

The principal regulation governing distribution of dividends of foreign-invested enterprises is the Company Law.

Under the Company Law, companies shall contribute 10% of the profits into their statutory surplus reserve upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital.

### REGULATIONS ON PREPAID CARDS

In August 18 2016, the MOFCOM promulgated Administrative Measures on Single-purpose Commercial Prepaid Cards (Trial Implementation). According to this regulation, enterprise legal persons in retail industry, accommodation and catering industry and residential services industry issuing prepaid cards shall complete filing formalities within 30 days from the date of carrying out single-purpose card businesses. The type of card-issuer consists of group card-issuer, brand card-issuer and large-scale card-issuer and the company shall be confirmed as one type of card-issuer on the basis of prepaid cards business type. Besides that, this regulation also stipulates rules of card purchase agreement, pattern of cards, limits of each registered and non-registered card, use of prepaid monies, the ratio of balance of prepaid monies to the company's main business income in the preceding accounting year, the company's depository system and the proportion of deposited funds or guarantee insurance amounts to the balance of prepaid monies in the previous quarter, prepaid money management system and policies and so on. A company may be subject to administrative punishments, orders to correction within a stipulated period as well as fines of RMB10,000 to RMB30,000 in violation of terms in this regulation.

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### REGULATIONS RELATING TO EMPLOYMENT

The PRC National People's Congress promulgated the Labor Contract Law (《中華人民共和國勞動合同法》) which became effective on January 1, 2008 and was amended on December 28, 2012, and the State Council promulgated implementing rules for the labor contract law (《勞動合同法實施條例》) on September 18, 2008. The labor contract law and the implementing rules impose requirements concerning, among others, the execution of written contracts between employers and employees, the time limits for probationary periods, and the length of employment contracts. Also, under the labor contract law an employer is not permitted to establish staffing companies to place workers with themselves or their subsidiaries, and no enterprises is permitted to provide work placement business without obtaining a work placement license, for an enterprise that acts in violation of such provisions, the labor administrative department shall order it to stop the illegal act, confiscate all illegal gains and impose a fine between one and five times the amount of illegal gains, if there is no illegal gain, a fine of no more than RMB50,000 shall be imposed.

On October 28, 2010, the National People's Congress of China promulgated the PRC Social Insurance Law (《中華人民共和國社會保險法》), which became effective on July 1, 2011. In accordance with the PRC Social Insurance Law and other relevant laws and regulations, enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan, a maternity insurance plan, a housing provident fund, and a handicapped employment security fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located. According to the Social Insurance Law, an employer that fails to make social insurance contributions may be ordered to rectify the non-compliance and pay the required contributions within a stipulated deadline and be subject to a late fee of up to 0.05% or 0.2% per day, as the case may be. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times the amount overdue. In addition, the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》) requires companies operating in China to withhold individual income tax on employees' salaries based on the actual salary of each employee upon payment.



## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### BACKGROUND

Our Company principally engages in the operation and management of mid-scale to upscale hotel chains in the PRC. Our predecessor, New Century Hotel Management, was first established in the PRC as a limited liability company with a registered capital of RMB5,000,000 by New Century Hotel Investment (which is indirectly wholly owned by New Century REIT) and New Century Tourism (which is indirectly owned as to 85.2% by Mr. Chen Miaolin, 8.5% by Mr. Chen Canrong and 6.3% by Mr. Zhang Guanming) on December 17, 2008, and it was subsequently converted into a joint stock company with limited liability on June 28, 2017 as part of our Reorganization. Please refer to the section headed “Directors, Supervisors and Senior Management” for details on the background of our founder, Mr. Chen Miaolin.

### KEY MILESTONES

The following events illustrate certain key business milestones and achievements in the business development of our hotels:

|               |                                                                                                                                                 |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| January 1988  | Xiaoshan Guesthouse, our first “New Century (開元)” hotel, opened for business.                                                                   |
| April 1992    | Our first resort hotel, Hangzhou Zhijiang Holiday Resort (杭州之江度假村), was developed and launched for operation.                                   |
| August 1998   | We entered into a contractual agreement to manage Ningbo New Century Hotel (寧波開元大酒店). This marked our entry into hotel markets beyond Hangzhou. |
| April 2004    | Our first five Star-rated resort hotel, Hangzhou Qiandao Lake New Century Resort (千島湖開元度假村), opened for business.                               |
| January 2005  | Our first five Star-rated business hotel, New Century Grand Hotel Hangzhou (杭州開元名都大酒店), opened for business.                                    |
| December 2008 | New Century Hotel Management was established.                                                                                                   |
| January 2010  | Our first mid-scale select service hotel, New Century Manju Hotel (開元•曼居酒店), opened for business.                                               |
| January 2011  | Our first upscale resort hotel under the brand of “New Century Grand House (開元觀堂)” opened for business.                                         |

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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|                |                                                                                                                                                                       |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2015 to 2017   | We were named as one of the Top 30 Global Hotel Groups in the <i>Hotels</i> magazine, the official publication of the International Hotel & Restaurant Association.   |
| May 2016       | Our first upscale resort hotel under the brand of “New Century Wonderland (開元芳草地鄉村酒店)” opened for business.                                                           |
| June 2017      | Our predecessor New Century Hotel Management was restructured into a joint stock company with limited liability.                                                      |
| September 2017 | We were named as the 2017 China’s Most Popular Hotel Brand* (2017年度中國最受歡迎酒店品牌) from the 21st Century Business Herald* (《21世紀經濟報道》) and the Business Travel* (《商務旅行》). |

For a list of key awards and accolades for our hotel business, please refer to the sub-section headed “Business – Awards and Accreditations” in this document.

### CORPORATE HISTORY

Our Company has a number of subsidiaries incorporated in the PRC. Details of our Company and its principal subsidiaries and their respective corporate history are set out below.

### OUR COMPANY

On December 17, 2008, our Predecessor, New Century Hotel Management, was established in the PRC as a limited liability company with a registered capital of RMB5 million by New Century Hotel Investment and New Century Tourism. Upon incorporation, New Century Hotel Investment and New Century Tourism held 90.0% and 10.0% equity interests in New Century Hotel Management, respectively. On December 25, 2008, a resolution was passed at a shareholders’ meeting of New Century Hotel Management to increase the registered share capital of New Century Hotel Management to RMB65 million, and New Century Tourism subsequently transferred its interests in New Century Hotel Management to New Century Hotel Investment for a consideration of RMB500,000, which was determined with reference to the amount of corresponding registered capital pursuant to an equity transfer agreement dated February 15, 2009.

Pursuant to an equity transfer agreement dated January 22, 2013, New Century Hotel Investment transferred its entire equity interest in New Century Hotel Management to New Century Tourism for a consideration of RMB65.0 million which was determined with reference to the amount of the then registered capital of New Century Hotel Management. Pursuant to a share transfer and capital increase agreement dated April 26, 2013, New Century Tourism transferred approximately 40.0% equity interests in New Century Hotel Management to Clear

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Ocean Holdings Limited (“**Clear Ocean**”), an investment holding company held by the Carlyle Group, a global alternative asset manager, for a consideration of approximately RMB26.0 million, which was determined with reference to the amount of corresponding registered capital of New Century Hotel Management, after which Clear Ocean became a strategic investor of our Group. The transfer took place as a part of the reorganization undergone by our Controlling Shareholders in preparation for the listing of New Century REIT in 2013, which also included (i) New Century Hotel Investment transferring to our Company its then subsidiaries that were engaged in the operation of leased and managed hotels except for the subsidiaries that held the New Century REIT Hotel Properties; and (ii) New Century Hotel Investment and its subsidiaries (the “**New Century Hotel Investment Group**”) transferred to the Company all employees, assets, transferrable liabilities and contractual obligations of all hotel management and operation related business that were not required for the operations of the New Century Hotel Investment Group, whereby New Century Hotel Investment was being used as the new holding company of the New Century REIT Hotel Properties (the “**New Century Hotel Investment Reorganization**”). Upon completion of the New Century Hotel Investment Reorganization in June 2013, New Century Hotel Investment became the wholly-owned subsidiary of New Century REIT and retained the relevant subsidiaries owning the New Century REIT Hotel Properties whereas our Company held all hotel management and operation related businesses. New Century Tourism and Clear Ocean also increased the registered capital of New Century Hotel Management from RMB65.0 million to RMB165.0 million on a pro rata basis pursuant to the terms of the share transfer and capital increase agreement, on April 26, 2013.

On December 11, 2015, Hangzhou Qianhe Qiju Investment Management Partnership (Limited Partnership)\* (杭州謙和祺聚投資管理合夥企業(有限合夥)) (“**Qianhe Qiju**”) subscribed for registered capital in the amount of RMB8.7 million, representing approximately 5.0% equity interests, in New Century Hotel Management for a consideration of RMB10.0 million, which was determined based on the then net asset value of New Century Hotel Management. The cash consideration for the subscription was fully settled on December 30, 2015. After the subscription, the registered capital of New Century Hotel Management increased from RMB165.0 million to RMB173.7 million. As a result, New Century Tourism, Clear Ocean and Qianhe Qiju held 57.1%, 38.0% and 5.0% equity interests<sup>Note</sup> in New Century Hotel Management, respectively. For further details on the background of Qianhe Qiju, please refer to the sub-section headed “History, Reorganization and Corporate Structure – Information on our current Shareholders” in this document.

On November 17, 2016, Clear Ocean entered into an equity transfer agreement with: (i) NC Hotels Investment Holding Pte. Ltd. (“**NC Hotels**”); (ii) Shanghai Bohui Investment Center (Limited Partnership)\* (上海鉅卉投資中心(有限合夥)) (currently known as Shanghai Ouling Bohui Investment Center (Limited Partnership)\* (上海鷗翎鉅卉投資中心(有限合夥))) (“**Bohui Investment**”); and (iii) Ocean Century Hotels Limited (“**OC Hotels**”), pursuant to which Clear Ocean agreed to transfer its (a) 21.0% equity interests in New Century Hotel

*Note:* Certain percentage figures have been subject to rounding adjustments. Accordingly, the arithmetic aggregation of figures shown may not be 100.0%.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Management to NC Hotels for a consideration of RMB324.8 million; (b) 11.9% equity interests in New Century Hotel Management to Bohui Investment for a consideration of RMB184.4 million; and (c) 5.1% equity interests in New Century Hotel Management to OC Hotels for a consideration of RMB79.1 million. The consideration was determined based on arm’s length negotiations between Clear Ocean, NC Hotels, Bohui Investment and OC Hotels respectively, and also based on the market value of New Century Hotel Management being approximately RMB1,550.3 million at the time. The transfer of the abovementioned equity interests by Clear Ocean was undertaken by Clear Ocean directly due to the expiry of the investment period for Clear Ocean with respect to its investment in New Century Hotel Management. The cash consideration for the aforementioned transfers was fully settled on December 5, 2016. As a result, New Century Tourism, NC Hotels, Bohui Investment, OC Hotels and Qianhe Qiju held 57.1%, 21.0%, 11.9%, 5.1% and 5.0% equity interests<sup>Note</sup> in New Century Hotel Management, respectively. For further details on the background of NC Hotels, Bohui Investment and OC Hotels, please refer to the sub-section headed “History, Reorganization and Corporate Structure – Information on our current Shareholders” in this document.

New Century Tourism and Mr. Chen Miaoqiang wished to increase their respective shareholdings in New Century Hotel Management, and therefore, after arm’s length negotiation with the parties, on April 24, 2017, Bohui Investment entered into separate equity transfer agreements with New Century Tourism and Ningbo Meishan Bonded Area Kairui Shiqi Investment Management Partnership (Limited Partnership)\* (寧波梅山保稅港區開瑞世祺投資管理合夥企業(有限合夥)) (“**Kairui Shiqi**”), pursuant to which Bohui Investment (i) transferred its 8.0% equity interests in New Century Hotel Management to New Century Tourism for a consideration of RMB125.6 million; and (ii) transferred its 2.0% equity interests in New Century Hotel Management to Kairui Shiqi for a consideration of RMB31.4 million. The cash consideration for the aforementioned transfers of equity interests by Bohui Investment to New Century Tourism and Kairui Shiqi was determined after arm’s length negotiations and based on the market value of New Century Hotel Management, being RMB1,570.0 million at the time, and was fully settled on April 27, 2017. For further details on the background of New Century Tourism and Kairui Shiqi, please refer to the sub-section headed “History, Reorganization and Corporate Structure – Information on our current Shareholders” in this document.

On April 24, 2017, New Century Hotel Management, Kairui Shiqi and Ningbo Meishan Bonded Area Kaihui Taiheng Investment Management Partnership (Limited Partnership)\* (寧波梅山保稅港區開匯泰亨投資管理合夥企業(有限合夥)) (“**Kaihui Taiheng**”) entered into a capital increase agreement, pursuant to which Kairui Shiqi subscribed for registered capital in the amount of RMB3.0 million, representing 1.6% equity interests, in New Century Hotel Management for a consideration of RMB27.3 million, and Kaihui Taiheng subscribed for registered capital in the amount of RMB12.1 million, representing 6.4% equity interests, in New Century Hotel Management for a consideration of RMB109.2 million. The cash consideration for the aforementioned subscriptions was determined based on the market value of New Century Hotel Management, being RMB1,570 million at the time, and was fully settled on April 28, 2017. In view of such capital injection, the registered capital of New Century Hotel Management increased from RMB173.7 million to RMB188.8 million and subsequently

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

New Century Tourism, NC Hotels, Kaihui Taiheng, OC Hotels, Qianhe Qiju, Kairui Shiqi and Bohui Investment held 59.8%, 19.3%, 6.4%, 4.7%, 4.6%, 3.4% and 1.7% equity interests<sup>Note</sup> in New Century Hotel Management, respectively. For further details on the background of Kaihui Taiheng, please refer to the sub-section headed "History, Reorganization and Corporate Structure – Information on our current Shareholders" in this document.

All consideration in respect of above-mentioned transfers have been fully settled and the transactions were legally completed.

After above-mentioned equity transfers, as at the Latest Practicable Date, the shareholding of our Company is as follows:

| Name of Shareholder | Class of Shares         | No. of Shares held | Approximate percentage of share capital <sup>Note</sup><br>(%) |
|---------------------|-------------------------|--------------------|----------------------------------------------------------------|
| New Century Tourism | Domestic Shares         | 125,676,180        | 59.8                                                           |
| NC Hotels           | Unlisted Foreign Shares | 40,482,540         | 19.3                                                           |
| Kaihui Taiheng      | Domestic Shares         | 13,437,900         | 6.4                                                            |
| OC Hotels           | Unlisted Foreign Shares | 9,857,820          | 4.7                                                            |
| Qianhe Qiju         | Domestic Shares         | 9,655,590          | 4.6                                                            |
| Kairui Shiqi        | Domestic Shares         | 7,223,580          | 3.4                                                            |
| Bohui Investment    | Domestic Shares         | 3,666,390          | 1.7                                                            |
| <b>Total</b>        |                         | <b>210,000,000</b> | <b>100.0</b>                                                   |

*Note:* Certain percentage figures have been subject to rounding adjustments. Accordingly, figures shown as totals in the table above may not be an arithmetic aggregation of the figures preceding them.

## INFORMATION ON OUR CURRENT SHAREHOLDERS

### New Century Tourism

New Century Tourism is primarily engaged in investment in and operation of tourism-related businesses. New Century Tourism is a company incorporated in the PRC with limited liability on January 9, 2001. As at the Latest Practicable Date, New Century Tourism was indirectly owned as to 85.2% by Mr. Chen Miaolin, 8.5% by Mr. Chen Canrong and 6.3% by Mr. Zhang Guanming. Mr. Chen Miaolin is the founder of our Group. Mr. Chen Miaolin, Mr. Chen Canrong and Mr. Zhang Guanming form a group of Controlling Shareholders, given that Mr. Chen Miaolin, Mr. Chen Canrong and Mr. Zhang Guanming hold their interests in our

*Note:* Certain percentage figures have been subject to rounding adjustments. Accordingly, the arithmetic aggregation of figures shown may not be 100.0%.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Company collectively through New Century Tourism. For further details on the background of Mr. Chen Miaolin and Mr. Chen Canrong, please refer to the sub-section headed “Directors, Supervisors and Senior Management – Directors” in this document.

### NC Hotels

NC Hotels was incorporated on September 15, 2016 as a private company limited by shares in Singapore. As at the Latest Practicable Date, it was a wholly-owned company of General Atlantic Singapore Fund Pte. Ltd., a private investment fund that is part of the General Atlantic private equity group, a global growth equity firm providing capital and strategic support for growth companies.

### Kaihui Taiheng

Kaihui Taiheng is a limited partnership formed on April 18, 2017 in the PRC by Mr. Jin Wenjie, our executive Director and chairman of the Board, Ms. Ye Lv and Mr. Li Donglin, amongst which, as at the Latest Practicable Date: (i) Mr. Jin Wenjie was the general partner and held 60.0% partnership interests; (ii) Ms. Ye Lv, a member of the senior management of our Company, held 20.0% limited partnership interests; and (iii) Mr. Li Donglin, one of the joint company secretaries and a member of the senior management of our Company, held 20.0% limited partnership interests, respectively.

### OC Hotels

OC Hotels was incorporated on October 18, 2016 in Hong Kong as a private limited liability company, and as at the Latest Practicable Date, was wholly-owned by Ocean Asia Hotels Limited. Mr. Jiang Tianyi, our non-executive Director, is the sole director of OC Hotels. Ocean Asia Hotels Limited is a private limited liability company incorporated in the Cayman Islands which is wholly-owned by Ocean Imagination L.P., an exempted limited liability partnership registered in the Cayman Islands. All of OC Hotels, Ocean Asia Hotels Limited and Ocean Imagination L.P. are Independent Third Parties.

### Qianhe Qiju

Qianhe Qiju is a limited partnership formed on December 9, 2015 in the PRC by certain members of the senior management and employees of our Group, amongst which, as at the Latest Practicable Date: (i) Hangzhou Qiju Qian Investment Management Co., Ltd.\* (杭州祺聚謙投資管理有限公司) (“**Qiju Qian Investment**”), a company indirectly wholly-owned by New Century Tourism and the general partner of the limited partnership, held 32.8% partnership interests; (ii) Mr. Jin Wenjie, our chairman of the Board and executive Director, held 14.2% limited partnership interests; (iii) Mr. Chen Miaoqiang, our president and executive Director, held 5.0% limited partnership interests; and (iv) the remaining 48.0% limited partnership interests were held by 33 employees of our Group. Given that Qiju Qian Investment as a general partner controls the voting rights in Qianhe Qiju, New Century Tourism (through Qiju Qian Investment) controls the 9,655,590 Shares, representing 4.6% equity interests in our Company as at the Latest Practicable Date, held by Qianhe Qiju.



## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### Kairui Shiqi

Kairui Shiqi is a limited partnership formed on April 18, 2017 in the PRC by Mr. Chen Miaoqiang and his close relatives, amongst which, as at the Latest Practicable Date: (i) Mr. Chen Miaoqiang was the general partner and held 60.0% partnership interests; (ii) Ms. Lu Jun, the spouse of Mr. Chen Miaoqiang, held 20.0% limited partnership interests; and (iii) Ms. Chen Shu, the daughter of Mr. Chen Miaoqiang, held 20.0% limited partnership interests, respectively.

### Bohui Investment

Bohui Investment was established on September 7, 2015 in the PRC. As at the Latest Practicable Date, Shanghai Ouling Boqiang Investment Advisory Center (Limited Partnership)\* (上海鷗翎鉑蓄投資諮詢中心(有限合夥)) ("**Shanghai Ouling Boqiang**") was the general partner of Bohui Investment. Shanghai Ouling Bobi Investment Consulting Co., Ltd.\* (上海鷗翎鉑碧投資諮詢有限公司) ("**Shanghai Ouling Bobi**") is the general partner of Shanghai Ouling Boqiang. All of Bohui Investment, Shanghai Ouling Boqiang and Shanghai Ouling Bobi are Independent Third Parties.

## OUR PRINCIPAL SUBSIDIARIES AND BRANCHES

The major corporate developments of our subsidiaries and our branches which were material to our performance during the Track Record Period are set out below:

### Our Principal Subsidiaries

**Zhejiang New Century Manju Hotel Management Co., Ltd.\*** (浙江開元曼居酒店管理有限公司) ("**Zhejiang Manju**")

Zhejiang Manju was established in the PRC on September 20, 2010 with a registered capital of RMB27 million and is principally engaged in hotel management. As at the date of its establishment, it was wholly-owned by New Century Hotel Investment. The entire equity interests of Zhejiang Manju was then transferred to New Century Hotel Management by New Century Hotel Investment for a consideration of RMB30 million on December 19, 2012 and the registered capital of Zhejiang Manju increased to RMB30 million on the same date. On October 26, 2015, Zhejiang Manju has reduced its registered capital to RMB27.0 million.

**Zhejiang Jinshanzi Network Technology Co., Ltd.\*** (浙江金扇子網絡科技有限公司) ("**Zhejiang Jinshanzi**")

Zhejiang Jinshanzi was established in the PRC on November 6, 2013 with a registered capital of RMB12.5 million and is principally engaged in computer software, hardware and network design and development. As at the date of its establishment, it was wholly-owned by Shanghai Songjiang Grand New Century Co., Ltd.\* (上海松江開元名都大酒店有限公司) ("**Shanghai Songjiang**"), a wholly-owned subsidiary of New Century Hotel Investment at the



## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

time. The entire equity interest in Zhejiang Jinshanzi was subsequently transferred to New Century Hotel Management by Shanghai Songjiang on December 11, 2013. On June 19, 2017, Ningbo Meishan Bonded Area Meiyuangu Investment Management Partnership (Limited Partnership)\* (寧波梅山保稅港區美源穀投資管理合夥企業(有限合夥)), which is wholly-owned by 12 individuals, all of whom are employees of our Group, subscribed for new registered capital of RMB2.5 million, representing 20.0% equity interests in Zhejiang Jinshanzi, for a consideration of RMB2.5 million. As a result of such subscription, as at the Latest Practicable Date, our Group held 80.0% equity interests in Zhejiang Jinshanzi.

### **Hangzhou New Century Hotel Supplies Co., Ltd.\* (杭州開元酒店用品有限公司) (“Hangzhou Hotel Supplies”)**

Hangzhou Hotel Supplies was established in the PRC on September 9, 1998 with an initial registered capital of RMB500,000 and is principally engaged in the sales of hotel supplies. As at the date of its establishment, it was owned as to 51.0% shareholding by New Century Tourism, 25.0% by Zhejiang Xiaoshan Guesthouse Co., Ltd.\* (浙江蕭山賓館股份有限公司) (“**Zhejiang Xiaoshan Guesthouse**”) and 24.0% by Zhejiang Xiaoshan New Century Investment Property Co., Ltd.\* (浙江蕭山開元投資置業有限公司) (formerly known as Zhejiang Xiaoshan New Century Property Management Co., Ltd.\* (浙江蕭山開元物業管理有限公司)) (“**Xiaoshan Investment**”). In December 2003, New Century Tourism transferred 51.0% shareholding in Hangzhou Hotel Supplies to Xiaoshan Investment. In June 2007, both Zhejiang Xiaoshan Guesthouse and Xiaoshan Investment transferred its respective 25.0% and 75.0% shareholding in Hangzhou Hotel Supplies to New Century Hotel Investment for a consideration of RMB125,000 and RMB375,000 respectively. On December 21, 2012, New Century Hotel Investment transferred its entire equity interest in Hangzhou Hotel Supplies to New Century Hotel Management for a consideration of RMB500,000. On February 5, 2013, the registered capital of Hangzhou Hotel Supplies has increased from RMB500,000 to RMB10.0 million. As a result, as at the Latest Practicable Date, our Group held 100.0% equity interests in Hangzhou Hotel Supplies.

Please refer to Note 12A to the Accountant’s Report for a list of our subsidiaries.

### **Our Principal Branches**

Our Company had the following principal branches during Track Record Period, each of which operated its respective hotels as set out as follows:

| Name of Branches                                                                                    | Name of Hotel              | Date of Establishment |
|-----------------------------------------------------------------------------------------------------|----------------------------|-----------------------|
| Zhejiang New Century Hotel Management Co. Ltd. Hangzhou Grand New Century (浙江開元酒店管理股份有限公司杭州開元名都大酒店) | Hangzhou Grand New Century | May 28, 2013          |
| Zhejiang New Century Hotel Management Co. Ltd. Xiaoshan Guesthouse (浙江開元酒店管理股份有限公司蕭山賓館)             | Xiaoshan Guesthouse        | May 22, 2013          |

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

| Name of Branches                                                                                              | Name of Hotel              | Date of Establishment |
|---------------------------------------------------------------------------------------------------------------|----------------------------|-----------------------|
| Zhejiang New Century Hotel<br>Management Co. Ltd. Ningbo Grand<br>New Century (浙江開元酒店管理股份<br>有限公司寧波開元名都大酒店)   | Ningbo Grand New Century   | May 29, 2013          |
| Zhejiang New Century Hotel<br>Management Co. Ltd. Shaoxing Grand<br>New Century (浙江開元酒店管理股份<br>有限公司紹興開元名都大酒店) | Shaoxing Grand New Century | December 25, 2008     |
| Zhejiang New Century Hotel<br>Management Co. Ltd. Hangzhou<br>Xiacheng Branch (浙江開元酒店管理<br>股份有限公司杭州下城分公司)     | Sanli Grand New Century    | December 20, 2013     |

## ACQUISITIONS AND DISPOSALS DURING THE TRACK RECORD PERIOD

### Acquisitions

#### *Jiande New Century Wonderland Resort Co., Ltd.\* (建德開元芳草地酒店有限公司)*

On November 7, 2016, New Century Hotel Management entered into a share transfer agreement with New Century Tourism, our Controlling Shareholder, pursuant to which New Century Hotel Management acquired 100% equity interests in Jiande New Century Wonderland Resort Co., Ltd.\* (建德開元芳草地酒店有限公司) from New Century Tourism for a consideration of RMB30 million, which was determined based on the valuation conducted by an independent valuer. The consideration was settled on November 24, 2016. New Century Hotel Management acquired the entire equity interest in Jiande New Century Wonderland Resort Co., Ltd.\* (建德開元芳草地酒店有限公司) in order to gain greater autonomy and control over the operation of New Century Wonderland resorts, which was a new brand developed by our Group in 2016.

#### *Changxing New Century Wonderland Resort Co., Ltd.\* (長興開元芳草地酒店有限公司)*

On March 31, 2017, New Century Hotel Management entered into a share transfer agreement with New Century Tourism, and Hangzhou New Century Senpo Tourism Investment Co., Ltd.\* (杭州開元森泊旅遊投資有限公司) (“**Hangzhou Senpo**”), a subsidiary of New Century Tourism, pursuant to which New Century Hotel Management acquired 40.0% equity interests and 60.0% equity interests in Changxing New Century Wonderland Resort Co., Ltd.\* (長興開元芳草地酒店有限公司) from New Century Hotel Tourism and Hangzhou Senpo, respectively for an aggregate consideration of RMB40.0 million, which was determined based on the valuation conducted by an independent valuer. The consideration was settled on April 11, 2017. New Century Hotel Management acquired the entire equity interest in Changxing

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

New Century Wonderland Resort Co., Ltd.\* (長興開元芳草地酒店有限公司) in order to gain greater autonomy and control over the operation of New Century Wonderland resorts, which was a new brand developed by our Group in 2016.

### *Acquisition and Disposal of interest in Yuyao New Century Manju Hotel Management Co., Ltd.\* (余姚開元曼居酒店管理有限公司) (“Yuyao Manju”)*

On December 28, 2015, New Century Hotel Management entered into an equity transfer agreement with 16 individuals, nine of whom were employees of our Group and the remaining of whom were Independent Third Parties, pursuant to whom New Century Hotel Management disposed approximately 64.2% equity interests in Yuyao Manju to those 16 individuals for a consideration of RMB5.5 million, which was determined taking into account the amount of corresponding registered capital, the costs involved in preliminary preparations for construction, capital expenditures and the generally positive business performance of Yuyao Manju. The consideration was fully settled upon the execution of the share transfer agreement. New Century Hotel Management disposed of 64.2% equity interests in Yuyao Manju as such individuals intended to invest in Yuyao Manju.

On June 27, 2018, in order to increase its shareholding in Yuyao Manju, Zhejiang New Century Manju Hotel Management Co., Ltd. (浙江開元曼居酒店管理有限公司) (“**New Century Manju Management**”) entered into five separate equity transfer agreements with five individuals respectively, four of whom are employees of our Group and the remaining of whom is an Independent Third Party, pursuant to which New Century Manju Management acquired approximately 19.8% equity interests in aggregate in Yuyao Manju for an aggregate consideration of RMB1.87 million. The consideration was determined based on arm’s length negotiations with reference to the valuation of Yuyao Manju conducted by an independent valuer. The cash consideration was fully settled on July 9, 2018. After the acquisition, Yuyao Manju was indirectly held as to approximately 55.7% by our Company and has been reclassified from an associate to a subsidiary of our Company. Please refer to Note 36 of Section II and Section IV to the Accountant’s Report as set out in Appendix I to this document for further details.

Please refer to Note 12A(a) to the Accountant’s Report as set out in Appendix I to this document for further details on the acquisitions during the Track Record Period. No separate pre-acquisition financial information is required to be prepared under Rule 4.05A of the Listing Rules given that none of such acquisitions would be classified as a major transaction or a very substantial acquisition for our Company under the Listing Rules.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### Disposals

#### *Shaoxing Dayu New Century Resort Co., Ltd.\* (紹興大禹開元度假村有限公司)*

On September 15, 2017, our Company entered into a share transfer agreement with Shaoxing Yuzhuang New Century Hotel Management Co., Ltd.\* (紹興禹莊開元酒店管理有限公可) (“**Shaoxing Yuzhuang**”), a subsidiary of New Century Tourism, are of our Controlling Shareholders, pursuant to which our Company disposed of its 100% equity interests in Shaoxing Dayu New Century Resort Co., Ltd.\* (紹興大禹開元度假村有限公司) (“**Shaoxing Dayu**”) to Shaoxing Yuzhuang for a consideration of RMB11.0 million, which was determined based on the registered capital of Shaoxing Dayu. The consideration was settled on September 26, 2017. New Century Hotel Management disposed the entire equity interest in Shaoxing Dayu because New Century Tourism had invested in the land adjacent to Shaoxing Dayu New Century Grand House, which was operated as our leased hotel at the relevant time, for the purpose of integrated hotel property development. Upon the completion of the hotel development on the adjacent piece of land by Shaoxing Yuzhuang, our Company, after assessing the economics between leasing or managing both the hotels as a whole, decided to enter into a full service management agreement with Shaoxing Yuzhuang to manage both hotels. As such, Shaoxing Yuzhuang became the company that leases the property where Shaoxing Dayu New Century Grand House is situated.

#### *Suzhou Qiju Hotel Management Co., Ltd.\* (蘇州祺聚酒店管理有限公可)*

On October 31, 2017, our Company entered into a share transfer agreement with Suzhou Olin Chuntian Business Hotel Co., Ltd.\* (蘇州市奧林春天商務酒店有限公可) (“**Suzhou Olin**”), an Independent Third Party, pursuant to which our Company disposed of its 100% equity interests in Suzhou Qiju Hotel Management Co., Ltd.\* (蘇州祺聚酒店管理有限公可), to Suzhou Olin for a consideration of RMB3.2 million, which was determined based on arm’s length negotiation between the parties. The consideration was settled on November 3, 2017. Suzhou Qiju Hotel Management Co., Ltd. was the lessee of a hotel that we used to operate in Suzhou and we decided to cease the operation of the hotel due to challenging market conditions.

#### *Shanghai Ruiya Hotel Management Co., Ltd.\* (上海瑞亞酒店管理有限公可)*

On January 25, 2018, Shanghai Ruige Hotel Operation Co., Ltd.\* (上海悅閣酒店經營有限公可) (“**Shanghai Ruige**”), a subsidiary of our Company, entered into a share transfer agreement with Ms. Wu Zhifeng, an Independent Third Party, pursuant to which Shanghai Ruige disposed 100% equity interests in Shanghai Ruiya Hotel Management Co., Ltd.\* (上海瑞亞酒店管理有限公可) (“**Shanghai Ruiya**”) to Ms. Wu Zhifeng for a consideration of RMB1,000, which was determined based on the net asset value of Shanghai Ruiya. The consideration was settled on March 22, 2018. Shanghai Ruige disposed the entire equity interests in Shanghai Ruiya Hotel Management Co., Ltd.\* (上海瑞亞酒店管理有限公可) due to the expiry of the hotel lease agreement entered into by Shanghai Ruige Hotel Operation Co., Ltd, upon which we decided not to renew the lease upon expiry because we were not able to reach an agreement with the lessor on the commercial terms of the proposed new lease.

## **HISTORY, REORGANIZATION AND CORPORATE STRUCTURE**

### ***Disposal of interest in Chongqing Dazu District New Century Grand House Hotel Co., Ltd.\* (重慶市大足區開元觀堂酒店有限公司) (“Chongqing Dazu”)***

On June 30, 2018, our Company entered into a share transfer agreement with Chongqing Zhongzhou Travel Information Consultancy Co. Ltd.\* (重慶中州旅遊信息諮詢有限公司) (“**Chongqing Zhongzhou**”), an Independent Third Party, pursuant to which our Company disposed of 100% equity interests in Chongqing Dazu to Chongqing Zhongzhou for a consideration of RMB10 million, which was determined based on the registered capital of Chongqing Dazu. The consideration was fully settled on July 17, 2018. The said disposal took place due to a change in the business model of Grand House Chongqing Dazu Shike (重慶大足石刻開元觀堂) from originally being operated by our Group under a hotel lease agreement to being operated as our franchised hotel with effect from July 20, 2018. After the disposal, we ceased to hold any interests in Chongqing Dazu and Chongqing Dazu ceased to be a subsidiary of our Group.

All consideration in respect of above-mentioned transfers have been fully settled and the transactions were properly and legally completed. For further details on our corporate structure immediately after the Reorganization and as at the Latest Practicable Date, please refer to the sub-section headed “History, Reorganization and Corporate Structure – Corporate Structure” in this document.

### **ACQUISITION AFTER TRACK RECORD PERIOD**

### ***Shanghai Yuege Hotel Operation Co., Ltd.\* (上海悅閣酒店經營有限公司) (“Shanghai Yuege”)***

On June 29, 2018, the Company successfully bid for the remaining 34.9999% equity interests in Shanghai Yuege a subsidiary of our Company, through judicial auction for a consideration of RMB5.0 million. The consideration was settled on July 18, 2018 and the registration of the share transfer was completed on November 15, 2018. As a result, equity interests in Shanghai Yuege held by the Company increased from 65% to 99.9999%.

As Shanghai Yuege has been a subsidiary of the Company during the Track Record Period, the financial statements of Shanghai Yuege have been included in the consolidated financial statements of the Group during the Track Record Period. No separate pre-acquisition financial information is required to be prepared under Rule 4.05A of the Listing Rules given that the acquisition would not be classified as a major transaction or a very substantial acquisition for our Company under the Listing Rules.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### PRE-[REDACTED] INVESTMENTS

#### Investment by Qianhe Qiju

On December 11, 2015, Qianhe Qiju subscribed for registered capital in the amount of RMB8.7 million, representing approximately 5.0% equity interests, in New Century Hotel Management (the **"First Round Investment"**).

|                                                                                                                                            |                                                                                                                                                                                                                                                                    |
|--------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of investor</b>                                                                                                                    | Qianhe Qiju                                                                                                                                                                                                                                                        |
| <b>Date of subscription</b>                                                                                                                | December 11, 2015                                                                                                                                                                                                                                                  |
| <b>Amount of consideration paid</b>                                                                                                        | RMB10.0 million                                                                                                                                                                                                                                                    |
| <b>Payment date of consideration</b>                                                                                                       | December 30, 2015                                                                                                                                                                                                                                                  |
| <b>Shareholding interest acquired</b>                                                                                                      | approximately 5.0% of the then equity interests in New Century Hotel Management                                                                                                                                                                                    |
| <b>Shareholding of Qianhe Qiju in our Company upon [REDACTED] (assuming the [REDACTED] is not exercised)</b>                               | approximately [REDACTED]%                                                                                                                                                                                                                                          |
| <b>Basis of determination of consideration</b>                                                                                             | The consideration was determined based on the then net asset value of New Century Hotel Management.                                                                                                                                                                |
| <b>Investment cost per Share and discount over mid-point of the indicative [REDACTED] range (assuming the [REDACTED] is not exercised)</b> | Approximately RMB1.0 per Share (equivalent to approximately HK\$1.2 per Share), representing a discount of approximately [REDACTED]% to the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED].                                      |
| <b>Use of proceeds</b>                                                                                                                     | The consideration of RMB10.0 million was used as working capital towards business operations of New Century Hotel Management. As at the Latest Practicable Date, the net proceeds from the investment by Qianhe Qiju paid to the Company have been fully utilized. |
| <b>Strategic benefits of the First Round Investment</b>                                                                                    | The investment by Qianhe Qiju resulted in Qianhe Qiju acting as a shareholding platform for our Directors and/or members of senior management.                                                                                                                     |



## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### Investments by NC Hotels, Bohui Investment and OC Hotels

On November 17, 2016, Clear Ocean entered into an equity transfer agreement with (i) NC Hotels, (ii) Bohui Investment and (iii) OC Hotels, pursuant to which Clear Ocean agreed to transfer its equity interests in New Century Hotel Management to NC Hotels, Bohui Investment and OC Hotels, respectively (together the “**Second Round Investors**”) (the “**Second Round Investment**”).

#### *Principal terms of the Second Round Investment*

The below table summarizes the principal terms of the Second Round Investment by the Second Round Investors:

|                                                                                                                             |                                                                                                                                                                                                                                                                                                 |
|-----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of Second Round Investors</b>                                                                                       | NC Hotels, Bohui Investment and OC Hotels                                                                                                                                                                                                                                                       |
| <b>Date of equity transfer</b>                                                                                              | NC Hotels, Bohui Investment and OC Hotels: November 17, 2016                                                                                                                                                                                                                                    |
| <b>Amount of consideration paid</b>                                                                                         | NC Hotels: RMB324.8 million<br>Bohui Investment: RMB184.4 million<br>OC Hotels: RMB79.1 million                                                                                                                                                                                                 |
| <b>Payment date of consideration</b>                                                                                        | NC Hotels: December 5, 2016<br>Bohui Investment: January 24, 2017 and January 26, 2017<br>OC Hotels: December 5, 2016                                                                                                                                                                           |
| <b>Shareholding interest acquired</b>                                                                                       | NC Hotels: approximately 21.0% of the then equity interests in New Century Hotel Management<br>Bohui Investment: approximately 11.9% of the then equity interests in New Century Hotel Management<br>OC Hotels: approximately 5.1% of the then equity interests in New Century Hotel Management |
| <b>Shareholding of the Second Round Investors in our Company upon [REDACTED] (assuming the [REDACTED] is not exercised)</b> | NC Hotels: approximately [REDACTED]%<br>Bohui Investment: approximately [REDACTED] <sup>%<i>Note</i></sup><br>OC Hotels: approximately [REDACTED]%                                                                                                                                              |

*Note:* For further details on changes in Bohui Investment’s shareholding interests in New Century Hotel Management, please refer to the sub-section headed “History, Reorganization and Corporate Structure – Our Company” in this document.



## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

|                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|--------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Basis of determination of consideration</b>                                                                                             | NC Hotels, Bohui Investment and OC Hotels: The consideration was determined after arm’s length negotiations between Clear Ocean, NC Hotels, Bohui Investment and OC Hotels, and based on the market value of our Company (being approximately RMB1,550.3 million).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Investment cost per Share and discount over mid-point of the indicative [REDACTED] range (assuming the [REDACTED] is not exercised)</b> | <p>NC Hotels: Approximately RMB8.0 per Share (equivalent to approximately HK\$9.2 per Share), representing a discount of approximately [REDACTED]% to the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED].</p> <p>Bohui Investment: Approximately RMB8.0 per Share (equivalent to approximately HK\$9.2 per Share), representing a discount of approximately [REDACTED]% to the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED].</p> <p>OC Hotels: Approximately RMB8.0 per Share (equivalent to approximately HK\$9.2 per Share), representing a discount of approximately [REDACTED]% to the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED].</p> |
| <b>Use of proceeds</b>                                                                                                                     | No proceeds were received by New Century Hotel Management from NC Hotels, Bohui Investment and OC Hotels’ investment.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

### Investments by Kairui Shiqi and Kaihui Taiheng

On April 24, 2017, Bohui Investment entered into an equity transfer agreement with Kairui Shiqi, pursuant to which Bohui Investment agreed to transfer certain of its equity interests in New Century Hotel Management to Kairui Shiqi (the “**2017 Transfer**”). On the same date, pursuant to a capital increase agreement entered into between New Century Hotel Management, Kairui Shiqi and Kaihui Taiheng, Kairui Shiqi and Kaihui Taiheng (together the “**Third Round Investors**”) subscribed for registered capital in New Century Hotel Management in the amount of RMB15.1 million in aggregate (together with the 2017 Transfer, the “**Third Round Investment**”).

### *Principal terms of the Third Round Investment*

The below table summarizes the principal terms of the Third Round Investment by the Third Round Investors:

|                                                 |                                                                                                                            |
|-------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| <b>Name of Third Round Investors</b>            | Kairui Shiqi and Kahui Taiheng                                                                                             |
| <b>Date of equity transfer and subscription</b> | April 24, 2017                                                                                                             |
| <b>Amount of consideration paid</b>             | Kairui Shiqi: (i) 2017 Transfer – RMB31.4 million; (ii) subscription – RMB27.3 million<br>Kaihui Taiheng: RMB109.2 million |

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

|                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Payment date of consideration</b>                                                                                                       | <p>2017 Transfer: April 27, 2017</p> <p>Subscriptions by the Third Round Investors: April 28, 2017</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Shareholding interest acquired</b>                                                                                                      | <p>Kairui Shiqi: approximately 3.4% of the then equity interests in New Century Hotel Management</p> <p>Kaihui Taiheng: approximately 6.4% of the then equity interests in New Century Hotel Management</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Shareholding of the Investors in our Company upon [REDACTED] (assuming the [REDACTED] is not exercised)</b>                             | <p>Kairui Shiqi: approximately [REDACTED]%</p> <p>Kaihui Taiheng: approximately [REDACTED]%</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Basis of determination of consideration</b>                                                                                             | <p>2017 Transfer: The consideration was determined after arm's length negotiations between Bohui Investment and Kairui Shiqi and based on the market value of our New Century Hotel Management (being RMB1,570.0 million at the time).</p> <p>Subscription by the Third Round Investors: The cash consideration for the subscriptions was determined based on the overall valuation of New Century Hotel Management (being RMB1,570.0 million at the time).</p>                                                                                                                                                                                                                                                                                                               |
| <b>Investment cost per Share and discount over mid-point of the indicative [REDACTED] range (assuming the [REDACTED] is not exercised)</b> | <p>Kairui Shiqi: (i) 2017 Transfer – approximately RMB8.1 per Share (equivalent to approximately HK\$9.3 per Share), representing a discount of approximately [REDACTED]% to the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED]; (ii) subscription – approximately RMB8.1 per Share (equivalent to approximately HK\$9.3 per Share), representing a discount of approximately [REDACTED]% to the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED].</p> <p>Kaihui Taiheng: Approximately RMB8.1 per Share (equivalent to approximately HK\$9.3 per Share), representing a discount of approximately [REDACTED]% to the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED].</p> |

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### Use of proceeds

No proceeds were received by New Century Hotel Management from the 2017 Transfer.

The aggregate consideration of RMB136.5 million for the subscription by the Third Round Investors was used as working capital towards business operations of New Century Hotel Management. As at the Latest Practicable Date, the net proceeds from the investment by the Third Round Investors paid to our Company have been fully utilized.

### Strategic benefits of the Third Round Investment

The investments by the Third Round Investors resulted in each of Kairui Shiqi and Kaihui Taiheng acting as a shareholding platform for our Directors and/or members of senior management (as the case may be).

### Special rights granted to Qianhe Qiju, the Second Round Investors and the Third Round Investors

On June 9, 2017, Mr. Chen Miaolin, New Century Tourism, Qianhe Qiju, the Second Round Investors and the Third Round Investors entered into a supplemental promoters' agreement (the "**Supplemental Promoters' Agreement**"). Pursuant to the terms of the Supplemental Promoters' Agreement, Qianhe Qiju, the Second Round Investors and the Third Round Investors have been granted the following rights, each of which has been suspended as at the Latest Practicable Date and will be automatically terminated upon the [REDACTED]:

- (i) *Director appointment rights.* NC Hotels is entitled to appoint one person as a Director to the Board, whereas Bohui Investment and OC Hotels are collectively entitled to appoint one person as a Director to the Board. None of the parties to the Supplemental Promoters' Agreement may, without the consent of NC Hotels, Bohui Investment and OC Hotels (as the case may be), vote in favor of any resolutions (whether at a Shareholders' meeting or otherwise) which propose to remove or replace any of such Directors appointed by NC Hotels, Bohui Investment or OC Hotels (as the case may be).
- (ii) *Supervisor appointment rights.* NC Hotels, Bohui Investment and OC Hotels are collectively entitled to appoint one person as Supervisor. Where NC Hotels, Bohui Investment and OC Hotels are unable to reach a unanimous decision on the candidate for such appointment, NC Hotels shall have the right to appoint such Supervisor. None of the parties to the Supplemental Promoters' Agreement may, without the consent of NC Hotels, Bohui Investment and OC Hotels (as the case may be), vote in favor of any resolutions (whether at a Shareholders' meeting or otherwise) which propose to remove or replace any of such Supervisors appointed by NC Hotels, Bohui Investment or OC Hotels (as the case may be).

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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- (iii) *Liquidation committee member appointment rights.* NC Hotels is entitled to appoint one person as a member to our Company's liquidation committee, whereas Bohui Investment and OC Hotels are collectively entitled to appoint one person as a member to our Company's liquidation committee. None of the parties to the Supplemental Promoters' Agreement may, without the consent of NC Hotels, Bohui Investment and OC Hotels (as the case may be), vote in favor of any resolutions (whether at a Shareholders' meeting or otherwise) which propose to remove or replace any of such committee members appointed by NC Hotels, Bohui Investment or OC Hotels (as the case may be).
- (iv) *Reserved matters.* Our Company shall not, and parties to the Supplemental Promoters' Agreement shall cause any Directors so appointed by them (if applicable) not to, take certain actions without the affirmative written consent or approval of Shareholders who in aggregate hold 75% or more interests in our Company. These matters include, among others:
- (a) amendment or modification to our Company's Articles;
  - (b) termination or dissolution of our Company, or the termination of our operations, or extension of our term of operation;
  - (c) any increase or decrease of the investment amount or registered capital of our Company;
  - (d) any consolidation, split or filing for winding-up of our Company;
  - (e) approval of our annual budget and the declaration and/or payment of dividends;
  - (f) any investment, capital expenditure, borrowing, asset investment, or merger and acquisition outside of the approval annual budget, in excess of RMB20.0 million individually;
  - (g) appointment, replacement or removal of any members of senior management of our Company (including the general manager and deputy general manager) and any decision relating to their compensation and related welfare system and policies; approval or amendment of any senior management or employee Share ownership plan;
  - (h) any related party transaction in excess of RMB5.0 million individually (save for those already identified in the annual budget);
  - (i) issuance of Shares and listing of our Company, reorganization and selection of underwriters;
  - (j) issuance of any bonds, convertible bonds or other securities of our Company;

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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- (k) establishment of the liquidation committee;
  - (l) selection, appointment or change of external auditors; and
  - (m) change in principal business activities.
- (v) *Information and inspection rights.* The parties to the Supplemental Promoters' Agreement shall have the right to receive periodic financial information of our Group, including monthly operation reports, quarterly consolidated management accounts and annual audited financial statements of our Group, and any other information relating to the operations or financials of our Group as requested by any party. Any party to the Supplemental Promoters' Agreement (including Directors appointed by such party) shall also be entitled to have access to, among others, our financial and accounting information and other books and records.
- (vi) *Participation right.* If we issue new equity securities, convertible securities or the right to acquire securities, NC Hotels, Bohui Investment, OC Hotels and other Shareholders are entitled to a right of first refusal to subscribe for the new securities.
- (vii) *Right of first refusal.* If any of New Century Tourism, Qianhe Qiju, Kairui Shiqi or Kaihui Taiheng proposes to transfer any of its Shares, or Mr. Chen Miaolin proposes to transfer (whether directly or indirectly) his equity interests in New Century Tourism, NC Hotels, Bohui Investment and OC Hotels shall have a right of first refusal to purchase such sale Shares pursuant to the transfer notice given by the selling Shareholder.
- (viii) *Tag-along right.* In the event that Mr. Chen Miaolin proposes to transfer (whether directly or indirectly) any Shares (the "**Sale Shares**") to a third party, each of NC Hotels, Bohui Investment and OC Hotels is entitled to a tag-along right to participate in the proposed transfer, requiring the transferee to purchase the Sale Shares from each of Mr. Chen Miaolin, NC Hotels, Bohui Investment and OC Hotels, for the same consideration per Share and upon the same terms and conditions, on a pro rata basis based on their then shareholding in our Company. If the proposed transfer by Mr. Chen Miaolin will result in Mr. Chen Miaolin's losing control over our Company, each of NC Hotels, Bohui Investment and OC Hotels is entitled to sell all of their Shares for the same consideration per Share and upon the same terms and conditions.
- (ix) *Exit protection.* If the [REDACTED] does not take place prior to the end of the year ending December 31, 2021, Mr. Chen Miaolin and New Century Tourism shall cause our Company to provide all co-operation and support in relation to any proposed transfer of Shares by NC Hotels, Bohui Investment and OC Hotels (save that Mr. Chen Miaolin and New Century Tourism shall have a right of first refusal in relation to such proposed transfer(s)).

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### Lock-up and public float

Pursuant to the terms of a commitment dated July 10, 2018 signed by each of our promoters, namely (i) New Century Tourism, (ii) NC Hotels, (iii) OC Hotels, (iv) Bohui Investment, (v) Qianhe Qiju, (vi) Kairui Shiqi, and (vii) Kaihui Taiheng (collectively, the “Promoters”), the Domestic Shares or Unlisted Foreign Shares held by Qianhe Qiju, the Second Round Investors and Third Round Investors are not transferrable within one year from the [REDACTED]. For further details, please refer to the sub-section headed “History, Reorganization and Corporate Structure – Lock-up arrangement” in this document.

The Shares held by each of Qianhe Qiju, the Second Round Investors and the Third Round Investors will not be considered as part of the public float, as the Shares held by such Shareholders are Domestic Shares or Unlisted Foreign Shares, which will not be converted into H Shares and listed following the completion of the [REDACTED].

### Joint Sponsors’ Confirmation

The Joint Sponsors are of the view that the investments made by Qianhe Qiju, NC Hotels, OC Hotels, Bohui Investment, Kairui Shiqi and Kaihui Taiheng in New Century Hotel Management are in compliance with the Interim Guidance on Pre-[REDACTED] Investments (HKEx-GL29-12) and the Guidance on Pre-[REDACTED] Investments (HKEx-GL43-12).

## REORGANIZATION

In preparation for the [REDACTED], our Company was established through reorganization by converting New Century Hotel Management, our Predecessor, into a joint stock company with limited liability. On June 9, 2017, our Promoters, executed a promoters’ agreement pursuant to which our Company (i) was established with a registered capital of RMB210 million and (ii) retained all of the assets, liabilities and equity interests of New Century Hotel Management.

The shares in our Company were converted based on the net asset value of New Century Hotel Management as at April 30, 2017. Upon establishment, our Company had a total of 159,659,640 Domestic Shares and 50,340,360 Unlisted Foreign Shares. The Reorganization was completed on June 28, 2017. Our PRC Legal Adviser is of the view that the Reorganization was properly and legally completed and was approved by the competent PRC authorities.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### LOCK-UP ARRANGEMENT

The Domestic Shares or Unlisted Foreign Shares held by our Promoters (as the case may be) constitute promoter shares as defined in the PRC Company Law. By virtue of the PRC Company Law, the Shares [REDACTED] by our Company prior to the [REDACTED], including the Domestic Shares or Unlisted Foreign Shares held by our Promoters, are not transferrable within one year from the [REDACTED].

Each of our Directors and senior management members holding our Shares directly or indirectly has given, among others, the following undertakings relating to the lock-up arrangement of the Shares in our Company: (i) the Shares in our Company held by him/her directly or indirectly shall not be transferrable within one year from the [REDACTED]; (ii) within six months from his/her ceasing to hold office in our Company, he/she shall not transfer any Shares in our Company held by him/her directly or indirectly; and (iii) during the period when he/she holds office in our Company, his/her transfer of Shares in our Company held by him/her directly or indirectly shall not exceed 25.0% of the total number of Shares in our Company held by him/her.

The above undertakings are subject to the compliance with the changes made to the applicable laws and regulations from time to time, or can be waived or amended upon the obtaining of waiver or approval from the competent authority.



The following chart sets out our corporate structure immediately after the completion of the Reorganization, which remains the same as that prior to the Reorganization (save that New Century Hotel Management (being our Predecessor) was converted into a joint stock company with limited liability), and as at the Latest Practicable Date:



## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

*Notes:*

1. 40.0% equity interests in Zhejiang Meizhen Hotel Management Co., Ltd were held by Zhejiang South Architecture Design Co., Ltd, an Independent Third Party.
2. 20.0% equity interests in Zhejiang Jinshanzi Network Technology Co., Ltd.\* were held by Ningbo Meishan Bonded Port Area Meiyuangu Investment Management Partnership (Limited Partnership)\*, an Independent Third Party.
3. 0.0001% equity interest in Shanghai Yuege Hotel Operation Co., Ltd.\* were held by Shanghai Jiuyue Business Hotel Investment Management Co., Ltd., an Independent Third Party.
4. 44.3% equity interests in Yuyao Manju were held by five employees of our Group and six individuals who are Independent Third Parties.
5. 45.0% equity interests in Hangzhou Kaiyuan Life Hotel Management Co., Ltd.\* were held by Zhejiang Anzhuo Hotel Management Consultancy Co., Ltd.\*, an Independent Third Party.
6. 15.0%, 5.0%, 5.0% and 5.0% equity interests in Shanghai New Century Manju Hotel Management Co., Ltd.\* were held by Yao Chunjiang, Mi Xiaoyan, Li Hongqing and Chen Kaifu, each an Independent Third Party, respectively.
7. 30.0% equity interests in Beijing New Century Manju Hotel Management Co., Ltd.\* were held by Fu Xiaowen, an Independent Third Party.
8. 30.0% equity interests in Chongqing New Century Manju Hotel Management Co., Ltd.\* were held by Wang Yun, an Independent Third Party.

The diagram illustrates the corporate structure of Zhejiang New Century Equity Investment Limited. At the top, three individuals (Mr. Chen Canrong, Mr. Chen Miaolin, and Mr. Zhang Guanning) hold 100.0% of the company. The company then branches out into various subsidiaries and branches, many of which are marked as '[REDACTED]' or '[REDACTED]'. The bottom of the diagram lists numerous branches, including Zhejiang New Century Hotel Management Co., Ltd. branches in various locations like Ningbo, Hangzhou, and Shanghai, as well as other entities like Zhejiang New Century Real Estate Limited and Zhejiang New Century Tourism.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

*Notes:*

1. 40.0% equity interests in Zhejiang Meizhen Hotel Management Co., Ltd.\* were held by Zhejiang South Architecture Design Co., Ltd. an Independent Third Party.
2. 20.0% equity interests in Zhejiang Jinshanzi Network Technology Co., Ltd.\* were held by Ningbo Meishan Bonded Port Area Meiyuangu Investment Management Partnership (Limited Partnership)\*, an Independent Third Party.
3. 0.0001% equity interest in Shanghai Yuege Hotel Operation Co., Ltd.\* were held by Shanghai Jiuyue Business Hotel Investment Management Co., Ltd., an Independent Third Party.
4. 44.3% equity interests in Yuyao Manju were held by five employees of our Group and six individuals who are Independent Third Parties.
5. 45.0% equity interests in Hangzhou Kaiyuan Life Hotel Management Co., Ltd.\* were held by Zhejiang Anzhuo Hotel Management Consultancy Co., Ltd.\*, an Independent Third Party.
6. 15.0%, 5.0%, 5.0% and 5.0% equity interests in Shanghai New Century Manju Hotel Management Co., Ltd.\* were held by Yao Chunjiang, Mi Xiaoyan, Li Hongqing and Chen Kaifu, each an Independent Third Party, respectively.
7. 30.0% equity interests in Beijing New Century Manju Hotel Management Co., Ltd.\* were held by Fu Xiaowen, an Independent Third Party.
8. 30.0% equity interests in Chongqing New Century Manju Hotel Management Co., Ltd.\* were held by Wang Yun, an Independent Third Party.

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## BUSINESS

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### OVERVIEW

We are one of the leading hotel groups in the PRC, and we principally engage in the operation and management of mid-scale to upscale hotel chains in the PRC. As at August 31, 2018, we operated and/or managed 140 hotels throughout 22 provinces, municipalities and autonomous regions, with over 31,000 hotel rooms in total and out of which, 81 hotels and around 17,000 hotel rooms were located in the Zhejiang Province. According to Horwath, as at March 31, 2018, in terms of number of hotel rooms in operation in China, we were the seventh largest hotel group and second largest domestic hotel group according to the number of upscale hotel rooms, and were the eighth largest hotel group and the fourth largest domestic hotel group according to the number of upscale and mid-scale hotel rooms. In terms of hotel rooms both in operation and under pipeline in China, we were the third largest hotel group and the largest domestic hotel group according to the number of upscale hotel rooms, and were the seventh largest hotel group and the fourth largest domestic hotel group according to the number of upscale and mid-scale hotel rooms. As at August 31, 2018, we have a pipeline of 135 hotels (including 129 full service management agreements, four hotel lease agreements and two franchise agreements) with over 33,000 rooms that are expected to commence operation within the next five years.

Since our inception in Hangzhou, Zhejiang Province, in 1988, we have established the homegrown, widely recognized “New Century (開元)” brand series that principally target the upscale leisure and business travel markets, offering hospitality services of international standards that are complemented by local Chinese elements. Our Directors believe that such brand heritage and history have not only allowed us to build up a leading presence in affluent tourist destinations in the PRC including the Zhejiang Province, but also facilitated our nationwide expansion during the Track Record Period. We principally operate hotels that are leased to us, and also adopt an “asset-light” business model through managing hotels under full service management agreements and franchised hotels, as we believe such models allow us to concentrate on our core capabilities – the business of hotel operation and management, and will help us expand our presence and scale throughout the PRC more effectively and efficiently. Whilst we primarily adopt the above business models, depending on our strategic business needs and market conditions, we may from time to time also develop our own hotels. Such situation could arise when we wish to retain a greater ownership and operational control during the initial phase of the development of a new brand. We currently own two hotels under the brand name of “New Century Wonderland (開元芳草地鄉村酒店)”, one of our upscale resort hotel brands that was newly developed in 2016.

We currently operate hotels that are either owned or leased by us and we also manage and franchise hotels. Under our hotel operation business, we operate these hotels and bear all of the accompanying hotel operating expenses. We are responsible for recruiting, training and supervising hotel managers and employees, hotel renovation expenses, and purchasing hotel supplies and other required equipment. Under our hotel management business, within our full service management agreements, we provide services to the hotel owners similar to those provided under our hotel operation business except that the respective hotel owners shall bear the full operating expenses of the hotel operation. For our franchised hotels, we grant the

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franchisees the limited right to use our name, trademarks and operational system in the operation of the franchised hotels in return for a fixed franchise fee. We do not directly participate in the management of the franchised hotels but franchisees are required to operate the franchised hotels in consistent with our brand standard.

As at August 31, 2018, we operated or managed 140 hotels, including: (i) 31 operated hotels, amongst which 29 hotels under hotel lease agreements and two self-owned hotels; and (ii) 109 managed hotels, amongst which 96 hotels under full service management agreements and 13 hotels under franchise agreements. During the Track Record Period, the total number of hotels under our operation and management grew from 65 to 140 hotels and number of hotel rooms grew from over 17,000 to over 31,000. Amongst which, the number of hotels under full service management agreements increased from 43 to 96 hotels and from over 11,000 to over 20,000 hotel rooms.

As at August 31, 2018, we had a portfolio of 12 hotel brands, amongst which nine brands were in operation and three new brands were under development, covering the mid-scale to upscale spectrum of hotels. Our Group manages and/or operates the upscale hotels under four brands, namely “Grand New Century (開元名都)”, “New Century Resort (開元度假村)”, “New Century Grand House (開元觀堂)” and “New Century Wonderland (開元芳草地鄉村酒店)”. We also operate mid-scale hotels to serve the fast-growing number of value-conscious travelers, and boutique hotels targeting leisure travelers and corporate travelers. Under our contracted hotels under pipeline, we expect to introduce new hotel brands including “A.T.K Hotel (阿緹客)”, “Mayart Hotel (開元美途)” and “New Century Senbo (開元森泊)”, targeting leisure and corporate travelers, all of which are expected to be in operation by 2019. For more information on our hotel products, see the sub-section headed “Our Hotel Portfolio” below. We have received numerous awards and recognition in China and worldwide, such as inclusion in the Top 10 China Hotel Management Company in the 17th and 18th China Hotel Golden Horse Award organized by China Hotel magazine and the All-China Federation of Industry and Commerce and has been ranked in the Top 30 Global Hotel Groups (全球酒店集團前30位) under the “Hotels 325 ranking” by *Hotels* magazine (the official publication of The International Hotel & Restaurant Association) for three consecutive years in 2015, 2016 and 2017.

For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, our revenue amounted to RMB1,522.1 million, RMB1,602.0 million, RMB1,664.6 million and RMB1,119.2 million, respectively. During the same periods, our net profit for the period was RMB29.6 million, RMB84.1 million, RMB166.6 million and RMB111.6 million, respectively.

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### COMPETITIVE STRENGTHS

We believe the following competitive strengths provide the foundation for our position as one of the leading upscale hotel groups in China:

#### **One of the leading upscale hotel groups in China with strong brand recognition**

Our history can be traced back to 1988, and over the years we have grown to be one of the leading hotel groups in China. As at August 31, 2018, we operated or managed 140 hotels with over 31,000 hotel rooms. According to Horwath, as at March 31, 2018, we were the third largest hotel group and the largest domestic hotel group in terms of number of upscale hotel rooms in operation and under pipeline in China and were the seventh largest hotel group and the fourth largest domestic hotel group in terms of number of upscale and mid-scale hotel rooms in operation and under pipeline in China. Our hotel portfolio consists of a wide range of brands which are highly recognized worldwide and have a strong brand recognition among the hotel industry and the hotel guests.

According to the *Hotels* magazine, the official publication of the International Hotel & Restaurant Association, our Group has been ranked Top 30 Global Hotel Groups (全球酒店集團前30位) under “Hotels 325 ranking” for three consecutive years in 2015, 2016 and 2017 and for the year 2017, our Group was ranked in 10th place for PRC hotel groups. We were also awarded 2017 China’s Best Employer awarded by China Tourist Hotels Association\* (中國旅遊飯店業協會), 2017 China’s Most Popular Hotel Brand\* (2017年度中國最受歡迎酒店品牌) from the 21st Century Business Herald\* (《21世紀經濟報道》) and the Business Travel\* (《商務旅行》) in 2017 and Top 60 Hotel Group in China\* (中國飯店集團60強) from the China Tourist Hotels Association\* (中國旅遊飯店業協會) in 2015, 2016 and 2017, which our Group was ranked amongst the top 15 for 2017. “New Century (開元)” was recognized as a well-known trademark in China (中國馳名商標) in 2015. Our mid-scale hotel brands, such as “New Century Manju Hotel (開元•曼居酒店)”, are also well-received by the market and have received accolades including 2017 Emerging Hotel Brand of the Year (2017中國新銳酒店品牌) and 2017 Outstanding Brand Image (2017傑出品牌形象獎).

We believe our highly recognized brands as evident from the numerous awards and recognition received by our Group over the years and our positive hotel guests reviews would allow us to attract hotel guests in the PRC and also overseas. According to Horwath, our comprehensive favorable ratings have generally posed an upward trend and ranked amongst the top hotel groups in the PRC during the Track Record Period.

#### **A broad and strong portfolio of hotel brands with extensive network in the PRC and with strong pipeline of new hotel projects**

Our Group manages and/or operates upscale hotels under four brands, namely “Grand New Century (開元名都)”, “New Century Resort (開元度假村)”, “New Century Grand House (開元觀堂)” and “New Century Wonderland (開元芳草地鄉村酒店)”. We also operate mid-scale hotels under the brand of “New Century Manju (開元曼居)” to serve the fast-growing



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number of value-conscious travelers, and boutique hotels targeting leisure travelers and corporate travelers. As at August 31, 2018, we have nine brands that were in operation and three brands that were under development including New Century Senpo (開元森泊), Mayart Hotel (開元美途) and A.T.K Hotels (阿緹客). Both New Century Senpo (開元森泊) and Mayart Hotel (開元美途) target the middle class consumers in the PRC. According to the Horwath Report, the number of middle class consumers continues to expand and is expected to drive market demand, and they will normally choose hotels not only based on quality of the facilities but also its style and cost-effectiveness, whereas our A.T.K Hotels (阿緹客) targets young travelers who are more value-conscious. We believe, alongside with our existing nine upscale and mid-scale hotel brands, we are able to offer the best suited lodging experience to the respective clientele and help raising our Group's profile among different groups of potential hotel guests. We believe that by providing a more extensive range of hotels as compared to our competitors, our diverse product offering could enable us to cross-sell different brands to our loyal hotel guests who are attracted by our consistent quality and service standards and the membership benefits. Our multi-brand strategy also allows each of our brands to have a more specific target group of hotel guests, which gives our potential hotel owners more flexibility and options in the brands that they can cooperate with us and also allows us aligning the investment aim and the target return with our potential hotel owners. Therefore, a multi-brand strategy can consolidate and build up our hotel guest base and at the same time broaden our range of potential hotel owners that we can cooperate in anticipation of the future growth of our hotel network.

Through 30 years of development, we have established strong presence in the PRC with our upscale hotel chains, with particular strong coverage in the Zhejiang Province. As at August 31, 2018, we operated and/or managed 140 hotels throughout 22 provinces, municipalities and autonomous regions, with over 31,000 hotel rooms in total and out of which, 81 hotels and around 17,000 hotel rooms were located in the Zhejiang Province. According to the Horwath Report, the number of tourist arrivals and total tourism revenue of Zhejiang Province have maintained at a moderately high growth rate for years and there is significant demand for mid-scale to upscale hotels arising from robust businesses and leisure needs in the hotel industry. It is expected that, based on the vibrant regional economy, the tourism and hotel industry in Zhejiang Province will maintain its strong growth in the future. Our significant presence in Zhejiang Province allows us to capitalize on the strong economic development and the growing tourism industry in the region and provides us with a solid platform to continue our expansion in the PRC.

Based on our existing pipeline of 135 hotels with over 33,000 hotel rooms as at August 31, 2018, we expect to have around 275 hotels with over 64,000 rooms in operation within our hotel network in the next five years. We believe our strong presence and extensive network of hotels enable us to capture a wider range of potential markets and meet the needs of diverse groups of hotel guests in the PRC.

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### **Distinct synergy in executing a business model combining both hotel operation and hotel management businesses**

We currently operate hotels that are either owned or leased by us and we also provide our hotel management service to hotels through our full service management service or granting of franchise. As at August 31, 2018, there were a total of 140 hotels in operation that are operated or managed by our Group, including: (i) 31 hotels operated by our Group, amongst which 29 hotels were operated under lease and two hotels were operated by our Group as our owned properties; and (ii) 109 hotels were managed by our Group, amongst which 96 hotels were under our full service management agreements and 13 hotels were under our franchise agreements.

Under our hotel management segment, we generate revenues from both franchise fees and management fees and other ancillary fees related to our hotel management services. This business model allows us to expand our hotel portfolio and geographic reach without incurring significant capital expenditure and operating expenses. We believe by leveraging on our understanding on the needs of the hotel guests in the Chinese market, our relatively lower cost structure as compared to other hotel operators in China especially the international hotel groups, our established hotel brand name and operational expertise, we are able to provide value-for-money hotel management services to hotel owners. Alternatively, hotel owners may opt to lease their hotels to us under which model we will manage and operate these hotels and bear all of the operating expenses whereby rent will be paid to the hotel owners. For the operated hotels, we will be able to enjoy the operational income from the hotel operations but at the same time we also bear all operating costs.

Our distinct business synergy is our flexibility in electing the type of hotel operating or managing model that is to the mutual benefit of both hotel owners and us. Such choice of service allows hotel owners in deciding the business model that would be best suited to their investment targets and needs when cooperating with us. This business model differentiates us from other key competitors especially in the PRC upscale hotel market not only because we offer a choice to hotel owners, but also allows us to establish a more efficient platform, through standardizing operational standards, centralizing procurement and booking systems and staff training, to scale our operations more effectively and achieve greater economies of scale and cost efficiency.

### **Significant experience as a hotel group in China**

Our Group is one of the first operators of upscale hotels in China. Since our inception in Hangzhou, Zhejiang Province, in 1988, we have established the homegrown, widely recognized "New Century (開元)" brand series that principally target the upscale leisure and business travel markets, offering hospitality services of international standards complemented by local Chinese elements. Our history can be tracked back to January 1988, when Xiaoshan Guesthouse (蕭山賓館), our first hotel, commenced business in Xiaoshan, Hangzhou. We then opened our first resort hotel, Hangzhou Zhijiang Holiday Resort (杭州之江度假村) in 1992. Subsequently, we placed our emphasis on the operation of upscale hotels, when our first five

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Star-rated resort hotel, Hangzhou Qiandao Lake New Century Resort (杭州千島湖開元度假村), was opened in April 2004 and our first five Star-rated hotel, New Century Grand Hotel Hangzhou (杭州開元名都), was opened in January 2005. We believe our profound knowledge of the Chinese hotel industry and in-depth operating experience better position us to meet the increasing demand for mid-scale to upscale lodging, and capture market opportunities in local markets.

We continuously innovate and standardize our service. Our *Service Standard for Banquets of New Century Hotels* has been adopted as the standard for hotel industry in China. The “New Century (開元)” brand has also grown into a benchmark for domestic hotel industry in respect of quality control system for service, technical standard of branding, information management. We are the first hotel group to introduce the food safety system for hotels in Zhejiang Province. This is evident as our hotel group was named as National Standardization Demonstration Unit for Tourism (全國旅遊標準化示範單位) by the National Tourism Administration of China (國家旅遊局) in 2014 and as National Pilot Unit for Tourism Service Quality (全國旅遊服務質量標桿單位) by General Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) and National Tourism Administration of China (國家旅遊局) in 2014.

During the Track Record Period, we hosted a number of large scale conferences in our hotels, including the G20 Summit Petition Meeting, European Union China Winter Sports Cooperation Exchange Conference, the 13th Beijing International Sports Movie Week Opening Ceremony and China Soong Ching Ling Foundation conference.

Brand name, track record and operational expertise are important factors that hotel owners will consider when choosing a hotel operator or manager. We believe that we are well positioned for future expansion with our established hotel operation platform given our strong brand heritage and significant experience in hotel operation and management. As we continue to expand our hotel network and our hotel guests base by entering into lease or full service management agreements with third-party hotel owners instead of acquiring or investing in properties, our ability to provide standardized high-quality services enables us to better achieve economies of scale to further improve our profitability level and return on capital. We believe that our years of experience and proven results in the operation of mid-scale to upscale hotels can continue to attract third-party hotel owners to either entrust us with the management of their hotels by way of management or franchise or leasing their hotels to us.

### **Our diverse and effective hotel reservation channels and loyalty program provides us with wide hotel guest exposure**

We offer both direct and indirect reservation channels for our hotel guests to secure our hotel rooms. We have established a strong centralized direct distribution channel network system, which includes: (i) our in-house online reservation channel consisting of our official website [www.kaiyuanhotels.com](http://www.kaiyuanhotels.com), our Century Club mobile application and our WeChat account, which provide comprehensive real time reservation and membership service capabilities and are able to launch marketing and promotional activities to our potential hotel guests from time to time, our centralised reservation center, which provides one-stop service

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for our members including room reservation, membership service and guest feedbacks; and our in-house developed proprietary online joint sales system, which allows our corporate guests the convenience and flexibility to make reservation directly through their designated corporate account on our online platform, in addition to being able to make reservations through our hotel sales manager. By utilizing our online sales system, our corporate guests would be able to assess our entire hotel portfolio nationwide, which would also provide opportunities for different hotels under our Group to cross sell our hotels and related services on the online joint sales system; and (ii) our regional sales offices in five key cities namely, Beijing, Shanghai, Guangzhou, Chengdu and Hangzhou, with dedicated sales team for each of our hotels, through which we could reach out to large and medium-sized companies, travel agencies and MICE to establish cooperating relationship. We believe that such diversity enables us to reach and attract hotel guests from different sources more effectively and provides us with a strong distribution platform as we continue to expand our hotel portfolio.

We have also established business relationships with both domestic and international OTAs operated by third parties, such as ctrip.com, qunar.com, alitrip.com, meituan.com, elong.com, ly.com, lvmama.com and agoda.com and travel agencies, which constitute our indirect reservation channels. Further, our hotel guests base is also supported by the members under our Century Club reward program. The number of our Century Club reward program members has grown substantially from approximately 2.9 million members as at December 31, 2015 to approximately 6.9 million members as at August 31, 2018.

Hotel guests are therefore able to make room reservations either through our direct or indirect distribution channels, where all of such orders will be entered into our centralized reservation system and in turn input into our PMS, which would improve our hotel guests' experience at our hotels and at the same time improve our operational efficiency.

### **Experienced and professional management team and a dedicated workforce**

Our founder and non-executive Director, Mr. Chen Miaolin, has over 30 years of experience in hotel operation and management. Mr. Chen Miaolin was one of the senior management of the Xiaoshan Guesthouse when it commenced business in January 1988. He has been responsible for the overall strategic development and overall strategies of our Group. He is also the vice-chairman of China Travel Association and the chairman of Zhejiang Province Travel Association. Mr. Jin Wenjie, our executive Director and chairman of the Board, has joined our Group for over ten years and is responsible for our overall general management and strategic planning and development. His extensive experience in corporate finance prior to joining our Group contributed to our strategic development over the past decade. Mr. Chen Miaoqiang, our executive Director and President, has over 25 years of experience in hotel operation and management and is primarily responsible for the daily operation and management of our hotels. He has held general manager positions in a number of our hotels since 1994.

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Our management team also has extensive experience in hotel operation and management in China. A number of our senior management team have been with New Century Tourism Group, our Controlling Shareholder (and its subsidiaries) since 1990. Our senior management team has an average of over 15 years' experience in hotel operation and management and many of our general managers heading the operations of our hotels have worked with us for more than ten years. Please refer to the section headed "Directors, Supervisors and Senior Management" in this document for further details regarding the experience of our management team.

Our existing presence and experience in the hotel operation and management in the PRC, in particular our extensive hotel network in new first-tier cities or other lower tier cities, provide us with a strong brand recognition and awareness as one of the leading hotel groups in the PRC and allow us to attract the available pool of local talents in the locations where our hotels are situated. We believe our brand recognition and awareness in the PRC, our corporate culture and focus in developing our employees, and our provision of extensive and regular training programs through our in-house training center, New Century Academy, enable us to recruit and retain a team of skilled and committed senior managerial and other employees at each of our hotels. Our ability to recruit and retain our skilled workforce is evident by our Group being named as one of the 2017 China's Best Employer by China Tourist Hotels Association\* (中國旅遊飯店業協會). As at August 31, 2018, our hotels have 88 general managers, 68 of whom have been with our hotels for over five years, managing over 18,500 hotel staff, including the hotels managed by us. Our stable and growing hotel management team and work force serve as a strong and essential platform for our rapid growth throughout China.

We have extensive training programs offered to our employees through our in-house training center, the New Century Academy, and conduct periodic reviews for managerial and other staff. Our systematic internal training programs have supplied sufficient technical knowledge to qualified managerial and other employees to meet our continuing needs to keep pace with our rapid growth. We worked with Tourism College of Zhejiang in preparing training materials for our hotel staff in 2015. We have also established an internal online learning platform, which provides nearly 2,000 courses to facilitate self-learning by our hotel staff. We have an incentive scheme combining both a performance-based bonus and a career development platform. To ensure all of our hotels are performing at optimal levels, we have established a performance evaluation system based on a comprehensive set of key performance indicators that are aligned to a corresponding compensation structure. We believe our performance-linked compensation structure, career-oriented training and career advancement opportunities are the key drivers that motivate our employees.

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### STRATEGIES

Our vision is to provide our hotel guests with an attractive and healthy sojourn experience and to conceptualize the “Poetical Dwelling” (人詩意地棲居) notion by the efficient use of human and natural resources including space and building materials. The successful accomplishment of this mission depends greatly on our sincere, dedicated and creative workforce. Our value system will always be putting the needs of our customers, the development of our employees and enhancing value for our shareholders as our core priorities. We intend to achieve our objectives by implementing the following strategies:

#### **Attract, retain and promote a dedicated, efficient and creative workforce**

We will continue to recruit, train and develop our hotel managers and staff to uphold our corporate value in delivering exceptional service to our hotel guests. We have developed a competitive incentive system for our hotel managers and staff at our hotels and systematically monitor our hotel staff performance by our performance evaluation system based on a comprehensive set of key performance indicators and align their interest with those of our management and shareholders. We believe such measures would allow us to retain and incentivize quality and talented hotel staff to maintain our service standards and enable us to remain competitive in the long run.

We also believe that developing and maintaining a team of capable and motivated hotel managers and staff is critical to our success. In 2015, we set up our in-house training center, New Century Academy, which provides on-going extensive training programs to our managerial and other hotel staff. We developed our own “three-tier talent training system”, which focused on (i) fostering mid-level managers to become the general managers of our Company in the future; (ii) developing junior staff with managerial potential, with a view to promoting them to mid-level managers; and (iii) cultivating new employees and building a reserve of general managers in anticipation of our future expansion. We believe our performance-based compensation structure, career-oriented training and career advancement opportunities are the key drivers that motivate our hotel staff and will continue to attract talented and creative workforce to join our Group.

#### **Enhance our leading position in the upscale business and resort hotels market through our hotel operation and hotel management business models**

We aim to consolidate our leading position in the upscale business and resort hotels market in China and expand our hotels portfolio through our flexible hotel operation and management business models. Our ability to offer services of international standards with local Chinese elements positions us well to capture the opportunities in China’s second- and third-tier cities. Leveraging on our experience in hotel operation within China’s second- and third-tier cities, we aim to expand our presence on the upscale hotels in the first-tier cities, new first-tier cities, second-tier cities and third-tier cities.



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We believe that our profound experience in operating and managing hotels, together with the strength of the “New Century (開元)” brand, will allow us to increase our market share through securing more full service management agreements and franchise agreements or by leasing suitable properties from third-party hotel owners in the long run. On average, we target to grow our hotel services network together with our corresponding ancillary services such as F&B services by increasing the number of upscale business hotels by around ten each year for the next five years. As at August 31, 2018, we had 135 hotels under pipeline, amongst which 28 and 27 of those are expected to be developed into upscale business hotels and upscale resort hotels, respectively, under our respective upscale hotel brands. In addition to the current pipeline, we are planning to enter into at least four new hotel lease agreements for the opening of two new upscale business hotels under the brand of “Grand New Century (開元名都)” and two new upscale resort hotels under the brands of “New Century Resort (開元度假村)” and “New Century Wonderland (開元芳草地鄉村酒店)” in or before 2021. According to the Horwath Report, both first-tier and new first-tier cities have strong demand in hotel services. The international brands have a considerable premium over the domestic brands in the first-tier cities whereas the brand premium is relatively limited for international brands in new first-tier cities and lower tier cities. As compared to first-tier and new first-tier cities, even though the economic vitality of second- and third-tier cities are relatively lower, the growth potential of second- and third-tier cities has seen gradual entry of international hotel brands in recent years. However, due to perceived lack of in-depth understanding in the local markets which vary greatly between different cities and the relatively higher ADR charged for its hotel rooms, it is noted that brand value of international hotel brands has not been effectively recognized and therefore domestic hotel groups could significantly narrow the gap with international hotel groups and have competitive advantages over international hotel groups in the second- and third-tier cities. By maintaining our advantages in the market under the second- and third-tier cities, leveraging our existing presence and experience in the hotel operation and management in the first-tier and new first-tier cities and utilizing our understanding of the domestic demand in the hotel industry in the PRC, we believe we are able to further expand into the first-, new first-, second- and third-tier cities, and in turn would be able to further enhance our leading position as one of the largest upscale hotel groups in China. As a market leader in the domestic upscale hotel sector, we have achieved significant brand recognition among our existing and target hotel guests. We intend to continue to enhance the “New Century (開元)” brand series by maintaining the consistency of our high-quality product and service offerings.

### **Further expand our business in mid-scale hotel chains**

Leveraging on our strong brand recognition of the “New Century (開元)” brand, we will expand and develop our mid-scale full service and select service hotel chains to meet the fast-growing demand in this market in the PRC. We establish our presence in the mid-scale hotel market through introducing our “New Century Hotel (開元大酒店)” brand in 1988 and our “Maison New Century (開元名庭)” brand in 2015, both of which are mid-scale full service hotels. As at August 31, 2018, we had 25 “New Century Hotels (開元大酒店)” and four “Maison New Century (開元名庭)” with 6,339 and 863 hotel rooms in operation, respectively. We also seek to expand our presence in the mid-scale hotel market by developing our mid-scale select service hotel brands and have established a strong foothold in this market through our



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success in our 11 leased hotels as at August 31, 2018 operated under our “New Century Manju Hotel (開元•曼居酒店)” in seven cities throughout the PRC. We believe our success in our leased hotels operated under “New Century Manju Hotel (開元•曼居酒店)” will attract third-party owned hotels to operate these brands through full service management agreements or franchise agreements and hence enhance our presence in the mid-scale hotel markets. We intend to increase the number of hotels operated under our mid-scale full service hotel brands and our mid-scale select service hotel brands, in particular our “New Century Manju Hotel (開元•曼居酒店)” brand, primarily through operating or managing third-party owned hotels under our hotel lease agreements or full service management agreements.

We will also be introducing new mid-scale hotel brands, including “A.T.K Hotel (阿緹客)” and “Mayart Hotel (開元美途)”, all of which shall be in operation by 2019 in order to increase the number of our midscale hotels. As at August 31, 2018, out of the 135 hotels under pipeline, 80 will be developed into mid-scale hotels. We plan to double the total number of our mid-scale hotels and hotel rooms in operation and under pipeline as at August 31, 2018 in the next five years. In addition to our existing pipeline, we target to enter into new hotel lease agreements for the opening of 17 new “New Century Manju Hotel (開元•曼居酒店)”, all of which will be expected to commence operation in or before 2021.

### **Increase marketing activities and crossover marketing initiatives to maintain our strong brand recognition and expand our guests base**

We aim to devote our resources to reinforce the reputation and recognition of our “New Century (開元)” brands. We plan to implement brand value through launching new brands, enriching amenities and updating technologies in our hotel rooms. We intend to integrate and promote the “New Century (開元)” brand by revitalizing media resources and disseminate through multiple channels such as traditional media, social media, including our official Weibo account and our official WeChat account and our in-house media. At the same time, we also aim to enhance our brand awareness and reputation through the launch of new products, membership events, industry summits and other activities. We will increase our marketing resources through OTAs with an aim to increase our presence and coverage in the OTAs which in turn may generate more hotel bookings.

We actively implement and explore cross-industries cooperation and cross-disciplinary marketing with joint marketing and brand cohesion promotion, such as, the establishment of Chinese hotel alliance and the issue of co-branded credit card with the PRC banks. In order to enhance our brand image and popularity, similar strategic cooperation opportunities will be continuously explored in the future.

### **Further investment and development in innovative digital strategies and improving operational efficiency**

With rapid iteration of consumer behavior and mobile technology, innovative digital strategies have become more indispensable, therefore, we will continue to develop our data analytics and technological capabilities in the following areas: (i) cloudization: by investing

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and developing our main marketing and core business systems, including traditional CRS and PMS of hotel and related business contents, which can achieve higher efficiency for the entire data operation; (ii) datamation of user behaviour: defining user labels based on their attributes, booking behaviors, spending power to achieve more objective user portraits, which will allow us to have a better understanding of the preference of our hotel guests with big data analytics to enhance our services to our hotel guests; (iii) mobile socialization: hotel guests can utilize all online and offline services through our Century Club mobile application or our official WeChat account, with real-time access to corresponding hotel staff, which can greatly improve efficiency of hotel services; (iv) intelligence: with self-service equipment or services such as robots, front-end automatic self-service machines, smart hotel rooms, self-service food ordering of restaurants, experience of hotel guests can be improved while labor costs of hotels can be reduced.

With a view to improve our operational efficiency and facilitate the decision making process of our management team, we plan to upgrade our centralized data system which shall integrate the functions of the existing data collection systems such as loyalty program system, management reporting system and central reservation system. This centralized data system will collect and store relevant hotel operational data which can then analyze various consumption patterns and habits of our hotel guests in order to provide in-depth data analysis for our management team. We also aim to optimize and upgrade our financial management system, human resources system and procurement management system and establish a regional management center and financial data sharing center, which shall be conducive to optimizing our staffing function and improving our operational efficiency.

We are currently in the process of introducing our “smart hotel rooms” which aim to deliver bespoke in-room experiences that enable hotel guests to operate the room facilities via our Century Club mobile application or through voice control. Our Century Club mobile application allows hotel guests to control all in-room functions including mood lighting, curtains and room temperature through the control panel built into to our Century Club mobile application. Further, through the voice control function, our hotel guests would be able to control the entertainment system and interactive media installed in the room. We also plan to introduce keyless entry system to our hotel rooms. We will continually seek out ideas to give our hotel guests the best and most satisfying guest experience.

In order to improve the operational efficiency of our hotel operations, we are also planning to introduce the self check-in kiosk, which was developed through the cooperation between our Group and a PRC-listed information technology company specializing in information security. The self check-in kiosk will be installed at the receptions of our hotels for hotel guests to proceed to check-in/out by themselves without the need to do so with our front desk. Hotel guests will also be able to choose the room types and the room settings from the kiosk at the time of check-in. We believe the above hotel related technologies could improve guest experience at our hotels and we intend to continue our development on hotel operation related technologies in order to explore ways to improve our operational efficiency and improve our services to our hotel guests.

## BUSINESS

### OUR BUSINESS OPERATIONS

We principally engage in the operation and management of mid-scale to upscale hotel chains in the PRC during Track Record Period. The following table shows our revenue breakdown by each business segment and as a percentage of the total revenue for the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2017 and 2018.

|                  | For the years ended December 31, |         |            |         |            |         | For the eight months ended August 31, |         |            |         |
|------------------|----------------------------------|---------|------------|---------|------------|---------|---------------------------------------|---------|------------|---------|
|                  | 2015                             |         | 2016       |         | 2017       |         | 2017                                  |         | 2018       |         |
|                  | % of total                       |         | % of total |         | % of total |         | % of total                            |         | % of total |         |
|                  | RMB'000                          | revenue | RMB'000    | revenue | RMB'000    | revenue | RMB'000                               | revenue | RMB'000    | revenue |
|                  | (unaudited)                      |         |            |         |            |         |                                       |         |            |         |
| Hotel operation  | 1,400,592                        | 92.0    | 1,490,139  | 93.0    | 1,527,866  | 91.8    | 982,353                               | 92.0    | 1,013,648  | 90.6    |
| Hotel management | 121,490                          | 8.0     | 111,867    | 7.0     | 136,777    | 8.2     | 85,400                                | 8.0     | 105,601    | 9.4     |
| Total            | 1,522,082                        | 100.0   | 1,602,006  | 100.0   | 1,664,643  | 100.0   | 1,067,753                             | 100.0   | 1,119,249  | 100.0   |

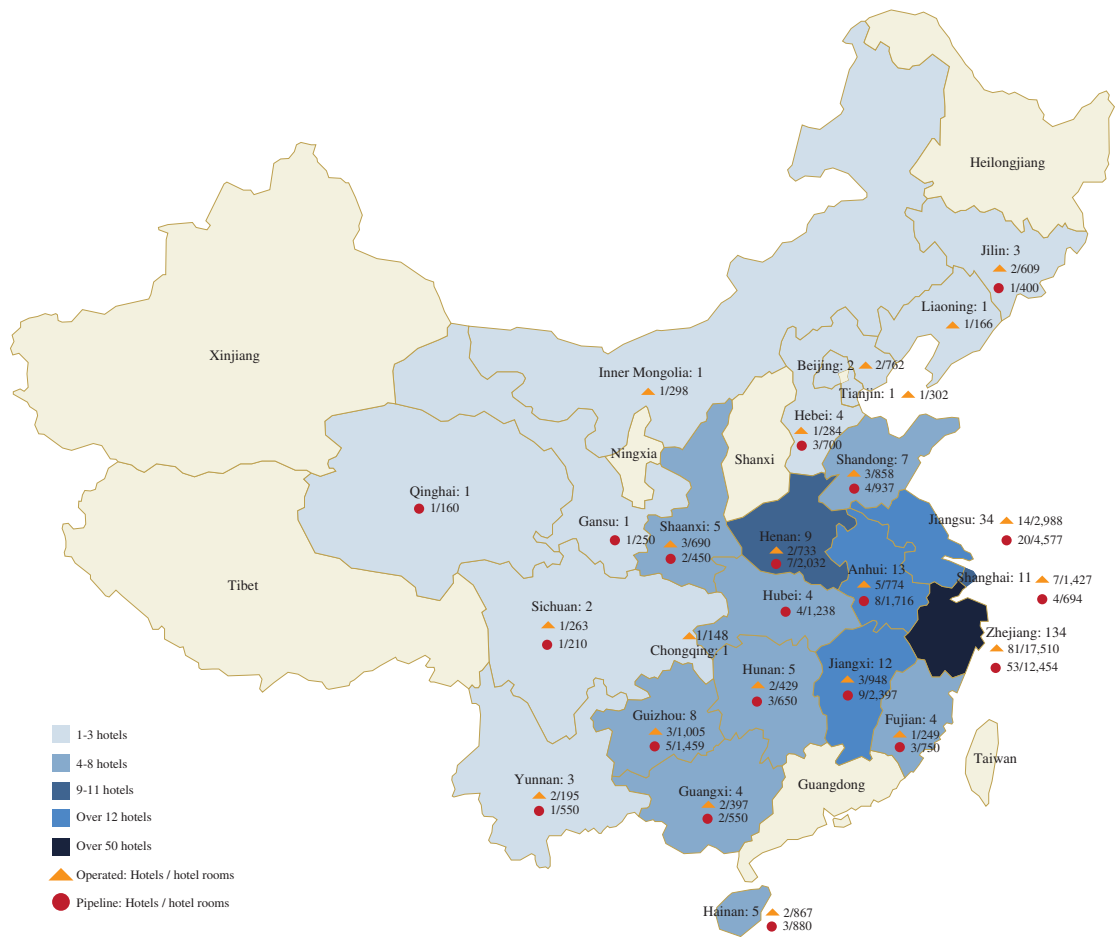
### Our Hotels

As at August 31, 2018, our hotel portfolio consisted of 140 hotels in operation with over 31,000 rooms throughout the PRC. Amongst the 140 hotels in operation, (i) 96 were under full service management agreements, (ii) 13 were under franchise agreements, (iii) two were owned hotels and (iv) 29 were under hotel lease agreements. Based on our existing pipeline as at August 31, 2018, we plan to increase the total number of hotels operated and/or managed by us to at least 275 hotels within the next five years, which will include 114 upscale hotels and 161 mid-scale hotels.

We will expand into a new city strategically if it meets our selection criteria, including the potential for economic growth and geographic location. As a result of our strategic focus on building a network of hotels in the most affluent regions in China with high growth potential, 57.9% of our hotels were located in the Zhejiang Province as at August 31, 2018. Within these regions, we select locations to achieve a stable and reasonable rental rate and RevPAR, which are mostly located in the second- and third-tier cities, thereby ensuring attractive returns for our operated or managed hotels. As at August 31, 2018, nine of our 140 hotels were located in first-tier cities (6.4%), 45 in new first-tier cities (32.1%), 40 in second-tier cities (28.6%), 28 in third-tier cities (20.0%) and 18 in other cities (12.9%).

## BUSINESS

The following map sets forth the geographic coverage of our hotels in operation and under pipeline as at August 31, 2018:



The following table sets forth the number of hotels and hotel rooms in operation as at December 31, 2015, 2016 and 2017 and August 31, 2018.

|                 | As at December 31, |                          |                  |                          |                  |                          | As at August 31, |                          |
|-----------------|--------------------|--------------------------|------------------|--------------------------|------------------|--------------------------|------------------|--------------------------|
|                 | 2015               |                          | 2016             |                          | 2017             |                          | 2018             |                          |
|                 | No. of<br>Hotels   | No. of<br>Hotel<br>Rooms | No. of<br>Hotels | No. of<br>Hotel<br>Rooms | No. of<br>Hotels | No. of<br>Hotel<br>Rooms | No. of<br>Hotels | No. of<br>Hotel<br>Rooms |
| Operated hotels | 26                 | 6,659                    | 27               | 6,923                    | 25               | 6,528                    | 31               | 7,499                    |
| Managed hotels  | 48                 | 13,369                   | 70               | 17,375                   | 91               | 20,928                   | 109              | 24,403                   |
| Total           | 74                 | 20,028                   | 97               | 24,298                   | 116              | 27,456                   | 140              | 31,902                   |

## BUSINESS

The following table sets forth a breakdown of our hotels by geographic locations as at August 31, 2018.

|                       | No. of<br>operated<br>hotels (No.<br>of hotel<br>rooms) | No. of<br>managed<br>hotels (No.<br>of hotel<br>rooms) | No. of<br>operated<br>hotels (No.<br>of hotel<br>rooms)<br>under<br>pipeline | No. of<br>managed<br>hotels (No.<br>of hotel<br>rooms)<br>under<br>pipeline | Total no. of<br>hotels (No.<br>of hotel<br>rooms) in<br>operation<br>and under<br>pipeline |
|-----------------------|---------------------------------------------------------|--------------------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| Zhejiang Province     | 20 (5,211)                                              | 61 (12,299)                                            | 2 (466)                                                                      | 51 (11,988)                                                                 | 134 (29,964)                                                                               |
| Jiangsu Province      | 4 (918)                                                 | 10 (2,070)                                             | –                                                                            | 20 (4,577)                                                                  | 34 (7,565)                                                                                 |
| Anhui Province        | –                                                       | 5 (774)                                                | –                                                                            | 8 (1,716)                                                                   | 13 (2,490)                                                                                 |
| Jiangxi Province      | –                                                       | 3 (948)                                                | –                                                                            | 9 (2,397)                                                                   | 12 (3,345)                                                                                 |
| Henan Province        | –                                                       | 2 (733)                                                | –                                                                            | 7 (2,032)                                                                   | 9 (2,765)                                                                                  |
| Shanghai Municipality | 3 (421)                                                 | 4 (1,006)                                              | 1 (156)                                                                      | 3 (538)                                                                     | 11 (2,121)                                                                                 |
| Shandong Province     | –                                                       | 3 (858)                                                | –                                                                            | 4 (937)                                                                     | 7 (1,795)                                                                                  |
| Guizhou Province      | –                                                       | 3 (1,005)                                              | –                                                                            | 5 (1,459)                                                                   | 8 (2,464)                                                                                  |
| Hainan Province       | –                                                       | 2 (867)                                                | –                                                                            | 3 (880)                                                                     | 5 (1,747)                                                                                  |
| Hunan Province        | 1 (153)                                                 | 1 (276)                                                | –                                                                            | 3 (650)                                                                     | 5 (1,079)                                                                                  |
| Guangxi Province      | –                                                       | 2 (397)                                                | –                                                                            | 2 (550)                                                                     | 4 (947)                                                                                    |
| Yunan Province        | –                                                       | 2 (195)                                                | –                                                                            | 1 (550)                                                                     | 3 (745)                                                                                    |
| Hubei Province        | –                                                       | –                                                      | –                                                                            | 4 (1,238)                                                                   | 4 (1,238)                                                                                  |
| Others                | 3 (796)                                                 | 11 (2,975)                                             | 1 (210)                                                                      | 11 (2,710)                                                                  | 26 (6,691)                                                                                 |
| Total                 | 31 (7,499)                                              | 109 (24,403)                                           | 4 (832)                                                                      | 131 (32,222)                                                                | 275 (64,956)                                                                               |

The following table sets forth a breakdown of our hotels by first-, new first-, second-, third-tier and other cities as at August 31, 2018.

|                          | No. of<br>operated<br>hotels (No.<br>of hotel<br>rooms) | No. of<br>managed<br>hotels (No.<br>of hotel<br>rooms) | No. of<br>operated<br>hotels (No.<br>of hotel<br>rooms)<br>under<br>pipeline | No. of<br>managed<br>hotels (No.<br>of hotel<br>rooms)<br>under<br>pipeline | Total no. of<br>hotels (No.<br>of hotel<br>rooms) in<br>operation<br>and under<br>pipeline |
|--------------------------|---------------------------------------------------------|--------------------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| First-tier cities        | 3 (421)                                                 | 6 (1,768)                                              | 1 (156)                                                                      | 3 (538)                                                                     | 13 (2,883)                                                                                 |
| New first-tier cities    | 14 (4,025)                                              | 31 (6,186)                                             | 1 (210)                                                                      | 32 (6,919)                                                                  | 78 (17,340)                                                                                |
| Second-tier cities       | 10 (2,259)                                              | 30 (7,046)                                             | –                                                                            | 27 (6,674)                                                                  | 67 (15,979)                                                                                |
| Third-tier cities        | 4 (794)                                                 | 24 (5,007)                                             | 2 (466)                                                                      | 39 (9,922)                                                                  | 69 (16,189)                                                                                |
| Others <sup>(Note)</sup> | –                                                       | 18 (4,396)                                             | –                                                                            | 30 (8,169)                                                                  | 48 (12,565)                                                                                |
| Total                    | 31 (7,499)                                              | 109 (24,403)                                           | 4 (832)                                                                      | 131 (32,222)                                                                | 275 (64,956)                                                                               |

*Note:* Others include Xinyu, Fuzhou, Enshi, Heze, Shangqiu, Zunyi, Zhangjiajie, Wencang, Suzhou, Yichun, Zhangzhou, Xuancheng, Shiyan, Xishuangbanna, Shaoyang, Anshun, Lu'an, Kaifeng, Chizhou, Beihai, Huangshi, Yingtan, Zhumadian, Chizhou and Qiandongnanzhou.

## BUSINESS

### Our Business Models

Our hotel business consists of hotel operation and hotel management. Under hotel operation, we operate hotels that are either owned or leased by us. Under hotel management, we manage hotels pursuant to the full service management agreements or grant franchisee right to use “New Century (開元)” brand under the terms under the franchise agreements. Our strong capabilities in operating and managing hotels under both the hotel management and operation models provide flexibility to hotel owners in deciding the business model which would be best suited to their investment target and needs when engaging us as the operator of their hotels. The adaptability to different business models allows us to work with hotel owners either by way of leasing or through our full service management agreements or franchise agreements.

The following table sets forth the hotels and rooms by hotel segments of our Group by category as at August 31, 2018.

| Brands                        | Operated Hotels                                                                                                                                                                                                                                                                                                                                                                                                                                     |                    | Managed Hotels     |                    | Total hotels in operation |                    | Contracted to-be operated hotels under pipeline |                    | Contracted to-be managed hotels under pipeline |                    |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|--------------------|---------------------------|--------------------|-------------------------------------------------|--------------------|------------------------------------------------|--------------------|
|                               | No. of Hotel Rooms                                                                                                                                                                                                                                                                                                                                                                                                                                  |                    | No. of Hotel Rooms |                    | No. of Hotel Rooms        |                    | No. of Hotel Rooms                              |                    | No. of Hotel Rooms                             |                    |
|                               | No. of Hotels                                                                                                                                                                                                                                                                                                                                                                                                                                       | No. of Hotel Rooms | No. of Hotels      | No. of Hotel Rooms | No. of Hotels             | No. of Hotel Rooms | No. of Hotels                                   | No. of Hotel Rooms | No. of Hotels                                  | No. of Hotel Rooms |
| Upscale business hotels       | <br>開元名都<br>GRAND NEW CENTURY                                                                                                                                                                                                                                                                                                                                    |                    |                    |                    |                           |                    |                                                 |                    |                                                |                    |
|                               | 7                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 2,840              | 35                 | 11,891             | 42                        | 14,731             | 1                                               | 306                | 27                                             | 8,854              |
| Upscale resort hotels         | <br>開元度假村<br>NEW CENTURY RESORT<br><br><br>開元芳草地乡村酒店<br><br><br>開元森泊度假乐园<br><br><br>開元观堂<br>GRAND HOUSE |                    |                    |                    |                           |                    |                                                 |                    |                                                |                    |
|                               | 4                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 830                | 13                 | 2,839              | 17                        | 3,669              | –                                               | –                  | 27                                             | 7,271              |
| Mid-scale full service hotels | <br>開元大酒店<br>NEW CENTURY HOTEL<br><br><br>MAISON NEW CENTURY<br>開   元   名   庭                                                                                                                                                                                                 |                    |                    |                    |                           |                    |                                                 |                    |                                                |                    |
|                               | 8                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 2,197              | 21                 | 5,005              | 29                        | 7,202              | –                                               | –                  | 47                                             | 12,729             |

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| Brands                                                                            | Operated Hotels |              | Managed Hotels |               | Total hotels in operation |               | Contracted to-be operated hotels under pipeline |            | Contracted to-be managed hotels under pipeline |               |
|-----------------------------------------------------------------------------------|-----------------|--------------|----------------|---------------|---------------------------|---------------|-------------------------------------------------|------------|------------------------------------------------|---------------|
|                                                                                   | No. of Hotel    |              | No. of Hotel   |               | No. of Hotel              |               | No. of Hotel                                    |            | No. of Hotel                                   |               |
|                                                                                   | No. of Hotels   | Rooms        | No. of Hotels  | Rooms         | No. of Hotels             | Rooms         | No. of Hotels                                   | Rooms      | No. of Hotels                                  | Rooms         |
| Mid-scale select service hotels                                                   | 12              | 1,632        | 40             | 4,668         | 52                        | 6,300         | 3                                               | 526        | 30                                             | 3,368         |
|  |                 |              |                |               |                           |               |                                                 |            |                                                |               |
|  |                 |              |                |               |                           |               |                                                 |            |                                                |               |
|  |                 |              |                |               |                           |               |                                                 |            |                                                |               |
|  |                 |              |                |               |                           |               |                                                 |            |                                                |               |
|  |                 |              |                |               |                           |               |                                                 |            |                                                |               |
| <b>Total</b>                                                                      | <b>31</b>       | <b>7,499</b> | <b>109</b>     | <b>24,403</b> | <b>140</b>                | <b>31,902</b> | <b>4</b>                                        | <b>832</b> | <b>131</b>                                     | <b>32,222</b> |

### Hotel Operation

The tables below set forth breakdown of our revenue, gross profit and gross profit margin generated by our owned and leased hotels for the periods indicated:

| Business model                                  | For the years ended December 31, |                  |                  | For the eight months ended August 31, |
|-------------------------------------------------|----------------------------------|------------------|------------------|---------------------------------------|
|                                                 | 2015                             | 2016             | 2017             | 2018                                  |
|                                                 | RMB'000                          | RMB'000          | RMB'000          | RMB'000                               |
| <b>Hotel operation</b>                          |                                  |                  |                  |                                       |
| Owned hotels                                    | –                                | 19,662           | 35,914           | 56,528                                |
| Leased hotels                                   | 1,343,190                        | 1,417,361        | 1,431,429        | 910,352                               |
| <b>Revenue generated by our operated hotels</b> | <b>1,343,190</b>                 | <b>1,437,023</b> | <b>1,467,343</b> | <b>966,880</b>                        |
| Others <sup>(Note)</sup>                        | 57,402                           | 53,116           | 60,523           | 46,768                                |
| <b>Revenue of our hotel operation segment</b>   | <b>1,400,592</b>                 | <b>1,490,139</b> | <b>1,527,866</b> | <b>1,013,648</b>                      |

*Note:* This primarily includes revenue that cannot be directly attributable to a particular operated hotel, including revenue from (i) sales of goods or products such as wine, seafood, moon cakes and rice dumplings; and (ii) the provision of room reservation services, in aggregate amounted to RMB57.4 million, RMB53.1 million, RMB60.5 million and RMB46.8 million for the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, respectively.



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| Business model                                                                                | For the years ended December 31, |                          |                         |                          |                         |                          | For the eight months ended August 31, |                          |
|-----------------------------------------------------------------------------------------------|----------------------------------|--------------------------|-------------------------|--------------------------|-------------------------|--------------------------|---------------------------------------|--------------------------|
|                                                                                               | 2015                             |                          | 2016                    |                          | 2017                    |                          | 2018                                  |                          |
|                                                                                               | Gross profit<br>RMB'000          | Gross profit margin<br>% | Gross profit<br>RMB'000 | Gross profit margin<br>% | Gross profit<br>RMB'000 | Gross profit margin<br>% | Gross profit<br>RMB'000               | Gross profit margin<br>% |
| <b>Hotel operation</b>                                                                        |                                  |                          |                         |                          |                         |                          |                                       |                          |
| Owned hotels                                                                                  | –                                | –                        | (4,165)                 | N/A                      | 6,027                   | 16.8                     | 12,923                                | 22.9                     |
| Leased hotels                                                                                 | 112,219                          | 8.4                      | 198,526                 | 14.0                     | 274,678                 | 19.2                     | 135,071                               | 14.8                     |
| <b>Gross profit and gross profit margin generated by our operated hotels<sup>(Note)</sup></b> | <b>112,219</b>                   | <b>8.4</b>               | <b>194,361</b>          | <b>13.5</b>              | <b>280,705</b>          | <b>19.1</b>              | <b>147,994</b>                        | <b>15.3</b>              |

*Note:* This primarily excludes gross profit and gross profit margin that cannot be directly attributable to a particular operated hotel, including gross profit and gross profit margin from (i) sales of goods or products such as wine, seafood, moon cakes and rice dumplings; and (ii) the provision of room reservation services.

The tables below set forth breakdown of our revenue, gross profit and gross profit margin generated by our operated hotels by category and brand for the periods indicated:

| Hotel categories                                 | For the years ended December 31, |         |         | For the eight months ended August 31, |
|--------------------------------------------------|----------------------------------|---------|---------|---------------------------------------|
|                                                  | 2015                             | 2016    | 2017    | 2018                                  |
|                                                  | RMB'000                          | RMB'000 | RMB'000 | RMB'000                               |
| Upscale business hotels                          |                                  |         |         |                                       |
| <i>Grand New Century</i>                         | 779,699                          | 841,850 | 840,449 | 539,401                               |
| Revenue generated by our upscale business hotels | 779,699                          | 841,850 | 840,449 | 539,401                               |
| Upscale resort hotels                            |                                  |         |         |                                       |
| <i>New Century Resort</i>                        | 57,547                           | 64,553  | 71,479  | 50,720                                |
| <i>New Century Grand House</i>                   | 39,570                           | 44,182  | 43,659  | 19,089                                |
| <i>New Century Wonderland</i>                    | –                                | 19,662  | 35,914  | 56,528                                |
| Revenue generated by our upscale resort hotels   | 97,117                           | 128,397 | 151,052 | 126,337                               |
| Mid-scale full service hotels                    |                                  |         |         |                                       |
| <i>New Century Hotel</i>                         | 361,783                          | 376,655 | 375,840 | 229,595                               |
| <i>Maison New Century</i>                        | 19,596                           | 17,277  | 15,173  | 7,932                                 |

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| Hotel categories                                         | For the years ended December 31, |  |           |  |           |  | For the eight months ended August 31, |  |
|----------------------------------------------------------|----------------------------------|--|-----------|--|-----------|--|---------------------------------------|--|
|                                                          | 2015                             |  | 2016      |  | 2017      |  | 2018                                  |  |
|                                                          | RMB'000                          |  | RMB'000   |  | RMB'000   |  | RMB'000                               |  |
|                                                          |                                  |  |           |  |           |  |                                       |  |
| Revenue generated by our mid-scale full service hotels   | 381,379                          |  | 393,932   |  | 391,013   |  | 237,527                               |  |
| Mid-scale select service hotels                          |                                  |  |           |  |           |  |                                       |  |
| <i>New Century Manju</i>                                 | 84,995                           |  | 72,844    |  | 79,462    |  | 60,584                                |  |
| <i>New Century Wonderland RV Camp</i>                    | —                                |  | —         |  | 5,367     |  | 3,031                                 |  |
| Revenue generated by our mid-scale select service hotels | 84,995                           |  | 72,844    |  | 84,829    |  | 63,615                                |  |
| Revenue generated by our operated hotels                 | 1,343,190                        |  | 1,437,023 |  | 1,467,343 |  | 966,880                               |  |

| Hotel categories                                                              | For the years ended December 31, |                     |              |                     |              |                     | For the eight months ended August 31, |                     |
|-------------------------------------------------------------------------------|----------------------------------|---------------------|--------------|---------------------|--------------|---------------------|---------------------------------------|---------------------|
|                                                                               | 2015                             |                     | 2016         |                     | 2017         |                     | 2018                                  |                     |
|                                                                               | Gross profit                     | Gross profit margin | Gross profit | Gross profit margin | Gross profit | Gross profit margin | Gross profit                          | Gross profit margin |
|                                                                               | RMB'000                          | %                   | RMB'000      | %                   | RMB'000      | %                   | RMB'000                               | %                   |
| Upscale business hotels                                                       |                                  |                     |              |                     |              |                     |                                       |                     |
| <i>Grand New Century</i>                                                      | 56,717                           | 7.3                 | 125,272      | 14.9                | 149,250      | 17.8                | 84,880                                | 15.7                |
| Gross profit and gross profit margin generated by our upscale business hotels | 56,717                           | 7.3                 | 125,272      | 14.9                | 149,250      | 17.8                | 84,880                                | 15.7                |
| Upscale resort hotels                                                         |                                  |                     |              |                     |              |                     |                                       |                     |
| <i>New Century Resort</i>                                                     | 4,388                            | 7.6                 | 6,406        | 9.9                 | 9,897        | 13.8                | 6,341                                 | 12.5                |
| <i>New Century Grand House</i>                                                | 9,125                            | 23.1                | 7,830        | 17.7                | 10,618       | 24.3                | (3,753)                               | N/A                 |
| <i>New Century Wonderland</i>                                                 | —                                | —                   | (4,165)      | N/A                 | 6,027        | 16.8                | 12,923                                | 22.9                |
| Gross profit and gross profit margin generated by our upscale resort hotels   | 13,513                           | 13.9                | 10,071       | 7.8                 | 26,541       | 17.6                | 15,511                                | 12.3                |
| Mid-scale full service hotels                                                 |                                  |                     |              |                     |              |                     |                                       |                     |
| <i>New Century Hotel</i>                                                      | 26,523                           | 7.3                 | 52,853       | 14.0                | 82,353       | 21.9                | 40,182                                | 17.5                |
| <i>Maison New Century</i>                                                     | (1,787)                          | N/A                 | (1,631)      | N/A                 | 3,819        | 25.2                | 1,904                                 | 24.0                |

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| Hotel categories                                                                      | For the years ended December 31, |                          |                         |                          |                         |                          | For the eight months ended August 31, |                          |
|---------------------------------------------------------------------------------------|----------------------------------|--------------------------|-------------------------|--------------------------|-------------------------|--------------------------|---------------------------------------|--------------------------|
|                                                                                       | 2015                             |                          | 2016                    |                          | 2017                    |                          | 2018                                  |                          |
|                                                                                       | Gross profit<br>RMB'000          | Gross profit margin<br>% | Gross profit<br>RMB'000 | Gross profit margin<br>% | Gross profit<br>RMB'000 | Gross profit margin<br>% | Gross profit<br>RMB'000               | Gross profit margin<br>% |
| Gross profit and gross profit margin generated by our mid-scale full service hotels   | 24,736                           | 6.5                      | 51,222                  | 13.0                     | 86,172                  | 22.0                     | 42,086                                | 17.7                     |
| Mid-scale select service hotels                                                       |                                  |                          |                         |                          |                         |                          |                                       |                          |
| <i>New Century Manju</i>                                                              | 17,253                           | 20.3                     | 7,796                   | 10.7                     | 18,309                  | 23.0                     | 5,157                                 | 8.5                      |
| <i>New Century Wonderland RV Camp</i>                                                 | –                                | –                        | –                       | –                        | 433                     | 8.1                      | 360                                   | 11.9                     |
| Gross profit and gross profit margin generated by our mid-scale select service hotels | 17,253                           | 20.3                     | 7,796                   | 10.7                     | 18,742                  | 22.1                     | 5,517                                 | 8.7                      |
| <b>Gross profit and gross profit margin generated by our operated hotels</b>          | <b>112,219</b>                   | <b>8.4</b>               | <b>194,361</b>          | <b>13.5</b>              | <b>280,705</b>          | <b>19.1</b>              | <b>147,994</b>                        | <b>15.3</b>              |

*Notes:*

- (i) The financial performance is subject to factors including our product mix, ramp up period required for new hotels, seasonality factors and the overall industry trend.
- (ii) The decrease in gross profit was primarily due to the operating loss recorded by Grand House Chongqing Dazu Shike, a newly opened hotel in 2018, that was recently disposed by our Group on June 30, 2018 due to change in business model by the hotel owner. Please see sub-section headed “History, Reorganization and Corporate Structure – Acquisitions and Disposals during the Track Record Period – Disposals” in this document for further details.
- (iii) Despite having nine brands in operation as at August 31, 2018, our “Kaiyuan Life (開元頤居)” currently only operates as our full service managed hotels and therefore its financial results are not applicable to the table above.

The tables below set forth breakdown of our revenue, gross profit and gross profit margin generated by our operated hotels by city tiers for the periods indicated:

| City tiers                                      | For the years ended December 31, |                  |                  | For the eight months ended August 31, |
|-------------------------------------------------|----------------------------------|------------------|------------------|---------------------------------------|
|                                                 | 2015                             | 2016             | 2017             | 2018                                  |
|                                                 | RMB'000                          | RMB'000          | RMB'000          | RMB'000                               |
| First-tier cities                               | 81,203                           | 81,737           | 65,975           | 24,769                                |
| New first-tier cities                           | 837,762                          | 889,329          | 931,635          | 642,151                               |
| Second-tier cities                              | 358,943                          | 373,912          | 360,566          | 216,486                               |
| Third-tier cities                               | 65,282                           | 92,045           | 109,167          | 83,474                                |
| <b>Revenue generated by our operated hotels</b> | <b>1,343,190</b>                 | <b>1,437,023</b> | <b>1,467,343</b> | <b>966,880</b>                        |

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| City tiers                                                                   | For the years ended December 31, |                          |                         |                          |                         |                          | For the eight months ended August 31, |                          |
|------------------------------------------------------------------------------|----------------------------------|--------------------------|-------------------------|--------------------------|-------------------------|--------------------------|---------------------------------------|--------------------------|
|                                                                              | 2015                             |                          | 2016                    |                          | 2017                    |                          | 2018                                  |                          |
|                                                                              | Gross profit<br>RMB'000          | Gross profit margin<br>% | Gross profit<br>RMB'000 | Gross profit margin<br>% | Gross profit<br>RMB'000 | Gross profit margin<br>% | Gross profit<br>RMB'000               | Gross profit margin<br>% |
| First-tier cities                                                            | 8,935                            | 11.0                     | 12,086                  | 14.8                     | 24,488                  | 37.1                     | 6,268                                 | 25.3                     |
| New first-tier cities                                                        | 61,993                           | 7.4                      | 120,019                 | 13.5                     | 173,762                 | 18.7                     | 85,389                                | 13.3                     |
| Second-tier cities                                                           | 32,053                           | 8.9                      | 51,341                  | 13.7                     | 60,209                  | 16.7                     | 37,766                                | 17.4                     |
| Third-tier cities                                                            | 9,238                            | 14.2                     | 10,915                  | 11.9                     | 22,246                  | 20.4                     | 18,571                                | 22.2                     |
| <b>Gross profit and gross profit margin generated by our operated hotels</b> | <b>112,219</b>                   | <b>8.4</b>               | <b>194,361</b>          | <b>13.5</b>              | <b>280,705</b>          | <b>19.1</b>              | <b>147,994</b>                        | <b>15.3</b>              |

### Leased Hotels

As at August 31, 2018, we had 29 leased hotels with 7,117 hotel rooms, accounting for approximately 22.3% of the hotel rooms in operation. We operate these leased hotels and bear all of the operating expenses. We are responsible for (i) recruiting, training and supervising hotel managers and hotel staff, (ii) paying for rent and hotel renovation expenses, and (iii) purchasing all supplies and other required equipment. For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, we entered into 1, 2, 7 and 2 hotel lease agreement(s), respectively, out of which 1, 2, 6 and 1 hotels have commenced operation as at the Latest Practicable Date, respectively, and the remaining contracted hotels are expected to commence operation by March 2019. Amongst the 29 leased hotels as at August 31, 2018, five of which were leased from New Century REIT pursuant to the Hotel Lease and Management Agreements. Save for the New Century REIT Hotel Properties, all the remaining 24 lessors under these hotel lease agreements are Independent Third Parties. During the Track Record Period, there was only one hotel lease agreement that was terminated by the hotel owner due to the hotel being sold by the hotel owner to a third-party, and we were fully compensated for the termination of the hotel lease agreement by the hotel owner pursuant to the terms under the hotel lease agreement.

The terms of our hotel lease agreements typically range from ten to 20 years. Save for the Hotel Lease and Management Agreements, all of our hotel lease agreements are renewable under their terms. Rent is generally paid on a monthly, quarterly or yearly basis and is fixed for the first one to three years of the lease term. Thereafter, we are subject to periodic rent increases. Our hotel lease agreements usually allow extensions by mutual agreement negotiated before expiration. If a lessor terminates the hotel lease agreement unilaterally, we are typically

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entitled to liquidated damages up to two years' rent and/or all renovation expenses incurred by us. In addition, our lessors are typically required to notify us for a period up to 45 days in advance if they intend to dispose of their properties, which in certain case we have the right of first refusal to purchase the properties on equivalent terms and conditions as those offered by the prospective purchaser. Under the PRC law, all hotel lease agreements are required to be registered with the local housing bureau. Our standard hotel lease agreement generally requires the lessor to make such registration.

As for the Hotel Lease and Management Agreements, the rent for each of the New Century REIT Hotel Properties is an individual rent which is payable monthly in arrear. The individual rent is calculated at 20.0% of the total monthly operating revenue plus 34.0% of the gross operating profit for the month. The aggregate of all individual rent for each year constitutes the total rent (the "**Total Rent**"). If the Total Rent is less than the agreed amount of the Base Rent, our Company will make up for any shortfall within 30 days from the issuance of the audited annual accounts of our Company. Please refer to the sub-section headed "Connected Transactions – Continuing Connected Transactions subject to the reporting, annual review, announcement and independent Shareholders' approval requirement" in this document for further details on the Hotel Lease and Management Agreements.

We seek properties that are in central or highly accessible locations in selected cities in order to maximize room and occupancy rates. After identifying a proposed site, we conduct thorough due diligence and typically negotiate hotel lease agreements concurrently with prospective lessors. Once a hotel lease agreement has been executed, we will carry out pre-opening activities with the corresponding cost borne by us as lessee. For certain properties, we engage independent design firms and construction companies to begin work on leasehold improvements. Our construction management team works closely with these firms on planning and architectural design and supervises construction work. Our contracts with construction companies typically contain warranties for quality and requirements for timely completion of construction. Contractors are typically required to compensate us in the event of delays or poor quality. It typically takes two to ten months from the execution of a hotel lease agreement to hotel opening, provided that the hotel has completed construction and renovation by the time the hotel is handed over to our management team. There is normally a rent-free period of four to eight months between the execution of a hotel lease agreement and the opening of the hotel.

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The following table sets forth a list of all of our leased hotels in operation as at August 31, 2018.

| Hotel                                             | Total GFA<br>(sq.m.) | No. of<br>Rooms | Location                          | In operation<br>since | Brand class                     | Existing Lease<br>Term | For the years ended December 31, |                       |                 |              |                       |                 | For the eight months ended<br>August 31, 2018 |                       |                 |                   |
|---------------------------------------------------|----------------------|-----------------|-----------------------------------|-----------------------|---------------------------------|------------------------|----------------------------------|-----------------------|-----------------|--------------|-----------------------|-----------------|-----------------------------------------------|-----------------------|-----------------|-------------------|
|                                                   |                      |                 |                                   |                       |                                 |                        | 2015                             |                       |                 | 2016         |                       |                 | 2017                                          |                       |                 | Occupancy<br>Rate |
|                                                   |                      |                 |                                   |                       |                                 |                        | ADR<br>(RMB)                     | Occupancy<br>Rate (%) | RevPAR<br>(RMB) | ADR<br>(RMB) | Occupancy<br>Rate (%) | RevPAR<br>(RMB) | ADR<br>(RMB)                                  | Occupancy<br>Rate (%) | RevPAR<br>(RMB) |                   |
| 1. Grand New Century Hotel<br>Hangzhou            | 102,408.4            | 699             | Hangzhou,<br>Zhejiang<br>Province | 2005                  | Upscale business<br>hotel       | 2013 – 2023            | 507.4                            | 65.9                  | 334.4           | 500.9        | 65.9                  | 330.0           | 525.3                                         | 71.0                  | 373.1           | 68.8              |
| 2. Grand New Century Hotel<br>Ningbo              | 66,107.3             | 396             | Ningbo,<br>Zhejiang<br>Province   | 2007                  | Upscale business<br>hotel       | 2013 – 2023            | 533.5                            | 62.5                  | 333.6           | 536.4        | 70.6                  | 378.6           | 538.7                                         | 72.4                  | 389.9           | 71.5              |
| 3. Grand New Century Hotel<br>Shaoxing            | 60,142.6             | 371             | Shaoxing,<br>Zhejiang<br>Province | 2007                  | Upscale business<br>hotel       | 2007 – 2022            | 500.1                            | 54.3                  | 271.4           | 466.1        | 54.0                  | 251.7           | 452.7                                         | 60.5                  | 273.8           | 53.8              |
| 4. Grand New Century Hotel<br>Changchun           | 45,624.7             | 328             | Changchun,<br>Jilin Province      | 2008                  | Upscale business<br>hotel       | 2013 – 2023            | 563.1                            | 58.0                  | 326.7           | 523.7        | 62.5                  | 327.4           | 483.4                                         | 67.4                  | 325.9           | 62.5              |
| 5. Grand New Century Hotel<br>Zhuji Yaojiang      | 58,551.5             | 360             | Zhuji, Zhejiang<br>Province       | 2008                  | Upscale business<br>hotel       | 2018 – 2028            | 499.2                            | 52.0                  | 259.2           | 468.2        | 52.3                  | 244.7           | 462.0                                         | 57.0                  | 263.1           | 55.3              |
| 6. Grand New Century Hotel<br>Zhejiang Sanli      | 48,000.0             | 418             | Hangzhou,<br>Zhejiang<br>Province | 2014                  | Upscale business<br>hotel       | 2014 – 2027            | 482.7                            | 68.3                  | 329.6           | 465.6        | 71.7                  | 334.1           | 488.0                                         | 75.5                  | 368.5           | 71.2              |
| 7. Ninghai Jinhai Grand<br>New Century Hotel      | 44,187.9             | 268             | Ningbo,<br>Zhejiang<br>Province   | 2012                  | Upscale business<br>hotel       | 2012 – 2022            | 586.2                            | 51.0                  | 298.7           | 528.9        | 61.6                  | 325.7           | 528.7                                         | 70.2                  | 371.1           | 63.4              |
| 8. New Century Resort<br>Hangzhou Qiantao<br>Lake | 35,744.9             | 227             | Hangzhou,<br>Zhejiang<br>Province | 2004                  | Upscale resort<br>hotel         | 2013 – 2023            | 808.1                            | 49.0                  | 395.9           | 716.0        | 61.6                  | 441.2           | 735.1                                         | 65.9                  | 484.2           | 68.7              |
| 9. New Century Grandhouse<br>Yanguan              | 20,540.0             | 221             | Jiaxing,<br>Zhejiang<br>Province  | 2014                  | Upscale resort<br>hotel         | 2017 – 2037            | 443.3                            | 30.3                  | 134.1           | 447.6        | 30.3                  | 135.7           | 448.9                                         | 39.7                  | 178.3           | 49.5              |
| 10. Zhejiang New Century<br>Xiaoshan Guesthouse   | 35,009.7             | 375             | Hangzhou,<br>Zhejiang<br>Province | 1988                  | Mid-scale full<br>service hotel | 2013 – 2023            | 319.8                            | 66.8                  | 213.6           | 327.2        | 65.4                  | 214.0           | 335.7                                         | 75.3                  | 252.9           | 72.6              |

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| Hotel                                         | Total GFA<br>(sq.m.) | No. of<br>Rooms | Location                             | In operation<br>since | Brand class                         | Existing Lease<br>Term | For the years ended December 31, |                          |                 |              | For the eight months ended<br>August 31, 2018 |                 |              |                          |
|-----------------------------------------------|----------------------|-----------------|--------------------------------------|-----------------------|-------------------------------------|------------------------|----------------------------------|--------------------------|-----------------|--------------|-----------------------------------------------|-----------------|--------------|--------------------------|
|                                               |                      |                 |                                      |                       |                                     |                        | 2015                             |                          |                 |              | 2017                                          |                 |              |                          |
|                                               |                      |                 |                                      |                       |                                     |                        | ADR<br>(RMB)                     | Occupancy<br>Rate<br>(%) | RevPAR<br>(RMB) | ADR<br>(RMB) | Occupancy<br>Rate<br>(%)                      | RevPAR<br>(RMB) | ADR<br>(RMB) | Occupancy<br>Rate<br>(%) |
| 11. New Century Hotel<br>Ninghai New Century  | 27,928.5             | 245             | Ningbo,<br>Zhejiang<br>Province      | 2003                  | Mid-scale full<br>service hotel     | 2013 – 2023            | 372.1                            | 51.5                     | 191.7           | 326.8        | 57.5                                          | 187.9           | 314.3        | 65.2                     |
| 12. New Century Hotel<br>Shaoxing Jinchang    | 22,295.1             | 295             | Shaoxing,<br>Zhejiang<br>Province    | 2007                  | Mid-scale full<br>service hotel     | 2017 – 2027            | 351.2                            | 58.2                     | 204.5           | 326.5        | 56.5                                          | 184.5           | 322.3        | 61.9                     |
| 13. New Century Hotel<br>Xiangshan Shipu      | 24,981.6             | 199             | Ningbo,<br>Zhejiang<br>Province      | 2009                  | Mid-scale full<br>service hotel     | 2009 – 2019            | 379.7                            | 55.3                     | 209.9           | 357.5        | 51.8                                          | 185.2           | 384.4        | 62.0                     |
| 14. New Century Hotel<br>Nanjing              | 29,994.5             | 246             | Nanjing,<br>Jiangsu<br>Province      | 2010                  | Mid-scale full<br>service hotel     | 2010 – 2030            | 373.7                            | 58.2                     | 217.3           | 368.1        | 68.6                                          | 252.4           | 398.8        | 79.5                     |
| 15. New Century Maison<br>Changzhou Taihu Bay | 23,492.2             | 193             | Changzhou,<br>Jiangsu<br>Province    | 2008                  | Mid-scale full<br>service hotel     | 2010 – 2030            | 394.3                            | 34.7                     | 136.6           | 373.3        | 31.5                                          | 117.5           | 362.5        | 37.1                     |
| 16. New Century Hotel<br>Jurong               | 52,821.5             | 342             | Jurong, Jiangsu<br>Province          | 2012                  | Mid-scale full<br>service hotel     | 2011 – 2021            | 299.5                            | 58.6                     | 175.4           | 293.4        | 64.3                                          | 188.6           | 313.7        | 65.3                     |
| 17. New Century Hotel<br>Tianjin Ruiwan       | 37,581.1             | 302             | Binhai District,<br>Tianjin City     | 2013                  | Mid-scale full<br>service hotel     | 2013 – 2027            | 461.7                            | 48.7                     | 224.8           | 437.0        | 57.2                                          | 249.8           | 442.7        | 57.8                     |
| 18. Manju Shanghai Yuege<br>(note)            | 8,987.2              | 165             | Pudong District,<br>Shanghai<br>City | 2011                  | mid-scale select-<br>service hotels | 2004 – 2024            | 407.9                            | 69.4                     | 282.9           | 422.9        | 67.5                                          | 285.4           | 432.9        | 68.7                     |
| 19. Manju Shanghai Ruiyue                     | 4,085.0              | 88              | Jingan District,<br>Shanghai<br>City | 2008                  | mid-scale select-<br>service hotels | 2008 – 2022            | 309.2                            | 85.9                     | 265.7           | 317.2        | 83.2                                          | 263.9           | 333.4        | 80.4                     |
| 20. Manju Shaoxing (Keqiao)                   | 8,831.7              | 140             | Shaoxing,<br>Zhejiang<br>Province    | 2012                  | mid-scale select-<br>service hotels | 2012 – 2022            | 291.4                            | 87.6                     | 255.1           | 283.9        | 85.3                                          | 242.1           | 305.2        | 86.9                     |
| 21. Manju Wuxi                                | 7,800.0              | 137             | Wuxi, Jiangsu<br>Province            | 2013                  | mid-scale select-<br>service hotels | 2013 – 2028            | 275.2                            | 57.6                     | 158.6           | 260.3        | 61.7                                          | 160.5           | 252.9        | 57.9                     |



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| Hotel                                  | Total GFA<br>(sq.m.) | No. of<br>Rooms | Location                                   | In operation<br>since | Brand class                         | Existing Lease<br>Term | For the years ended December 31, |             |                 |              | 2017        |                 |              |             | For the eight months ended<br>August 31, 2018 |              |             |                 |
|----------------------------------------|----------------------|-----------------|--------------------------------------------|-----------------------|-------------------------------------|------------------------|----------------------------------|-------------|-----------------|--------------|-------------|-----------------|--------------|-------------|-----------------------------------------------|--------------|-------------|-----------------|
|                                        |                      |                 |                                            |                       |                                     |                        | 2015                             |             |                 |              | Occupancy   |                 |              |             | Occupancy                                     |              |             |                 |
|                                        |                      |                 |                                            |                       |                                     |                        | ADR<br>(RMB)                     | Rate<br>(%) | RevPAR<br>(RMB) | ADR<br>(RMB) | Rate<br>(%) | RevPAR<br>(RMB) | ADR<br>(RMB) | Rate<br>(%) | RevPAR<br>(RMB)                               | ADR<br>(RMB) | Rate<br>(%) | RevPAR<br>(RMB) |
| 22. Manju Yuyao                        | 9,118.9              | 147             | Ningbo,<br>Zhejiang<br>Province            | 2014                  | mid-scale select-<br>service hotels | 2014 – 2032            | 335.7                            | 65.7        | 220.4           | 321.9        | 74.7        | 240.5           | 278.5        | 77.2        | 214.9                                         | 305.7        | 71.6        | 219.0           |
| 23. Manju Ningbo (Eastern<br>New City) | 11,172.8             | 157             | Ningbo,<br>Zhejiang<br>Province            | 2016                  | mid-scale select-<br>service hotels | 2016 – 2032            | N/A                              | N/A         | N/A             | 308.3        | 41.4        | 127.5           | 320.5        | 68.3        | 218.9                                         | 358.4        | 77.1        | 276.4           |
| 24. Manju Zhoushan                     | 7,562.6              | 121             | Zhoushan,<br>Zhejiang<br>Province          | 2017                  | mid-scale select-<br>service hotels | 2017 – 2032            | N/A                              | N/A         | N/A             | N/A          | N/A         | N/A             | 318.5        | 27.2        | 86.5                                          | 384.3        | 56.8        | 218.3           |
| 25. Wonderland RV Camp<br>Yanguan      | 1,187.2              | 57              | Jiaxing,<br>Zhejiang<br>Province           | 2017                  | mid-scale select-<br>service hotels | 2017 – 2037            | N/A                              | N/A         | N/A             | N/A          | N/A         | N/A             | 638.2        | 47.6        | 303.9                                         | 608.8        | 54.3        | 330.8           |
| 26. Manju Shanghai<br>(Minhang)        | 9,082.0              | 168             | Chongming<br>District,<br>Shanghai<br>City | 2018                  | mid-scale select-<br>service hotels | 2018 – 2031            | N/A                              | N/A         | N/A             | N/A          | N/A         | N/A             | N/A          | N/A         | N/A                                           | 367.4        | 24.6        | 90.4            |
| 27. Manju Ningbo<br>(Laowaitan)        | 9,544.2              | 133             | Ningbo,<br>Zhejiang<br>Province            | 2018                  | mid-scale select-<br>service hotels | 2018 – 2033            | N/A                              | N/A         | N/A             | N/A          | N/A         | N/A             | N/A          | N/A         | N/A                                           | 328.5        | 59.5        | 195.3           |
| 28. Manju Zhuzhou                      | 13,476.9             | 153             | Zhuzhou,<br>Hunan<br>Province              | 2018                  | mid-scale select-<br>service hotels | 2018 – 2037            | N/A                              | N/A         | N/A             | N/A          | N/A         | N/A             | N/A          | N/A         | N/A                                           | 230.4        | 17.4        | 40.1            |
| 29. Manju Dalian                       | 9,500.0              | 166             | Dalian,<br>Liaoning<br>Province            | 2018                  | mid-scale select-<br>service hotels | 2018 – 2032            | N/A                              | N/A         | N/A             | N/A          | N/A         | N/A             | N/A          | N/A         | N/A                                           | 399.5        | 59.0        | 235.9           |
| <b>Total</b>                           | <b>834,974.4</b>     | <b>7,117</b>    |                                            |                       |                                     |                        |                                  |             |                 |              |             |                 |              |             |                                               |              |             |                 |

*Note:*

- Our Company acquired Shanghai Yuege Hotel Operation Co., Ltd\*, the hotel operating company of Shanghai Yuege • Hotel (together with the hotel lease agreement of Shanghai Yuege • Hotel) in 2011, as such Manju Shanghai Yuege only started operation under our “New Century (開元)” brand since 2011 despite the hotel lease agreement was already entered into in 2004.

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### *Owned Hotels*

As at August 31, 2018, we owned two hotels with 382 hotel rooms, accounted for approximately 1.2% of the hotel rooms in operation. The two owned hotels are both under our brand of “New Century Wonderland (開元芳草地鄉村酒店)”, namely Changxing New Century Wonderland Resort (長興開元芳草地鄉村酒店) and Hangzhou Fuchun New Century Wonderland Resort (杭州富春開元芳草地鄉村酒店), which commenced operation in May 2016 and January 2018, respectively. We own and operate these hotels and bear all of the operating expenses. We are responsible for recruiting, training and supervising hotel managers and employees, hotel renovation expenses, and purchasing hotel supplies and other required equipment. Although our Group currently owns two “New Century Wonderland (開元芳草地鄉村酒店)” hotel resorts, the ownership of these hotels is for us to gain greater autonomy and control over the development of this new hotel brand, which we hope will act as a showcase for us to expand our “New Century Wonderland (開元芳草地鄉村酒店)” brand portfolio in the future by entering into more hotel lease agreements and full service management agreements. Ownership of hotel properties is not the principal activity of our Group and it is our intention to focus our business only on the operation and management of hotels in the PRC by way of lease, full service management and/or franchise.

We believe the operation of our two “New Century Wonderland (開元芳草地鄉村酒店)” hotel resorts with high-quality facilities and accommodation could reinforce our hotel image and enhance our brand recognition. For the hotels owned by us, we outsource the design and construction work to independent design firms and construction companies. The decision to award a contract is vested with the relevant hotel operation departments and is made on the basis of the candidate firm’s capability to satisfy our requirements, its reputation for quality and price. We conduct periodic reviews to avoid budget overrun. Our contracts with construction companies typically contain warranties for quality and requirements for timely completion of construction. The relevant contractor will be required to compensate us in the event of delays or defects caused by the contractor. Please refer to the sub-section headed “History, Reorganization and Corporate Structure – Acquisitions and Disposals During the Track Record Period – Acquisitions” for the details of our acquisitions of our owned hotels.

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The following is a brief description of our two owned hotels as at August 31, 2018:

Changxing New Century Wonderland Resort (長興開元芳草地鄉村酒店)

Changxing New Century Wonderland Resort (長興開元芳草地鄉村酒店) is operated under our brand of "New Century Wonderland (開元芳草地鄉村酒店)" and is located approximately 180 km from Shanghai municipality at Changxing county, Zhejiang Province. With a GFA of 8,473.22 sq.m., the hotel has 178 rooms mainly featuring characteristic chalets and resort-style villas with open lawns surrounded by tea farms, bamboo forests and river streams. It is also equipped with a number of meeting rooms for corporate or private events and recreational facilities such as animal farms, children playgrounds, tennis courts, indoor heated swimming pools and gyms for guests' entertainment and leisure.

Hangzhou Fuchun New Century Wonderland Resort (杭州富春開元芳草地鄉村酒店)

Hangzhou Fuchun Wonderland Resort (杭州富春開元芳草地鄉村酒店) is operated under our brand of "New Century Wonderland (開元芳草地鄉村酒店)". The hotel is located approximately 120 km from Hangzhou City Center, on the bank of the Fuchun River in the Qili Scenic Area of Jiande City, Zhejiang Province and is surrounded by natural woodland. The hotel seeks to create a travel and leisure tourism complex which combines the element of culture and art for travelers who are looking for a peaceful lifestyle. With a GFA of 18,726.45 sq.m., the hotel has 204 rooms mainly featuring characteristic chalets and resort-style villas with a small number of boat houses and tree houses. The hotel is also fully equipped with comprehensive conference and banquet facilities, including three meeting rooms that can accommodate around nearly 1,000 guests to fulfil the potential demand for corporate events, conferences or weddings. The hotel commenced operation in January 2018 and, shortly after, has been awarded the Best Suburban Resort Hotel in the 14th China Hotel and Tourism Conference in 2018.

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The following table sets forth details of our owned hotels in operation as at August 31, 2018.

| Hotel                                            | Equity interest | Total GFA<br>(sq.m.) | No. of Rooms | Location                     | In operation since | Brand class          | For the years ended December 31, |                       |                 |              |                       |                 | For the eight months ended August 31, 2018 |                       |                 |
|--------------------------------------------------|-----------------|----------------------|--------------|------------------------------|--------------------|----------------------|----------------------------------|-----------------------|-----------------|--------------|-----------------------|-----------------|--------------------------------------------|-----------------------|-----------------|
|                                                  |                 |                      |              |                              |                    |                      | 2015                             |                       |                 | 2016         |                       |                 | 2017                                       |                       |                 |
|                                                  |                 |                      |              |                              |                    |                      | ADR<br>(RMB)                     | Occupancy Rate<br>(%) | RevPAR<br>(RMB) | ADR<br>(RMB) | Occupancy Rate<br>(%) | RevPAR<br>(RMB) | ADR<br>(RMB)                               | Occupancy Rate<br>(%) | RevPAR<br>(RMB) |
| 1. Changxing New Century Wonderland Resort       | 100%            | 8,473.2              | 178          | Changxing, Zhejiang Province | 2016               | Upscale resort hotel | N/A                              | N/A                   | N/A             | 792.7        | 33.1                  | 262.4           | 775.8                                      | 48.6                  | 377.2           |
| 2. Hangzhou Fuchun New Century Wonderland Resort | 100%            | 18,726.5             | 204          | Hangzhou, Zhejiang Province  | 2018               | Upscale resort hotel | N/A                              | N/A                   | N/A             | N/A          | N/A                   | N/A             | 836.4                                      | 52.2                  | 436.9           |
| <b>Total</b>                                     |                 | 27,199.7             | 382          |                              |                    |                      |                                  |                       |                 |              |                       |                 |                                            |                       |                 |

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Our overall occupancy rate, ADR, and RevPAR are affected by factors including our product mix, ramp up period required for new hotels, seasonality factors and the overall industry trend.

The key performance indicators of our operated hotels (including owned and leased) for the years ended December 31, 2015, 2016 and 2017 and eight months ended August 31, 2018 are as follows:

|                                 | For the years ended December 31, |       |        |                  |       |        |                  |       |        | For the eight months ended August 31, |       |        |
|---------------------------------|----------------------------------|-------|--------|------------------|-------|--------|------------------|-------|--------|---------------------------------------|-------|--------|
|                                 | 2015                             |       |        | 2016             |       |        | 2017             |       |        | 2018                                  |       |        |
|                                 | Weighted Average                 |       |        | Weighted Average |       |        | Weighted Average |       |        | Weighted Average                      |       |        |
|                                 | Occupancy                        | ADR   | RevPAR | Occupancy        | ADR   | RevPAR | Occupancy        | ADR   | RevPAR | Occupancy                             | ADR   | RevPAR |
|                                 | (%)                              | (RMB) | (RMB)  | (%)              | (RMB) | (RMB)  | (%)              | (RMB) | (RMB)  | (%)                                   | (RMB) | (RMB)  |
| Upscale business hotels         | 60.2                             | 517.9 | 311.8  | 63.4             | 498.5 | 316.0  | 68.2             | 501.8 | 342.5  | 64.6                                  | 501.3 | 324.0  |
| Upscale resort hotels           | 45.9                             | 887.2 | 407.3  | 44.4             | 737.5 | 327.6  | 52.0             | 695.9 | 361.8  | 52.2                                  | 696.6 | 363.7  |
| Mid-scale full service hotels   | 55.3                             | 359.4 | 198.8  | 58.2             | 346.1 | 201.3  | 64.4             | 355.1 | 228.5  | 63.8                                  | 358.0 | 228.5  |
| Mid-scale select service hotels | 69.6                             | 330.3 | 229.8  | 69.9             | 335.6 | 234.6  | 64.1             | 347.6 | 222.7  | 65.2                                  | 361.1 | 235.6  |

### *Upscale business hotels and upscale resort hotels*

According to the Horwath Report, the average occupancy rate of upscale hotels in the PRC increased from 58.0% in 2015 to 63.0% in 2017 whilst the ADR decreased from RMB772.0 in 2015 to RMB739.0 in 2017. Our upscale business hotels and upscale resort hotels were both largely in line with the overall industry trend, which the occupancy rate of our upscale business hotels increased from 60.2% in 2015 to 68.2% in 2017 and the occupancy rate of our upscale resort hotels decreased slightly from 45.9% in 2015 to 44.4% in 2016 but then increased to 52.0% in 2017. The increase of occupancy rate was also partly due to our pricing policy in decreasing the room rate in some of our upscale business hotels and upscale resort hotels, with the ADR of upscale business hotels decreased slightly from RMB517.9 in 2015 to RMB501.8 in 2017 and the ADR of upscale resort hotels decreased from RMB887.2 in 2015 to RMB695.9 in 2017. The above contributed to an increase in RevPAR of our upscale business hotels from RMB311.8 in 2015 to RMB342.5 in 2017 but a decrease in RevPAR of our upscale resort hotel from RMB407.3 in 2015 to RMB327.6 in 2016 followed by a slight increase to RMB361.8 in 2017.

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The occupancy rate of our upscale business hotels declined from 68.2% in 2017 to 64.6% for the eight months ended August 31, 2018, which caused the RevPAR of our upscale business hotels to decrease correspondingly from RMB342.5 to RMB324.0 during the same period. As for our upscale resort hotels, both the occupancy rate and the ADR recorded a slight increase from 2017 to the eight months ended August 31, 2018, which contributed to the slight increase in RevPAR from RMB361.8 to RMB363.7 during the same period.

### *Mid-scale full service hotels and mid-scale select service hotels*

According to the Horwath Report, the occupancy rate for mid-scale hotels remain relatively stable ranging from 64.0% to 66.0% during 2015 to 2017 for mid-scale hotels and in particular, ranging from 67.0% to 69.0% for mid-scale select service hotels. As for the ADR, both mid-scale hotels and mid-scale select hotels posed a slight increase in ADR in 2016 as compared to 2015 but then recorded a decrease in 2017. The occupancy rate of our mid-scale full service hotels increased from 55.3% in 2015 to 58.2% and 64.4% in 2016 and 2017 respectively whereas the occupancy rate of our mid-scale select service hotel increased from 69.6% in 2015 to 69.9% 2016 and then decreased by 5.8% to 64.1% in 2017. The occupancy rate of our mid-scale full service hotel in 2015 and 2016 were below the industry average due to the decreased local demand for hotel accommodation in certain regions in Zhejiang and Jiangsu Province where our mid-scale full service hotels are situated. The ADR of our mid-scale full service hotels decreased from RMB359.4 in 2015 to RMB346.1 in 2016 and then increased to RMB355.1 in 2017 whereas our mid-scale select service hotels' ADR posted an upward trend from RMB330.3 in 2015 to RMB347.6 in 2017. The above contributed to an increase in RevPAR of our mid-scale full service hotels from RMB198.8 in 2015 to RMB228.5 in 2017 and an increase in RevPAR of mid-scale select service hotels from RMB229.8 in 2015 to RMB234.6 in 2016 followed by a slight decrease to RMB222.7 in 2017.

Despite the slight decrease in the occupancy rate of our mid-scale full service hotels from 64.4% in 2017 to 63.8% for the eight months ended August 31, 2018, the increase in ADR from RMB355.1 to RMB358 led to the RevPAR of our mid-scale full service hotels to remain at RMB228.5 during the same period. As for our mid-scale select service hotels, boosted by the increase in both the occupancy rate and the ADR, the RevPAR increased from RMB222.7 in 2017 to RMB235.6 for the eight months ended August 31, 2018. The occupancy rate of our mid-scale select service hotel in 2017 was slightly lower than the industry average due to the opening of two new mid-scale select service hotels that require a ramp up period in order for their occupancy rate to reach the expected level.

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### Hotel Management

The tables below set forth breakdown of our revenue, gross profit and gross profit margin generated by our full-service managed and franchised hotels for the periods indicated:

|                             | For the years ended December 31, |      |                    |      |                    |      | For the eight months ended August 31, |      |
|-----------------------------|----------------------------------|------|--------------------|------|--------------------|------|---------------------------------------|------|
|                             | 2015                             |      | 2016               |      | 2017               |      | 2018                                  |      |
|                             | % of total revenue               |      | % of total revenue |      | % of total revenue |      | % of total revenue                    |      |
|                             | RMB'000                          |      | RMB'000            |      | RMB'000            |      | RMB'000                               |      |
| Full-service managed hotels | 118,465                          | 97.5 | 106,205            | 94.9 | 130,584            | 95.5 | 100,428                               | 95.1 |
| Franchised hotels           | 3,025                            | 2.5  | 5,662              | 5.1  | 6,193              | 4.5  | 5,173                                 | 4.9  |

#### Revenue generated by our managed hotels

|  |         |       |         |       |         |       |         |       |
|--|---------|-------|---------|-------|---------|-------|---------|-------|
|  | 121,490 | 100.0 | 111,867 | 100.0 | 136,777 | 100.0 | 105,601 | 100.0 |
|--|---------|-------|---------|-------|---------|-------|---------|-------|

|                                                                     | For the years ended December 31, |      |                     |      |                     |      | For the eight months ended August 31, |      |
|---------------------------------------------------------------------|----------------------------------|------|---------------------|------|---------------------|------|---------------------------------------|------|
|                                                                     | 2015                             |      | 2016                |      | 2017                |      | 2018                                  |      |
|                                                                     | Gross profit margin              |      | Gross profit margin |      | Gross profit margin |      | Gross profit margin                   |      |
|                                                                     | RMB'000                          | %    | RMB'000             | %    | RMB'000             | %    | RMB'000                               | %    |
| Full-service managed hotels                                         | 103,412                          | 87.3 | 95,255              | 89.7 | 118,315             | 90.6 | 91,865                                | 91.5 |
| Franchised hotels                                                   | 2,641                            | 87.3 | 5,078               | 89.7 | 5,611               | 90.6 | 4,732                                 | 91.5 |
| Gross profit and gross profit margin generated by our managed hotel | 106,053                          | 87.3 | 100,333             | 89.7 | 123,926             | 90.6 | 96,597                                | 91.5 |

### Full Service Managed Hotels

As at August 31, 2018, we had 96 hotels under full service management agreements, with 20,938 hotel rooms, accounting for approximately 65.6% of the hotel rooms in operation. We operate most of these hotels under our “New Century (開元)” brands. To capitalize our well-recognized brands and well-established operating platforms, we plan to increase our hotel portfolio primarily by managing third-party hotels, as we believe this model will help us expand our hotel chains and enhance our brand recognition without incurring large capital expenditures. For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, we entered into 23, 33, 48 and 45 full service management agreements, respectively. It typically takes ten to 40 months from the execution of a full service management agreement to hotel opening, depending on construction schedules and progress controlled by third-party hotel owners.



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The following table sets forth the movement of the number of managed hotels under our full service management agreements during the Track Record Period:

|                                                                                                                   | For the years ended December 31, |                   |                    | For the<br>eight months<br>ended<br>August 31, |
|-------------------------------------------------------------------------------------------------------------------|----------------------------------|-------------------|--------------------|------------------------------------------------|
|                                                                                                                   | 2015                             | 2016              | 2017               | 2018                                           |
| Hotels in operation at the beginning of the relevant period                                                       | 38                               | 44                | 62                 | 80                                             |
| Add: Hotels that commenced operation during the relevant period                                                   | 13                               | 25                | 24                 | 20                                             |
| Less: Full service management agreements that were terminated during the relevant period                          | 4 <sup>(i)</sup>                 | 3 <sup>(ii)</sup> | 2 <sup>(iii)</sup> | 3 <sup>(iv)</sup>                              |
| Less: Full service management agreements that were expired during the relevant period                             | 1                                | –                 | 1                  | –                                              |
| Less: Full service management agreements that were converted into franchise agreements during the relevant period | 2                                | 4                 | 3                  | 1                                              |
| Hotels in operation at the end of the relevant period                                                             | <u>44</u>                        | <u>62</u>         | <u>80</u>          | <u>96</u>                                      |

*Notes:*

- (i) The full service management agreements were terminated either due to (a) change in the business model of the hotel owner or (b) the hotel being sold to third-party by the hotel owner.
- (ii) The full service management agreements were terminated due to (a) the hotel being leased to third-party by the hotel owner; (b) the hotel owner failed to pay the management fee on time; and (c) the construction of the hotel did not meet the standard stipulated by our Group.
- (iii) The full service management agreements were terminated due to (a) change in the business model of the hotel owner; and (b) the change of public policy as the property is a military asset.
- (iv) Two full service management agreements were terminated due to the construction and the facilities of the hotel did not meet the standard stipulated by our Group; and one full service management agreement was converted into lease agreement.

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The individual terms of our full service management agreements are subject to negotiation with individual hotel owners. The general terms of our hotel full service management agreements are summarized below.

- (i) *Scope of services:* Under our full service management, we prepare for hotel openings, conduct trial operations, appoint management personnel and manage the hotel according to our standards and procedures. We also provide optional pre-opening consultation services that may include hotel design, construction and/or management consulting services in addition to our full service management whereby separate technical fee will be charged. While hotel owners are not involved in hotel management, they are responsible for applying for business license and permits, making capital contributions in relation to hotel constructions, decorations and operations. Hotel owners also bear the operating expenses. Hotel owners have the right to examine and approve the annual budget of a hotel prepared and submitted by us. Appointment of key management, including the general manager, financial controller and other management personnel, is subject to the hotel owners' approval. Although the personnel of the key management team will still be under the employment contract with our Group, all salaries, benefits and other related employment costs shall be borne by the hotel owners. The social insurance contributions of the personnel of the key management team paid by our Group will also be reimbursed to us by the hotel owners. Depending on the needs of the hotel owners, the salaries of the general manager and financial controller may also be paid by our Group, which will then be reimbursed to us by the hotel owners.
- (ii) *Term of service:* A full service management agreement typically has an initial term of ten to 15 years and may be extended for two to ten year periods by mutual agreement generally negotiated and reached six months prior to expiration of the full service management agreement. Please see the table below in this sub-section in relation to the number of full service management agreements and rooms by expiry date as at August 31, 2018.

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- (iii) *Management fee*: Management fees payable to us mainly comprise three parts: (a) basic management fees equal to a fixed percentage, which is normally 2% to 5%, of the total revenue of the hotel payable on a monthly or quarterly basis; (b) an incentive management fee equal to a certain percentage, typically 4% to 6%, of the gross operating profit of the hotel payable on a monthly or quarterly basis and, as at August 31, 2018, 23 hotels are subject to adjustment based on the achievement status of pre-determined targets, which are normally the anticipated gross operating profit of a hotel (adjustments including (1) discount to the incentive management fee; (2) deduction of the difference between the pre-determined gross operating profit target and the actual gross operating profit from the incentive management fee; and (3) incentive management fee would only be received if the pre-determined target is achieved), and during the Track Record Period, 2, 9, 11 and 5 full service managed hotels failed to achieve the pre-determined targets respectively and hence the incentive management fee were being adjusted according to the terms of their respective full service management agreement<sup>(note)</sup>; and (c) marketing and promotion fees for marketing and promotion campaigns and services provided, which equal to the sum of a fixed percentage, typically 0.5% of the total revenue of a hotel. Under certain full service management agreements, we collect from third-party hotel owners a reservation service fee on a per-room-night basis for using our CRS. Our optional pre-opening consultation services typically charge a fee ranging from RMB0.8 million to RMB1.5 million annually in the years our services are rendered depending on the type of services provided.

*Note*: A majority of these full service managed hotels that failed to achieve the pre-determined targets were newly opened hotels which required a ramp up period to reach the expected operating level.

The following table sets forth the revenue breakdown of the management fees paid to us under the full service management agreements during the Track Record Period:

|                                        | For the years ended December 31, |                |                | For the<br>eight<br>months<br>ended<br>August 31, |
|----------------------------------------|----------------------------------|----------------|----------------|---------------------------------------------------|
|                                        | 2015                             | 2016           | 2017           | 2018                                              |
|                                        | (RMB'000)                        | (RMB'000)      | (RMB'000)      | (RMB'000)                                         |
| Basic management fee                   | 48,374                           | 51,274         | 58,397         | 46,097                                            |
| Incentive management fee               | 19,495                           | 22,293         | 31,817         | 21,682                                            |
| Marketing and promotion fee            | 7,857                            | 9,740          | 8,399          | 5,734                                             |
| Pre-opening consultation fee           | 35,464                           | 14,113         | 20,256         | 18,818                                            |
| Other management fee <sup>(Note)</sup> | 7,275                            | 8,785          | 11,715         | 8,097                                             |
| <b>Total</b>                           | <b>118,465</b>                   | <b>106,205</b> | <b>130,584</b> | <b>100,428</b>                                    |

*Note*: Other management fee comprises of (i) membership management fee; (ii) room reservation incentive fee; (iii) social insurance contribution reimbursement; and (iv) other ancillary fees.

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- (iv) *Termination:* Most of our full service management agreements grant early termination rights to third-party hotel owners upon the occurrence of a specified event, such as the sale of the hotel or our failure to meet a specified performance test. Generally, termination rights under performance tests are based on the hotel's individual performance or its performance when compare to a specified set of comparable hotels under other hotel operators, or both. These termination rights are usually triggered if we do not meet the performance tests over a number of years. For example, if a hotel does not pass the star-rating test or fails the star-rating review within two or three years upon opening, or it fails to achieve 80% of the pre-determined gross operating profit for two consecutive years starting from the third anniversary of the opening, the third-party hotel owner has the right to terminate the full service management agreement; furthermore, if more than one-third of the hotel area is required by competent authorities to be closed for more than 15 days, the third-party hotel owner has the termination right. Some of our full service management agreements also provide a specified indemnity up to RMB3.0 million if we operate other hotels under the same brand in the same district of the city. As at the Latest Practicable Date, we had not experienced any such termination or incurred such indemnity. If a hotel owner fails to provide the hotel that conforms to our standards to our satisfaction on a date specified in the full service management agreement, the full service management agreement may be terminated upon the payment of a specified sum by the hotel owner to us. In case of a breach of contract, the non-defaulting party, without prejudicing its entitlement to other compensation under the PRC law, may terminate the contract and be indemnified by the defaulting party.

The following table sets forth the number of hotels and hotel rooms in operation under the full service management agreements by the expiry date/period as at August 31, 2018:

|                       | <u>No. of hotel(s)</u> | <u>No. of hotel rooms</u> |
|-----------------------|------------------------|---------------------------|
| In 2018               | 1                      | 237                       |
| In 2019               | 5                      | 1,468                     |
| In 2020               | 2                      | 507                       |
| Between 2021 and 2025 | 23                     | 6,001                     |
| Between 2026 and 2030 | 34                     | 9,193                     |
| Beyond 2030           | 31                     | 3,532                     |

The following tables set forth certain information of the top five managed hotels in terms of management fee income contribution for the periods as indicated. The aggregated management fee income from the top five managed hotels for the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018 were RMB39.8 million, RMB29.6 million, RMB35.0 million and RMB25.0 million, respectively, and representing 32.8%, 26.4%, 25.6% and 23.7% of our revenue under our hotel management business for the abovementioned periods, respectively.

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### *For the year ended December 31, 2015*

| <u>Hotel</u>                                      | <u>Location</u>                         | <u>No. of<br/>rooms</u> | <u>Brand</u>                   | <u>Tier</u>                  | <u>Term</u> |
|---------------------------------------------------|-----------------------------------------|-------------------------|--------------------------------|------------------------------|-------------|
| Huzhou Dongwu<br>Grand New<br>Century Hotel       | Huzhou, Zhejiang<br>Province            | 603                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotel | 2010 – 2024 |
| Shanghai Songjiang<br>Grand New<br>Century Hotel  | Songjiang<br>District,<br>Shanghai City | 446                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotel | 2014 – 2024 |
| Xuzhou Grand New<br>Century Hotel                 | Xuzhou, Jiangsu<br>Province             | 357                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotel | 2013 – 2027 |
| Deqing New Century<br>Senbo Resort <sup>(1)</sup> | Huzhou, Zhejiang<br>Province            | N/A                     | New Century<br>Senbo<br>Hotels | Upscale resort<br>hotel      | 2015 – 2016 |
| Beijing Grand<br>New Century <sup>(2)</sup>       | Xicheng District,<br>Beijing City       | 329                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotel | 2006 – 2016 |

*Notes:*

1. This was a pre-opening consultancy agreement entered into between the hotel owner and our Company in relation to Deqing New Century Senbo Resort, for the provision of pre-opening consulting services. The hotel owner subsequently entered into the full service management agreement with our Group in 2018 in relation to Deqing New Century Senbo Resort with a term of ten years.
2. As the hotel owner changed the use of the property from hotel to office building, the agreement was terminated in 2016.

### *For the year ended December 31, 2016*

| <u>Hotel</u>                                     | <u>Location</u>                         | <u>No. of<br/>rooms</u> | <u>Brand</u>                   | <u>Tier</u>                   | <u>Term</u> |
|--------------------------------------------------|-----------------------------------------|-------------------------|--------------------------------|-------------------------------|-------------|
| Huzhou Dongwu<br>Grand New<br>Century Hotel      | Huzhou, Zhejiang<br>Province            | 603                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotels | 2010 – 2024 |
| Shanghai Songjiang<br>Grand New<br>Century Hotel | Songjiang<br>District,<br>Shanghai City | 446                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotels | 2014 – 2024 |
| Xuzhou Grand New<br>Century Hotel                | Xuzhou, Jiangsu<br>Province             | 357                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotels | 2013 – 2027 |
| Beijing Gehua New<br>Century Hotel               | Chaoyang<br>District,<br>Beijing City   | 353                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotels | 2009 – 2021 |
| Zheshang Grand New<br>Century Hotel              | Hangzhou,<br>Zhejiang<br>Province       | 412                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotels | 2010 – 2025 |

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### *For the year ended December 31, 2017*

| <b>Hotel</b>                                     | <b>Location</b>                         | <b>No. of<br/>rooms</b> | <b>Brand</b>                   | <b>Tier</b>                  | <b>Term</b> |
|--------------------------------------------------|-----------------------------------------|-------------------------|--------------------------------|------------------------------|-------------|
| Huzhou Dongwu<br>Grand New<br>Century Hotel      | Huzhou, Zhejiang<br>Province            | 603                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotel | 2010 – 2024 |
| Beijing Gehua New<br>Century Hotel               | Chaoyang<br>District,<br>Beijing City   | 353                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotel | 2009 – 2021 |
| Zheshang Grand New<br>Century Hotel              | Hangzhou,<br>Zhejiang<br>Province       | 412                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotel | 2010 – 2025 |
| Xuzhou Grand New<br>Century Hotel                | Xuzhou, Jiangsu<br>Province             | 357                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotel | 2013 – 2027 |
| Shanghai Songjiang<br>Grand New<br>Century Hotel | Songjiang<br>District,<br>Shanghai City | 446                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotel | 2014 – 2024 |

### *For the eight months ended August 31, 2018*

| <b>Hotel</b>                                     | <b>Location</b>                         | <b>No. of<br/>rooms</b> | <b>Brand</b>                   | <b>Tier</b>                  | <b>Term</b> |
|--------------------------------------------------|-----------------------------------------|-------------------------|--------------------------------|------------------------------|-------------|
| Huzhou Dongwu<br>Grand New<br>Century Hotel      | Huzhou, Zhejiang<br>Province            | 603                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotel | 2010 – 2024 |
| Beijing Gehua New<br>Century Hotel               | Chaoyang<br>District,<br>Beijing City   | 353                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotel | 2009 – 2021 |
| Zheshang Grand New<br>Century Hotel              | Hangzhou,<br>Zhejiang<br>Province       | 412                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotel | 2010 – 2025 |
| Xuzhou Grand New<br>Century Hotel                | Xuzhou, Jiangsu<br>Province             | 357                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotel | 2013 – 2027 |
| Shanghai Songjiang<br>Grand New<br>Century Hotel | Songjiang<br>District,<br>Shanghai City | 446                     | Grand New<br>Century<br>Hotels | Upscale<br>business<br>hotel | 2014 – 2024 |

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### *Franchised hotels*

We only grant hotel owners with limited operational discretion to run their hotels on a franchising basis to the extent that we can maintain our control over the standard and quality of the hotel under the “New Century (開元)” brand. Despite our rapid development, we have always been upholding our quality-oriented value by, for years, selecting just a few hotel projects that meet our brand criteria for franchise. We constantly monitor the operational performance and the service quality standard of our franchised hotels in order to ensure that our operating requirements and standards are met.

As at August 31, 2018, we granted franchises to 13 hotels with 3,465 hotel rooms, all of which are in operation and are owned by Independent Third Parties, accounting for approximately 10.9% of our hotel rooms in operation. These hotels are operated by the hotel owners under our “New Century (開元)” brands, and most of them are five Star-rated hotels in selected cities. For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, we entered into 3, 4, 4 and 2 franchise agreements, respectively, all of which are in operation.

The individual terms of the franchise agreements are subject to negotiation with individual hotel owners. The general terms of our franchise agreements are summarized below.

- (i) *Scope of service:* Pursuant to the franchise agreement, the franchisee will be granted the use of the “New Century (開元)” brand name and the relevant registered trademarks during the term of the agreement. The franchised hotels will be operated by the franchisee unless they hire third-party hotel management companies to operate their hotels. Once the franchisee agrees to join us as our franchised hotel, the franchised hotel owner will appoint management personnel and we will provide those management personnel and hotel staff with relevant training in our standards and procedures as a “New Century (開元)” franchised hotel. We will only undertake a supervisory role for the franchised hotel’s opening and operation to ensure the management personnel and hotel staff adhere to the service standard of our Group throughout the operation of the franchised hotel through performing annual audit on the operation and management of the franchised hotel, unannounced inspection on the service and facilities of the hotel and customer satisfaction survey. The franchised hotel owners will be involved in hotel management, making capital contributions in relation to hotel constructions, decorations and operations and bearing the operating expenses.
- (ii) *Term of service:* A franchise agreement typically ranges from three to ten years and may be extended by mutual agreement six months prior to the expiration of the franchise agreement. Please see the table below in this sub-section in relation to the number of franchise agreements and rooms by the expiry date as at August 31, 2018.
- (iii) *Franchise fee:* The franchise fee will comprise: (i) brand name usage fee, a fixed fee normally payable on a monthly basis as consideration for allowing the franchisee the use of the “New Century (開元)” brand name; (ii) operation management audit fee, a fixed fee payable on an annual basis for the performance of annual audit on the operation and management of the franchisee’s business; (iii) unannounced



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inspection fee, a fixed fee payable on an annual basis for our Group to engage a third-party hotel expert to inspect on the service standard, hygiene, food safety and fire control facilities of the franchised hotel; (iv) customer satisfaction survey fee, a fixed fee payable on an annual basis for our Group to carry out an annual survey to the franchised hotel’s customers on their satisfaction about their stay at the franchised hotel; (v) employee satisfaction survey fee, a fixed fee payable on an annual basis for our Group to carry out an annual survey to the franchised hotel’s staff on their job satisfaction; (vi) the staff training fee, a lump sum fee to be agreed between our Group and the franchisee for providing appropriate employee training to the franchised hotel staff based on their operational needs; and (vii) CRS fee, a reservation service fee on a per-room-night basis for using our CRS. During the Track Record Period, the management fee generated from a franchised hotel typically ranged from RMB0.2 million to RMB1.3 million.

- (iv) *Termination*: Most of our franchise agreements grant early termination rights to the franchisee upon the occurrence of a relevant event, such as the deregistration of the trademark for the “New Century (開元)” brand, malfunction of the CRS, and the sufferance of the franchisee from a material damage to its goodwill as a result of the use of the “New Century (開元)” brand. We also have the right to terminate the franchise agreement if the franchisee fails to use our trademark in accordance to our standard and cause material damage to our brand. During the Track Record Period and up to the Latest Practicable Date, there was no franchise agreement being terminated and only one franchise agreement that was not being renewed upon the expiry of the term of agreement.

The following table sets forth the number of hotels and hotel rooms in operation under the franchise agreements by the expiry date/period as at August 31, 2018:

|                       | <u>No. of hotel(s)</u> | <u>No. of room(s)</u> |
|-----------------------|------------------------|-----------------------|
| Between 2021 and 2025 | 9                      | 2,707                 |
| Between 2026 and 2030 | 4                      | 758                   |

## SEASONALITY AND CYCLICALITY

The hotel industry, particularly the resort hotel business, is seasonal in nature and follows the general economic cycles. Based upon the historical results, the revenue of our upscale business hotels and mid-scale full service hotels typically generate higher revenue during the fourth quarter of each year. We typically witness higher demand for our ballroom and conference room facilities at our upscale and mid-scale full services hotel in the fourth quarter of each year, primarily due to the year end festivity season such as the golden week holiday in October and end of year demand for business functions and annual dinners. Our upscale resort hotels typically generate higher revenue during the third quarter of each year which coincide with the summer season and school summer holidays in the PRC. The revenue of our mid-scale select service hotels remains relatively stable throughout the year. There is a history of increase and decrease in demand for hotel rooms, in occupancy levels and in rates through economic cycles. Please refer to the sub-section headed “Risk Factors – Our hotel business may be adversely affected by a reduction in business travelers, affluent leisure travelers or discretionary consumer spending as a result of a downturn in the PRC or global economy or any acts or threats of terrorism” on the risks relating to the general economic conditions that may affect our hotel business.

## **BUSINESS**

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### **PRICING POLICIES**

#### **Management and Franchise Fees**

The management fees payable to us under our full service management agreement mainly comprise (i) basic management fee, which is equal to a fixed percentage of the total revenue of the hotel payable on a monthly or quarterly basis, (ii) an incentive management fee, which is equal to a certain percentage of the gross operating profit of the hotel payable on a monthly or quarterly basis, which may be subject to adjustment based on the achievement status of pre-determined targets that are normally the anticipated total revenue or gross operating profit of a hotel; and (iii) marketing and promotion fees, which is equal to the sum of a fixed percentage, typically 0.5% of the total revenue of a hotel. We may also charge technical service fees through providing the optional pre-opening consultation services, which the fees charged are mainly affected by the type and scope of services provided. The franchise fees payable to us under our franchise agreement mainly comprise, among others, the brand usage fee, the operation management audit fee which are charged as a fixed fee on an annual basis and the staff training fee which is charged as a lump sum fee agreed with the hotel owner upon their request.

#### **Room Rates**

The room rates of our hotels are determined, and adjusted from time to time, based on various factors, including the hotel rating and class, the services and facilities being provided, the location and the local market conditions and demand, the occupancy levels and seasonality. We expect to determine our room rates based on similar factors in the future. Based on the type of hotel guests and market segment, the hotel guests groups are categorized into walk-in hotel guests, corporate hotel guests, hotel guests reserving through our website, members of our loyalty program, third-party booking networks and travel agencies. We offer the most preferential room rates to our Century Club members, hotel guests reserving through our website and our major corporate hotel Century Club guests so as to improve the loyalty of such key hotel guests group of the hotels. For further details on the different types of sales distribution channels, please see sub-section headed "– Sales and Marketing" below in this section.

#### **F&B**

In determining our F&B pricing, we make reference to the costs of raw materials and food ingredients, seasonal factors, competitions, spending patterns and purchasing power of our hotel guests and other restaurant expenses and costs (such as labor costs and utility expenses). Our operated hotels normally feature a Chinese restaurant, a western restaurant and ballrooms for F&B services and the pricing of our food and services vary depending on the style of dining being served.

## BUSINESS

### OUR HOTEL PORTFOLIO

We operate and manage “New Century (開元)” branded hotels and resorts throughout China. Our key hotel brands are as follows:

#### Grand New Century Hotels (開元名都)



Grand New Century Hangzhou (杭州開元名都)

Launched in 2005, our Grand New Century Hotels feature large-scale, distinctive five Star-rated hotels primarily in second- or third-tier gateway cities and resort destinations. They typically have 250 or more rooms with a total GFA of over 35,000 sq.m. with banquet halls of at least 800 sq.m. to satisfy various demands for large scale conferences and banquets. The Grand New Century Hotels provide affluent business and leisure travelers with luxury accommodation and serve the large, upscale convention and banquet needs from both the public and private sectors. Signature elements of the Grand New Century Hotels include luxurious decoration, innovative dining options, free Internet access and comprehensive business and meeting facilities. As at December 31, 2015, 2016, 2017 and August 31, 2018, we had 31, 34, 39 and 42 Grand New Century Hotels with 11,238, 12,302, 13,644 and 14,731 hotel rooms in operation, respectively. As at August 31, 2018, we had 28 Grand New Century Hotels with 9,160 rooms in our pipeline, which were under development and all of which were expected to commence operation within the next five years.



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### New Century Resorts (開元度假村)



New Century Resort Hangzhou Qiandao Lake (杭州千島湖開元度假村)

Launched in 1992, our New Century Resorts are our upscale resort hotel brand with the longest history, the largest number of hotels and the most full service management agreements with our Group. New Century Resorts feature large-scale, distinctive five Star-rated luxury resorts in scenic locations, such as famous lakes and hot springs, targeting affluent leisure travelers and resort vacationers, and upscale conventions and banquets. Leveraging the unique natural environment around the New Century Resorts, our Group, cooperating with well-established architectural firms, aims to create outstanding leisure and vacation atmosphere through architectural designs and interior styles that integrate local features into modern aesthetics. These resorts usually have 200 or more rooms with a total GFA exceeding 35,000 sq.m. Signature elements of the New Century Resorts include a full range of catering and entertainment facilities, particularly spa and fitness centers and ballrooms with a minimum GFA of 500 sq.m. Launched in 2004, one of our New Century Resorts, New Century Resort Hangzhou Qiandao Lake was the first standard five Star-rated resort hotel in Qiandao Lake at that time. As at December 31, 2015, 2016, 2017 and August 31, 2018, we had seven, ten, 11 and nine New Century Resorts with 1,551, 2,311, 2,480 and 2,303 hotel rooms in operation, respectively. As at August 31, 2018, we had 16 New Century Resorts with 4,209 rooms in our pipeline, which were under development and all of which are expected to commence operation within the next five years.

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### New Century Grand House (開元觀堂)



Shaoxing Dayu New Century Grand House  
(紹興大禹開元觀堂)

New Century Grand House is one of the brand series as our upscale resort hotel. Launched in 2011, our New Century Grand House is a brand of hotels located in ancient towns, villages, or scenic regions with historical and unique cultural heritage. This brand of hotels aims to reconstruct the modern Chinese aesthetic life in historical and cultural buildings in China. Through unique design, delicate products and special cultural experiences, our New Century Grand House hotels aim to provide the traveler groups in pursuance of “cultural exploration” with gracious, warm, emotional and inheritable cultural experiences with different features. As at December 31, 2015, 2016 and 2017 and August 31, 2018, we had four, four, four and five New Century Grand House with 726, 726, 726 and 874 hotel rooms in operation, respectively. As at August 31, 2018, we had seven hotels under the “New Century Grand House (開元觀堂)” label with 940 rooms in our pipeline which were under development and are expected to commence operation within the next five years.

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### New Century Wonderland (開元芳草地鄉村酒店)



Hangzhou Fuchun New Century Wonderland Resort (杭州富春開元芳草地鄉村酒店)

Launched in 2016, our New Century Wonderland resort hotels feature natural surroundings with tea gardens, bamboo forests with beautiful scenery, ecological nature and convenient transportation. These resorts usually have featured rooms in the form of characteristic cabins, straw huts and tents. The hotel, with featured log cabins, boat houses, turf houses, tents and other creative resort products at its core, is equipped with playgrounds, farms and ranches, stud farms, nature education, children development center and other leisure, living facilities. Since the launch in 2016, our New Century Wonderland Resorts have been highly recognized and favored by the market, and our second New Century Wonderland, Hangzhou Fuchun New Century Wonderland Resort, has been rewarded the *Best Suburb Resort Hotel* in the 14th China Hotel and Tourism Conference in 2018. As at December 31, 2015, 2016 and 2017 and August 31, 2018, we had nil, one, one and three New Century Wonderland resort hotels with nil, 178, 178 and 492 hotel room(s) in operation, respectively. As at August 31, 2018, we had two New Century Wonderland resort hotels with 420 rooms in our pipeline which were under development and is expected to commence operation within the next five years.



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### New Century Hotel (開元大酒店)



Hangzhou Qiandao Lungcort New Century Hotel (杭州千島龍庭開元大酒店)

Launched in 1988, our New Century Hotels are typically four Star-rated hotels primarily located in second- or third-tier cities. They offer a full range of services and facilities tailored to serve the needs of business and leisure travelers, conventions and banquets. These hotels usually have 200 or more rooms with a total GFA exceeding 20,000 sq.m. New Century Hotels feature comprehensive business and entertainment facilities, including ballrooms with a minimum GFA of 500 sq.m. New Century Hotels offer value for money accommodation to its mid- to upscale hotel guests through their unique location, well-equipped facilities and competitive consumer experiences. As at December 31, 2015, 2016 and 2017 and August 31, 2018, we had 18, 20, 24 and 25 New Century Hotels with 4,788, 5,245, 6,209 and 6,339 hotel rooms in operation, respectively. As at August 31, 2018, we had 29 New Century Hotels with 7,628 rooms in our pipeline, which were under development and all of them are expected to commence operation within the next five years.



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### New Century Manju Hotel (開元•曼居酒店)



Manju Ningbo International Exhibition Center East Yintai City (開元曼居•寧波國際會展中心東部銀泰城店)

Launched in 2010, our New Century Manju Hotels mainly offer limited services to the fast-growing number of value-conscious travelers. These hotels usually have around 130 rooms, providing limited services such as food and beverage services to the hotel guests. New Century Manju Hotel, being a mid-scale select service hotel brand, is committed to establish itself as the leading operation and service provider of selective accommodation and leisure life space. As at December 31, 2015, 2016 and 2017 and August 31, 2018, we had 11, 18, 30 and 43 New Century Manju Hotels with 1,461, 2,443, 3,959 and 5,769 hotel rooms in operation, respectively. As at August 31, 2018, we had 17 New Century Manju Hotels with 2,133 rooms in our pipeline, which were under development and all of which are expected to commence operation within the next five years.

### Other Hotel Brands

Our hotel brand portfolio also includes (i) our other upscale resort hotels, namely “New Century Senbo (開元森泊)”; (ii) our other mid-scale full service hotel brands, namely “Maison New Century (開元名庭)”; and (iii) our other mid-scale select service hotel brands, namely “Kaiyuan Life (開元頤居)”, “Mayart Hotel (開元美途)”, “Wonderland RV Camp (芳草青青房車營地)” and “A.T.K Hotel (阿緹客)”.

## BUSINESS

### OUR HOTEL SERVICES

Our hotels uphold the consistent quality of “New Century (開元)” and aim to provide guests with services combining both oriental culture and international standards. With the business philosophy of “focus on customers, dedication to services, create features and build brands”, our hotels are committed to provide guests with enthusiastic services in the “New Century (開元)” style.

The table below shows the revenue breakdown of our hotel operations in the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2017 and 2018.

|                                            | For the years ended December 31, |              |                  |              |                  |              | For the eight months ended August 31, |              |                  |              |
|--------------------------------------------|----------------------------------|--------------|------------------|--------------|------------------|--------------|---------------------------------------|--------------|------------------|--------------|
|                                            | 2015                             |              | 2016             |              | 2017             |              | 2017                                  |              | 2018             |              |
|                                            | % of                             |              | % of             |              | % of             |              | % of                                  |              | % of             |              |
|                                            | total                            |              | total            |              | total            |              | total                                 |              | total            |              |
|                                            | RMB                              | revenue      | RMB              | revenue      | RMB              | revenue      | RMB                                   | revenue      | RMB              | revenue      |
| (RMB in thousands, except for percentages) |                                  |              |                  |              |                  |              |                                       |              |                  |              |
| (unaudited)                                |                                  |              |                  |              |                  |              |                                       |              |                  |              |
| <b>Hotel</b>                               |                                  |              |                  |              |                  |              |                                       |              |                  |              |
| <b>Operation</b>                           |                                  |              |                  |              |                  |              |                                       |              |                  |              |
| Room                                       | 652,586                          | 46.6         | 666,038          | 44.7         | 732,890          | 48.0         | 494,210                               | 50.4         | 482,285          | 47.6         |
| F&B services                               | 568,679                          | 40.6         | 633,513          | 42.5         | 583,156          | 38.2         | 371,580                               | 37.8         | 400,545          | 39.5         |
| Ancillary                                  |                                  |              |                  |              |                  |              |                                       |              |                  |              |
| services <sup>(1)</sup>                    | 139,344                          | 9.9          | 151,923          | 10.2         | 178,087          | 11.6         | 96,745                                | 9.8          | 107,163          | 10.6         |
| Rental income                              | 39,983                           | 2.9          | 38,665           | 2.6          | 33,733           | 2.2          | 19,818                                | 2.0          | 23,655           | 2.3          |
| <b>Total segment</b>                       |                                  |              |                  |              |                  |              |                                       |              |                  |              |
| revenue                                    | <u>1,400,592</u>                 | <u>100.0</u> | <u>1,490,139</u> | <u>100.0</u> | <u>1,527,866</u> | <u>100.0</u> | <u>982,353</u>                        | <u>100.0</u> | <u>1,013,648</u> | <u>100.0</u> |

*Note:*

- Primarily includes (i) hotel-related value-added services such as leisure and fitness services and car parking services; (ii) sales of goods or products such as wine, seafood, moon cakes and rice dumplings; and (iii) room reservation services via our CRS or other reservation channels provided to the third-party hotel owners charged on a per-room-night basis.

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## BUSINESS

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Based on the market position and the target group of hotel guests of our respective brands above, our hotels offer the below range of services:

### **Accommodation and Services**

We provide consistent, high-quality services to our hotel guests across our hotels to enable them to enjoy the comforts of home while staying at our hotels. To achieve this goal, we have created a comprehensive set of procedural manuals relating to all aspects of our hotel operations to guide our employees in the same standard, thereby ensuring the same quality of services across our hotels. We have established multi-channel, round-the-clock reservation system which our hotel guests can reserve our hotel rooms conveniently through various online or offline channels such as our website, Century Club mobile application and third-party distribution channels. We record the hobby and consumption preferences for each customer in our advanced PMS system. We also provide high quality amenities, such as clean and comfortable bedding, wireless Internet, minibar, fine bath and personal care supplies, and value-added services, such as express hotel check-in and check-out service, laundry services, tour guides and flight booking services. We collaborate with well-known domestic and overseas mattress companies and cotton fabric companies to jointly create high quality mattresses and bedding for use at our hotels.

Since 2012, our hotels have fully implemented the “New Century’s Back to Nature (還木開元)” environmental protection plan. Under the said plan, all disposable consumables are made of recyclable and degradable materials.

Our hotels also extend its service to the guests after they check out, including the establishment of after-stay service links, and extension of the scope of services. By leveraging the travel arrangements, accommodation for guests’ special needs, relationship maintenance, guest satisfaction survey and other services, we strive to make our guests feel the meticulous “New Century Care” services.

## BUSINESS

### F&B Services

The following table shows certain operating data of our F&B services for the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2017 and 2018, respectively.

|                                                | For the years ended December 31, |          |          | For the eight months ended August 31, |         |
|------------------------------------------------|----------------------------------|----------|----------|---------------------------------------|---------|
|                                                | 2015                             | 2016     | 2017     | 2017                                  | 2018    |
| F&B service:                                   |                                  |          |          |                                       |         |
| Average spending per guest (RMB)               | 125.9                            | 126.8    | 125.9    | 119.8                                 | 125.4   |
| Utilization rate of seats <sup>(1)</sup>       | 64.2%                            | 68.6%    | 69.3%    | 70.2%                                 | 71.3%   |
| Revenue per sq.m. of banquet rooms (RMB)       | 12,431.6                         | 14,616.6 | 11,891.1 | 7,106.9                               | 7,820.5 |
| Average daily revenue (RMB'000) <sup>(2)</sup> | 1,558.0                          | 1,735.7  | 1,597.7  | 1,529.1                               | 1,648.3 |

*Notes:*

- Utilization rate of seats is calculated based on the number of customer visits per day divided by the number of seats.
- Average daily revenue is calculated by dividing the F&B revenue by the total number of operating days.

From the year ended December 31, 2015 to the year ended December 31, 2016, the increase in average spending per guest from RMB125.9 to RMB126.8, the utilization rate of seats from 64.2% to 68.6% and the revenue per sq.m. of banquet rooms from RMB12,431.6 to RMB14,616.6 led to the increase in average daily revenue from RMB1,558,000 to RMB1,735,700. However, from the year ended December 31, 2016 to the year ended December 31, 2017, despite the further increase in the utilization rate of seats from 68.6% to 69.3%, the average daily revenue decreased to RMB1,597,700 due to the decrease in average spending per guest from RMB126.8 to RMB125.9 and the decrease in revenue per sq.m. of banquet rooms from RMB14,616.6 to RMB11,891.1. This was due to the increased local demand for our wedding banquet service in 2016 as compared to 2015 and 2017. The utilization rate of seats continued to increase from 69.3% for the years ended December 31, 2017 to 71.3% for the eight months ended August 31, 2018 and the average daily revenue also increased from RMB1,597,700 to RMB1,648,300 for the same period.

As at August 31, 2018, a total of over 7,800 seats at our restaurants and a total GFA of 31,556 sq.m. of banquet rooms in our leased and owned hotels were managed directly by us. As at August 31, 2018, there were self-operated restaurants in our leased and owned hotels, which contributed to our F&B revenue. Save for a limited number of restaurants and ballrooms with total GFA of 6,350.6 sq.m. which are leased to independent third-party F&B services operator, all of the restaurants in our operated hotels are operated by our Group. As at the Latest Practicable Date, no trademark was owned, used or registered by our Group solely for the purpose of our F&B services.

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Our F&B services consist of banquet catering, restaurants, conferences and business meals and in-room dining services. Since the opening of our first hotel in Hangzhou, Zhejiang Province in 1988, we have endeavored to promote and improve our innovative catering of fine Chinese cuisine. We also offer Japanese, western and southeast Asian cuisine. Our restaurants are managed by our F&B directors and our executive chefs that possess relevant experience in the respective cuisine. We believe our hotels have developed high-quality F&B services, offering diverse and appealing choices for our hotel guests. Our catering services appeal to both local hotel guests, who have banquets, celebrations or weddings in our hotel ballrooms, and business travelers who attend conferences at our hotels. Most of our hotels provide in-room dining services, including breakfasts and in-room dining services as well as a mini-bar. We believe our strong F&B service capability distinguishes us from our competitors.

We provide leading hotel banquet service and we have been involved in the formulation of the Hotel Banquet Service Standard commissioned by the Supervision and Management Department of the National Tourism Administration. In response to the guests' high demand for banquet services, we have pioneered the "Quality Banquet Service Ambassador" training system to our hotel staff in order to provide well-trained, professional and unique banquet services to our hotel guests. Our F&B staff will also assist in the planning of the banquet by designing and coordinating the banquet and the banquet planning process.

We generated RMB568.7 million, RMB633.5 million, RMB583.2 million and RMB400.5 million from our F&B services, representing 40.6%, 42.5%, 38.2% and 39.5% of our revenue derived from our hotel operation segment, for the years ended December 31, 2015, 2016, and 2017 and the eight months ended August 31, 2018, respectively.

### **Recreational and other facilities**

Our hotels promote a healthy lifestyle, with health clubs equipped in our upscale hotels, providing fitness facilities and swimming pools for hotel guests. Most of these health clubs are self-operated by our own hotels, with some exception where independent third-party fitness brands were introduced to provide professional fitness guidance and services for guests.

Our upscale business hotels, upscale resort hotels and mid-scale full service hotels would normally feature a spa center, most of which are operated by Independent Third Parties. Some of our hotels would also offer business center services and car parking facilities for our hotel guests.

We derive a small portion of our revenue from businesses that support our hotel operations and management, including revenue from sales of goods and products and provision of room reservation services. Goods and products sold by us include gift food and beverage items and packages for various festivals such as moon cakes, rice dumplings and wine. For room reservation service, we collect from third-party hotel owners a reservation service fee on a per-room-night basis for using our CRS.

We generate certain rental income through leasing portion of our hotel space to third-party retail shops, fitness brands, spa center and a limited number of restaurants and ballrooms.

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### DEVELOPMENT AND EXPANSION OF OUR HOTEL BUSINESS

The hotel owners under our hotel operation and management business models are typically state-owned enterprises and private enterprises in the PRC. We typically source our owner customers from hotel industry summits held or participated by our Group, hotel industry forums, our brand promotion events and referrals from industry leading design and construction companies, well-known consultancy firms, government investment and industry authorities. Potential customers would also contact us through our sales center, or through word-of-mouth referrals made by our existing customers, to explore cooperation opportunities. Due to our dual capabilities in both hotel operation and hotel management, we also maintain close contact with current hotel owners as we could, from time to time, depending on the then prevailing needs of the hotel owners and our internal assessment of underlying economics of operating a leased or managed hotel, agree with the hotel owners to convert a full service management agreement to an operated hotel under hotel lease agreement or vice versa.

#### Operated Hotels

We seek properties that are in central or highly accessible locations in selected cities in order to maximize room and occupancy rates. After identifying a proposed site, we conduct thorough due diligence and typically negotiate hotel lease agreements concurrently with prospective lessors. Once a hotel lease agreement has been executed, we start to carry out pre-opening activities. For certain properties, we engage independent design firms and renovation companies to begin work on leasehold improvements. Our construction management team works closely with these firms on planning and design and supervises renovation work. Our contracts with renovation companies typically contain warranties for quality and requirements for timely completion of renovation. Contractors are typically required to compensate us in the event of delays or defects. It typically takes two to ten months from the execution of a hotel lease agreement to hotel opening, provided that the hotel has completed construction and renovation by the time the hotel is handed over to our management team.

An owned or leased hotel typically require some level of maintenance and upgrade work in areas such as hotel room renovation, dining area renovation and ballroom renovation every eight to ten years, and a major structural renovation work in areas such as exterior renovation and maintenance on air-conditioning every six to eight years and 15 to 20 years respectively depending on the conditions of the respective facilities.

A newly-opened hotel or a hotel that entered into a new lease agreement generally require a breakeven period of two to three years given that (i) for a newly-opened hotel, time is required to build up the necessary track record and hotel guest base; and (ii) for hotels that entered into new lease agreements, landlords would typically set a higher rental rate than the previous lease agreement by referencing to, among other things, the then prevailing local rental market conditions and what they would theoretically earn as a hotel operator or owner if they were to operate the hotels by themselves or engage third-party hotel management company. Therefore upon signing such lease agreements, we typically need a certain ramp up period in



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order to break even. In addition, the profitability at each hotel for any given year or period may be affected by (i) fluctuation of F&B revenue including changes in the level of F&B demand locally; and (ii) seasonality factor of our hotel operations. As at December 31, 2015, 2016 and 2017 and August 31, 2018, we had 16, 13, 9 and 8 loss-making operated hotels, primarily comprising of newly-opened hotels and hotels that entered into new lease agreements.

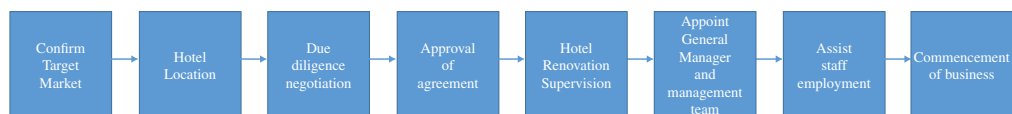
We believe that our ability to execute a business model combining both hotel operation and hotel management businesses is one of our key competitive strengths, and as such in addition to growing our portfolio of managed hotels, we will continue to selectively seek expansion of our operated hotel network. Operating our owned and leased hotels allow us to have greater control and autonomy over the hotel design and renovation, operations, positioning and the brand itself whilst allowing us to enjoy the growth potential of our operational income from operated hotels beyond the initial ramp up period. Such control and autonomy is important for brand building and could act as a showcase of our hotel operational ability, helping us to expand into new areas where we have no previous presence or areas where our brand is relatively less established. As such, we are planning to enter into at least 21 new hotel lease agreements for the opening of two new upscale business hotels, two upscale resort hotels and 17 mid-scale select service hotels in or before 2021. Majority of these projected new leased hotels are expected to be located at provincial capitals in the PRC outside Zhejiang Province, as we continue to expand our nationwide footprint.

### Managed Hotels

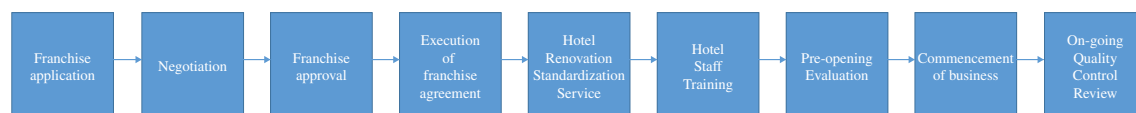
We formulate the business model for the hotel based on the background information on the hotel provided by the hotel owner and our evaluation and research on the hotel properties. For franchised hotels in particular, once we receive applications from potential franchisee on its intention to join our franchising system, we shall conduct due diligence on the potential franchisee as to whether the hotel owned by the potential franchisee is suitable as a franchised hotel under the “New Century (開元)” brand. After execution of either the full service management agreement or franchise agreement agreements, based on the type of service, we would appoint the management team and provide a series of pre-opening services including renovation supervision, conduct trial operations and provide hotel owners with our hotel management standards and procedural manuals.

The hotel business development processes involved for each of the full service management and the franchise service are as follows:

#### *Full service management*



#### *Franchise service*





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### Our Pipeline

According to Horwath, the total number of upscale and mid-scale hotel rooms is on the rise and it is estimated that by 2021, the supply of up-scale and mid-scale hotel market is expected to increase by more than 5,000 hotels with over 700,000 hotel rooms as compared to 2017. Among all hotel rooms, the increase of up-scale hotel rooms is expected to be more than 135,000 and the increase of mid-scale hotel rooms is expected to be more than 638,000.

To support our growth strategy, we continue to expand our development pipeline in order to support our growth strategy. As at August 31, 2018, we had a total of 135 hotels in our development pipeline, representing over 33,000 hotel rooms in our pipeline and are expected to commence operation within the next five years. Of the 135 hotels under pipeline, 53 hotels including two operated hotels, representing 39.3% of the pipeline, were located in the Zhejiang Province. Further, 129 of the hotels in our pipeline as at August 31, 2018 are under our full service management agreements, representing 95.6% of the total number of hotels under our pipeline, and the remaining are four hotels under our hotel lease agreements and two under our franchise agreements. All the agreements that were entered into for our hotels under our pipeline are legally binding. Please refer to the subsection headed "Business – Our Business Operations – Our Business Models" in this document for further details on the principal terms of the hotel lease agreements and the full service management agreements. In terms of hotel segments, as at August 31, 2018, of the total 135 hotels under pipeline, 28 are for upscale business hotel, 27 are for upscale resort hotels, 47 are for mid-scale full service hotels and 33 are for mid-scale select service hotels. For the capital expenditure requirements in relation to our growth strategy, please refer to section headed "Future Plans and [REDACTED]" in this document.

Our full service management agreements are designed to expand our business by utilizing our brand standard, our operating system and hotel management expertise. The capital required to build and maintain hotels that we manage is typically provided by the owner of the respective hotel. Additionally, prior to approving the addition of new hotels to our pipeline, we evaluate the economic viability of the hotel based on the geographic location, the credit quality of the third-party owner, and other factors. As a result, increasing the number of full service managed hotels by entering into full service management agreements with third-party hotel owners could achieve a stable growth in our operating income through the increase in management fees whilst minimizing our own investment risk upfront and at the same time expanding our hotel network in the PRC.

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The following table sets forth the movement of the number of operated and managed hotels in our hotel pipeline during the Track Record Period:

|                                                                                   | For the years ended December 31, |                |                 |                |                 |                | For the eight months ended August 31, |                |
|-----------------------------------------------------------------------------------|----------------------------------|----------------|-----------------|----------------|-----------------|----------------|---------------------------------------|----------------|
|                                                                                   | 2015                             |                | 2016            |                | 2017            |                | 2018                                  |                |
|                                                                                   | Operated Hotels                  | Managed Hotels | Operated Hotels | Managed Hotels | Operated Hotels | Managed Hotels | Operated Hotels                       | Managed Hotels |
| Hotels contracted to be under development at the beginning of the relevant period | 1                                | 64             | 3               | 74             | 3               | 82             | 8                                     | 107            |
| Add: New development pipeline contracted during the relevant period <i>(note)</i> | 2                                | 24             | 2               | 33             | 7               | 49             | 2                                     | 46             |
| Less: Hotels that commence operation during the relevant period                   | 0                                | 14             | 2               | 25             | 2               | 24             | 6                                     | 22             |
| Hotels contracted to be under development at the end of the relevant period       | 3                                | 74             | 3               | 82             | 8               | 107            | 4                                     | 131            |

*Note:* This excludes the full service management agreements that were converted into franchise agreements during the relevant period.

The following table sets forth the number of operated hotels, full service managed hotels and franchised hotels under pipeline as at August 31, 2018 by expected year of commencement of operation:

|              | No. of operated hotels | No. of managed hotels       |                   |
|--------------|------------------------|-----------------------------|-------------------|
|              |                        | Full service managed hotels | Franchised hotels |
| In 2018      | —                      | 12                          | 1                 |
| In 2019      | 4                      | 43                          | 1                 |
| In 2020      | —                      | 51                          | —                 |
| In 2021      | —                      | 8                           | —                 |
| In 2022      | —                      | 14                          | —                 |
| In 2023      | —                      | 1                           | —                 |
| <b>Total</b> | 4                      | 129                         | 2                 |

*Note:* The breakdown of operated hotels, full service managed hotels and franchised hotels is based on the existing lease agreements, full service management agreements and franchise agreements that have already been entered into and the actual commencement date may be subject to further changes.

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We believe that such growth plan (including hotels under existing pipeline as at August 31, 2018 and the 21 projected new leased hotels) is feasible for the following reasons:

- (a) out of the 21 projected new leased hotels, 17 of them will be developed into mid-scale select service hotels. Since mid-scale select service hotels primarily provide accommodation services with fewer hotel rooms and offer only limited F&B services, our investment cost per hotel in developing a mid-scale select service hotel is comparatively lower than developing a full service hotel and the scale and complexity of the renovation required before hotel opening would also be less sophisticated as compared to our upscale hotel. As most of the projected new leased hotels would potentially be located in areas outside Zhejiang Province with the locations mostly dispersed in different cities, it reduces the risk of potential cannibalization of our hotel brands in any particular area;
- (b) the hotel supply, in particular the mid-scale hotel market, still has considerable room for growth. According to Horwath, the number of hotel rooms is expected to increase from 1,382,851 in 2017 to 1,967,956 in 2021 for the mid-scale hotel market in the PRC, representing an increase of 585,105 or a CAGR of 9.2%. Our Group's expected increase in mid-scale hotel rooms based on the pipeline as at August 31, 2018 of 16,623 rooms only represented 2.8% of the expected increase in the market described above.
- (c) for the upscale hotel market, the local economic and financial conditions of the second- and third-tier cities have improved over the years and hence driving the demand for local hotel services. We are in a better position to expand our hotel network in those locations by leveraging our presence and experience in the second- and third-tier cities as a domestic hotel group and our relatively lower cost structure as compared to the international hotel groups;
- (d) by taking the advantage of localization compared to other international hotel groups and providing hotel guests with value-for-money hotel services, we have also been able to establish our presence in the new first-tier cities, with 14 out of our 31 operated hotels and 31 out of our 109 managed hotels located in new first-tier cities as at August 31, 2018. The occupancy rates of our operated upscale and mid-scale hotels located in the new first-tier cities in 2017 were 71.5% and 66.3% respectively, which were both higher than the PRC market average occupancy rate of the upscale and mid-scale hotels in 2017 of 63.0% and 66.0%, respectively. The number of our managed hotels in operation and located in new first-tier cities also increased from 12 as at December 31, 2015 to 31 as at August 31, 2018. This demonstrates the demand for hotel services from our operated hotels and the proven growth rate of our managed hotels in the new first-tier cities, which is further supported by our established presence of our hotel network in Hangzhou, Zhejiang Province; and

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- (e) as at January 1, 2015, our Group has 65 hotels in operation, and such number increased to 140 as at August 31, 2018. From January 1, 2015 to August 31, 2018, our Group has opened 92 new hotels, representing an average annual growth of 25 new hotels each year. Based on the 135 hotels under pipeline as at August 31, 2018, we have projected an average annual growth of at least 25 hotels each year from August 31, 2018 to December 31, 2022, which is at a similar growth rate to the period from January 1, 2015 to August 31, 2018.

We believe that we have the ability to manage such growth on the basis that:

- (a) we have already built a track record in operating our owned and leased hotels over the years and as such, we believe we have built up adequate capabilities in terms of business execution and knowledge. Furthermore, our planned expansion of our operated hotels will be phased out over at least a three-year period, and there will be dedicated teams specializing in rolling out operated hotels under each brand. The planned pace of growth of our hotel network is similar to our historical pace of expansion as detailed above. As such, we believe we are able to manage the pace of our projected expansion of our operated hotels;
- (b) based on the existing pipeline as at August 31, 2018, 97.0% of new hotels growth (in terms of hotel number) is expected to come from our Group's hotel management business. We believe that we have shown our ability to manage and grow our hotel management business in the past. During the Track Record Period, the number of hotels under operation and management increased from 65 as at January 1, 2015 to 140 as at August 31, 2018, representing an increase of 115.4%. For illustrative purpose, for the 25 operated hotels that were in operation throughout year 2015 to 2017, the total revenue and the average revenue per hotel for the year ended December 31, 2015 were RMB1,330.7 million and RMB53.2 million respectively, which were then increased to RMB1,416.0 million and RMB56.6 million respectively for the year ended December 31, 2016 and eventually increased to RMB1,416.1 million and RMB56.6 million respectively for the year December 31, 2017; (b) for the 27 operated hotels that were in operation in both year 2016 and 2017, the total revenue and the average revenue per hotel for the year ended December 31, 2016 were RMB1,437.0 million and RMB53.2 million respectively, which were then increased to RMB1,466.6 million and RMB54.3 million respectively for the year ended December 31, 2017; (c) for the 40 full service hotels that were in operation throughout year 2015 to 2017, the total management fee income and the average management fee income per hotel for the year ended December 31, 2015 were RMB71.5 million and RMB1.8 million respectively, which were then increased to RMB80.4 million and RMB2.0 million respectively for the year ended December 31, 2016 and eventually increased to RMB88.7 million and RMB2.2 million respectively for the year December 31, 2017; and (d) for the 62 full service hotels that were in operation in both year 2016 and 2017, the total management fee income and the average management fee income per hotel for the year ended December 31, 2016 were RMB86.3 million and RMB1.4 million respectively, which were then increased to RMB103.7 million and RMB1.7 million respectively for the year ended December 31, 2017;

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- (c) the hotel management business is a relatively asset light business model. We are only in charge of appointment of key management such as general managers and financial controllers and responsible for the overall hotel management. The hotel owners in turn bear the operating expenses and are responsible for applying for business licenses and permits, making capital contribution, decoration and operations. As at August 31, 2018, out of the pipeline of 131 managed hotels, 101 are full service hotels and 30 are select service hotels. Our Group currently has a pool of 56 employees that are undergoing the hotel manager training program under the “three-tier talent training system” run by our New Century Academy and these managers upon successful graduation from the program would be expected to be despatched to be hotel managers for our pipeline of full-service hotels. As for the pipeline of 30 select service hotels, we already have a pool of 38 managers that is ready to be despatched if required. In addition, we would continue to train and develop hotel managers through our New Century Academy from its own pool of employees. We will also recruit new employees to cope with our future growth of our hotel network; and
- (d) besides the requirement for competent key hotel management staff to be assigned to our managed hotels, we would not require other significant investment to grow our portfolio of managed hotels given that any new managed hotel added would be able to leverage on our established set of information and operational system.

### Brand Development

Our strategic brand innovation and marketing center was established to provide our management with the strategic research and feasibility reports on the analysis of the hotel industry, market development and trends in order to assist the management in formulating the strategic planning for the launch of new brands in order to attract different types of hotel guests and widen the products offering depending on their needs. Once our management has decided on the strategic development of a new brand for a particular type of hotel guests, our strategic brand innovation and marketing center shall formulate the execution plan for the launch of the new brand including the brand positioning, brand experience analysis, brand concept development, naming of the brand, brand logo design, promotion campaign and marketing activities. We also strive to engage our staff in deciding how we can better serve our guests, and what we can do to improve guest satisfaction and brand building.

With the growth of China’s middle class and the changes in consumption demand of the new generation, we have been actively studying the new market needs and implementing transformations to create new products that can lead lifestyles and have introduced relatively newer hotel brands, such as “New Century Grand House (開元觀堂)”, a cultural and thematic product brand, “New Century Wonderland (開元芳草地鄉村酒店)”, an eco-village resort brand, “Wonderland RV Camp (芳草青青房車營地)”, a new generation of travel accommodation brand and “New Century Senbo (開元森泊)”, a tourism and resort complex brand. As at the Latest Practicable Date, a total of 12 hotel brands have been established. Under our contracted pipeline hotels, we expect to introduce new upscale and mid-scale hotel brands including “A.T.K Hotel (阿緹客)”, “Mayart Hotel (開元美途)” and “New Century Senbo (開元森泊)”, in order to cater for potential new hotel guests for our mid-scale hotels and upscale resort hotels and expand our guests base.

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### **OPERATIONAL MANAGEMENT OF HOTELS**

We believe a skilled management team is a critical element to succeed in our hotel operations. The majority of our senior hotel management have extensive experience in the hospitality and related services industries. Senior management teams at our headquarter are responsible for monitoring day-to-day operations at an individual hotel, strategic planning, finance, project development, sales and marketing, information technology and providing legal advice for the overall operations. Each of the above operations are headed by experienced personnel and seasoned team members with strong expertise in their respective areas. These divisions provide support to an individual hotel's day-to-day operations by monitoring operations, providing accounting and budgeting services, sales and revenue management, marketing and promotional support, cost controls, property management tools and other resources. We develop, maintain and use our centralized corporate office resources efficiently and effectively.

#### **Budgeting and Monitoring**

Utilizing the financial analysis system at our headquarter, based on our long term strategic target, the historical operating performance of the hotel, planned marketing activities, refurbishment of hotel products, changes to the local market, our headquarter personnel work with the management of each hotel to set a detailed annual budget for the revenue and cost of each hotel, including income and cost target and sales and marketing budget with the budgeting control strategy. Through the use of our management reporting systems, we are able to track each hotel's daily occupancy, average daily rates, RevPAR and other operating data. As a result, we can effectively and timely monitor the actual performance of each hotel. By having current hotel operating information available on a timely basis, we can adjust sales efforts and other resources in time to take advantage of market changes and to improve our profitability.

#### **Quality Control**

We are dedicated to providing value and consistent quality services to our hotel guests. We have established quality standards for the different aspects of our hotel operations that cover, among other areas, housekeeping, safety, F&B and entertainment facilities. To ensure compliance with our quality standards, we have developed a comprehensive set of procedural manuals relating to different aspects of our hotel operations to ensure that our employees follow the same standards. We have implemented comprehensive training programs to ensure the effectiveness and uniformity of our employee performance.

We designate a management team of around six to nine members to each newly opened hotel. To keep pace with our rapid growth, we will further improve our training program to address our continuing need for qualified managerial and other employees. We have devised plans to train and establish an integrated group of staff for each of our hotels.

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We have implemented the following measures to ensure the quality of our services at our hotels:

- (i) a closed loop quality management system comprising multiple brands and channels has been established, with focus on the five major systems including “organization, standardization, supervision, performance management, and information analysis” and various quality control measures including “secret guest visits, business visits, obtaining guest satisfaction, gathering online comments and official website comments, group complaints, remote monitoring, and public opinion monitoring”;
- (ii) each hotel continues to identify quality problems of our hotels through dedicated quality officers by conducting quality control inspection and other quality management measures. In addition, monthly quality control reports identify quality issues will be prepared by each hotel to analyze the causes of such quality problems with remedial measures and timetables proposed. The relevant quality control reports will be submitted to the quality control director of our standardized management center;
- (iii) through capitalizing on the measurements adaptive to our subordinate hotels in consideration of the actual conditions of these hotels, our Company has developed personalized quality objectives and implemented the quality and performance assessment system. Based on the extensive quality control model with continuous focus on online, offline, remote, internal, and external issues, our Company has promoted day-to-day and phasal communication of the hotels with “Dynamic Quality Report” and “Dynamic Monthly Quality Management Report” as information carrier; and
- (iv) with our internal guest satisfaction tracking system (including automatically-distributed satisfaction questionnaires to hotel guests, feedbacks from hotel guests, hotel online reviews, hotel guests’ comments by scanning QR code, and complaints on our Group’s call center), and secret guests engaged by a professional third-party institution to assess the services of each hotel based on their comprehensive product experience, improvements on the hotels and their compliance with our quality standards will be continuously monitored.

We require most of our employees to make periodic assessments to ensure compliance with our pre-set quality standards. In addition, our practice of tracking customer comments through guest comment cards, third-party surveys, and the direct solicitation of guest opinions regarding specific items, allows us to improve the services and amenities at each hotel across our hotel chains.

To maintain our competitiveness and enhance our hotels’ appeal to targeted market segments, we also require each of our hotels to allocate a fixed percentage of its revenue for periodic renovation and replacement of furnishings and equipment to maintain the quality and standards of our facilities. We base recommendations on capital spending decisions on customer feedback, strategic needs, and our targeted financial return on a given project.



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To ensure the quality of the raw materials for our F&B services, all ingredients are only purchased from pre-approved suppliers that meet our standards and our periodic evaluation. We will also obtain from the pre-approved suppliers their licences and qualifications including but not limited to the relevant up-to-date business licence, hygiene permit and food circulation certificate held by them under the statutory requirements. All ingredients delivered to us are inspected by our staff at the time of delivery to ensure the ingredients meet our quality standards for that specific type of ingredient. Those ingredients that do not meet our quality requirements are returned to the supplier and such supplier may potentially be removed from our pre-approved supplier list if it does not obtain a satisfactory result from our periodic evaluation.

### **Centralized Procurement**

Our wholly-owned subsidiary, Hangzhou New Century Hotel Supplies Company, is responsible for sourcing, purchasing and arranging for delivery of supplies for our hotels. We have implemented a centralized procurement system for some of our commodity goods including hotel room supplies, construction materials, electrical appliances or other types of customized products. Our centralized procurement system allows us to select pre-approved suppliers, negotiate for prices, fix payment terms and arrange for delivery. Our inventories mainly consist of foods and beverage, consumables and supplies and finished goods. As for the hotel supplies that are not sourced centrally through our centralized procurement system, the hotels may procure the relevant supplies through our list of suppliers which have been pre-approved by our management or the hotels may source those supplies directly. Hotels normally source food, fruits and vegetables for F&B service directly from suppliers as these products require certain degree of freshness. These arrangements ensure stable supply of certain hotel supplies but at the same provide flexibility to our hotels to purchase supplies according to their actual needs and budget.

As one of the leading hotel groups in China, we are able to leverage on our economies of scale and obtain competitive prices from our suppliers in order to minimize operating expenses for both our operated hotels and managed hotels. As at August 31, 2018, we maintained a supplier list of over 150 suppliers, all of which are from the PRC save for some of our wine products which are sourced from France, and our typical supply agreement has a term of one year subject to review and renewal. These agreements are on non-committed basis and as such there is no minimum purchase amount for our Group to order from these suppliers. Depending on actual operational needs, we place purchase orders under the supply agreement which set forth the amount or quantity, quality specifications, payment terms and delivery schedule.

For supplies of our F&B services, we usually purchase on an "as-needed" basis. The raw materials for our F&B services mainly include perishable foods such as seafood, meat and vegetables. Our fresh ingredients typically have shelf life of several hours to several days with frozen food and dried food normally have a longer shelf life up to months. Our inventory is managed on a first-in-first-out system. We keep record of the delivery dates of each batch of ingredients and periodically monitor the quality and expiry dates of inventory to ensure the food inventory is utilized within their shelf lives. We also formulate internal guidelines on temperatures for storing different categories of food ingredients.

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We engage our suppliers through tendering process, under which typically at least three suppliers are invited for tendering and will be examined based on their product quality, pricing, delivery and production capacity. We would also conduct site visit at the supplier's factory as part of our evaluation. We maintain a list of pre-approved suppliers, which we keep record of each supplier's qualification, product quality information, financial performance, our evaluation results on its quality control and customer's satisfaction level, pricing, service and production capacity to ensure the supplier maintains its standard of service. We conduct evaluation and review periodically on our suppliers to ensure the hotel supplies are in compliance to our requisite standards.

### **Hotel Information and Operational Systems**

The principal objectives of our hotel operations are to generate higher RevPAR, control costs and increase the net operating income of our hotels, while providing our hotel guests with quality services and value. Our integrated proprietary information and operational systems are designed to help us operate efficiently and cost-effectively and accommodate future growth. Our investment in system infrastructure has several key benefits: broader customer base, optimized customer channel mix, better customer service, simplification of the storage and processing of large amounts of data, facilitation of the large-scale operation and automation of the administration of our business and generating financial and operational information for each hotel to assist our corporate management in adjusting business strategies on a timely basis.

Our hotel information and operational systems include the following:

***Property Management System.*** Our proprietary PMS is designed to help our hotels maximize profitability and compete more effectively by actively managing their room inventory, rates and reservations. The PMS synchronizes each hotel's room inventory with our reservation system, giving our reservation agents the capability to sell available rooms at our hotels. The PMS also includes a revenue management feature that calculates and suggests optimum rates based on each hotel's past performance and projected occupancy rate. These tools enhance our ability to effectively manage our hotel operations and maximize RevPAR.

***Central Reservation System.*** We have a CRS that provides a comprehensive view of inventory, while allowing for adjustment of rates based on market demand and customer type. Our CRS connects the databases of all of our hotels and provides real-time updates of hotel room inventories in the PMS once a booking is confirmed. Through this system, we are able to allow direct bookings of all of our hotels by our guests, via telephone through our call centers or our website at [www.kaiyuanhotels.com](http://www.kaiyuanhotels.com). Our 24-hour centralized reservation call center is located in Hangzhou, Zhejiang Province and operates seven days a week. Hotel guests can call our nationwide toll free numbers to receive real-time hotel information and make hotel bookings through our call center staff.

***Loyalty Program System.*** Our LPS can manage basic information of our hotel guests and also track hotel guests' consumption behaviors and preferences. Information collected by our LPS enables us to analyze hotel guests' data in order to formulate more specific and targeted marketing strategy and determine the benefits including discounts and gifts received by our Century Club members.

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***Management Reporting System.*** We have designed a proprietary web-based management reporting system at each of our hotels and at our corporate office to monitor the daily financial and operating performance of each of our hotels. This system allows us to track each hotel's daily occupancy, average daily rates, RevPAR and other operating and financial data.

***Disaster Recovery Management System.*** Our disaster recovery management center at Hangzhou provides a backup for our operating data on a real-time basis and enables us to maintain normal operations when major failures occur at the main data center. One of our ongoing primary objectives is to prevent material disruption to our business from partial or complete failure of any of our IT systems or communication networks. The DRMS enables us to consistently obtain accurate and reliable transaction data and provide proper functioning of our financial control, risk management, operating analysis and reporting, accounting, and customer services, which are critical to our business.

***Duty manager system.*** We have a duty manager management system to provide hotel guests with 24-hour service. In order to provide timely feedback and efficient customer services, in addition to usual hotel staff, a duty manager is required to be responsible for the work after normal business hours to ensure the hotel operations are running smoothly. The duty manager's work includes the standardization of hotel operations and guest services. Through the software system, the 24-hour service is monitored by our duty manager with the relevant information being documented.

***Satisfaction evaluation system.*** Our guest satisfaction evaluation system allows our hotel guests to provide valuable feedback on the hotel's services real time after entering our hotel. Through the system we will be able to analyze the customer's needs and timely attend to their requests and at the same time record the relevant information in order to improve our service.

***Smart hotel rooms technology.*** We are currently in the process of introducing our "smart hotel rooms" which aim to deliver bespoke in-room experiences that enable hotel guests to operate the room facilities via our Century Club mobile application or through voice control. Our Century Club mobile application allows hotel guests to control all in-room functions including mood lighting, curtains and room temperature through the control panel built in to our Century Club mobile application. Further, through the voice control function, our hotel guests could control the entertainment system and interactive media installed in the room. In order to improve the operational efficiency of our hotel operations, we are also planning to introduce our in-house developed smart check-in/out service kiosk, which will be installed in the receptions of our hotels for hotel guests to proceed to check-in/out by themselves without the need to do so with our front desk. Hotel guests would also be able to choose the room types and the room settings from the kiosk at the time of check-in.

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### SALES AND MARKETING

Our sales and marketing team is primarily responsible for planning and developing our overall marketing strategy, conducting market research, coordinating our sales and marketing activities to attract new hotel guests, and maintaining and strengthening our relationships with existing guests base.

Our core targeted hotel guests groups consist of mainly (i) individual hotel guests which include our members of our Century Club reward program or business and leisure travelers and affluent vacationers; (ii) corporate guests; and (iii) MICE groups. Our corporate sales, marketing and advertising programs are designed to reinforce consumer recognition and loyalty for our “New Century (開元)” brands. Our sales, marketing and advertising campaign includes outdoor advertisements, television and Internet advertising, print advertising in consumer media and promotional events, special holiday promotions and joint promotional activities. From time to time, we would depending on our marketing needs and plans, launch promotional activities such as marketing conferences, members exclusive events and gift card programs. During the Track Record Period, among other promotional events, we have organized a marketing conference for our corporate clients, MICE and travel agencies at our Hangzhou Fuchun New Century Wonderland resort hotel in March 2018, organized a member exclusive trip to our Hainan Qiziwan New Century Resort in November 2017 and launched a gift card program from February to September 2015 to incentivise spending by our premium hotel guests who participated in the gift card program.

With our large guest accommodation capacity, well-equipped meeting facilities together with flexible room configurations, we believe we are well positioned to provide MICE services in China. Each of our full service hotels has its own meeting or function room facilities, which can accommodate parties, meetings, conferences and other functions for individual hotel guests and corporate clients. We have a group of event organizers who coordinate and arrange conferences and meetings according to the requirements of our hotel guests. Our well-trained senior banquet planners provide attendees with high quality catering services. We believe our upscale tailor-made MICE services have attracted a group of loyal corporate clients. During the Track Record Period, there were a number of large scale conferences held in our hotels, including the G20 Summit Petition Meeting, European Union China Winter Sports Cooperation Exchange Conference, the 13th Beijing International Sports Movie Week Opening Ceremony and China Soong Ching Ling Foundation conference.

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The following table sets forth the number of room nights sold through our reservation channels during the periods indicated:

| Distribution Channels                                | For the years ended December 31, |              |                  |              |                  |              | For the eight months ended August 31, |              |
|------------------------------------------------------|----------------------------------|--------------|------------------|--------------|------------------|--------------|---------------------------------------|--------------|
|                                                      | 2015                             |              | 2016             |              | 2017             |              | 2018                                  |              |
|                                                      | % of                             |              | % of             |              | % of             |              | % of                                  |              |
|                                                      | total                            |              | total            |              | total            |              | total                                 |              |
|                                                      | Room                             | room         | Room             | room         | Room             | room         | Room                                  | room         |
|                                                      | Nights                           | nights       | Nights           | nights       | Nights           | nights       | Nights                                | nights       |
| <b>Direct:</b>                                       |                                  |              |                  |              |                  |              |                                       |              |
| Call center, website and in-house reservation system | 709,270                          | 22.7         | 1,002,680        | 25.1         | 1,353,134        | 27.2         | 1,064,479                             | 28.7         |
| Sales department                                     | 1,471,534                        | 47.0         | 1,730,800        | 43.4         | 2,149,497        | 43.2         | 1,594,083                             | 42.9         |
| Walk-ins                                             | 378,367                          | 12.1         | 430,846          | 10.8         | 442,977          | 8.9          | 319,871                               | 8.6          |
| <b>Indirect:</b>                                     |                                  |              |                  |              |                  |              |                                       |              |
| Third-party websites and other intermediaries        | 393,922                          | 12.6         | 591,103          | 14.8         | 764,836          | 15.4         | 586,213                               | 15.8         |
| Travel agencies                                      | 171,754                          | 5.5          | 227,900          | 5.7          | 266,876          | 5.4          | 145,811                               | 3.9          |
| Other:                                               | 3,929                            | 0.1          | 5,257            | 0.1          | 3,363            | 0.1          | 1,670                                 | 0.1          |
| <b>Total</b>                                         | <b>3,128,775</b>                 | <b>100.0</b> | <b>3,988,586</b> | <b>100.0</b> | <b>4,980,684</b> | <b>100.0</b> | <b>3,712,091</b>                      | <b>100.0</b> |

*Note:* The figures are calculated by the number of room nights booked through the respective distribution channels.

### Direct Reservation Channels

#### *In-house online reservation*

Our in-house online reservation channels include our central reservation call center, website, our Century Club mobile application, our social media platforms and our online integrated sales system. Our centralized reservation call center is located in Hangzhou, China and operates around the clock. Hotel guests can call our nationwide toll-free numbers to consult with our reservation agents, receive real-time hotel information and make hotel bookings. We also provide our hotel guests with convenient reservation services through our reservation website [www.kaiyuanhotels.com](http://www.kaiyuanhotels.com) and our Century Club mobile application and our social media platform. Further, our in-house developed online integrated sales system provides a convenient platform for our corporate hotel guests in making reservation for different hotels under our Group allowing us to cross-sell our hotels and related services in our portfolio. Hotel guests can receive real-time hotel information and make hotel bookings through our in-house online reservation channels. Different level of discount may be offered to hotel guests depending on whether the room rate is prepaid in full at the time of booking, time of reservation and total number of nights reserved.

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### ***Sales department***

We have sales offices in Hangzhou, Shanghai, Beijing, Guangzhou and Chengdu, with dedicated sales team for each of our hotels which are designated to explore potential hotel guests in engaging our accommodation, F&B or other services. We have entered into partnership agreements with over 250 corporate clients, pursuant to which the guests designated by the corporate clients are charged at corporate room rates. Our sales team at our headquarter and our hotel managers jointly develop tailored marketing plans to drive sales for each hotel in the various markets. Each of our key corporate guests is assigned a specific sales representative. Our sales staff visit and communicate with our corporate guests regularly to maintain close contact and to keep abreast of the requirements of our corporate guests. Our dedicated sales, marketing and promotion team, consisting of over 350 personnel as at August 31, 2018. Our sales team would typically negotiate corporate room rates with our corporate, government or diplomatic guests, MICE or long staying guests on a case by case basis.

### ***Walk-in guests***

Our front desks at our hotels would accept direct reservation from walk-in guests. The room rates for our walk-in guests are determined based on various factors, including the hotel rating and class, the service and facilities being provided, the location and the local market conditions, the occupancy levels and seasonality. Based on the above factors, our room rate for walk-in guests will be adjusted from time to time.

### **Indirect Reservation Channels**

#### ***Hotel reservation websites maintained by third-party operators***

As at August 31, 2018, we had established business relationships with leading domestic and international OTAs, such as ctrip.com, qunar.com, alitrip.com, meituan.com, elong.com, ly.com, lvmama.com and agoda.com. The OTAs can obtain real-time hotel information and make hotel bookings through our CRS. We enter into framework cooperation agreements with the OTAs, with a term ranging from one to two years, pursuant to which our hotels would offer hotel rooms to the OTAs for sale on their systems. The OTAs would typically charge us a service fee ranging from 8% to 15% of the revenue generated from the sale of our hotel rooms. Our access to these channels allows us to market to a wider potential customer group and further enhance the occupancy rates of our hotels on a day-to-day basis. We review our hotel pricing from time to time and our rating managers may adjust room rates based on local market conditions and our operational status.

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### Travel agencies

A third-party travel agent may reserve hotel rooms through our centralized reservation call center, or through our reservation website [www.kaiyuanhotels.com](http://www.kaiyuanhotels.com) by using assigned reservation codes. We set our pricing policy to the travel agencies based on local market condition and our operational status. We typically enter into a yearly framework cooperation agreement with the travel agencies whereby the level of service fee payable would typically depend on the expected number of hotel rooms reservation.

### Century Club

We operate a loyalty membership program named the Century Club reward program. This program generates returning guest business by rewarding frequently returning guests with points toward free hotel nights and other rewards. Century Club members will receive different type of benefits based on their membership class and can earn points based on their eligible spending at our hotels. Century Club points can be redeemed at all hotels across our brands for room accommodation, food and beverages or gifts on our official website and can also be converted into airline miles with any participating airlines. Members of the Century Club are entitled to benefits and privileges, such as priority hotel check-in and check-out service, complimentary refreshments, priority room booking and a complimentary welcome drink. We issue prepaid cards to our hotel guests that can be used at our hotels where pre-payments made by our hotel guests represent advances from hotel guests and such pre-payments will not be recognized as our revenue until the hotel guests pay for our hotel services using the balance in their pre-paid cards. All the holders of prepaid cards are also members of our Century Club reward program. In addition to the benefits and privileges available to the Century Club members, prepaid card holders are entitled to discounts on room rates and F&B services.

This following table sets forth the movement of number of Century Club members during the Track Record Period:

|                                                                                 | For the years ended December 31, |       |       | For the<br>eight months<br>ended<br>August 31, |
|---------------------------------------------------------------------------------|----------------------------------|-------|-------|------------------------------------------------|
|                                                                                 | 2015                             | 2016  | 2017  | 2018                                           |
|                                                                                 | (approximately in '000)          |       |       |                                                |
| Newly joined members during the period                                          | 1,000                            | 790   | 1,780 | 1,385                                          |
| Total number of members (as at the end of each period)                          | 2,910                            | 3,700 | 5,480 | 6,865                                          |
| Total number of active members <sup>(Note)</sup> (as at the end of each period) | 97                               | 140   | 260   | 233                                            |

*Note:* Members are considered active members if they use their membership card for purchases at our hotels or participate in our promotional activities within the calendar year.



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As at August 31, 2018, our Century Club had approximately 6,865,000 individual members and approximately 108,000 joint program members affiliated with our loyalty program partners, which are loyalty program members of the cooperative partners of our Century Club but will be able to enjoy certain benefits under the Century Club reward program. For the years ended December 31, 2015, 2016, 2017 and the eight months ended August 31, 2018, 15.4%, 15.5%, 18.9% and 21.0% of our room nights were booked by our Century Club members, respectively.

### Advertising and marketing

We promote the “New Century (開元)” hotel brand by utilising media resources and disseminating through multiple channels such as traditional media, social media, including our official Weibo account and our official WeChat account and our in-house social media . These media allow users to receive the latest information from our hotels and also to book hotel rooms directly. At the same time, we also enhance our brand awareness and reputation through the launch of new products, membership events, industry summits and other activities.

### CREDIT POLICY

Our credit policy for hotel guests, which may vary depending on the type of sales distribution channels through which room reservation is made, is generally as follows:

| Sales distribution channel                                     | Payment terms                                                                                                                              |
|----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Direct Reservation Channel</i>                              |                                                                                                                                            |
| In-house online reservation                                    | Payment in full upon hotel guests’ departure, unless the payment has been prepaid                                                          |
| Sales department                                               | Payment in full upon hotel guests’ departure, unless prior credit facilities have been arranged                                            |
| <i>Indirect Reservation Channel</i>                            |                                                                                                                                            |
| Walk-in guests                                                 | Payment in full upon guests’ departure                                                                                                     |
| Hotel reservation websites maintained by third-party operators | Hotel guests are required to provide guarantee for the room price upon booking and settle the payment in full upon hotel guests’ departure |
| Travel agencies                                                | Payment in full in advance unless prior credit facilities have been arranged, invoices are sent to the travel agents for settlement        |

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We accept payments by hotel guests (including those for F&B services) by way of cash and credit cards. Payments from travel agents and corporate hotel guests are generally made to us by bank transfer and by cash upon the hotel guests' departure. Certain corporate guests, hotel reservation websites maintained by third-party OTAs and travel agencies are generally granted a credit period of 30 to 90 days.

### CUSTOMERS

For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, our five largest customers in aggregate accounted for 8.7%, 6.9%, 6.9% and 8.0%, respectively, of our total revenue. The top five customers primarily comprise hotel owners, travel agencies, OTAs and corporate clients and one of the top five customers comprise of companies controlled by the Controlling Shareholders and close family member of the Controlling Shareholders. We have maintained business relationship with our five largest customers for the Track Record Period for more than seven years on average. As at the Latest Practicable Date, we were not aware of any information or arrangements which would lead to cessation or termination of our relationships with any of our five largest customers for the Track Record Period. One of the top five customers includes the relevant close associates of Mr. Chen Miaolin, one of our Controlling Shareholders, which accounted for 4.8%, 3.5%, 3.1% and 3.1% of our total revenue for the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, respectively. Save for that, none of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5.0% of our issued capital, had any interest in any of our five largest customers during the Track Record Period.

To the extent the five largest customers are hotel owners of the hotels under our full service management, we have entered into full service management agreements with such hotel owners. Please see sub-section headed "– Our Business Operations – Our Business Models – Hotel Management – Full service managed hotels" in this section for further details on full service management agreements. We enter into fixed term agreements, typically for a term of around one year, with travel agents and the OTAs, pursuant to which pricing policy for the room rates provided to the travel agents and the OTAs is determined. These agreements are on non-committed basis as there would be no guarantee of minimum number of room reservations required from the travel agents and the OTAs and our hotels do not need to commit to provide a minimum number of rooms to the travel agents and the OTAs either. Please refer to sub-section headed "– Credit Policy" in this section on the credit policy for the travel agents and the OTAs.

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### SUPPLIERS

Our suppliers primarily comprise lessors under our hotel operation business, raw materials suppliers, laundry services providers and utilities vendors.

#### Lessor suppliers

Lessors leased their properties to us for operation of hotels during the Track Record Period. For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, our five largest lessor suppliers, in aggregate accounted for 23.3%, 22.9%, 23.8% and 23.0%, respectively, of our total cost of sales. We have established on-going business relationships and co-operations with our top five lessor suppliers for the Track Record Period for more than seven years on average. We entered into hotel lease agreements with all of our five largest lessor suppliers, the typical terms of which were described in the sub-section headed “– Our Business Operations – Our Business Models – Hotel Operation – Leased Hotels” in this section. As at the Latest Practicable Date, we were not aware of any information or arrangements which would lead to cessation or termination of our relationships with any of our five largest lessor suppliers for the Track Record Period. Save for New Century REIT, a close associate of Mr. Chen Miaolin, one of our Controlling Shareholders and one of our top five lessor suppliers, which accounted for 16.8%, 16.5%, 17.1% and 17.4% of the total cost of sales during the Track Record Period, none of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5.0% of our issued capital, had any interest in any of our five largest lessor suppliers during the Track Record Period.

#### Other suppliers

For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, our five largest other suppliers in aggregate accounted for 4.0%, 3.7%, 4.4% and 4.8%, respectively, of our total cost of sales. The top five other suppliers primarily comprise raw materials (including food) suppliers, laundry services providers and utilities vendors. We have maintained business relationship with our five largest other suppliers for the Track Record Period for more than five years on average. Our typical supply agreement have a term of one year subject to review and renewal. As at the Latest Practicable Date, we were not aware of any information or arrangements which would lead to cessation or termination of our relationships with any of our five largest other suppliers for the Track Record Period. Save for one of our top five other suppliers which includes the relevant close associates of Mr. Chen Miaolin, one of our Controlling Shareholders, which accounted for 1.4%, 1.3%, 1.5% and 1.2% of our total cost of sales for the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, respectively, none of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5.0% of our issued capital, had any interest in any of our five largest other suppliers during the Track Record Period.

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The sourcing of the hotel supplies of our hotels are managed centrally by our centralized procurement system. Please see sub-section headed “– Operational Management of Hotels – Centralized Procurement” in this section for further details. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material problems with the quality of services or products provided by our suppliers (including our suppliers for our F&B services), any shortage of supply or any delay in delivery of services or products that significantly affected our operations.

### **Raw materials of F&B services**

Raw materials and consumables used by our restaurants for our F&B services are food ingredients and beverages. Our major food ingredients include meat, seafood and vegetables. For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, the costs of F&B services amounted to RMB223.3 million, RMB194.7 million, RMB167.5 million and RMB116.8 million, respectively. A sensitivity analysis of the hypothetical fluctuation of costs of F&B services is set out in the sub-section headed “Financial Information – Factors affecting our results of operation and financial condition – Ability to improve Operational Cost Efficiency” in this document. We monitor and control the cost of our food ingredients regularly by obtaining quotations of the food ingredients from different suppliers and adjusting our pricing for our F&B services if there is any material fluctuation in costs. Our Directors are of the view that there was no material fluctuation in the costs of F&B services during the Track Record Period.

We employ a centralized procurement system to ensure the quality and maintain the cost-efficiency of our F&B supplies. Our centralized procurement system would normally procure a range of F&B supplies for our hotels including catering equipment, imported wine, mooncakes, dumplings or other customized products. As for the F&B supplies that are not sourced centrally through our centralized procurement system, the hotels may procure the relevant F&B supplies through our list of suppliers which have been pre-approved by our management or the hotels may source those F&B supplies separately. This is to ensure stable supply of the F&B products but at the same time provide flexibility to our hotels to purchase F&B supplies according to their actual needs and budget. Moreover, we have a food safety management system to closely monitor the processes from receiving to preparing, cooking and serving to hotel guests. We have established a strict food safety system with a international certification company to supervise and control every step of the entire dining process to ensure stability and safety.

There is no rebate arrangement with our suppliers and, to the best of our Directors’ knowledge, we had not encountered any incidents that any of our Directors or employees was involved in any bribery or kickback arrangements with our suppliers during the Track Record Period. To prevent any kickback arrangements with our suppliers, we have implemented internal control policies, such as sourcing from pre-approved suppliers according to the standard procedures and setting out tendering process and necessary approvals to prevent bribery and corruption in our Company’s policy.

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### **COMPETITION**

There is intense competition in the hotel industry in the first- and second-tier cities in which we operate. Our principal competitors are other hotel operators, in particular, other major Star-rated hotel chains with well-established and recognized brands. Currently, we face competition from well-established international brands and leading Chinese hotel chain operators. We also compete against independent owners or operators of local five Star-rated hotels. We expect that our mid-scale business hotels will compete against other business hotel chains.

We compete for guests based primarily on the scale of our hotel chain, our architecture and design, quality of accommodation, quality of F&B and MICE services, convenience of our CRS, recognition of our brand name and reputation, location, and room rates.

We compete for hotel lease agreements and full service management agreements based primarily on the value and quality of our management services, our brand name recognition and reputation, our strong ability to maintain customer relations and the level of our management fees. Other competitive factors for full service management agreements include relationships with property owners and investors, marketing support, logistics support and the efficiency of our CRS.

We believe that our strong customer base, well-established brand recognition, strategic property locations, high-quality service and management have enabled us to compete effectively. For additional information on the industry and markets that we operate in, please refer to the section headed "Industry Overview" in this document.

### **EMPLOYEES AND TRAINING**

We believe that developing and maintaining a team of capable and motivated managerial and other employees is critical to our success. Because our managerial and other employees manage our hotels and properties and interact with our customers on a daily basis, they are critical to maintaining the quality and consistency of our services as well as our brand and reputation. We aim to recruit, train and retain the best talent through a multi-step recruiting and training process while offering competitive performance-linked compensation packages and career advancement opportunities.

We seek to hire managerial employees with background and experience in hotel management and operation and other customer service industries with a customer-first mentality. We have extensive training programs and periodically review our managerial and other staff. We established our in-house training center, New Century Academy, in 2015. Each of our new employees is required to complete over 30 hours of training which include classes on corporate culture, food safety, risk management and client service. We provide periodic training programs to selected employees to whom we offer promotion opportunities to management positions, which they are required to undertake 12 standard training courses. We also require our middle level management employees to participate in training programs, including various internal and external electronic learning courses, so that they can stay abreast of changes in our operations, consumer preferences and market trends.

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We also have trained on-site managers in many of our hotels to provide continuous training to our staff. We developed our own “three-tier talent training system”, which focuses on (i) fostering mid-level managers to become the general managers of our Company in the future; (ii) developing junior staff with managerial potential, with a view to promoting them as mid-level managers; and (iii) cultivating new employees and building a reserve of general managers in anticipation of our future expansion. Our New Century Academy would also provide hotel management consultancy service or training to third-party companies which recognize our hotel management and training skills.

Our hotels have closely cooperated with higher education institutions involving the tourism industry in Zhejiang Province and other provinces and cities in respect of the preparation of materials and books for industry training. In 2007, we worked together with Zhejiang Business College and completed the *Practice Course Book for Hotel Service*, which was published by China Travel & Tourism Press. In 2017, we cooperated with Tourism College of Zhejiang in preparing the *Human Resources Management in Hotel – Theories, Practices and Tools*, which was put into use as a textbook for human resources management of the hotel industry.

To ensure that all of our hotels have optimal and satisfactory performance, we have an established performance evaluation system based on a comprehensive set of key performance indicators that are aligned with a corresponding compensation structure. We believe our performance-based compensation structure, career-oriented training and career advancement opportunities are the key drivers that motivate our employees.

As required under PRC law, we provide our employees with welfare benefits, including medical care and unemployment and occupational injury insurance and make contributions to social insurance fund (including pension fund) and housing provident fund for the benefit of our employees. During the Track Record Period, our Company and some of its PRC subsidiaries did not make in full contribution to the social insurance fund and housing provident fund as required under PRC law. See the section headed “Risk Factors – Risks Relating to our Business and Operations – We may be subject to fines for our failure to register for and/or contribute to social insurance fund and housing provident fund on behalf of some of our employees” in this document and “– Legal and regulatory matters – Historical Non-compliance Incidents” below for details.

We had 5,314 full time employees as at the Latest Practicable Date, all located in the PRC. The following table sets out the breakdown of our employees by business segment as at the Latest Practicable Date:

|                          | Employees | % of Total |
|--------------------------|-----------|------------|
| Hotel operation segment  | 5,078     | 95.6       |
| Hotel management segment | 236       | 4.4        |
| Total                    | 5,314     | 100.0      |

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The following table sets out the breakdown of our employees by functions as at August 31, 2018:

### Functions

|                                         | Employees | % of Total |
|-----------------------------------------|-----------|------------|
| Hotel Management and Administration     | 596       | 11.6       |
| Sales and Marketing                     | 348       | 6.8        |
| Information, Engineering and Technology | 487       | 9.5        |
| Finance and Audit                       | 331       | 6.4        |
| Hotel Services Staff                    | 3,373     | 65.7       |
| Total                                   | 5,135     | 100.0      |

We believe that we maintain a good working relationship with our workforce. According to Horwath, the overall industry staff turnover ratio ranged from 20.0% to 40.0% in 2017. Our Group's employees turnover rates were approximately 24.3%, 23.8%, 24.8% and 16.5% for the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, respectively, which is within the industry average. The turnover rate of our general managers for the years ended December 31, 2015, 2016, 2017 and the eight months ended August 31, 2018 were approximately 4.8%, 9.4%, 8.5% and 8.0%, respectively. During the Track Record Period, we did not experience any strikes or significant labor disputes which materially affected our business, financial condition or results of operations. Our employees are unionized in accordance with local labor laws. As at the Latest Practicable Date, we have not experienced any major labor disputes or other labor disturbances that have interfered with our operations.

### LABOR DISPATCH AND LABOR SOURCING ARRANGEMENTS

During the Track Record Period, we entered into labor dispatch agreements and labor sourcing agreements with labor service providers, which are Independent Third Parties, for terms ranging from one to three years. As at December 31, 2015, 2016 and 2017 and August 31, 2018, we had 60, 74, 51 and 27 hotel staff working in our hotels pursuant the labor dispatch or labor sourcing arrangements. Under the labor dispatch and labor sourcing agreements, we pay service fees to the labor service providers and they will provide suitable workers based on our requirements. Pursuant to the labor dispatch and labor sourcing agreements, the labor service provider will bear the social insurance fund and housing provident fund and other welfare benefits of the workers in accordance with relevant PRC laws and regulations. For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, we paid service fees to the labor service provider in the amount of RMB0.2 million, RMB0.3 million, RMB0.2 million and RMB44,507, respectively. Given the seasonality nature of our industry and to cope with sudden increase of hotel guests from time to time, we believe the engagement of hotel staff from labor dispatch and labor sourcing arrangements for temporary, auxiliary and low-level positions from time to time can enhance efficiency and flexibility to cope with our business operation.



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Pursuant to the Interim Provisions on Labour Dispatch (《勞務派遣暫行規定》) (the “Provisions”) which came into effect on March 1, 2014, “if the number of dispatched staff utilised by an employer exceeds 10% of the total number of its workers prior to the effective date of these Provisions, such employer shall develop a scheme for employment adjustments to reduce the proportion to the specified level within two years from the effective date of these Provisions.” As advised by our PRC Legal Adviser, there is no contractual relationship between us and the workers under the labour dispatch arrangement and labor outsourcing arrangement. The workers under these arrangements are employed by the labor service provider, but not our Group. Our PRC Legal Adviser is of the view that these arrangements with the labor service provider are in compliance with the applicable PRC laws and regulations in all material respects during the Track Record Period.

## AWARDS AND ACCREDITATIONS

We operate and manage “New Century (開元)” branded hotels and resorts in China. We believe that we are well-known for our high-quality hospitality services and satisfying guest experience. We have received numerous awards and recognitions in China and worldwide, including:

- (i) Zhejiang Government Quality Nomination Award (浙江省政府質量獎提名獎) by the People’s Government of Zhejiang Province (浙江省人民政府) in 2013, 2015 and 2018;
- (ii) National Standardization Demonstration Unit for Tourism (全國旅遊標準化示范單位) issued by the National Tourism Administration of China (國家旅遊局) in 2014;
- (iii) National Pilot Unit for Tourism Service Quality (全國旅遊服務質量標桿單位) issued by General Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) and National Tourism Administration of China (國家旅遊局) in 2014;
- (iv) Top 10 Hotel Group Brand (十佳連鎖飯店集團品牌) from China Hospitality Association 中國飯店協會 in 2017;
- (v) Top 60 Hotel Group in China\* (中國飯店集團60強) from the China Tourist Hotels Association\* (中國旅遊飯店業協會) in 2015, 2016 and 2017, which our Group was ranked amongst the top 15 for 2017;
- (vi) Top 30 Global Hotel Groups (全球酒店集團前30位) from the *Hotels* magazine, the official publication of the International Hotel & Restaurant Association under the “Hotels 325 Ranking” in 2015, 2016 and 2017;

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- (vii) 2017 China’s Most Popular Hotel Brand \* (2017年度中國最受歡迎酒店品牌) from the 21st Century Business Herald\* (《21世紀經濟報道》) and the Business Travel\* (《商務旅行》) in 2017; and
- (viii) “2017 Best Employer in China” from the China Tourist Hotels Association (中國旅遊飯店業協會) in 2018.

## LICENSES, PERMITS AND APPROVALS

We are required to obtain and maintain certain licenses for the operation of our hotels, including but not limited to the Food Distribution Permit, Special Trade Permit, Public Place Sanitation Permit and Certificate of qualified fire safety inspection over a public gathering place before it is put into use or open for business (“Fire Safety Certificate”). Please refer to the section headed “Supervision and Regulation” of this document for further details. We are required to apply with the relevant authorities from time to time for the renewal of the requisite licenses for the operation of our hotels. In the event that the application for renewal of the relevant license is rejected, the operation of our hotels without a valid license will result in breach of relevant laws and regulations and we may be required to suspend all or part of the operation of such hotels. Please refer to the sub-section headed “Risk Factors – Risks relating to our Business and Operations – Our hotel licenses are subject to renewal” of this document for further details.

The following table sets forth details of the material licenses and permits that are required for our operations as at the Latest Practicable Date:

| Status as at Latest Practicable Date                                               | Food Distribution Permit (食品經營許可證)       | Special Trade Permit (特種行業許可證) <sup>(1)</sup> | Public Place Sanitation Permit (公共場所衛生許可證) | Certificate of qualified fire safety inspection over a public gathering place before it is put into use or open for business (公眾聚集場所投入使用、營業前消防安全檢查合格證) <sup>(2)</sup> |
|------------------------------------------------------------------------------------|------------------------------------------|-----------------------------------------------|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Our subsidiaries</i>                                                            |                                          |                                               |                                            |                                                                                                                                                                       |
| Changxing New Century Wonderland Resort Co., Ltd* (長興開元芳草酒店有限公司)                   | In effect, expiring on July 10, 2023     | In effect                                     | In effect, expiring on January 14, 2020    | In effect <sup>(3)</sup>                                                                                                                                              |
| Haining Yanguan Ancient City New Century Resort Hotel Co., Ltd* (海寧鹽官古城開元度假酒店有限公司) | In effect, expiring on April 25, 2021    | In effect                                     | In effect, expiring on June 15, 2019       | In effect                                                                                                                                                             |
| Jiande New Century Wonderland Resort Co., Ltd* (建德開元芳草酒店有限公司)                      | In effect, expiring on December 18, 2022 | In effect                                     | In effect, expiring on January 1, 2022     | In effect                                                                                                                                                             |
| Ninghai Jinhai Grand New Century Hotel Co., Ltd* (寧海金海開元名都大酒店有限公司)                 | In effect, expiring on October 18, 2021  | In effect                                     | In effect expiring on July 9, 2021         | In effect                                                                                                                                                             |
| Zhoushan New Century Manju Hotel Management Co., Ltd* (舟山曼居酒店管理有限公司)               | In effect, expiring on October 25, 2022  | In effect                                     | In effect, expiring on October 26, 2021    | In effect                                                                                                                                                             |

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| Status as at Latest Practicable Date                                   | Food Distribution Permit (食品經營許可證)       | Special Trade Permit (特種行業許可證) <sup>(1)</sup> | Public Place Sanitation Permit (公共場所衛生許可證) | Certificate of qualified fire safety inspection over a public gathering place before it is put into use or open for business (公眾聚集場所投入使用、營業前消防安全檢查合格證) <sup>(2)</sup> |
|------------------------------------------------------------------------|------------------------------------------|-----------------------------------------------|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Tianjin Ruiwan New Century Hotel Management Co., Ltd* (天津瑞灣開元酒店管理有限公司) | In effect, expiring on January 11, 2022  | In effect                                     | In effect, expiring on August 22, 2021     | In effect                                                                                                                                                             |
| Ningbo New Century Manju Hotel Management Co., Ltd* (寧波開元曼居酒店管理有限公司)   | In effect, expiring on February 28, 2022 | In effect                                     | In effect, expiring on October 19, 2020    | In effect                                                                                                                                                             |
| Shanghai Yuege Hotel Operation Co., Ltd* (上海悅閣酒店經營有限公司)                | In effect, expiring on November 13, 2019 | In effect                                     | In effect, expiring on September 10, 2022  | In effect                                                                                                                                                             |
| Shanghai Ruiyue Hotel Co., Ltd* (上海瑞悅酒店有限公司)                           | In effect, expiring on August 29, 2021   | In effect                                     | In effect, expiring on April 3, 2022       | — <sup>(4)</sup>                                                                                                                                                      |
| Shanghai Yueshang Hotel Management Co., Ltd* (上海閱尚酒店管理有限公司)            | In effect, expiring on February 25, 2023 | In effect                                     | In effect, expiring on August 22, 2022     | In effect                                                                                                                                                             |
| Hangzhou New Century Hotel Supplies Co., Ltd.* (杭州開元酒店用品有限公司)          | In effect, expiring on June 2, 2021      | N/A                                           | N/A                                        | N/A                                                                                                                                                                   |
| Ningbo New Century Manfei Hotel Management Co., Ltd.* (寧波開元曼菲酒店管理有限公司) | In effect, expiring on August 27, 2023   | In effect                                     | In effect, expiring on August 20, 2022     | In effect                                                                                                                                                             |
| Hunan Manju Hotel Management Co., Ltd.* (湖南曼居酒店管理有限公司)                 | In effect, expiring on August 29, 2023   | In effect                                     | In effect, expiring on August 16, 2022     | In effect                                                                                                                                                             |
| Dalian New Century Manju Hotel Management Co., Ltd.* (大連開元曼居酒店管理有限公司)  | In effect expiring on July 8, 2023       | In effect                                     | In effect, expiring on August 16, 2022     | In effect                                                                                                                                                             |
| Yuyao New Century Hotel Management Co., Ltd.* (余姚開元曼居酒店管理有限公司)         | In effect, expiring on May 8, 2022       | In effect                                     | In effect, expiring on July 8, 2019        | In effect                                                                                                                                                             |

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| Status as at Latest Practicable Date                                                                                       | Food Distribution Permit (食品經營許可證)        | Special Trade Permit (特種行業許可證) <sup>(1)</sup> | Public Place Sanitation Permit (公共場所衛生許可證) | Certificate of qualified fire safety inspection over a public gathering place before it is put into use or open for business (公眾聚集場所投入使用、營業前消防安全檢查合格證) <sup>(2)</sup> |
|----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-----------------------------------------------|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Our branches</i>                                                                                                        |                                           |                                               |                                            |                                                                                                                                                                       |
| Ninghai Jinhai Grand New Century Hotel Co., Ltd. Ninghai New Century Xinchiji Hotel Branch* (寧海金海開元名都大酒店有限公司寧海開元新世紀大酒店分公司) | In effect, expiring on May 1, 2022        | In effect                                     | In effect, expiring on May 21, 2020        | In effect                                                                                                                                                             |
| Zhejiang New Century Hotel Management Co., Ltd. Hangzhou Grand New Century* (浙江開元酒店管理股份有限公司杭州開元名都大酒店)                      | In effect, expiring on June 27, 2021      | In effect                                     | In effect, expiring on August 22, 2021     | In effect                                                                                                                                                             |
| Zhejiang New Century Hotel Management Co., Ltd. Xiaoshan Guesthouse* (浙江開元酒店管理股份有限公司蕭山賓館)                                  | In effect, expiring on July 28, 2021      | In effect                                     | In effect, expiring on October 29, 2021    | In effect                                                                                                                                                             |
| Zhejiang New Century Hotel Management Co., Ltd. Changzhou Branch* (浙江開元酒店管理股份有限公司常州分公司)                                    | In effect, expiring on September 8, 2021  | In effect                                     | In effect, expiring on March 3, 2020       | In effect                                                                                                                                                             |
| Zhejiang New Century Hotel Management Co., Ltd. Qiandao Lake New Century Resort* (浙江開元酒店管理股份有限公司千島湖開元度假村)                  | In effect, expiring on September 21, 2021 | In effect                                     | In effect, expiring on July 27, 2021       | In effect                                                                                                                                                             |
| Zhejiang New Century Hotel Management Co., Ltd. Shaoxing Grand New Century Hotel* (浙江開元酒店管理股份有限公司紹興開元名都大酒店)                | In effect, expiring on January 2, 2022    | In effect                                     | In effect, expiring on November 26, 2021   | In effect                                                                                                                                                             |
| Zhejiang New Century Hotel Management Co., Ltd. Zhuji Yaojiang Grand New Century* (浙江開元酒店管理股份有限公司諸暨耀江名都大酒店)                | In effect, expiring on August 15, 2021    | In effect                                     | In effect expiring on August 12, 2022      | In effect                                                                                                                                                             |
| Zhejiang New Century Hotel Management Co., Ltd. Xiangshan Shipu New Century Hotel Branch* (浙江開元酒店管理股份有限公司象山石浦開元大酒店分公司)     | In effect, expiring on July 31, 2021      | In effect                                     | In effect, expiring on December 08, 2019   | In effect                                                                                                                                                             |

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| Status as at Latest Practicable Date                                                                           | Food Distribution Permit (食品經營許可證)       | Special Trade Permit (特種行業許可證) <sup>(1)</sup> | Public Place Sanitation Permit (公共場所衛生許可證) | Certificate of qualified fire safety inspection over a public gathering place before it is put into use or open for business (公眾聚集場所投入使用、營業前消防安全檢查合格證) <sup>(2)</sup> |
|----------------------------------------------------------------------------------------------------------------|------------------------------------------|-----------------------------------------------|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Zhejiang New Century Hotel Management Co., Ltd. Shaoxing Jinchang New Century Hotel* (浙江開元酒店管理股份有限公司紹興金昌開元大酒店) | In effect, expiring on August 20, 2022   | In effect                                     | In effect, expiring on January 12, 2021    | In effect                                                                                                                                                             |
| Zhejiang New Century Hotel Management Co., Ltd. Shaoxing Kegiao Branch* (浙江開元酒店管理股份有限公司紹興柯橋分公司)                | In effect, expiring on September 7, 2022 | In effect                                     | In effect, expiring on September 5, 2021   | In effect                                                                                                                                                             |
| Zhejiang New Century Hotel Management Co., Ltd. Hangzhou Xiacheng Branch* (浙江開元酒店管理股份有限公司杭州下城分公司)              | In effect, expiring on August 15, 2022   | In effect                                     | In effect, expiring on October 10, 2022    | In effect                                                                                                                                                             |
| Zhejiang New Century Hotel Management Co., Ltd. Jurong Branch* (浙江開元酒店管理股份有限公司句容分公司)                           | In effect, expiring on January 21, 2023  | In effect                                     | In effect, expiring on June 5, 2020        | In effect                                                                                                                                                             |
| Zhejiang New Century Hotel Management Co., Ltd. Changchun Grand New Century* (浙江開元酒店管理股份有限公司長春開元名都大酒店)         | In effect, expiring on December 1, 2021  | In effect                                     | In effect, expiring on August 21, 2021     | In effect                                                                                                                                                             |
| Zhejiang New Century Hotel Management Co., Ltd. Ningbo Grand New Century* (浙江開元酒店管理股份有限公司寧波開元名都大酒店)            | In effect, expiring on August 10, 2021   | In effect                                     | In effect, expiring on March 10, 2020      | In effect                                                                                                                                                             |
| Zhejiang New Century Manju Hotel Management Co., Ltd. Wuxi New Century Manju Hotel* (浙江開元曼居酒店管理股份有限公司無錫開元曼居酒店) | In effect, expiring on November 18, 2023 | In effect                                     | In effect, expiring on April 17, 2022      | In effect                                                                                                                                                             |
| Zhejiang New Century Hotel Management Co., Ltd. Nanjing Pukou Branch* (浙江開元酒店管理股份有限公司南京浦口分公司)                  | In effect, expiring on February 11, 2023 | In effect                                     | In effect, expiring on September 22, 2019  | In effect                                                                                                                                                             |

## BUSINESS

*Notes:*

1. As advised by our PRC Legal Adviser, the Control of Security in the Hotel Industry (《旅館業治安管理辦法》) has not stipulated expiry date for the Special Trade Permit (特種行業許可證).
2. As advised by our PRC Legal Adviser, the Fire Prevention Law (《中華人民共和國消防法》) has not stipulated expiry date for the certificate of qualified fire safety inspection over a public gathering place before it is put into use or open for business (公眾聚集場所投入使用、營業前消防安全檢查合格證).
3. We have not received the certificate for certain ancillary operating facilities. Those ancillary operating facilities have not been subject to any administrative penalties during the Track Record Period and up to the Latest Practicable Date. The total area of the such ancillary operating facilities amount to 629.3 sq.m, around 7.4% of total gross floor area of Changxing New Century Wonderland Resort. The Group has only utilised such area for storage purposes and such facilities have not been used for hotel operation and therefore no revenue was generated from such buildings during the Track Record Period. As advised by our PRC Legal Adviser, given those ancillary operating facilities of the hotel are not material to the operation of the hotel, the absence of the certificate would not have any material effect on our business, operations or financial position. The Company will only use such area for storage purpose given the absence of the Fire Safety Certificate. In the event that such area will be used for hotel operation purpose in the future, the Company will ensure that the relevant Fire Safety Certificate be obtained prior to operation.
4. The hotel has passed the fire inspection at the time of commencement of business in 2009 and has received a fire inspection opinion (消防驗收意見書) issued by competent authority but has not received the certificate as the actual use of the leased property is inconsistent with the planned use of the leased property. Despite the lack of Certificate of Fire Safety Certificate, the Group has, in accordance with the standard set by the relevant authority, formulated fire safety regulations together with fire extinguishment and emergency evacuation plans, configured fire protection facilities and equipment, installed fire safety signs and other necessary fire prevention facilities. In addition, according to the fire inspection opinion issued by the relevant authority at the time of commencement of business of the hotel in 2009, the fire safety layout of the hotel was in compliance with the fire prevention requirements set by the competent authority. The Company also confirmed that during the Track Record Period, no fire accident has occurred. This subsidiary has not been subject to any administrative penalties pursuant to the sample inspection carried out by the relevant authority or due to any breach of fire safety laws and regulations during the Track Record Period and up to the Latest Practicable Date. As advised by our PRC Legal Adviser, given the revenue and profit contribution from this hotel to our Group were relatively low, the absence of the certificate would not have any material adverse effect on our business, operations or financial condition.

For our managed hotels, under the relevant laws and regulations, the respective hotel owners are responsible for obtaining the necessary licenses and permits. However, there are certain permits for some of our managed hotels, which the hotel owners are responsible for obtaining and have not yet obtained. As advised by the PRC Legal Adviser, as the party responsible for obtaining such permits for the managed hotels are the hotel owners, such hotel owners (but not our Group) could be subject to warning, penalties or suspension of business as a result of failure to obtain such licences or permits. We have always requested that hotel owners shall obtain all underlying licenses and permits including Food Distribution Permit, Special Trade Permit, Public Place Sanitation Permit and Fire Safety Certificate according to the terms of our hotel management agreements. However, the responsibility of obtaining the abovementioned licenses and permits lies solely with the respective hotel owners of our managed hotels. For those managed hotels lacking the relevant underlying licenses or permits that come to our attention, we will continue to take practicable and reasonable steps to constantly monitor and remind the relevant hotel owners to obtain the outstanding permits as soon as practicable. Going forward, we shall increase awareness of the hotel owners of our managed hotels on the importance of obtaining all required permits in addition to the business

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license, during our assessment of hotel owners' application and pre-opening stages for our hotel management business, in order to ensure to the best of our ability, that our managed hotels obtain all the required licenses and permits prior to commencement of hotel operation. Please refer to the sub-section headed "Risk Factors – Risks relating to our Business and Operations – Our business, financial condition and results of operations may be adversely affected as a result of the failure of hotel owners or franchisors to obtain certain licenses for managed hotels managed by us" in this document.

As at the Latest Practicable Date, save for the absence of the certificates or permits as disclosed above, our Group has obtained all material requisite licenses, permits and approval for our operations and we were not aware of any facts which may prevent the renewal by us, or render to the cancellation, revocation by the relevant authorities, of the above licenses in the future.

### PROPERTIES

#### Owned properties

As at November 30, 2018, we owned nine properties, including our two owned hotels, offices, staff dormitories, in the PRC with a total GFA of approximately 35,064.3 sq.m., which we held for self-use or hotel operation (in the case of the two owned hotels).

As at the Latest Practicable Date, a hotel building owned by our subsidiary, Jiande New Century Wonderland Resort Co., Ltd.\* (建德開元芳草地酒店有限公司), which has a GFA of 18,426.5 sq.m., is still in the progress of obtaining the building title certificate. We have however successfully obtained the project quality completion inspection record (單位工程質量竣工驗收記錄). Such building has obtained the land use rights certificate, construction land planning permit, construction works planning permit and construction works commencement permit. The hotel commenced operation in January 2018 and for the eight months ended August 31, 2018, the revenue generated from this hotel amounted to RMB28.7 million, representing 2.6% of our total revenue. As advised by our PRC Legal Adviser, given that we have obtained written confirmation from the relevant authorities confirming that there is no obstacle in obtaining the building title certificate and there is no actual or potential disputes on the ownership of such property, there is no legal impediment for us to obtain the building title certificate. Our PRC Legal Adviser has confirmed that prior to obtaining the building title certificate, there might be legal impediment for our Company to dispose of or create security over such property.



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Considering that all the property is in safe condition, our PRC Legal Adviser's advice above, the revenue contribution to our Group as a whole and upon consultation with the relevant authorities, our Directors are of the view that (i) the above lack of building title certificate does not and will not have any material financial or operational impact on our Company; (ii) there is no expected obstacle in obtaining the building title certificate, which we expect to be obtained before the end of 2018; and (iii) the cost of the property is not expected to have any material difference had the relevant building title certificate been obtained. Save as disclosed above, we have obtained the building title certificates for all the properties we own.

### Leased properties

As at November 30, 2018, we leased 31 properties (five of which are leased from New Century REIT) with a total GFA of approximately 887,302.6 sq.m., which we primarily leased as our operated hotels. These hotel lease agreements generally have terms ranging from ten to 20 years. The validity and enforceability of the hotel lease agreements are subject to the legality of the landlord's title to the relevant land and buildings.

As at the Latest Practicable Date:

- (i) the lessor of one leased property with an aggregate GFA of approximately 10,135.5 sq.m. had not obtained the building title certificate, which under the hotel lease agreement, the lessor provided undertakings that the requisite building title certificate would be obtained and the property can be used for hotel operation and the lessor has also undertaken to indemnify any loss incurred by us due to the defective title in connection with the leased property and we can claim for damages based on the PRC Contract Law (《中華人民共和國合同法》) in the case of the lessor violating the hotel lease agreement due to the aforementioned defective title of the leased properties;
- (ii) the actual use of five leased properties with an aggregate GFA of approximately 40,243.72 sq.m. were inconsistent with the planned use of such leased properties, which prior approval should be obtained from the relevant authority for such alteration of land use, and under the hotel lease agreements, the lessor of three leased properties had undertaken to indemnify any loss incurred by us resulted from such inconsistent land use and we can claim for damages based on the PRC Contract Law (《中華人民共和國合同法》) in the case of the lessors violating the hotel lease agreements due to the aforementioned defective title of the leased properties;
- (iii) the land under one leased property with an aggregate GFA of approximately 11,866.8 sq.m. was allotted land, and the lessor did not fulfil necessary procedures required to lease such leased property to us, moreover, according to the hotel lease agreement, the lessor has already undertaken to indemnify any loss incurred by us due to the defective title in connection with the leased property and the lessor would be liable for damages to our Group if the lessor unilaterally terminate the hotel lease agreement;

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- (iv) four leased properties with an aggregate GFA of approximately 115,448.9 sq.m. were mortgaged at the time when the properties were leased to us, which means the mortgagee would have a better title on the properties against us; and
- (v) the lessor of one leased property with an aggregate GFA of approximately 9,500 sq.m. has not completed the registration of land transfer and as such only the building has been registered under the name of the lessor.

For the years ended December 31, 2015, 2016 and 2017 and eight months ended August 31, 2018, the total revenue generated from the abovementioned defective leased properties constituted 3.9%, 4.6%, 5.5% and 6.4% of our total revenue, respectively.

As advised by our PRC Legal Adviser, given that (i) we had not received any notice from any regulatory authority with respect to the potential administrative penalties or enforcement actions in relation to any of the defective properties under the hotel lease agreements described above as at the Latest Practicable Date; (ii) most of the lessors above have undertaken to indemnify us for any losses we suffer as a result of the termination of the hotel lease agreements; and (iii) the aggregate revenue contribution from the hotels in relation to the abovementioned defective titles as a percentage of the total revenue of our Group was relatively low, the termination of the hotel lease agreements would not individually or collectively have any material adverse effect on our business operations.

Our Directors is of the view that all the above properties are in safe condition as (a) the property as described under sub-paragraph (i) above has obtained a written confirmation from the relevant authority that there should be no obstacle in obtaining the building title certificate; and (b) all other defective leased properties as described above have obtained the building title certificate.

Considering that all the above properties are in safe condition, our PRC Legal Adviser's advice above, the revenue contribution to our Group as a whole and the above recourse available to us against the lessors, our Directors are of the view that (a) the above title defects, individually and collectively, do not and will not have any material financial or operational impact on our Company; (b) the defective properties, individually and collectively, are not crucial to our business operation; and (c) the rental of the properties is not expected to have any material difference. Save as disclosed above, all of our landlords have legal titles to the land and buildings, and our Group is entitled to occupy and use these buildings. As confirmed by our PRC Legal Advisers, save for the lease agreements concerning the leased properties of defective titles as disclosed under sub-paragraphs (i) and (ii) above, all our lease agreements are legally valid.

As at the Latest Practicable Date, 13 out of our 31 lease agreements have not been registered with the relevant authorities, primarily due to a lack of cooperation from the landlords in registering the relevant lease agreements, which was beyond our control. Our PRC Legal Advisor has advised us that the failure to register the above lease agreements would not affect the validity of the lease agreements. As at the Latest Practicable Date, we had not

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received any notice from any regulatory authority with respect to potential administrative penalties or enforcement actions as a result of our failure to file the lease agreements described above. According to applicable PRC administrative regulations, the lessor and the lessee of a lease agreement are required to file the lease agreement with relevant governmental authorities within 30 days after the execution of the lease agreement. If the filing is not made, the governmental authorities may require that the filing be made within a stated period of time, failing which, they may impose a fine ranging from RMB1,000 to RMB10,000 for each agreement that has not been properly filed. The maximum potential liabilities of our Group therefore amounted to RMB130,000. Our Directors consider that such lack of lease registration and the maximum potential fines has no material adverse operational and financial impact on our Group. However, we will continue to take practicable and reasonable steps to work with the relevant landlords and will endeavor to register the leases as soon as practicable, given that the registration of such leases will require cooperation of our landlords.

### Internal Control Measures

We have implemented internal control measures to prevent future occurrence of property issues, including but not limited to the following:

- (i) As part of the review process for the new hotel projects, our hotel opening evaluation team will be responsible for ensuring all necessary title certificates are obtained by the relevant hotel property prior to operation. When property defects cannot be resolved due to historical issues or lack of governmental approval, we will require the lessor to rectify defective titles within a designated time period or to otherwise provide adequate remedy. When no such action can be taken, legal advice on possible penalties and financial exposure should be obtained for further consideration.
- (ii) Our senior management team and our external legal counsel will be responsible for assisting in reviewing the relevant title certificates and documents to ensure that the relevant hotel property is free from material title defects when we lease additional properties.
- (iii) We will continue to seek cooperation from the landlords of the leased hotels to register executed hotel lease agreements with the relevant PRC government authorities and will adopt a variety of risk control measures to mitigate such regulatory risk in the future.
- (iv) We keep record of our leased hotels with detailed information, including the status of the lease registration, to ensure timely registration of our leased hotels.
- (v) We will timely seek advice from our external PRC legal advisers when necessary to provide assistance on any legal and compliance matters relating to our owned or leased properties.
- (vi) The internal audit department is responsible for conducting an annual inspection regarding compliance with the above measures. The inspection is part of the internal audit work and the results will be reported to our Board.

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After the implementation of the abovementioned internal control measures, none of the leased properties under the lease agreements that have been entered into by our Group since April 30, 2018 have any property defects. We believe that we can effectively monitor and manage property defect issues and reduce our exposure to associated risks through the above measures.

Our Property Valuer has conducted a valuation on the market value of our owned and leased properties. For further information regarding the valuation, please refer to "Appendix III – Property Valuation Report".

## **INSURANCE**

We maintain public liability and asset insurance policies for our properties, the common facilities and the hotel operating areas of our properties. In addition, we carry social insurance for our employees.

We believe that we have sufficient insurance coverage in place and that the terms of our insurance policies are in line with industry practice in China. We will review and assess our risks and make necessary adjustments to our insurance coverage in line with our needs and industry practice in the PRC. However, there is a risk that we do not have sufficient insurance coverage for losses and damages that may arise in our business operations. See the sub-section headed "Risk Factors – Risks relating to our Business and Operations – We have limited insurance to cover potential losses and claims" and the section headed "Supervision and Regulations" in this document for further details.

## **ENVIRONMENTAL MATTERS**

In connection with our operation and management of hotels, we are subject to various national and local laws, ordinances and regulations relating to environmental protection. Under some of these laws, an owner or operator of a real property may be held liable for the costs of investigation or remedying hazardous or toxic substances or waste on, under or in such real property, as well as third-party sites where the owner or operator sends waste for disposal. Furthermore, a person who arranges for the disposal, treatment or transportation of a hazardous or toxic substance at a property owned by another, or who transports such substance to or from such property, may be liable for the costs of removing or remedying any such substance that is released into the environment at the disposal or treatment facility. Although we are not aware of any current material obligations for investigating or remedying hazardous substances or waste at our owned properties, the future discovery of substances or waste at any of our owned properties, or the failure to properly remedy such contaminated property, could adversely affect our ability to develop or sell such property, or use such property as collateral for our borrowings. In addition, the cost of investigation or remediating the land contamination, at our properties or at properties where we send substances or waste for disposal, may be substantial.

We are also subject to various requirements, required for our operations, governing air emissions, effluent discharges, the use, management and disposal of hazardous substances and waste and health and safety. Due to the nature of our business, our Group's operational

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activities do not directly generate industrial pollutants and our Group did not incur any substantial cost of compliance with applicable environmental protection laws and regulations directly during the Track Record Period. Assuming there are no material changes in applicable environmental laws and regulations, we do not expect our Group to incur significant costs for compliance with applicable environmental protection laws and regulations directly in the future. Our PRC Legal Advisor advised that no material administrative penalties have been imposed on us as a result of violation of national and local environmental laws and regulations of the PRC during the Track Record Period. Additional operating costs and capital expenditures could be incurred if additional or more stringent environmental regulatory requirements are enacted in the future.

### INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we were not aware of any infringement of intellectual property rights of third parties in the PRC or Hong Kong related to our adoption of the name “New Century (開元)”.

Our brand, trade names, trademarks, trade secrets and other intellectual property rights distinguish and protect our technology platforms, services and products from those of our competitors, and contribute to our competitive advantage in the high Star-rated hotel segment of the hotel industry in China. To protect our brand and other intellectual property, we rely on a combination of trademark, trade secret and copyright laws as well as imposing confidentiality obligations on our employees, contractors and others. As at the Latest Practicable Date, we have a total of 58 registered trademarks in China, including “開元”, one patent, ten software copyrights, 23 copyrights and 19 domain names and are applying for registration of 34 new trademarks in China. “開元” was recognized as a well-known trademark in China (中國馳名商標) in 2015. We have registered domain name [www.kaiyuanhotels.com](http://www.kaiyuanhotels.com). Please refer to the sub-section headed “Appendix VII – Statutory and General Information – B. Further Information about Our Business – 2. Intellectual property rights of our Company” in this document for details.

### HEALTH AND SAFETY MATTERS

#### Occupational Health and Safety

The safety of our hotel guests is paramount to us. We have taken measures to ensure the health and safety standards of our hotels. We are subject to various PRC laws and regulations with respect to safety and work-related incidents. We have established a set of guidelines on issues relating to occupational health and safety. In addition, we provide regular training to our hotel staffs on topics relating to occupational health and safety to enhance their awareness and knowledge.

Under PRC law, a hotel is required to obtain fire safety approval prior to operation. Fines may be imposed on both the party responsible for the non-compliant hotel for any failure to obtain fire safety approval. The PRC fire safety authorities have the power to order any

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non-compliant hotel to suspend its operations unless it rectifies the non-compliance in accordance with requirements of the local fire safety authorities. No material administrative penalties were imposed on us or our subsidiaries/branches by the competent fire safety authorities during the Track Record Period and up to the Latest Practicable Date.

### **Health and Safety of our Hotel Guests**

We have established a set of guidelines on reporting incidents and complaints relating to the health and safety of our hotel staffs and our hotel guests: (i) once we receive the complaint from hotel guests through our customer service center, the complaint would be registered and our staff at the customer service center would inform our responsible hotel staff at the relevant hotel to handle the complaint within 24 hours; (ii) after communicating with the hotel guests, the relevant hotel staff would record the incident and inform the customer service center of the outcome; (iii) the customer service center manager would re-visit the hotel guests who filed the complaint and see whether the incident was handled to their satisfaction; and (iv) if the hotel guests are not content with how the incident was handled, the customer service center manager will need to report the incident to the senior management for further handling and formulate future strategy in dealing with similar complaint in order to improve our customer service.

To the best knowledge of our Directors, we are not aware of any material incidence of compliant requesting for compensation in relation to our F&B services that could have a material adverse effect on our business, results of operations or financial condition during the Track Record Period and up to the Latest Practicable Date.

No material investigation or administrative penalties were imposed on us or our subsidiaries/branches by the competent hygiene authorities during the Track Record Period and up to the Latest Practicable Date. We have formulated and implemented food safety measures, which include periodic checks and various criteria to ensure the quality of food served in our hotels. We believe that the measures adopted by us to comply with the applicable laws and regulations relevant to social responsibility are consistent with the standard practices of our industry. We have not experienced material instances of non-compliance with our health and safety measures during the Track Record Period and up to the Latest Practicable Date.

## **LEGAL AND REGULATORY MATTERS**

### **Legal Proceedings**

As at the Latest Practicable Date, we and our Directors were not a party to any litigation, arbitration or administrative proceedings that we expect would materially adversely affect our business or results of operations and, to the best of our knowledge, we are not aware of any material pending or threatened litigation, arbitration or legal proceedings. However, we may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business.



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### Regulatory Matters

Save for the relevant circumstances which have been disclosed above, we have obtained all material requisite permits, licenses and approvals necessary for our operations. Our Directors confirm that we have complied with all applicable laws and regulations in all material respects in the PRC (being the principal jurisdiction in which we operate) during the Track Record Period and up to the Latest Practicable Date.

### Historical Non-compliance Incidents

In respect of compliance matters relating to our property interests, please refer to the sub-section headed "Properties" in this section.

During the Track Record Period, our Company and some of our PRC subsidiaries and branch offices failed to make full contribution to the social insurance fund and housing provident fund for some of our employees as required under PRC law. As at August 31, 2018, the estimated aggregate amount incurred and accrued was RMB9.4 million.

These non-compliance incidents were primarily due to (i) some of our employees were non-local workers and were not willing to participate in the social insurance program of the city in which they migrate temporarily; (ii) the staff who were formerly in charge of this matter did not fully understand the different regulatory requirements in areas where we operated; (iii) mandatory enforcement on employees in making full contribution may lead to risk in employee turnover; (iv) no contribution was required for retirees; (v) some newly-employed staff were in the process of social insurance and housing provident fund transfer; and (vi) some employees have participated in the "new rural social pension insurance" and were reluctant to make contributions to social insurance and housing provident funds.

According to the relevant PRC laws and regulations, in respect of overdue social insurance contributions, (i) the relevant PRC authorities may demand us to pay the outstanding social insurance contributions before a stipulated deadline and we may be liable to a late payment fee equivalent to 0.05% of the outstanding amount for each day of delay; if we fail to make such payments, we may be liable to a fine of one to three times the amount of the outstanding contributions; and (ii) in respect of outstanding housing provident fund contributions, we may be ordered to pay the outstanding housing provident fund contributions within a prescribed time period.

Our Company and our PRC subsidiaries and branch offices have obtained written confirmations from local social insurance and housing provident fund authorities, each stating that: (i) no material administrative penalty has been imposed during the Track Record Period; and (ii) the relevant subsidiary/branch office was in compliance with the respective laws and regulations. We are advised by our PRC Legal Adviser that such confirmations were made by the competent authorities.



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Based on (i) written confirmations issued by local social insurance and housing provident fund authorities; and (ii) the fact that no material administrative penalty has been imposed on our Group, our PRC Legal Adviser is of the view that the likelihood that we will be subject to administrative penalty by the social security insurance and housing provident fund competent authority to pay the outstanding social insurance fund and housing provident fund contribution is relatively low and that such non-compliance will not have a material impact on the business operations of our Group and the [REDACTED].

In order to prevent future potential non-compliance incidents in relation to social insurance fund contributions, we have adopted various measures since July 2018 including:

- (i) adopting internal policy to ensure our ongoing compliance with the relevant laws and regulations on social insurance fund and housing provident fund contributions including establishing a standard procedure for our human resources department and finance department in conducting regular review on the total number of employees that are required to make contribution to the social insurance and housing provident fund, which will be supervised by Mr. Lv Gang, the human resources director of our Group;
- (ii) specifying in our employment contracts that our Group and employees shall comply with the laws and regulations relating to social security insurance and housing provident fund contributions at all times;
- (iii) increasing the awareness of our employees on the importance of contributing to the social security insurance and housing provident fund and providing regular reminder on the contribution;
- (iv) conducting regular review to ensure we have complied with the relevant laws and regulations on the social security insurance and housing provident fund; and
- (v) seeking advice from external legal advisers on the updates to the applicable PRC laws and regulations.

Our Directors are of the opinion that this incident will not have a material adverse impact on our business or results of operations for the following reasons: (i) the written confirmations obtained from the relevant competent local authorities described above; (ii) during the Track Record Period and up to the Latest Practicable Date, our Group did not receive any orders or demands from the relevant government authority requesting us to pay the shortfall in social security insurance contributions or any penalties; (iii) our Group has made provisions in respect of the accrued amount during the Track Record Period. As at August 31, 2018, the accrued amount was RMB9.4 million; (iv) our PRC Legal Adviser's opinion that such non-compliance incidents will not have material impact on the business of our Group and the [REDACTED]; (v) we have strengthened our internal control policy to ensure our ongoing compliance with the relevant laws and regulations on social security insurance and housing provident fund contributions; and (vi) we will convey the relevant requirements to make

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relevant social security insurance and housing provident fund contributions clearly to new employees prior to hiring them and continue to communicate with existing employees on the importance of making such contributions. In addition, to ensure that we comply with relevant laws and regulations regarding contributions to relevant social insurance and housing provident fund, we will review our contributions periodically and report to our Board should any material non-compliance occur.

In addition, New Century Tourism, one of our Controlling Shareholders, has agreed to indemnify us for monetary fine, settlement payments and any associated costs and expenses which would be incurred or suffered by us in connection with the aforesaid non-compliance and payment of any unpaid social insurance fund and housing provident fund contributions to the extent not covered by the above provision.

## INTERNAL CONTROL AND RISK MANAGEMENT

We have implemented various risk management policies and measures to identify, assess and manage risks arising from our operations. Details on risk categories identified by our management, internal and external reporting mechanism, remedial measures and contingency management have been codified in our policies. For details of the major risks identified by our management, see sub-section headed "Risk Factors – Risks Relating to our Business and Industry" in this document.

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the [REDACTED], we have adopted or will adopt, among other things, the following risk management and internal control measures:

- (i) the establishment of an audit committee responsible for overseeing our financial records, internal control procedures and risk management systems. See sub-section headed "Directors, Supervisors and Senior Management – Board Committees – Audit Committee" for the qualifications and experience of these committee members as well as a detailed description of the responsibility of our audit committee;
- (ii) the appointment of Mr. Li Donglin as our joint company secretary and Ms. Chan Suet Lam as our other joint company secretary to ensure the compliance of our operation with relevant laws and regulations. For their biographical details, see section headed "Directors, Supervisors and Senior Management";
- (iii) the appointment of BOCOM International (Asia) Limited as our compliance adviser upon the [REDACTED] to advise us on compliance with the Listing Rules; and
- (iv) the engagement of external legal advisers to advise us on compliance with the Listing Rules and to ensure our compliance with relevant regulatory requirements and applicable laws, where necessary.

## **BUSINESS**

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We have also adopted measures to protect customer data, operational, financial and other confidential information of our Company. In particular, during the course of operation of our hotels, we collect the personal information of hotel guests including names, passport number and contact details. In order to prevent leakage of personal data of our hotel guests, we have established a confidentiality policy which requires our employees not to disclose any confidential information, including but not limited to, non-public information of our Group or personal data of our hotel guests to any person outside of our Group. We have also included the confidentiality clause in the employment contracts for all our employees to avoid any data leakage. During the Track Record Period and up to the Latest Practicable Date, we did not experience any breach of customer data or any other confidential information which could cause a material adverse effect on our business, financial conditions or results of operations.

Our Directors are of the view that we have taken reasonable steps to establish internal control system and procedures to enhance the internal control environment at both working and monitoring levels, and the enhanced internal control measures adopted by us are adequate and effective.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

### OVERVIEW

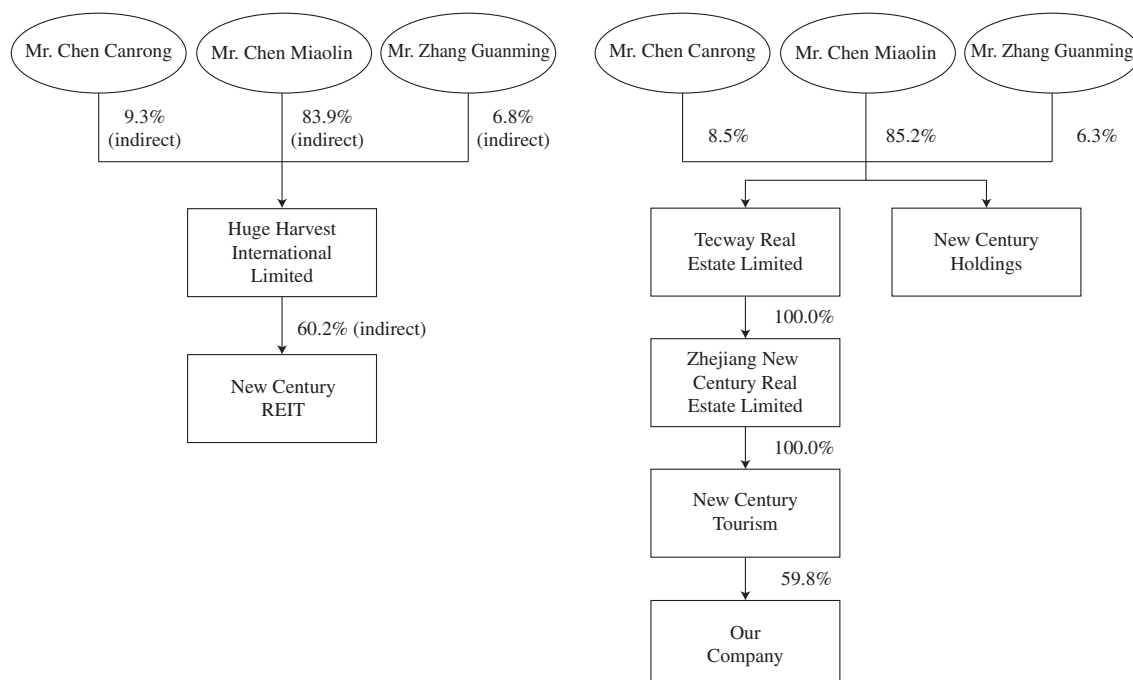
Our Company was established as a limited liability company on December 17, 2008, which has subsequently converted into a joint stock limited liability company on June 28, 2017 in accordance with the PRC laws. Upon our establishment as a joint stock limited liability company, our Company had a total of 159,659,640 issued Domestic Shares and 50,340,360 Unlisted Foreign Shares, with a nominal value of RMB1.00 each. Immediately following the completion of the [REDACTED], New Century Tourism will control approximately [REDACTED]% of our share capital, assuming no [REDACTED] is exercised, and will continue to be our direct Controlling Shareholder. New Century Tourism is in turn indirectly held as to 85.2% by Mr. Chen Miaolin, 8.5% by Mr. Chen Canrong and 6.3% by Mr. Zhang Guanming.

Having considered the following factors, we are satisfied that we can carry on our business independently of our Controlling Shareholders.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders, apart from their interests in our Group, have also been engaged in, among other things, the investment in and the development of hotel properties in the PRC through their close associates including New Century Tourism, New Century Holdings and New Century REIT. New Century Holdings is held as to 85.2% by Mr. Chen Miaolin, 8.5% by Mr. Chen Canrong and 6.3% by Mr. Zhang Guanming, all being our Controlling Shareholders. New Century REIT is indirectly interested as to 60.2% unitholding by Huge Harvest International Limited, a limited liability company incorporated in the BVI and is indirectly interested by Mr. Chen Miaolin as to 83.9%, Mr. Chen Canrong as to 9.3% and Mr. Zhang Guanming as to 6.8%.

The structure chart below shows the relationship between Mr. Chen Miaolin, Mr. Chen Canrong and Mr. Zhang Guanming, New Century Tourism, New Century Holdings, New Century REIT and our Company immediately prior to [REDACTED]:



## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Group principally engages in the operation and management of hotels in the PRC. As at the Latest Practicable Date, our Controlling Shareholders, through their close associates namely New Century Tourism (excluding any interest held through our Group), New Century Holdings and New Century REIT (i) held interest in 17 hotels in operation (including 15 hotels in the PRC, one hotel in Germany and one hotel in the Netherlands) and leased two hotels in operation in the PRC; and (ii) held interest in five hotels under construction in the PRC. All of the owned and leased hotels of New Century Tourism Group, New Century Holdings Group and New Century REIT Group in the PRC are currently, and will be, either leased or managed by us. Please refer to the sub-section headed “– Non-competition Undertaking” in this section for further details on the Deed of Non-competition and the sub-section headed “Connected Transactions” in this document for further details on the arrangements of the hotels of our Controlling Shareholders that are leased or managed by us. As at the Latest Practicable Date, New Century Tourism had equity interest in two companies, namely Shaoxing Yuzhuang New Century Hotel Management Co., Ltd.\* (紹興禹莊開元酒店管理有限公司) (“**Shaoxing Yuzhuang**”) and Ningbo Shiqifang New Century Resorts Co., Ltd.\* (寧波十七房開元度假村有限公司) (“**Ningbo Shiqifang**”), each of which invested in the operation of hotels by leasing the hotel property from independent third-party hotel owner but outsourced the management of the hotels to our Group.

### (i) Shaoxing Yuzhuang

Shaoxing Yuzhuang, a company established in the PRC and wholly-owned by New Century Tourism, is engaged in the hotel operation of Shaoxing Dayu New Century Grand House\* (紹興大禹開元觀堂) and entered into a hotel lease agreement on September 15, 2017 with Shaoxing Tourism Group Co., Ltd.\* (紹興市旅遊集團有限公司), an Independent Third Party, pursuant to which Shaoxing Yuzhuang leased Shaoxing Dayu New Century Grand House for a term of 20 years, covering a total area of 13,500 sq.m., from the date of the agreement. Shaoxing Dayu New Century Grand House has been managed by our Group pursuant to the full service management agreement entered into between Shaoxing Yuzhuang and our Group since September 15, 2017 for a term of 20 years. As at the Latest Practicable Date, save for Shaoxing Dayu New Century Grand House, Shaoxing Yuzhuang has not operated any other hotels.

### (ii) Ningbo Shiqifang

Ningbo Shiqifang, a company established in the PRC and wholly-owned by New Century Tourism, is engaged in the hotel operation of Ningbo Shiqifang New Century Resort (寧波十七房開元度假村) and entered into a hotel lease agreement on January 1, 2014 with an Independent Third Party, pursuant to which Ningbo Shiqifang leased Ningbo Shiqifang New Century Resort\* (寧波十七房開元度假村) for a term of 20 years, covering a total area of 36,705 sq.m., from the date of the agreement. Ningbo Shiqifang New Century Resort has been managed by our Group pursuant to the full service management agreement entered into between Ningbo Shiqifang and our Group since January 1, 2014 for a term of 20 years. As at the Latest Practicable Date, save for Ningbo Shiqifang New Century Resort, Ningbo Shiqifang has not operated any other hotels.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

New Century Tourism retained the equity interests in Shaoxing Yuzhuang and Ningbo Shiqifang as New Century Tourism had invested in the respective land physically adjacent to each of Shaoxing Dayu New Century Grand House and Ningbo Shiqifang New Century Resort for the purpose of integrated hotel property development and aimed to consolidate the control of the lease of the two hotels and the ownership of the respective adjacent land under New Century Tourism to develop the properties under the same “New Century (開元)” brand. New Century Tourism subsequently entered into the full service management agreements with us to manage the said hotels after we assessed the economic benefits between leasing or managing both hotels as a whole.

New Century Tourism, through its wholly-owned subsidiary, also leased Grand New Century Hotel Kaifeng\* (開封開元大酒店) from the New Century REIT Group pursuant to the lease agreement dated June 29, 2015, for an initial term of ten years and the hotel is also managed by our Group. Given all of Shaoxing Dayu New Century Grand House, Ningbo Shiqifang New Century Resort and Grand New Century Hotel Kaifeng have engaged our Group to provide the full service hotel management services, which means the day-to-day operation and material decisions in relation to the operation of the said hotels shall be under the absolute discretion of our Group, our Directors consider that the lease of hotels by the New Century Tourism Group does not constitute a direct competition of the businesses with our Group.

### *Business delineation between our Group and the New Century Group*

There is a clear delineation of business between the New Century Group (excluding our Group) and our Group, which the New Century Group (excluding our Group) will focus on the investment and development of hotel properties in the PRC whereas our Group will focus on the operation and management of hotel properties in the PRC (the “**Restricted Activity**”). All hotels owned or leased by the New Century Group (excluding our Group) in the PRC have been managed by our Group under the full service management agreement.

Although our Group currently owns two resorts under the brand “New Century Wonderland (開元芳草地鄉村酒店)”, namely Changxing New Century Wonderland Resort (長興開元芳草地鄉村酒店) and Hangzhou Fuchun New Century Wonderland Resort (杭州富春開元芳草地鄉村酒店), investment and development of hotel properties is not and will not be the principal activities of our Group and it is our intention to focus our business in the operation and management of hotels in the PRC by way of hotel lease agreement, full service management agreement and/or franchise agreement. For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, revenue generated from these two resort hotels amounted to nil, RMB19.7 million, RMB36.0 million and RMB56.5 million, respectively, representing nil, 1.2%, 2.2% and 5.0% of the total revenue of our Group, respectively. Apart from the two owned “New Century Wonderland (開元芳草地鄉村酒店)” resort hotels, our Group does not own any of the other hotels that we operate and/or manage. In addition, our Controlling Shareholders do not own any “New Century Wonderland (開元芳草地鄉村酒店)” resort hotel.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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New Century Tourism Group also owned New Century Hotel Frankfurt Offenbach, located in Frankfurt, Germany, which is held by New Century Hotel Management (Germany) Co. Ltd., a subsidiary of New Century Tourism, but has engaged an independent hotel manager for the hotel management service of the hotel. The business of the said hotel and the businesses of our Group is clearly delineated based on the geographical locations as our Group will only conduct the Restricted Activity in the PRC. Such geographical delineation will ring-fence the operations of our Group from any potential competition from the hotels owned by our Controlling Shareholders and managed by third-party hotel managers in Germany.

### *Business delineation between our Group and New Century REIT*

New Century REIT is a collective investment scheme in Hong Kong constituted as a unit trust and authorized under section 104 of the SFO subject to applicable conditions from time to time, the units of which are listed on the Main Board of the Stock Exchange. New Century REIT principally owns an investment portfolio of hotel properties. There will be a clear delineation of business between New Century REIT and our Group, as New Century REIT will only hold the ownership of the hotel properties whereas our Group will focus on the Restricted Activity. All hotels owned by New Century REIT in the PRC have been either leased to or managed by our Group.

New Century REIT also owns Holiday Inn Eindhoven, located in Eindhoven, the Netherlands but has leased the hotel to an independent hotel operation group for the operation of the said hotel. The business of the said hotel and the business of our Group is clearly delineated based on the geographical locations as our Group will only conduct the Restricted Activity in the PRC. Such geographical delineation will ring-fence the operations of our Group from any potential competition from the hotels owned by New Century REIT and operated by third-party hotel group in the Netherlands.

Based on the above, there is a clear delineation between the businesses of the New Century Group and New Century REIT and the business of our Group and our Directors are of the view that there is no significant overlap or competition of the business of our Group and the businesses of the New Century Group and New Century REIT.

Save as described above, as at the Latest Practicable Date, none of our Controlling Shareholders had interests in any business which is, whether directly or indirectly, in competition with our business.

Despite there is no substantive competition that exists between our Group and our Controlling Shareholders, in order to avoid any possible future competition between our Group and our Controlling Shareholders, our Controlling Shareholders have entered into the Deed of Non-Competition in favour of our Company pursuant to which each of our Controlling Shareholders has undertaken not to engage in the Restricted Activity and all hotels owned or leased by the New Century Group in the PRC has been and will be either leased to our Group or managed by our Group under the full service management agreement. Details of the Deed of Non-Competition are set out in the sub-section headed "Deed of Non-Competition" below in this document.



## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

### *Financial independence*

Our accounting and finance department is independent from our Controlling Shareholders, and composed of independent finance staff. Its responsibilities include, among others, financial control, accounting, financial reporting, group credit, internal control. None of our finance staff works for our Controlling Shareholders and/or their respective close associates. We are capable of making financial decisions independently, and our Controlling Shareholders will not interfere with our use of funds. We have established an independent audit system, a standardized financial and accounting system and a comprehensive financial management system. In addition, we manage our bank accounts independently, and do not share any bank accounts with our Controlling Shareholders and/or their respective close associates.

As part of the preparation for listing of New Century REIT in 2013, in order to provide additional protection to the unitholders in the New Century REIT in the event that the Company is unable to secure the Bank Guarantee (as defined below) and is also unable to pay the Base Rent, New Century Tourism, our Controlling Shareholder, has also provided a guarantee (the "**Guarantee**") to New Century Hotel Investment with respect to the obligations of our Company under the Hotel Lease and Management Agreements. Pursuant to the terms of the Hotel Lease and Management Agreements, our Company is also required to procure an irrevocable guarantee from an independent financial institution for an amount up to the Base Rent in favor of New Century REIT with respect our payment obligations. Such arrangements which remain so long as the Hotel Lease and Management Agreements are effective and as such will continue after [REDACTED]. Please refer to sub-section headed "Connected Transactions – Continuing Connected Transactions subject to the reporting, annual review, announcement and independent Shareholders' approval requirement" in this document for further details.

Notwithstanding the existence of the Guarantee, our Company is and will continue to be financially independent from its controlling shareholder, New Century Tourism, for the following reasons:

- (i) throughout the past five year term of the Hotel Lease and Management Agreements, our Company has been able to perform and make all payment obligations under the Hotel Lease and Management Agreements without any financial assistance from New Century Tourism;
- (ii) our Company had a strong financial position with our business operations in a relatively matured and developed market. As at December 31, 2018, our Group has unutilized banking facilities of RMB120.0 million, together with our Group's cash position (excluding restricted cash) of RMB369.7 million, which can fully cover the maximum obligation under the Hotel Lease and Management Agreements under the Base Rent scenario of RMB200 million;

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (iii) the rent (taking into account the hotel operation and management functions to be performed by our Group for the New Century REIT Hotel Properties) payable by our Company under the Hotel Lease and Management Agreements are calculated by reference to the hotels' operating revenue and gross operating profit. As such, if our Company is required to pay a higher amount of rent, it implies that the hotels (which contributed to the revenue and profit of our Company) are performing well financially; and
- (iv) our Company's obligation for payment of rents under the Hotel Lease and Management Agreements are secured by a bank guarantee issued by independent financial institution up to the amount of the Base Rent (the "**Bank Guarantee**"). In the event that our Company is unable to make the shortfall payment, our Company will be able to rely on the Bank Guarantee.

Please refer to sub-section headed "Connected Transactions – Continuing Connected Transactions with New Century REIT – Master Hotel Lease and Management Agreement" in this document for more details on the Hotel Lease and Management Agreements.

Our Directors confirm that all related party balances as at August 31, 2018 which are non-trade in nature has been fully settled as at September 30, 2018. Save as disclosed above, as at the Latest Practicable Date, we had no outstanding loans, non-trade balances, financial assistance or financing in any other forms due to or from our Controlling Shareholders or their close associates; and had not provided any outstanding securities, loans or any other forms of financial assistance to our Controlling Shareholders or their respective close associates. Therefore, our Directors believe that we are financially independent from our Controlling Shareholders.

### ***Management independence***

Our board of Directors comprises two executive Directors, four non-executive Directors and three independent non-executive Directors. Our Directors and members of senior management possess relevant management and/or industry-related experience to act as Directors or senior management of our Company. Each of our Directors is aware of his/her fiduciary duties which require, among other things, that he/she acts for the benefit of and in the best interests of our Company and not allow any conflict between his/her duties as a director and his/her personal interests. Please see section headed "Directors, Supervisors and Senior Management" in this document for details of our Directors and senior management.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Three members of our Board, namely Mr. Jin Wenjie, Mr. Chen Miaolin and Mr. Chen Canrong, currently also hold positions in New Century Tourism, one of our Controlling Shareholders, or its close associates including New Century Holdings and New Century REIT. Set out below is a summary of (i) the Directors' roles within our Group; and (ii) positions currently held by these Directors in New Century Tourism and its close associates including New Century Holdings and New Century REIT as at the Latest Practicable Date:

| Name                     | Role within our Company                       | Role within New Century Tourism and its close associates including New Century Holdings and New Century REIT                                                                              |
|--------------------------|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mr. Jin Wenjie           | Executive Director, and Chairman of the Board | Non-executive director of New Century Tourism; and the chairman and non-executive director of the manager of New Century REIT                                                             |
| Mr. Chen Miaoqiang       | Executive Director, and President             | Nil                                                                                                                                                                                       |
| Mr. Chen Miaolin         | Non-executive Director                        | Director of New Century Tourism and certain of its subsidiaries; and director of New Century Holdings and certain of its subsidiaries                                                     |
| Mr. Chen Canrong         | Non-executive Director                        | Chairman, president and director of New Century Tourism and director of certain subsidiaries of New Century Tourism; and director of New Century Holdings and certain of its subsidiaries |
| Mr. Jiang Tianyi         | Non-executive Director                        | Nil                                                                                                                                                                                       |
| Mr. Zhang Chi            | Non-executive Director                        | Nil                                                                                                                                                                                       |
| Mr. Zhang Rungang        | Independent non-executive Director            | Nil                                                                                                                                                                                       |
| Mr. Khoo Wun Fat William | Independent non-executive Director            | Nil                                                                                                                                                                                       |
| Ms. Qiu Yun              | Independent non-executive Director            | Nil                                                                                                                                                                                       |

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, Mr. Chen Canrong is a director of Ningbo New Century Hotel Co., Ltd.\* (寧波開元大酒店有限公司), a company held as to 20% interest by New Century Tourism. Other than Mr. Jin Wenjie, Mr. Chen Miaoqiang, Mr. Chen Miaolin and Mr. Chen Canrong, none of our other Directors hold any directorship or senior management role in the New Century Tourism Group or close associates of our Controlling Shareholders including the New Century Holdings and New Century REIT Group. Mr. Jin Wenjie is a non-executive director of New Century Tourism and the chairman and non-executive director of the manager of New Century REIT and is not involved in the day-to-day management or affairs and operations of New Century Tourism or New Century REIT. Each of Mr. Chen Miaolin and Mr. Chen Canrong is a non-executive Director in our Company and is not involved in the day-to-day management or affairs and operations of our businesses.

The independent senior management team of our Group is led by a core management team comprising Mr. Chen Miaoqiang, Mr. Hou Frank Feng, Mr. Li Donglin, Ms. Ye Lv, Ms. Zhao Huajuan, Mr. Dai Jianping and Mr. Chen Wenfang, some of whom have served our Group for many years with over ten years of working experience in the field of hotel operation and management. They form part of our core management team together and made material decisions in our business operation during the Track Record Period. Mr. Li Donglin and Ms. Zhao Huajuan hold supervisory roles in certain subsidiaries of New Century Tourism and are not involved in the day-to-day management or affairs and operations of those subsidiaries. Except as disclosed above, there is no overlapping personnel between the senior management team of our Group and the senior management team of the New Century Group and the New Century REIT Group.

Our Directors consider that our Group can function independently from the New Century Group and the New Century REIT Group notwithstanding that some of our Directors also hold positions in the New Century Group and the New Century REIT Group for the following reasons:

- (i) the decision-making mechanism of our board of Directors as set out in our Articles of Association includes provisions for the avoidance of conflicts of interest by providing, among other things, that (a) each Director will be entitled to one vote at our meeting of Board of Directors and decisions of our Board of Directors shall be passed by majority vote; and (b) where there is conflicts of interest, the relevant Director(s) shall abstain from voting, shall not be counted towards quorum in respect of the relevant resolution(s) at such Board meeting, particularly when the transactions are related to New Century REIT Group, Mr. Jin Wenjie as the chairman and non-executive director of the manager of New Century REIT shall observe the above restrictions at the board meeting;
- (ii) each of our Directors is aware of his fiduciary duties as a director which require, among others, that he must act for the benefit and in the best interests of our Company and the Shareholders as a whole and must not allow any conflict to arise between his duties as a Director and his personal interest or his roles in other corporation, including New Century Tourism and New Century REIT. If there is any

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

potential conflict of interest arising out of any transactions to be entered into between our Group and any Directors or his respective close associates, such interested Director is required to abstain from voting at the relevant board meetings of our Company in respect of such transactions and will not be counted in the quorum;

- (iii) six out of nine members of the Board do not hold any board seat or involve in any operation in the New Century Group and the New Century REIT Group upon [REDACTED]. Accordingly, a majority of the members of the Board are independent from the New Century Group and the New Century REIT Group and our Directors who also hold positions in the New Century Group and the New Century REIT Group do not have and will not, whether acting alone or collectively, have an absolute majority to pass any resolution of the Board;
- (iv) three out of nine Directors, i.e. one-third of the Board, are independent non-executive Directors and there is no overlapping of the independent non-executive directors of our Company and of New Century Tourism, which is in line with corporate governance best practice in Hong Kong. None of the independent non-executive Directors has any position or role previously in New Century Tourism and none of the criteria of affecting independence under Rule 3.13 of the Listing Rules applies to them. The independent non-executive Directors either have appropriate academic qualifications or extensive experience in their respectable specialty areas, and have been appointed for the diversity in skills and background they may add to the Board. The independent non-executive Directors are expected to bring impartial and independent judgment to the Board and to take the lead in matters to be discussed by the Board where potential conflicts of interests (between New Century Tourism and our Company) may arise. In addition, the majority of the members of the Audit Committee, the Nomination Committee and Remuneration Committee of our Company are independent non-executive Directors;
- (v) Mr. Jin Wenjie only takes up non-executive roles in New Century Tourism and New Century REIT and his roles are mainly to preside over and participate in board meetings to make decisions on material matters and hence is not involved in the day-to-day management or affairs and operations of New Century Tourism or New Century REIT. Mr. Jin will spend majority of his time in the overall management of our Group;
- (vi) Mr. Chen Miaolin and Mr. Chen Canrong only take up non-executive role in our Company and are only responsible for the provision of guidance for the overall development of our Group and are not involved in the day-to-day management or affairs and operations of our Company; and
- (vii) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders or their close associates which would support our independent management. Please see “– Corporate Governance Measures” in this section for further information.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Our Company has also adopted the Corporate Governance Code (the “**Code**”) as set out in Appendix 14 of the Listing Rules. The Code sets out principles of good corporate governance in relation to, amongst other matters, Directors, the chairman and chief executive officer, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communications with shareholders. We will state in our interim and annual reports whether we have complied with the Code, and will provide details of, and reasons for, any deviations from it in the Corporate Governance Report. Our Company is also required to comply with the Model Code for Securities Transactions by Directors of Listed Issuers which provides, amongst other matters, prohibitions on Directors’ dealings in securities and protection of minority shareholders’ rights. Further, following the [REDACTED], our Board of Directors will be required to comply with provisions under the Listing Rules and certain matters, such as connected transactions, are subject to review by our independent non-executive Directors. Our Directors are of the view that the significant proportion of independent non-executive Directors comprising our Board should enhance our overall corporate governance standards.

Our Board is therefore satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interests between our Group and each of our Controlling Shareholders, and to protect minority shareholders’ rights after the [REDACTED].

Based on the above, our Directors are satisfied that our Board of Directors as a whole together with our management team are able to manage our Company independently of our Controlling Shareholders and their close associates.

### *Operational Independence*

Although our Controlling Shareholders will retain a controlling interest in our Company after the [REDACTED], the Board has full rights to make all decisions on, and to carry out, its own business operations independently.

Our Company has its own management team, of which most members are independent from our Controlling Shareholders. Moreover, our Company (through its subsidiaries) holds all relevant licenses necessary to carry on its businesses, and has sufficient capital, equipment and employees to operate its business independently from our Controlling Shareholders. Our Group has independent access to sources of customers and suppliers. Our Group has also established a set of internal control procedures which facilitate the effective operation of our business. Further, our Group has our own operating facilities and resources.

The section headed “Connected Transactions” in this document sets out the continuing connected transactions between our Group and our Controlling Shareholders or their associates which will continue after the completion of the [REDACTED]. All such transactions are determined after arm’s length negotiations and on normal commercial terms. Save as those disclosed in the section headed “Connected Transaction” in this document, our Directors currently do not expect that following the [REDACTED], there will be other material connected transactions between our Company and our Controlling Shareholders or their respective associates. Our Directors confirm that we will fully comply with Chapter 14A of the Listing Rules if any other connected transaction arises in the future.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Based on the above, our Directors believe that there is no operational dependence by us on our Controlling Shareholders.

### NON-COMPETITION UNDERTAKING

Each of our Controlling Shareholders jointly and severally, entered into the Deed of Non-Competition in our favor, pursuant to which each of our Controlling Shareholders has undertaken to us that, during the Non-Compete Period (as defined below), he or it will not, whether as principal or agent and whether undertaken directly or indirectly (including through any close associate (as defined in the Listing Rules from time to time), subsidiary, partnership, joint venture or other contractual arrangement of his or its) and whether for profit or otherwise, carry on, engage, invest, participate or otherwise be interested in any business of operating or managing hotels in the PRC (the "**Restricted Business**").

Notwithstanding the foregoing, each of our Controlling Shareholders may:

- (i) have interests in shares or other securities (whether or not listed on any stock exchange) of a company conducting any Restricted Business, provided that the relevant Controlling Shareholder and his or its close associates taken together are not so interested as to be able to exercise or control the exercise of 10% or more of the voting power at the general meetings of such company; and
- (ii) at all times there is another independent shareholder who either alone is, or together with its or its close associates taken together are, directly or indirectly interested so as to be able to exercise or control the exercise of a greater amount of voting power at general meetings of such company than he/she is able, or control the composition of a majority of the board of directors of such company.

The "Non-Compete Period" stated in the Deed of Non-Competition refers to the period commencing on the [REDACTED] and ending on the earlier of:

- (i) the date on which the relevant Controlling Shareholder, individually or collectively, ceases to be a Controlling Shareholder of our Company within the meaning of the Listing Rules; and
- (ii) the date on which the Shares cease to be listed on the Stock Exchange.

Each of our Controlling Shareholders has further undertaken that it shall first refer to our Company or make available to our Company any commercial opportunity relating to the Restricted Business (the "**Business Opportunity**") that is identified by, or offered by a third-party to, it or its close associates or connected persons in the following manner:

- (i) he/it shall and shall procure that his/its close associates (excluding our Group) and connected persons provide our Company a written notice of such Business Opportunity (the "**Opportunity Notice**") together with all information relating to



## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

the Business Opportunity in his or its possession including the nature of the Business Opportunity, the investment or acquisition costs and other details reasonably necessary for our Company to consider whether such Business Opportunity constitute competition with our Group's business and whether it is in the interest of our Group to pursue such Business Opportunity;

- (ii) our Company shall inform our Directors (including the independent non-executive Directors) of such Business Opportunity in writing immediately upon receiving the Opportunity Notice;
- (iii) our Company, after review and approval by the non-interested Directors of our Company, including the independent non-executive Directors or shareholders of our Company as required under relevant laws and regulations, shall within 30 days from receipt of the Opportunity Notice notify the Controlling Shareholders in writing of any decision taken to pursue or decline such new business opportunity;
- (iv) the relevant Controlling Shareholder shall be entitled to carry on, engage in, invest in, participate in or otherwise be interested in such Business Opportunity, or appoint a third-party to conduct such Business Opportunity if (i) he/it has received a notice from our Company declining such Business Opportunity or (ii) he/it has not received any notice or request for more time from our Company within 30 business days from the date on which our Company received the written notice of such Business Opportunity given by the relevant Controlling Shareholder, provided that the principal terms by which any Controlling Shareholders (or his or its relevant close associate(s) subsequently engages in, invests in, participates in or otherwise is interested in such Restricted Business, or appoint, a third-party to conduct such Restricted Business are not more favorable in any material aspect than those disclosed to our Company; and
- (v) if there is any material change in the nature of such Business Opportunity pursued by the relevant Controlling Shareholders, he/it will refer such Business Opportunity as so revised to our Company in the aforesaid manner as if it were a new Business Opportunity.

## CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to ensure compliance by our Controlling Shareholders (including New Century Tourism, Mr. Chen Miaolin, Mr. Chen Canrong and Mr. Zhang Guanming) of their non-competition undertakings set out above, and to manage any potential conflict of interests arising from the business of our Controlling Shareholders and to safeguard the interests of our Shareholders, including:

- (i) any conflicted Director, meaning any Director who is also a director or member of the senior management of each of our Controlling Shareholders, will abstain from voting in any meeting of the shareholders and/or the Board where there is any actual

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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or potential conflicting interest, including matters relating to the exercise of the rights of first refusal granted in favor of our Company or any other connected transactions pursuant to contractual arrangements with any of our Controlling Shareholders;

- (ii) our independent non-executive Directors will review, on an annual basis, pre-emptive rights granted by our Controlling Shareholders, the compliance with the undertakings by each of our Controlling Shareholders under their respective non-competition undertakings (the “**Competition Matters**”);
- (iii) our Controlling Shareholders will provide all information requested by our Company that is necessary for the annual review by our independent non-executive Directors of the Competition Matters, including the disclosure of details of their compliance with and the enforcement of their non-competition undertakings consistent with the principles of voluntary disclosure in the Corporate Governance Report contained in Appendix 14 to the Listing Rules;
- (iv) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to the Competition Matters, including (i) compliance and enforcement of our Controlling Shareholders’ non-competition undertakings; (ii) the exercise of the pre-emption rights where a business opportunity is referred to our Group; and/or (iii) any decision on the enforcement of breaches of our Controlling Shareholders’ non-competition undertakings either through the annual reports of our Company, or by way of public announcement;
- (v) we believe that our Board has a balanced composition of executive Directors, non-executive Directors and independent non-executive Directors so that there is a strong element on the Board that can effectively exercise independent judgment. With expertise in different professional fields, our Directors believe that our independent non-executive Directors have the necessary caliber and expertise to form and exercise independent judgment in the event that conflicts of interest between our Group and our Controlling Shareholders arise; and
- (vi) in the event that potential conflicts of interest may materialize, the relevant Controlling Shareholder will abstain from voting in the Shareholders’ meeting of our Company with respect to the relevant resolution(s).

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## CONNECTED TRANSACTIONS

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We have entered into a number of agreements with our connected persons the details of which are set out below. The transactions disclosed in this section will constitute continuing connected transactions under Chapter 14A of the Listing Rules upon [REDACTED].

### CONTINUING CONNECTED TRANSACTIONS FULLY EXEMPT FROM THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

#### Onshore Trademark Agreement

On June 14, 2013 a trademark licensing agreement was entered into between our Company and New Century Hotel Investment (the "Onshore Trademark Agreement") pursuant to which New Century Hotel Investment transferred, free of any royalty or other payments, to our Company, an exclusive right to use the PRC Trademarks. Pursuant to the Onshore Trademark Agreement, our Company agreed to grant New Century Hotel Investment and its subsidiaries with a right to use the PRC Trademarks, free of any royalty or other payments, for the benefit of the business of each of the New Century REIT Hotel Properties. Our Company's grant of the use of the PRC Trademarks shall be valid for a period of ten years and may be renewed at New Century Hotel Investment's option. During the period of the grant, our Company shall maintain the registration of the PRC Trademarks. Our Company has also agreed to increase the scope of the relevant trademark registrations if required by New Century Hotel Investment. Details of the PRC Trademarks are set forth in the sub-section (i)(a) under "Appendix VII – Statutory and General Information – B. Further Information about our Business – 2. Intellectual property rights of our Company" in this document.

Our Directors are of the view that as the exclusive right to use PRC Trademarks were transferred to our Company free of any royalty or other payments by New Century Hotel Investment in the first place, the grant of the right to use the PRC Trademarks to New Century Hotel Investment, free of any royalty or other payments is fair and reasonable and a term of more than three years is normal business practice for agreements of this type to be of such duration.

New Century Hotel Investment is a company controlled by New Century REIT, which is in turn under the common control of one of our Controlling Shareholders, Mr. Chen Miaolin. New Century Hotel Investment is therefore a connected person of our Company by virtue of being an associate of Mr. Chen Miaolin. As such, the transactions contemplated under the Onshore Trademark Agreement which will continue after the [REDACTED] shall constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

As the right to use the PRC Trademarks are granted to New Century Hotel Investment on a royalty – free basis under the Onshore Trademark Agreement, the transaction contemplated under the Onshore Trademark Agreement was entered into on normal commercial terms and the applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules will be less than 0.1% on an annual basis. By virtue of Rule 14A.76(1) of the Listing Rules, this transaction will be exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## CONNECTED TRANSACTIONS

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### Deed of Hong Kong Trademark License

On August 20, 2018, a deed of trademark licence was entered into between our Company and Tecway Real Estate Limited (“**Tecway Real Estate**”) (the “**Deed of Hong Kong Trademark License**”), pursuant to which Tecway Real Estate agreed to grant to our Company and other members of our Group a non-exclusive and non-transferable right and license to use its trademarks registered in Hong Kong (the “**New Century Hong Kong Trademarks**”) for a perpetual term commencing from the date of the Deed of Hong Kong Trademark License, which is subject to the renewal of the licensed trademarks, on a royalty-free basis. Details of the New Century Hong Kong Trademarks are set forth in the sub-section (i)(b) under “Appendix VII – Statutory and General Information – B. Further Information about Our Business – 2. Intellectual property rights of our Company” in this document.

Our Directors believe that entering into the Deed of Hong Kong Trademark License with a term of more than three years can ensure the stability of our operations, and is beneficial to the interests of our Company and our Shareholders as a whole. Our Directors are of the view that it is normal business practice for agreements of this type to be of such duration.

Tecway Real Estate is held by our Controlling Shareholders. Tecway Real Estate is therefore a connected person of our Company by virtue of being an associate of our Controlling Shareholders. As such, the transactions contemplated under the Deed of Hong Kong Trademark License which will continue after the [REDACTED] shall constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

As the right to use the New Century Hong Kong Trademark is granted to our Company on a royalty-free basis under the Deed of Hong Kong Trademark License, the transaction contemplated under the Deed of Hong Kong Trademark License was entered into on normal commercial terms and the applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules will be less than 0.1% on an annual basis. By virtue of Rule 14A.76(1) of the Listing Rules, this transaction will be exempt from the reporting, annual review, announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

### Other de minimis transactions

We have entered into the following continuing connected transaction which is expected to continue after the [REDACTED]. Since (i) the highest relevant percentage of the following transaction is expected to be below 5.0%; (ii) the value of the following transactions on an annual basis is expected to be less than HK\$3.0 million; and (iii) the following transaction is on normal commercial terms or better, the following transaction will be fully exempt pursuant to Rule 14A.76(1) of the Listing Rules from the reporting, annual review, announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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## CONNECTED TRANSACTIONS

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### *Supply of carpet from Chaoyi Carpet*

During the Track Record Period and after, our Group purchased carpets and the related services from Hangzhou Xiaoshan Chaoyi Carpet Co., Ltd.\* (杭州蕭山超藝地毯有限公司) (“**Chaoyi Carpet**”) from time to time for the purpose of its hotel renovation and decoration. Chaoyi Carpet is owned as to 90.0% by Ms. Huang Yuae, spouse of Mr. Chen Miaolin, one of our Controlling Shareholders and therefore is a connected person of our Company under the Listing Rules.

### **Buying or selling of consumer services and goods**

Our Group from time to time procures or provides the following services and goods from/to our connected persons (such as associates of our Controlling Shareholders, our Directors or our Supervisors), which are of a type ordinarily supplied for private use or consumption for the purpose of Chapter 14A of the Listing Rules:

*Selling of consumer services and goods:* our Group provides to our connected persons hotel services, including but not limited to hotel accommodation and services, food and beverage services and MICE services, and consumer goods at our operated hotels.

*Buying of consumer services and goods:* the New Century Group provides to the employees of our Group hotel services, including but not limited to food and beverage services, and consumer goods at hotels owned or leased by the New Century Group.

Our procurement or provision of the above consumer services and goods are (i) made in its ordinary and usual course of business; (ii) made on equivalent terms as those to independent third-party consumers procuring or providing such consumer services and goods from or to such connected persons in the open market; and (iii) for the consumption by our employees or our connected persons and not for resale. Each of the above transactions will therefore be fully exempt pursuant to Rule 14A.97 of the Listing Rules from the reporting, annual review, announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

## **CONTINUING CONNECTED TRANSACTIONS SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT REQUIREMENTS BUT EXEMPT FROM THE INDEPENDENT SHAREHOLDERS’ APPROVAL REQUIREMENT**

### **Full Service Management Services Framework Agreement**

On February 12, 2019, our Group entered into a full service management services framework agreement (the “**Full Service Management Services Framework Agreement**”) with New Century Tourism and New Century Holdings, pursuant to which our Group agreed to provide to the New Century Tourism Group and the New Century Holdings Group full service hotel management services, including but not limited to integrated hotel technical and operational management services which consist of market research, development planning,

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## CONNECTED TRANSACTIONS

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construction advisory, hotel opening preparation and hotel operation management services, staff training services, room reservation services and IT services (the “**Full Service Hotel Management Services**”), for a term commencing from the [REDACTED] until December 31, 2021.

### *Reasons for the transactions*

The provision of hotel management services is the core business of our Group and we work with around 200 hotel owners as at August 31, 2018 for our hotel management business, of which New Century Tourism Group and New Century Holdings Group (as a group) is only one of many hotel owners who we worked with. Our Directors consider that the provision of the hotel management services under the Full Service Management Services Framework Agreement is consistent with the business and commercial objectives of our Group as a service provider in hotel management industry in the PRC, and beneficial to our Company and our shareholders as a whole.

### *Historical amount*

As at December 31, 2015, 2016, 2017 and August 31, 2018, there were 13, nine, nine and nine full service managed hotels that were covered under the Full Service Management Services Framework Agreement, respectively. For the years ended December 31, 2015, 2016 and 2017 and eight months ended August 31, 2018, the total amount of fees paid by the New Century Tourism Group and the New Century Holdings Group for the Full Service Hotel Management Services provided by our Group, excluding those discontinued related party transactions as set out in the sub-section headed “Financial Information – Related Party Transactions and Balances – Material Related Party Transaction – Discontinued Related Party Transactions” in this document, amounted to RMB47.7 million, RMB23.9 million, RMB29.2 million and RMB24.4 million, respectively.

### *Pricing policy*

The fees to be received by our Group for the provision of Full Service Hotel Management Services shall be determined after arm’s-length negotiations taking into account the location of the hotel and the scope of service required, with reference to the fees for similar services and similar type of projects in the market. The service fees shall not be set on a less favorable terms as compared to what we typically charge hotel owners who are Independent Third Parties.

### *Annual cap and basis for annual cap*

Our Directors estimate that there will be 12, 12 and 13 full service managed hotels as at December 31, 2019, 2020 and 2021 respectively that will be covered under the Full Service Management Services Framework Agreement and the maximum annual fee payable by the New Century Tourism Group and the New Century Holdings Group in relation to the services to be provided by our Group under the Full Service Management Services Framework Agreement for each of the three years ending December 31, 2021 will not exceed RMB43.0 million, RMB50.0 million and RMB57.0 million, respectively.



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## CONNECTED TRANSACTIONS

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The proposed annual caps are estimated based on fees our Group is expected to receive for provision of hotel management services and primarily depend on (i) the number of existing hotels that our Company currently manage; (ii) the number of new hotels that our Company expects to manage; (iii) the historical level of management fees collected for each hotel; (iv) expected level revenue and GOP performance these existing and new hotels are expected to generate; and (v) the range of services such as staff training, room reservation and IT services our Group is expected to provide.

The increase in proposed annual caps from 2019 to 2021 is primarily driven by (i) organic growth in the level of management fee of relatively established hotels based on their expected revenue and GOP growth; (ii) increase in additional management fee to be collected from recently opened hotels in 2017 (one hotel) and September 2018 (one hotel) respectively as these two relatively new hotels progressed through the initial ramp up period; and (iii) three new hotels under existing contracted pipeline, which are expected to commence operation in 2019 (two hotels) and 2021 (one hotel).

Our Directors have considered the following factors in arriving at the above annual caps which are considered to be fair and reasonable and justifiable in the circumstances:

- (i) the historical transaction amounts during the Track Record Period and the unaudited transaction amount for the year ended December 31, 2018;
- (ii) the estimated revenue to be recognized in relation to the Full Service Hotel Management Services provided by our Group pursuant to existing contracts; and
- (iii) the hotel pipeline that our Group has already contracted for and expected to be contracted with the New Century Tourism Group and the New Century Holdings Group.

### **Sale of Goods and Services Framework Agreement**

On February 12, 2019, our Group entered into a sale of goods and services framework agreement (the **"Sale of Goods Framework Agreement"**) with New Century Tourism and New Century Holdings, pursuant to which our Group agreed to provide to the New Century Tourism Group and the New Century Holdings Group certain goods and services, including but not limited to hotel supplies and red wine (the **"Sale of Goods and Services"**), for a term commencing from the [REDACTED] until December 31, 2021.



## CONNECTED TRANSACTIONS

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### ***Reasons for the transactions***

We utilize a centralized procurement system which is responsible for procurement and supply of hotel supplies to all our hotels in our portfolio, including those we managed on behalf of the New Century Tourism Group and the New Century Holdings Group. The supply of hotel supplies through our centralized procurement system can ensure the quality and maintain the cost-efficiency of our hotel supplies. We would also be able to leverage on our economies of scale and obtain more competitive prices from our suppliers which could in turn minimize the operating expenses for our hotels, which we believe would be beneficial to our Company and our Shareholders as a whole.

### ***Historical amount***

As at December 31, 2015, 2016, 2017 and August 31, 2018, there were nine, ten, nine and nine full service managed hotels that were covered under the Sale of Goods and Services Framework Agreement respectively. For the years ended December 31, 2015, 2016 and 2017 and eight months ended August 31, 2018, the total amount of fees paid by the New Century Tourism Group and the New Century Holdings Group for the Sale of Goods and Services provided by our Group, excluding those discontinued related party transactions as set out in the sub-section headed "Financial Information – Related Party Transactions and Balances – Material Related Party Transaction – Discontinued Related Party Transactions" in this document, amounted to RMB8.4 million, RMB15.8 million, RMB14.2 million and RMB8.7 million, respectively.

### ***Pricing policy***

The fees to be received by our Group for the provision of Sale of Goods and Services shall be determined with reference to the prevailing market price after arm's-length negotiations taking into account the relevant procurement cost, our operational expenses and the then prevailing market conditions. Our Group will issue a recommended price list to hotels in its portfolio for each type of hotel supplies periodically and the prices of the products to be sold will be made with reference to such price list. The fees shall be not lower than the fees to be received from Independent Third Parties.

### ***Annual cap and basis for annual cap***

Our Directors estimate that there will be 12, 12 and 13 full service managed hotels as at December 31, 2019, 2020 and 2021 respectively that will be covered under the Sale of Goods and Services Framework Agreement and the maximum annual fee payable by the New Century Tourism Group and the New Century Holdings Group in relation to the goods and services to be provided by our Group under the Sale of Goods and Services Framework Agreement for each of the three years ending December 31, 2021 will not exceed RMB22.0 million, RMB25.0 million and RMB28.0 million, respectively.

## CONNECTED TRANSACTIONS

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The proposed annual caps are estimated based on fees our Group is expected to receive for sales of goods and services and primarily depend on (i) the number of existing hotels that our Company currently provides sales and services; (ii) the number of new hotels that our Company expects to provide sales and services; and (iii) the expected food and beverage revenue from these existing and new hotels to generate; and (iv) the historical procurement amount from our Group and the expected procurement amount going forward.

The increase in proposed annual caps from 2019 to 2021 is primarily driven by (i) organic growth in the level of procurement of relatively established hotels based on their historical operational performance; (ii) increase in procurement amount from recently opened hotel in 2018 (one hotel) as this relatively new hotel progressed through the initial ramp up period; and (iii) three new hotels under existing contracted pipeline, which are expected to commence operation in 2019 (two hotels) and 2021(one hotel).

Our Directors have considered the following factors in arriving at the above annual caps which are considered to be reasonable and justifiable in the circumstances:

- (i) the historical transaction amounts during the Track Record Period and the unaudited transaction amount for the year ended December 31, 2018;
- (ii) the number of hotels we expect to manage for the New Century Tourism Group and the New Century Holdings Group and the expected level of demand for goods and services; and
- (iii) price of hotel supplies we supply to other independent third-party hotel owners.

### **Supply of Hotel Services and Goods Framework Agreement**

On February 12, 2019, our Group entered into a supply of hotel services and goods framework agreement (the “**Supply of Hotel Services and Goods Framework Agreement**”) with New Century Tourism, pursuant to which New Century Tourism Group agreed to provide to our Group certain hotel services, including but not limited cleaning services and electrical wiring products, (the “**Supply of Hotel Services and Goods**”), for a term commencing from the [REDACTED] until December 31, 2021.

## CONNECTED TRANSACTIONS

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### *Reasons for transactions*

As part of our ordinary and usual course of business, our Group rely on third-party providers, including New Century Tourism Group, of certain ancillary hotel services and certain hotel goods and supplies from time to time. We have been using the services and products provided by the New Century Tourism Group in the past and the New Century Tourism Group has been able to provide us with a long-term stable supply of such services and goods. As a result, the New Century Tourism Group understands our business and operational requirements well. We believe that it is beneficial to maintain a stable and quality supply of general hotel services and goods for our existing and future operation and we believe the New Century Tourism Group can efficiently fulfill our requirements with stable and quality supply of the requisite hotel related services and goods.

### *Historical amount*

As at December 31, 2015, 2016, 2017 and August 31, 2018, there were eight, ten, eight and ten leased hotels that were covered by the Supply of Hotel Services and Goods Framework Agreement respectively. For the years ended December 31, 2015, 2016 and 2017 and eight months ended August 31, 2018, the total amount of fees paid by our Group for the Supply of Hotel Services and Goods to the New Century Tourism Group, excluding those discontinued related party transactions as set out in the sub-section headed "Financial Information – Related Party Transactions and Balances – Material Related Party Transaction – Discontinued Related Party Transactions" in this document, amounted to RMB10.9 million, RMB11.7 million, RMB12.0 million and RMB8.3 million, respectively.

### *Pricing policy*

The fees to be paid for the Supply of Hotel Services and Goods shall be determined after arm's-length negotiations taking into account the market price in the prevailing market for similar services and goods for hotels of similar standard provided by independent services providers in the open market by: (i) in respect of the cleaning services, the price of cleaning charged by another independent supplier which is of comparable size and operation to the service provided by New Century Tourism Group; and (ii) in respect of other services and goods, the prices of services and goods charged by at least two other independent suppliers in the market for similar services and goods. The fees shall not be higher than the standard fees to be charged by Independent Third Parties.

### *Annual cap and basis for annual cap*

Our Directors estimate that there will be nine, nine and nine leased hotels as at December 31, 2019, 2020 and 2021 respectively that will be covered under the Supply of Hotel Services and Goods Framework Agreement and the maximum annual fee payable by our Group in relation to the Supply of Hotel Services and Goods to be provided by the New Century Tourism Group under the Supply of Hotel Services and Goods Framework Agreement for each of the three years ending December 31, 2021 will not exceed RMB15.0 million, RMB15.0 million and RMB15.0 million, respectively.

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## CONNECTED TRANSACTIONS

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The proposed annual caps are estimated based on fees our Group is expected to pay for the use of hotel services such as cleaning services and electrical wiring products and primarily depend on (i) the number of existing hotels that our Group operates which are currently utilizing such services for; (ii) the number of new hotels that our Company expects to use such services; and (iii) the historical utilization for such services and the expected scope of services required going forward.

The proposed annual cap for the three years ending December 31, 2021 are expected to be relatively stable which amounted to RMB15.0 million as the number of hotels covered by the Supply of Hotel Services and Goods Framework Agreement is expected to remain at nine hotels for the three years ending December 31, 2021.

Our Directors have considered the following factors in arriving at the above annual caps which are considered to be reasonable and justifiable in the circumstances:

- (i) the historical transaction amounts during the Track Record Period and the unaudited transaction amount for the year ended December 31, 2018;
- (ii) the number of hotels under our hotel pipeline;
- (iii) the price charged by the New Century Tourism Group for similar services and goods in the prevailing market to its other customers; and
- (iv) the price charged by other independent third-party providers for similar services and goods in the prevailing market.

New Century Tourism is one of our Controlling Shareholders and therefore is a connected person of our Company under the Listing Rules. New Century Holdings is owned as to 85.2% by Mr. Chen Miaolin, our non-executive Director and one of our Controlling Shareholders and therefore is an associate of Mr. Chen Miaolin and hence a connected person of our Company under the Listing Rules. Accordingly, the transactions under the Full Service Management Services Framework Agreement, Sale of Goods and Services Framework Agreement and Supply of Hotel Services and Goods Framework Agreement will constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules upon [REDACTED].

### Supply of Wine Products Framework Agreement

On February 12, 2019, our Group entered into a supply of wine products framework agreement (the “**Supply of Wine Products Framework Agreement**”) with Birot by New Century, pursuant to which Birot by New Century agreed to provide to our Group certain wine products, including but not limited to red wine (the “**Supply of Wine Products**”), for a term commencing from the [REDACTED] until December 31, 2021.

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## CONNECTED TRANSACTIONS

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### *Reasons for transactions*

As part of our ordinary and usual course of business, our Group rely on third-party providers, including Birot by New Century, of certain wine products from time to time. Birot by New Century is the owner of a wine vineyard in Bordeaux, France and is indirectly owned by Mr. Chen Miaolin as to 83.9%. We have been using the wine products provided by Birot by New Century in the past and Birot by New Century has been able to provide us with a long-term stable supply of such wine products. Due to the demand from our F&B services, we believe that it is beneficial to maintain a stable and quality supply of wine products for our existing and future operation and we believe Birot by New Century can efficiently fulfill our requirements with stable and quality supply of the requisite wine products.

### *Historical amount*

For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, the total amount of fees paid by our Group for the Supply of Wine Products to Birot by New Century amounted to RMB6.2 million, RMB5.2 million, RMB7.2 million and RMB3.5 million, respectively.

### *Pricing policy*

The fees to be paid for the Supply of Wine Products shall be determined after arm's-length negotiations taking into account the price of wine products that Birot by New Century charges to other independent third-party customers. Our Group will obtain at least two quotations charged by Birot by New Century to other independent third-party customers for similar wine products to ensure the fees paid by our Group to Birot by New Century shall not be higher than the fees paid to Birot by New Century by Independent Third Parties.

### *Annual cap and basis for annual cap*

Our Directors estimate that the maximum annual fee payable by our Group in relation to the Supply of Wine Products to be provided by Birot by New Century under the Supply of Wine Products Framework Agreement for each of the three years ending December 31, 2021 will not exceed RMB7.5 million, RMB7.5 million and RMB7.5 million, respectively.

Our Directors have considered the following factors in arriving at the above annual caps which are considered to be reasonable and justifiable in the circumstances:

- (i) the historical transaction amounts during the Track Record Period and the unaudited transaction amount for the year ended December 31, 2018;
- (ii) the number of hotels under our hotel pipeline; and
- (iii) the price charged by Birot by New Century for similar wine products in the prevailing market to other independent third-party customers.

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## CONNECTED TRANSACTIONS

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Birot by New Century is indirectly interested as to 83.9% by Mr. Chen Miaolin, our non-executive Director and one of our Controlling Shareholders and therefore is an associate of Mr. Chen Miaolin and hence a connected person of our Company under the Listing Rules. Accordingly, the transactions under the Supply of Wine Products Framework Agreement will constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules.

As each of the applicable ratios under the Listing Rules in respect of the respective annual caps in relation to the Full Service Management Services Framework Agreement, Sale of Goods and Services Framework Agreement, Supply of Hotel Services and Goods Framework Agreement and Supply of Wine Products Framework Agreement, is expected to be less than 5.0%, the transactions under the Full Service Management Services Framework Agreement, Sale of Goods and Services Framework Agreement, Supply of Hotel Services and Goods Framework Agreement and Supply of Wine Products Framework Agreement will be exempt from the independent Shareholders' approval requirement but subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

### CONTINUING CONNECTED TRANSACTIONS SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT

#### Master Hotel Lease and Management Agreement

New Century Hotel Investment, New Century Hotel Management, New Century Tourism and New Century Asset Management Limited (the "**REIT Manager**") entered into a framework agreement dated June 14, 2013 (the "**Master Hotel Lease and Management Agreement**") on June 14, 2013, which sets out the general guidelines and principles for the lease and management of the five New Century REIT Hotel Properties under the separate Hotel Lease and Management Agreements for each New Century REIT Hotel Property.

On June 14, 2013, (i) New Century Hotel Investment, (ii) Changchun New Century Grand Hotel Co., Ltd.\* (長春開元名都大酒店有限公司), (iii) Ningbo New Century Grand Hotel Co., Ltd.\* (寧波開元名都大酒店有限公司), (iv) Chun'an Qiandao Lake New Century Spearhead Investment Co., Ltd.\* (淳安千島湖開元銳至投資有限公司), and (v) Zhejiang Xiaoshan Hotel Co., Ltd.\* (浙江蕭山賓館股份有限公司) (the "**Property Companies**"), being companies controlled by New Century REIT and registered owners of the New Century REIT Hotel Properties, entered into separate Hotel Lease and Management Agreements with New Century Hotel Management for the lease and management of each of the New Century REIT Hotel Properties. New Century Hotel Management is the lessee and the hotel manager under the Hotel Lease and Management Agreements.

Each of the Hotel Lease and Management Agreements is for a term of ten years commencing from July 10, 2013, the listing date of New Century REIT on the Stock Exchange (the "**REIT Listing Date**"), and expiring on the tenth anniversary of the REIT Listing Date (the "**First Ten – Year Term**"). New Century Hotel Management has also granted the REIT



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## CONNECTED TRANSACTIONS

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Manager an option, exercisable solely at the REIT Manager's discretion to renew the Hotel Lease and Management Agreements for a further term of ten years (the "**Renewed Ten – Year Term**"), with a renewed market rental package to be determined by an independent professional property valuer to be jointly appointed by New Century Hotel Investment and New Century Hotel Management.

### *Pricing policy*

For the first five years of the Master Hotel Lease and Management Agreement commencing from July 10, 2013 to July 9, 2018, New Century Hotel Management is required to pay a minimum aggregate annual base rent of RMB216 million pursuant to the terms under the Master Hotel Lease and Management Agreement, unless the Total Rent (as defined below) is more than the Base Rent in which case the Total Rent is payable.

From the sixth to tenth years of the Hotel Lease and Management Agreements (the "**Subsequent Period**"), the Base Rent will be the aggregate annual base rent for the sixth to the tenth years of the Master Hotel Lease and Management Agreement which will be determined by an independent professional property valuer to be jointly appointed by New Century Hotel Investment and New Century Hotel Management (the "**Market Base Rent**") at least seven months prior to the commencement of each year. In determining the renewed market rental package, the independent professional property valuer to be appointed shall value the market rental value of the underlying New Century REIT Hotel Properties in accordance with the then prevailing valuation standards of The Hong Kong Institute of Surveyors, which will form the basis to the Market Base Rent, and other elements of the market rental package, including the amount or calculation of the Individual Rents (as defined below), the amount of security deposit required and the amount to be covered by irrevocable guarantee(s) to be issued by licensed bank(s) in the PRC. If the Market Base Rent is lower than 85.0% of the average annual rent received from New Century Hotel Management for the New Century REIT Hotel Properties for the preceding four years, the Base Rent with respect to the New Century REIT Hotel Properties during the Subsequent Period will be 85% of such annual average rent received from New Century Hotel Management for the preceding four years instead of the Market Base Rent, being no less than RMB183.6 million.

### *Historical amount*

Since the minimum amount of the annual rent received from New Century Hotel Management for each of the preceding four years, from 2014 to 2017, of the Hotel Lease and Management Agreements is RMB216.0 million, the Base Rent for each year during the Subsequent Period would be RMB183.6 million (being 85.0% of the Base Rent for the preceding four years). As disclosed in the announcement made by the REIT Manager on January 18, 2018, Zhejiang New Century Hotel and New Century Hotel Management have jointly appointed Savills, an independent property valuer, to conduct a rent review to determine the Market Base Rent for year 2018, which has been set at RMB200.0 million.



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## CONNECTED TRANSACTIONS

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### *Annual cap and basis of annual cap*

The rent for each of the New Century REIT Hotel Properties is an Individual Rent which is payable monthly in arrear. The individual rent is calculated at 20.0% of the relevant New Century REIT Hotel Property's total monthly operating revenue plus 34.0% of the relevant New Century REIT Hotel Property's Gross Operating Profit for that month (the "**Individual Rent**"). The aggregate of all individual rents (as adjusted) for each year constitute the total rent (the "**Total Rent**"). If the Total Rent (as adjusted based on the audited annual accounts of the Company) is less than the agreed amount of the Base Rent, the Company is obligated to make up for any shortfall within 30 days from the issuance of the audited annual accounts of New Century Hotel Management.

Our Directors estimate that the maximum annual rent payable by our Group in relation to the Master Hotel Lease and Management Agreement for each of the five years ending December 31, 2023 will not exceed RMB237.0 million, RMB244.0 million, RMB251.0 million, RMB259.0 million and RMB267.0 million, respectively. Our Directors have considered the following factors in arriving at the above annual caps which are considered to be reasonable and justifiable in the circumstances:

- (i) the historical transaction amounts during the Track Record Period and the unaudited transaction amount for the year ended December 31, 2018;
- (ii) the estimated operating revenue and gross operating profit to be recognized by each of the New Century REIT Hotel Properties for the five years ending December 31, 2023; and
- (iii) the PRC's projected inflation rates and expected market demand for hotel services in the locations that the New Century REIT Hotel Properties are situated.

If the REIT Manager opts to renew the Hotel Lease and Management Agreements for the Renewed Ten-Year Term upon the expiry of the abovementioned proposed annual caps on December 31, 2023, our Company will re-comply with all applicable requirements under Chapter 14A of the Listing Rules as and when appropriate.

Cushman and Wakefield Limited, the property valuer of our Company, has confirmed that, the terms of the Hotel Lease and Management Agreements are at arm's length, on normal commercial terms and consistent with normal business practice for contracts of the relevant type. On the other hand, the considerations in formulating the proposed annual caps are fair and reasonable and consistent with market practice.

### *Implications under the Listing Rules*

New Century Hotel Investment and the Property Companies, are companies controlled by New Century REIT, which is in turn under the common control of one of our Controlling Shareholders, Mr. Chen Miaolin. New Century Hotel Investment and the Property Companies

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## CONNECTED TRANSACTIONS

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are therefore connected persons of our Company by virtue of being associates of Mr. Chen Miaolin. As such, the transactions contemplated under the Hotel Lease and Management Agreements, which will continue after the [REDACTED], constitute continuing connected transactions of our Company and will be subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. If our Group leases any other hotel properties from our Controlling Shareholders or any of their associates in the future, such transactions will constitute continuing connected transactions of our Company and the Company will comply with all relevant requirements under Chapter 14A of the Listing Rules as and when appropriate.

As each of the applicable ratios under the Listing Rules in respect of the respective annual cap in relation to the Master Hotel Lease and Management Agreement is expected to be above 5%, the transactions under the Master Hotel Lease and Management Agreement is subject to reporting, annual review, announcement and independent Shareholders' approval requirement.

According to Rule 14A.52 of the Listing Rules, the duration of the Hotel Lease and Management Agreements must not exceed three years except in special circumstances where the nature of the transaction requires the Hotel Lease and Management Agreements to be of a duration which is longer than three years. Cushman & Wakefield Limited, the property valuer of our Company, confirms that it is a normal business practice for hotel lease agreements in the hotel industry in the PRC to have a duration of between 10 and 20 years. The Joint Sponsors are of the opinion that the duration under the Hotel Lease and Management Agreements is a normal commercial term for a transaction of this nature and it is normal business practice for contracts of this type to be of such duration and is in compliance with Rule 14A.52 of the Listing Rules.

### APPLICATION FOR WAIVER

The transactions described under the sub-section headed "– Continuing connected transactions subject to the reporting, annual review, announcement requirements but exempt from the independent Shareholders' approval requirement" in this section constitute our continuing connected transactions under the Listing Rules, which are exempt from the independent Shareholders' approval requirements but subject to the reporting, annual review, announcement requirements of the Listing Rules and the transactions described under the sub-section headed "– Continuing connected transactions subject to the reporting, annual review, announcement and independent Shareholders' approval requirement" in this section constitute our continuing connected transactions under the Listing Rules, which are subject to the reporting, annual review, announcement and independent shareholders' approval requirements of the Listing Rules.

In respect of these continuing connected transactions, pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and [the Stock Exchange has granted], waivers exempting us from strict compliance with (i) the announcement requirement under Chapter 14A of the Listing Rules in respect of the continuing connected transactions as disclosed in "– Continuing connected transactions subject to the reporting, annual review, announcement requirements but exempt from the independent shareholders' approval requirement" in this section, subject to the condition that the aggregate amounts of the continuing connected transactions for each

## CONNECTED TRANSACTIONS

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financial year shall not exceed the relevant amounts set forth in the respective annual caps (as stated above); and (ii) the announcement and independent shareholders' approval requirement under Chapter 14A of the Listing Rules in respect of the continuing connected transactions as disclosed in "– continuing connected transactions subject to the reporting, annual review, announcement and independent Shareholders' approval requirement" in this section, subject to the condition that the aggregate amounts of the continuing connected transactions for each financial year shall not exceed the relevant amounts set forth for the annual caps (as stated above).

### OUR DIRECTOR'S VIEWS

Our Directors (including our independent non-executive Directors) consider that all the continuing connected transactions described under the sub-sections headed "– Continuing connected transactions subject to the reporting, annual review, announcement and independent Shareholders' approval requirement" and "– Continuing connected transactions subject to the reporting, annual review, announcement requirements but exempt from the independent Shareholders' approval requirement" have been and will be carried out: (i) in the ordinary and usual course of our business, (ii) on normal commercial terms or better, and (iii) in accordance with the respective terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Our Directors (including our independent non-executive Directors) are also of the view that the annual caps of the continuing connected transactions under the sub-section headed "– Continuing connected transactions subject to the reporting, annual review, announcement requirements but exempt from the independent Shareholders' approval requirement" and "– Continuing connected transactions subject to the reporting, annual review, announcement and independent Shareholders' approval requirement" in this section are fair and reasonable and are in the interests of our Shareholders as a whole.

### THE JOINT SPONSORS' VIEWS

The Joint Sponsors are of the view (i) that the continuing connected transactions described under the sub-sections headed "– Continuing connected transactions subject to the reporting, annual review, announcement and independent Shareholders' approval requirement" and "– Continuing Connected Transactions subject to the reporting, annual review, announcement requirements but exempt from the independent Shareholders' approval requirement" in this section have been and will be entered into in the ordinary and usual course of our business, on normal commercial terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and (ii) that the proposed annual caps of such continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Please also refer to the sub-section headed "Financial Information – Related Party Transactions and Balances – Material Related Party Transactions – Discontinued related party transactions" in this document.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### DIRECTORS

Our Board of Directors consists of two executive Directors, four non-executive Directors and three independent non-executive Directors. Our Board is responsible for and has general powers for the management and conduct of the business of our Group. The appointments of our Directors are subject to the provisions of retirement and rotation at annual general meetings of our Company in accordance with the Articles of Association. The table below sets forth certain information in respect of the members of the Board of Directors:

| Name                           | Age | Date of joining our Group | Date of appointment as Director | Present position in our Company               | Roles and responsibilities in our Group                                                                  | Relationship with other Directors, Supervisors or members of the senior management   |
|--------------------------------|-----|---------------------------|---------------------------------|-----------------------------------------------|----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| <b>Executive Directors</b>     |     |                           |                                 |                                               |                                                                                                          |                                                                                      |
| Mr. Jin Wenjie<br>(金文杰)        | 49  | August 10, 2008           | January 9, 2017                 | Executive Director, and Chairman of the Board | Overall general management and strategic planning and development of our Group                           | None                                                                                 |
| Mr. Chen Miaoqiang<br>(陳妙強)    | 55  | December 17, 2008         | December 17, 2008               | Executive Director, and President             | Overall management and operation of the hotels of our Group                                              | Younger brother of Mr. Chen Miaolin, non-executive Director of our Company           |
| <b>Non-executive Directors</b> |     |                           |                                 |                                               |                                                                                                          |                                                                                      |
| Mr. Chen Miaolin<br>(陳妙林)      | 66  | December 17, 2008         | December 17, 2008               | Non-executive Director                        | Formulation of development strategies and provision of guidance for the overall development of our Group | Elder brother of Mr. Chen Miaoqiang, executive Director and President of our Company |
| Mr. Chen Canrong<br>(陳燦榮)      | 55  | December 17, 2008         | December 17, 2008               | Non-executive Director                        | Provision of guidance for the overall development of our Group                                           | None                                                                                 |
| Mr. Jiang Tianyi<br>(江天一)      | 36  | November 23, 2016         | November 23, 2016               | Non-executive Director                        | Provision of guidance for the overall development of our Group                                           | None                                                                                 |

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

| Name                  | Age | Date of joining our Group | Date of appointment as Director | Present position in our Company | Roles and responsibilities in our Group                        | Relationship with other Directors, Supervisors or members of the senior management |
|-----------------------|-----|---------------------------|---------------------------------|---------------------------------|----------------------------------------------------------------|------------------------------------------------------------------------------------|
| Mr. Zhang Chi<br>(張弛) | 43  | November 23, 2016         | November 23, 2016               | Non-executive Director          | Provision of guidance for the overall development of our Group | None                                                                               |

### Independent non-executive Directors

|                                   |    |                 |                 |                                    |                                              |      |
|-----------------------------------|----|-----------------|-----------------|------------------------------------|----------------------------------------------|------|
| Mr. Zhang Rungang<br>(張潤綱)        | 60 | June 28, 2017   | June 28, 2017   | Independent non-executive Director | Provision of independent advice to our Board | None |
| Mr. Khoo Wun Fat<br>William (丘煥法) | 38 | August 13, 2018 | August 13, 2018 | Independent non-executive Director | Provision of independent advice to our Board | None |
| Ms. Qiu Yun<br>(邱媛)               | 55 | June 28, 2017   | June 28, 2017   | Independent non-executive Director | Provision of independent advice to our Board | None |

### Executive Directors

**Mr. Jin Wenjie (金文杰)**, aged 49, has been a Director and the Chairman of the Board of our Company since January 9, 2017, being responsible for the overall general management and strategic planning and development of our Group. He was re-designated as our executive Director in July 2018. He joined our Group in August 2008 and served as the deputy general manager of the Predecessor until January 2017, being mainly responsible for management of the daily operations of our Group.

Mr. Jin has over ten years of experience in corporate finance and over nine years of experience in hotel operation and management. Prior to joining our Group, Mr. Jin worked at Goldbond Venture Management Limited (金榜融資有限公司), an investment institution in the PRC, as general manager from October 2003 to October 2007, where he was mainly responsible for investment and financing. He then joined Piper Jaffray & Co.'s Shanghai office, an investment institution, from November 2007 to June 2008 as director and the head of China corporate finance. Since February 2016, Mr. Jin has been the vice president of New Century Tourism, being mainly responsible for finance and operations. Since May 2017, he has been serving as the chairman of the board of directors and a non-executive Director of New Century Asset Management Limited, the manager of New Century REIT, where he is mainly responsible for the overall strategic oversight and corporate governance of New Century REIT.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Jin obtained his bachelor's degree in energy engineering from Shanghai Jiao Tong University (上海交通大學) in Shanghai in July 1990 and obtained his master's degree in law from Tongji University (同濟大學) in Shanghai in May 2004. He obtained his lawyer's qualification certificate in August 1997 issued by the Ministry of Justice (司法部) of China.

Mr. Jin was a director of the following companies which were incorporated in the PRC and were deregistered. The relevant details are as follows:

| Name of the company                                                                            | Nature of business of the company              | Nature of proceeding     | Date of dissolution | Reason of dissolution   |
|------------------------------------------------------------------------------------------------|------------------------------------------------|--------------------------|---------------------|-------------------------|
| Jinbang Enterprise Financial Consultant (Shanghai) Co., Ltd.* (金榜企業財務顧問(上海)有限公司)               | Financial management and investment consulting | Voluntary deregistration | September 30, 2007  | Corporate restructuring |
| Jinbang Hualu Investment Consulting Co., Ltd. Jinan Representative Office* (金榜華魯投資諮詢有限公司濟南代表處) | Provision of consulting and liaison services   | Voluntary deregistration | September 30, 2007  | Corporate restructuring |

**Mr. Chen Miaoqiang (陳妙強)**, aged 55, has been a Director of our Company since December 17, 2008 and the president of our Company since January 2017, being responsible for the overall management and operation of the hotels of our Group. He was re-designated as our executive Director in July 2018. He is also currently undertaking the following roles in the respective subsidiaries of our Group:

| Name of subsidiary                                                      | Appointment Since | Position(s) |
|-------------------------------------------------------------------------|-------------------|-------------|
| Hangzhou New Century Hotel Supplies Co., Ltd.* (杭州開元酒店用品有限公司)           | September 1998    | Director    |
| Shanghai Yuege Hotel Operation Co., Ltd.* (上海悅閣酒店經營有限公司)                | January 2010      | Director    |
| Zhejiang New Century Manju Hotel Management Co., Ltd.* (浙江開元曼居酒店管理有限公司) | September 2010    | Director    |
| Ninghai Jinhai Grand New Century Hotel Co., Ltd.* (寧海金海開元名都大酒店有限公司)     | March 2012        | Director    |

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

| Name of subsidiary                                                                  | Appointment Since | Position(s)               |
|-------------------------------------------------------------------------------------|-------------------|---------------------------|
| Tianjin Ruiwan New Century Hotel Management Co., Ltd.* (天津瑞灣開元酒店管理有限公司)             | December 2012     | Director                  |
| Hangzhou New Century Chuanqi Property Leasing Co., Ltd.* (杭州開元傳祺房屋租賃有限公司)           | April 2013        | Director, General Manager |
| Zhejiang Jinshanzi Network Technology Co., Ltd.* (浙江金扇子網絡科技有限公司)                    | November 2013     | Director                  |
| Haining Yanguan Ancient City New Century Resort Hotel Co., Ltd.* (海寧鹽官古城開元度假酒店有限公司) | March 2014        | Director                  |
| Hangzhou Kaiyuan Life Hotel Management Co., Ltd.* (杭州開元頤居酒店管理有限公司)                  | August 2014       | Director                  |
| Ningbo New Century Manju Hotel Management Co., Ltd.* (寧波開元曼居酒店管理有限公司)               | March 2016        | Director                  |
| Tianjin Manju Hotel Management Co., Ltd.* (天津曼居酒店管理有限公司)                            | December 2016     | Director                  |
| Shanghai New Century Manju Hotel Management Co., Ltd.* (上海開元曼居酒店管理有限公司)             | April 2017        | Director                  |
| Changxing Grand New Century Hotel Co., Ltd.* (長興開元名都大酒店有限公司)                        | July 2018         | Director                  |

Mr. Chen has over 25 years of experience in hotel operation and management. Mr. Chen was the manager of the facilities department at our Hangzhou Zhijiang Holiday Resort, the predecessor of Zhijiang New Century Resort, from January 1994 to February 1998. He was then appointed as the property investment supervision manager at New Century Tourism from May 1998 to March 1999. He was the general manager of our Ningbo Grand New Century Hotel from January 2000 to January 2004.

Mr. Chen graduated from Hangzhou Normal University (杭州師範大學, formerly known as Hangzhou Normal College (杭州師範學院)) with a bachelor's degree in physics in July 1985 and graduated from Zhejiang University (浙江大學) with an executive master's degree in business administration in December 2011. Mr. Chen is the younger brother of Mr. Chen Miaolin, one of our non-executive Directors.



## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Chen was a director of the following companies which were incorporated in the PRC and were deregistered due to cessation of business. The relevant details are as follows:

| Name of the company                                                            | Nature of business of the company                     | Nature of proceeding     | Date of dissolution |
|--------------------------------------------------------------------------------|-------------------------------------------------------|--------------------------|---------------------|
| Shanghai Yuanfei Investment Consulting Co., Ltd.*<br>(上海鳶飛投資諮詢有限公司)            | Investment consulting                                 | Voluntary deregistration | September 8, 2003   |
| Shanghai Guangju Investment Consulting Co., Ltd.*<br>(上海廣聚投資諮詢有限公司)            | Investment consulting                                 | Voluntary deregistration | April 15, 2004      |
| Shanghai Yuanfei Investment Consulting Co., Ltd. Branch*<br>(上海鳶飛投資諮詢有限公司分公司)  | Real estate agency                                    | Voluntary deregistration | July 19, 2004       |
| Zhejiang New Century Steel Structure Co., Ltd.*<br>(浙江開元鋼結構有限公司)               | Production, installation and design of steel products | Voluntary deregistration | October 11, 2006    |
| Shanghai New Century Hotel Co., Ltd.* (上海開元大酒店有限公司)                            | Provision of accommodation and catering services      | Voluntary deregistration | April 11, 2011      |
| Nanjing Pukou Jiuyue Hotel Co., Ltd.* (南京浦口久悦大酒店有限公司)                          | Provision of accommodation and catering services      | Voluntary deregistration | May 08, 2013        |
| Changzhou New Century Resort Co., Ltd.* (常州開元度假村有限公司)                          | Retail food prepackaging                              | Voluntary deregistration | May 22, 2013        |
| Ninghai County New Century Grand Century Hotel Co., Ltd.*<br>(寧海縣開元新世紀大酒店有限公司) | Provision of accommodation and catering services      | Voluntary deregistration | June 7, 2016        |
| Hangzhou Xiaoshan New Century Bowling Co., Ltd.* (杭州蕭山開元保齡球有限公司)               | Retail of bowling equipment                           | Voluntary deregistration | April 17, 2006      |

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Chen Miaolin** (陳妙林), aged 66, has been a Director of our Company since December 17, 2008, being mainly responsible for the formulation of development strategies and provision of guidance for the overall development of our Group, and is the founder and one of the Controlling Shareholders of our Group. He was re-designated as a non-executive Director of our Company in July 2018.

Mr. Chen has over 31 years of experience in hotel operation and management. He was the general manager of Xiaoshan Guesthouse from January 1987 to March 1998, being responsible for the general management of the said guesthouse. Mr. Chen was also the general manager of Xiaoshan New Century Tourism Co., Ltd.\* (蕭山開元旅業總公司) from February 1994 to March 1998, being responsible for overall management of the said company. From January 1998 to January 2001, he was appointed as the chairman of the board of directors of Hangzhou New Century Real Estate Group Co., Ltd.\* (杭州開元房地產集團有限公司), a company engaged in the development of real estate. From January 2001 to July 2010, Mr. Chen served as the chairman and the president of New Century Tourism. Since January 2001, Mr. Chen has also been a director of New Century Tourism. From July 2013 to May 2017, he served as the chairman of the board of directors of New Century Asset Management Limited, the manager of New Century REIT.

He has been a member of the Zhejiang Province People's Congress (浙江省人民代表大會) since 2003 and a member of the Xiaoshan District People's Congress (蕭山區人民代表大會) since 1980. Mr. Chen has also been the vice chairman of the China Tourism Association (中國旅遊協會) since January 2009, the chairman of Zhejiang Province Travel Association (浙江省旅遊協會) since November 2016 and the Deputy Chairman of the Hangzhou Federation of Industry & Commerce (杭州市工商業聯合會) since June 2006.

Mr. Chen obtained his master's degree in business management from Macau University of Science and Technology (澳門科技大學) in April 2005. He is a senior economist recognized by the Zhejiang Provincial Bureau of Personnel (浙江省人事廳). He is the elder brother of Mr. Chen Miaoqiang, an executive Director of our Company.

In recognition of his leadership in the community and dedication to the hotel industry, Mr. Chen has received the following awards in the recent years: He was awarded "Top 10 Figures of Hotel Investment in China for the year 2010" (2010年度中國酒店投資十大風雲人物) by *Hotel Professional Executive* magazine in January 2010, "Leading Figure of Hotel Industry in Zhejiang Province for the year of 2011" (中國(浙商)酒店業領軍人物) by Zheshang National Council and National Merchant and Media Alliance\* (全國商人媒體聯盟) as established by, among others, Zheshang magazine in December 2011, "Meritorious Entrepreneur in China for the year of 2012" (2012年度中國創業功勛領袖) by World Hotel Association in November 2012, "EY Entrepreneur of the year in China" (安永中國企業家獎) by Ernst & Young in November 2013, "Outstanding Entrepreneur of Hangzhou" (傑出杭商) by Asia Hotel Forum in April 2014, "Outstanding Entrepreneur in Hotel Industry in China" (中國酒店業傑出企業家獎) by the China Hotel Starlight Awards Organizing Committee (中國酒店星光獎組委會) and the Asia Hotels Forum (亞洲酒店論壇中心) in April 2015, "Outstanding Figures with Contribution to Tourism Industry of China" (中國旅遊產業傑出貢獻獎飛馬獎) by China National Tourism Administration (中華人民共和國國家旅遊局) in May 2015, and the "National Model Worker of Tourism Industry" (全國旅遊系統勞動模範) by China National Tourism Administration (中華人民共和國國家旅遊局) in December 2016.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Chen was a director of the following companies which were incorporated in the PRC and were deregistered due to cessation of business. The relevant details are as follows:

| Name of the company                                                                           | Nature of business of the company                  | Nature of proceeding     | Date of dissolution |
|-----------------------------------------------------------------------------------------------|----------------------------------------------------|--------------------------|---------------------|
| Xiaoshan New Century Decoration Engineering Co., Ltd.* (蕭山開元裝飾工程公司)                           | Indoor and outdoor decoration and furniture design | Voluntary deregistration | December 1, 1999    |
| Zhejiang Xiaoshan New Century Tourism Industry Co., Ltd.* (浙江蕭山開元旅業總公司)                       | Hotel management                                   | Voluntary deregistration | January 9, 2001     |
| Xiaoshan Guesthouse Shopping Center* (蕭山賓館商場)                                                 | Retail                                             | Voluntary deregistration | March 23, 2001      |
| Zhejiang Xiaoshan New Century Tourism Industry Automobile Rental Branch* (浙江蕭山開元旅業總公司汽車出租分公司) | Tourism passenger transport                        | Voluntary deregistration | March 23, 2001      |
| Xiaoshan New Century Economic Development Co., Ltd.* (蕭山開元經濟發展公司)                             | Retail of chemical raw materials and products      | Voluntary deregistration | March 28, 2001      |
| Hangzhou Qiandao Lake New Century Resort Hotel Co., Ltd.* (杭州千島湖開元度假酒店有限公司)                   | Hotel project development                          | Voluntary deregistration | October 26, 2004    |
| Zhejiang New Century International Hotel Management Co., Ltd.* (浙江開元國際酒店管理有限公司)               | Hotel management                                   | Voluntary deregistration | May 26, 2005        |
| Ninghai County New Century Travel Agency Co., Ltd.* (寧海縣開元旅行社有限公司)                            | Domestic tourism service                           | Voluntary deregistration | August 24, 2005     |
| Hangzhou Xiaoshan New Century Bowling Co., Ltd.* (杭州蕭山開元保齡球有限公司)                              | Retail of bowling equipment                        | Voluntary deregistration | April 17, 2006      |

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

| Name of the company                                                                         | Nature of business of the company                     | Nature of proceeding     | Date of dissolution |
|---------------------------------------------------------------------------------------------|-------------------------------------------------------|--------------------------|---------------------|
| Zhejiang New Century Steel Structure Co., Ltd.*<br>(浙江開元鋼結構有限公司)                            | Production, installation and design of steel products | Voluntary deregistration | October 11, 2006    |
| Ninghai County New Century Grand Century Hotel Co., Ltd.*<br>(寧海縣開元新世紀大酒店有限公司)              | Provision of accommodation and catering services      | Voluntary deregistration | February 16, 2009   |
| Hangzhou Jiangnan New Century Real Estate Development Co., Ltd.* (杭州江南開元房地產開發有限公司)          | Real estate development                               | Voluntary deregistration | February 25, 2010   |
| Shanghai Songjiang Fuyang Real Estate Project Development Co., Ltd.* (上海松江晟陽房地產項目開發有限公司分公司) | Real estate development                               | Voluntary deregistration | October 19, 2010    |
| Zhejiang New Century Dewei Tourism Investment Co., Ltd.*<br>(浙江開元德威旅游投資有限公司)                | Tourism project management consulting                 | Voluntary deregistration | January 28, 2013    |
| Zhejiang New Century Tianyang Tourism Investment Co., Ltd.*<br>(浙江開元天陽旅游投資有限公司)             | Tourism project management consulting                 | Voluntary deregistration | January 28, 2013    |
| Zhejiang Senpo New Century Tourism Development Co., Ltd.* (浙江森泊開元旅游開發有限公司)                  | Tourism project management consulting                 | Voluntary deregistration | December 7, 2015    |
| Hangzhou New Century Agricultural Development Co., Ltd.* (杭州開元農業開發有限公司)                     | Agricultural technology development                   | Voluntary deregistration | June 7, 2016        |
| Hangzhou New Century Zhijiang Resort Co., Ltd.* (杭州開元之江度假村有限公司)                             | Resort and hotel management                           | Voluntary deregistration | March 7, 2018       |

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Chen Canrong (陳燦榮)**, aged 55, has been a Director of our Company since December 17, 2008, being responsible for the provision of guidance for the overall development, business strategy and corporate governance of our Group. He is one of the Controlling Shareholders of our Company. He was re-designated as a non-executive Director of our Company in July 2018.

Mr. Chen has over 31 years of experience in hotel operation and management. Mr. Chen served at Xiaoshan Guesthouse from September 1987 to December 2000, where he held various positions including deputy general manager, executive deputy general manager, and general manager. Since January 2000, he has successively held several positions in New Century Tourism, including vice president, president and director. Mr. Chen has been a director and chairman of the board of directors of Zhejiang New Century Property Management Limited, a company listed on the National Equities Exchange and Quotations (stock code: 831971) in July 2014.

Mr. Chen obtained his master's degree in business management from Macau University of Science and Technology (澳門科技大學) in April 2005. He has been the deputy chairman of the China Tourist Hotel Association (中國旅遊飯店業協會) since March 2009 and the deputy chairman of the Zhejiang Hotel Association (浙江飯店業協會) since December 2008.

Mr. Chen was a director/manager of the following companies which were incorporated in the PRC and were deregistered due to cessation of business. The relevant details are as follows:

| Name of the company                                                                                      | Nature of business of the company                                    | Nature of proceeding     | Date of dissolution |
|----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------|---------------------|
| Hangzhou Xiaoshan New Century Bowling Co., Ltd.* (杭州蕭山開元保齡球有限公司)                                         | Retail of bowling equipment                                          | Voluntary deregistration | April 17, 2006      |
| Shanghai New Century Tiangen Investment Co., Ltd.* (上海開元天亘投資有限公司)                                        | Investment management and consulting services                        | Voluntary deregistration | May 25, 2006        |
| Hangzhou Xiaoshan Theater Operation Co., Ltd.* (杭州蕭山劇院經營有限公司)                                            | Provision of theatrical performances and retail of daily necessities | Voluntary deregistration | March 28, 2008      |
| New Century International Hotel Management Co., Ltd. Hangzhou Representative Office* (開元國際酒店管理有限公司杭州代表處) | International Liaison of our Company                                 | Voluntary deregistration | March 31, 2009      |
| Kaifeng New Century Longsheng Real Estate Co., Ltd.* (開封開元龍盛置業有限公司)                                      | Real Estate development and sales                                    | Voluntary deregistration | November 12, 2015   |

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

| Name of the company                                                                                         | Nature of business of the company                | Nature of proceeding     | Date of dissolution |
|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------|--------------------------|---------------------|
| Hangzhou Senyuante Tourism Development Co., Ltd.*<br>(杭州森元特旅遊開發有限公司)                                        | Tourism project development                      | Voluntary deregistration | January 18, 2016    |
| Hangzhou New Century Agricultural Development Co., Ltd.* (杭州開元農業開發有限公司)                                     | Agricultural technology development              | Voluntary deregistration | June 7, 2016        |
| Ninghai County New Century Grand Century Hotel Co., Ltd.* (寧海縣開元新世紀大酒店有限公司)                                 | Provision of accommodation and catering services | Voluntary deregistration | June 7, 2016        |
| Deqing New Century Investment Management Co., Ltd.<br>New Century Commercial Hotel*<br>(德清開元投資管理有限公司開元商務酒店) | Provision of accommodation and catering services | Voluntary deregistration | November 10, 2016   |
| Shanghai Songjiang Shengyang Real Estate Project Development Co., Ltd.* (上海松江晟陽房地產項目開發有限公司)                 | Real Estate development and management           | Voluntary deregistration | February 15, 2017   |
| Changxing Taihu New Century Senbo Cultural Tourism Development Co., Ltd.*<br>(長興太湖開元森泊文化旅遊開發有限公司)           | Tourism attractions development                  | Voluntary deregistration | April 24, 2017      |
| Hangzhou Baida Architectural Engineering Design Consulting Co., Ltd.* (杭州佰達建築工程設計諮詢有限公司)                    | Architectural engineering consulting             | Voluntary deregistration | May 2, 2017         |
| Hangzhou Yuelun Investment Management Co., Ltd.*<br>(杭州躍倫投資管理有限公司)                                          | Investment management and consulting services    | Voluntary deregistration | July 28, 2017       |
| Deqing New Century Investment Management Co., Ltd.*<br>(德清開元投資管理有限公司)                                       | Investment consulting services                   | Voluntary deregistration | November 13, 2017   |
| Hangzhou New Century Zhijiang Resort Co., Ltd.* (杭州開元之江度假村有限公司)                                             | Resort and hotel management                      | Voluntary deregistration | March 7, 2018       |



## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Jiang Tianyi (江天一)**, aged 36, has been a Director of our Company since November 23, 2016, being responsible for the provision of guidance for the overall development, business strategy and corporate governance of our Group. He was re-designated as our non-executive Director in July 2018. Mr. Jiang has been the Co-Founder and Partner of Ocean Link Partners Limited ("**Ocean Link**"), a private equity firm focusing on travel related sectors in China since April 2016, and he is board director of several portfolio companies of Ocean Link. Mr. Jiang has been a director of Beijing Century Mind Education Technology Co., Ltd.\* (北京世紀明德教育科技股份有限公司), a company principally engaged in educational tours and education consultancy and listed on the National Equities Exchange and Quotations (stock code: 839264), since April 2016.

Mr. Jiang has over 12 years of experience in private equity investment. Mr. Jiang served as an analyst at Deutsche Bank in Hong Kong from May 2004 to August 2006, being responsible for equity and debt financing, mergers and acquisitions and consulting. He later held the position of director in The Carlyle Group from August 2006 to March 2016, being responsible for investments in Asia. Mr. Jiang obtained his bachelor's degree in science from Columbia University, the United States of America, in May 2004.

**Mr. Zhang Chi (張弛)**, aged 43, has been a Director of our Company since November 23, 2016, being responsible for provision of guidance for the overall development, business strategy and corporate governance of our Group. He was re-designated as our non-executive Director in July 2018.

Mr. Zhang was a vice president in the investment banking division at China International Capital Corporation Limited (中國國際金融有限公司) in Beijing, the PRC, from December 1999 to May 2005. From August 2005 to June 2006, he served as a vice president of mergers and acquisitions division of Credit Suisse (Hong Kong) Limited. Mr. Zhang was the former global partner and managing director of The Carlyle Group from July 2006 to May 2016, where he focused on Asia buyout opportunities. Since May 2016, Mr. Zhang has been serving as the managing director and the head of China at General Atlantic LLC, an American worldwide growth equity firm, being responsible for the overall management of its investment in China. Mr. Zhang held directorships in the following listed companies during the three years immediately prior to the date of this document:

| Name of listed company                                                                                                                          | Term                           | Position               |
|-------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|------------------------|
| Yashili International Holdings Limited,<br>a company listed on the Main Board of<br>the Stock Exchange (stock code: 01230)                      | October 2010 to<br>August 2013 | Non-Executive Director |
| New Century Asset Management Limited,<br>the manager of New Century REIT                                                                        | July 2013 to May 2016          | Non-Executive Director |
| 58.com Inc, a company listed on<br>The New York Exchange<br>(stock code: WUBA)                                                                  | December 2015 to present       | Independent Director   |
| Xiabuxiabu Catering Management (China)<br>Holdings Co., Ltd, a company listed on<br>the Main Board of the Stock Exchange<br>(stock code: 00520) | August 2017 to present         | Non-Executive Director |



## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Zhang obtained his bachelor's degree in economics from Hefei University of Technology (合肥工業大學) in July 1997 and a master's degree in economics from Shanghai University of Finance and Economics (上海財經大學) in Shanghai, the PRC, in January 2000.

### Independent Non-Executive Directors

**Dr. Zhang Rungang (張潤鋼)**, aged 60, was appointed as an independent non-executive Director on June 28 2017, being responsible for the provision of independent advice to our Board.

Dr. Zhang has over 33 years of experience in the hospitality and tourism industry. Prior to joining our Group, he was the deputy general manager in Kunlun Hotel Beijing (北京昆侖飯店) from February 1985 to March 1995, being responsible for the management of the hotel. From November 1996 to November 2000, he served as deputy general manager of the investment management department in the Bank of China, being responsible for the general management of the department. He was the deputy chief of the Quality Specification and Management Department of the China National Tourism Administration (中國國家旅遊局質量規範與管理司) from November 2000 to September 2004, being responsible for the management of the national hotel industry. From January 2005 to February 2016, Dr. Zhang was the director of BTG-Jianguo Hotel Management Co., Ltd.\* (首旅建國酒店管理有限公司). He also served as a director of Beijing Tourism Group Co., Ltd.\* (北京首都旅遊集團有限責任公司) from March 2014 to December 2015. He has been serving as (i) the vice president of China Tourism Association (中國旅遊協會) since February 2016, and (ii) an independent director of Zhejiang Zhoushan Tourism Co., Ltd.\* (浙江舟山旅遊股份有限公司) formerly known as Putuoshan Tourism Development Co., Ltd.\* (普陀山旅遊發展股份有限公司) since May 2017.

Dr. Zhang held directorships in the following listed companies during the three years immediately prior to the date of this document:

| Name of listed company                                                                                                                         | Term                     | Position                           |
|------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|------------------------------------|
| BTG Hotels Group Co., Ltd, a company listed on the main board of the Shanghai Stock Exchange (stock code: 600258)                              | May 2012 to present      | Director                           |
|                                                                                                                                                | May 2012 to January 2017 | Chairman of the board of directors |
| China International Travel Service Corporation Limited, a company listed on the main board of the Shanghai Stock Exchange (stock code: 601888) | March 2017 to present    | Independent Director               |

Dr. Zhang graduated from International Institute of Politics (國際政治學院) in Beijing, the PRC with a bachelor's degree in July 1982. He obtained a doctoral degree in systems engineering from the South China University of Technology (華南理工大學), the PRC, in July 2000.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Dr. Zhang was a director of following company which was incorporated in the PRC and was deregistered due to cessation of business:

| Name of the company                                    | Nature of business of the company | Nature of proceeding     | Date of dissolution |
|--------------------------------------------------------|-----------------------------------|--------------------------|---------------------|
| Beijing Jinyingang Restaurant Co., Ltd.* (北京金銀港酒樓有限公司) | Provision of catering services    | Voluntary deregistration | December 4, 2009    |

**Mr. Khoo Wun Fat William (丘煥法)**, aged 38, was appointed as an independent non-executive Director on August 13, 2018, being responsible for the provision of independent advice to our Board.

Mr. Khoo has over 11 years of experience in the legal industry. He worked at P.C. Woo & Co., a solicitors' firm in Hong Kong, as a trainee solicitor from July 2007 to July 2009, as a paralegal from July 2009 to October 2009 and as an assistant solicitor from October 2009 to April 2010. Mr. Khoo later joined Charltons, a solicitors' firm in Hong Kong, as an assistant solicitor from May 2010 to April 2011. From April 2011 to March 2014, he worked as an associate at DLA Piper Hong Kong, an international law firm. In December 2014, Mr. Khoo founded Khoo & Co, a solicitors' firm in Hong Kong, and has been a partner of the firm since then. Since December 2017, he has been an independent non-executive director of Z-Obee Holdings Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 948), being responsible for providing independent advice to the board of directors of the said company.

Mr. Khoo graduated from the Chinese University of Hong Kong in December 2003 with a bachelor's degree in chemistry. He subsequently obtained a bachelor's degree in law from the City University of Hong Kong in November 2006. In July 2007, he obtained a postgraduate certificate in laws from the City University of Hong Kong. In September 2009, Mr. Khoo was admitted as a solicitor of the High Court of Hong Kong.

**Ms. Qiu Yun (邱媛)**, aged 55, was appointed as an independent non-executive Director on June 28, 2017, being responsible for the provision of independent advice to our Board.

Ms. Qiu has more than 33 years of experience in the academic field. Ms. Qiu has been a professor in the principles of accounting and financial management at the business school of Ningbo University (寧波大學商學院) since July 2015. She started her academic career as a teaching assistant at the business school of Ningbo University in July 1986, and became an associate professor in December 1999. Ms. Qiu worked as an associate professor in the principles of accounting and financial management and was the vice dean of the International College of Ningbo University (寧波大學國際交流學院) from January 2001 to March 2005, where she was then promoted to professor and then the dean of the college from April 2005 to June 2015.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Qiu obtained her bachelor's degree in economic management from Fudan University (復旦大學) in Shanghai, the PRC, in July 1986 and a master's degree in business administration from the McGill University in July 1997. Ms. Qiu was qualified as a professor in accounting by Provincial Normal High School Teacher Senior Technical Expert Qualifications Board (省普通高校教師高級專業技術資格評審委員會) in November 2004.

Ms. Qiu held directorships in the following listed companies during the three years immediately prior to the date of this document:

| Name of listed company                                                                                                                      | Term                            | Position                                                               |
|---------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|------------------------------------------------------------------------|
| Ningbo Cixing Co., Ltd., a company listed on the main board of Shenzhen Stock Exchange (stock code: 300307)                                 | December 2010 to September 2015 | Independent Director                                                   |
| Yinyi Real Estate Co., Ltd., a company listed on the main board of Shenzhen Stock Exchange (stock code: 000981)                             | July 2011 to October 2017       | Independent Director                                                   |
| Youngor Group Company Limited, a company listed on the main board of the Shanghai Stock Exchange (stock code: 600177)                       | May 2014 to present             | Independent Non-Executive Director and the chairman of audit committee |
| Rongan Property Co., Ltd, a company listed on the main board of the Shenzhen Stock Exchange (stock code: 000517)                            | June 2014 to present            | Independent Non-Executive Director and the chairman of audit committee |
| Ningbo Powerway Alloy Material Company Incorporated, a company listed on the main board of the Shanghai Stock Exchange (stock code: 601137) | July 2015 to present            | Independent Non-Executive Director and the chairman of audit committee |

As disclosed above:

1. Ms. Qiu has been an independent director of PRC listed companies since December 2010 and chairman of audit committee of PRC listed companies since May 2014, where she has been responsible for reviewing the financial information of public companies, reviewing of risk management and internal control systems and reviewing and monitoring the performance of the auditors of those public companies;
2. she is currently an independent director and chairman of audit committee of three PRC listed companies; and
3. she has extensive academic experience in accounting and financial management.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Taking into account the functions performed by Ms. Qin in her role as independent director and chairman of audit committee in public companies, her academic accomplishments in the area of accounting and financial management and the totality of Ms. Qiu's education and expertise, our Directors are of the view, which the Joint Sponsors concur, that (i) Ms. Qiu has the relevant experience with internal controls and reviewing and analysing audited financial statements of listed companies; and (ii) Ms. Qiu possesses the appropriate accounting and related financial management expertise required under Rule 3.10(2) and Rule 3.21 of the Listing Rules.

### SUPERVISORS

In accordance with the PRC Company Law, the Board of Supervisors is responsible for supervising the board of directors and senior management on fulfilling their respective duties, financial performance, internal control management and risk management of the corporation. The details information of our Supervisors are listed below.

| Name                       | Age | Date of joining our Group | Present position in our Company    | Date of appointment as Supervisor | Roles and responsibilities in our Group                                                                                           | Relationship with other Directors, Supervisors or members of the senior management |
|----------------------------|-----|---------------------------|------------------------------------|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| Ms. Zha Xianghong<br>(查向宏) | 46  | November 23, 2016         | Supervisor                         | November 23, 2016                 | Presiding the work of the supervisory committee of our Company, supervision of the Board and the senior management of our Company | None                                                                               |
| Mr. Guo Mingchuan<br>(郭名川) | 39  | November 23, 2016         | Supervisor                         | November 23, 2016                 | Supervision of the Board and the senior management of our Company                                                                 | None                                                                               |
| Ms. Liu Hong<br>(劉虹)       | 48  | October 1, 2014           | Employee representative Supervisor | June 28, 2017                     | Supervision of the Board and the senior management of our Company                                                                 | None                                                                               |

**Ms. Zha Xianghong (查向宏)**, aged 46, has been the chairman of the Board of Supervisors of our Company since November 23, 2016, being responsible for presiding the work of the Board of Supervisors and supervising the Board and the senior management of our Company.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Zha has over 20 years of experience in financial management. Since May 1998, she has successively undertaken various positions within New Century Tourism where she has worked as a supervising auditor from May 1998 to April 2003, as an audit manager from May 2003 to January 2008, as an audit director from February 2008 to March 2015, and as an assistant to general manager of finance department and general manager of finance department since March 2015, being currently responsible for overseeing financial and accounting operations of the New Century Tourism Group.

Ms. Zha obtained her master's degree in business management in Hunan University (湖南大學), Changsha, the PRC, in October 2014. She has been a qualified accountant in the PRC since April 2007.

Ms. Zha was a supervisor of the following companies which were incorporated in the PRC and were deregistered due to cessation of business. The relevant details are as follows:

| Name of the company                                                | Nature of business of the company                                   | Nature of proceeding     | Date of dissolution |
|--------------------------------------------------------------------|---------------------------------------------------------------------|--------------------------|---------------------|
| Hangzhou New Century Zhijiang Resort Co., Ltd.*<br>(杭州開元之江度假村有限公司) | Resort and hotel management                                         | Voluntary deregistration | March 7, 2018       |
| Shanghai Rongduan Trading Co., Ltd.*<br>(上海榮端貿易有限公司)               | Retail of packaging materials, hotel supplies and daily necessities | Voluntary deregistration | May 4, 2018         |

**Mr. Guo Mingchuan (郭名川)**, aged 39, has been a Supervisor of our Company since November 23, 2016, being responsible for supervising the Board and the senior management of our Company.

Mr. Guo has over ten years of experience in private equity investment. From January 2008 to July 2009, he served as an analyst at Morgan Stanley Private Equity. He was appointed as the deputy director at American International Group Investment Corporation from October 2009 to August 2011. He later served as a senior investment manager at The Carlyle Group, from September 2011 to December 2014. From January 2015 to March 2016, he joined AGIC Capital (漢德資本) as an investment director. He has been serving as a supervisor and an investment director at Shanghai Ocean Link Investment Management Co., Ltd.\* (上海鷗翎投資管理有限公司) since April 2016.

Mr. Guo obtained his bachelor's degree in computer science and technology and a master's degree in computer science from Shanghai Jiao Tong University (上海交通大學) in June 2002 and in March 2005, respectively.

**Ms. Liu Hong (劉虹)**, aged 48, has been a employee representative Supervisor of our Company since June 28, 2017, being responsible for supervising the board and the senior management of our Company and has been the Director of Human Resources of our Company since October 2014.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Liu has over 30 years of experience in the hotel industry. Ms. Liu undertook various position at Xiaoshan Guesthouse, New Century City Hotel (開元城市酒店), Grand Hotel Hangzhou (杭州名都) from January 1988 to June 2005, being the director of housekeeping as her last position, where she was responsible for general management of housekeeping matters. She then served as the director of human resources at the New Century Grand Hotel Hangzhou (杭州開元名都大酒店) from June 2005 to July 2012, where she was responsible for human resources management. Ms. Liu was appointed as the deputy director of general office of the labor union of New Century Tourism from July 2012 to September 2014, being responsible for assisting the director of general office with office personnel matters, attendance assessment and other daily administrative tasks.

Ms. Liu obtained a bachelor's degree in law from Zhejiang University (浙江大學) in July 2000. Ms. Liu has been qualified as an Enterprise Human Resources Administrator (class 1) (一級企業人力資源管理師) since December 2012.

Ms. Liu was a director of the following company which was incorporated in the PRC and of which the business license was revoked as the annual inspection of enterprises of such company had not been carried out. The relevant details are as follows:

| Name of the company                                                   | Nature of business of the company                             | Nature of proceeding     | Date of dissolution |
|-----------------------------------------------------------------------|---------------------------------------------------------------|--------------------------|---------------------|
| Hangzhou Yongguan Decoration Engineering Co., Ltd.*<br>(杭州永冠裝飾工程有限公司) | Production and installation of plastic steel door and windows | Business license revoked | April 23, 2004      |

## SENIOR MANAGEMENT

Our senior management consists of our executive Directors and the following employees who are responsible for the day-to-day management of our business.

| Name                    | Age | Date of joining our Group | Present position in our Company           | Date of appointment to present position | Roles and responsibilities in our Group                                                           | Relationship with other Directors, Supervisors or members of the senior management |
|-------------------------|-----|---------------------------|-------------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| Mr. Hou Frank Feng (侯峰) | 56  | July 1, 2010              | Vice President                            | July 1, 2010                            | Management of the daily operation of our hotels                                                   | None                                                                               |
| Mr. Li Donglin (李東林)    | 43  | December 17, 2008         | Vice President and secretary to the Board | June 26, 2017                           | Overseeing our Group's financial and accounting operations and secretarial matters of our Company | None                                                                               |
| Ms. Ye Lv (葉綠)          | 46  | December 17, 2008         | Vice President                            | June 26, 2017                           | Overseeing the human resources of our Group                                                       | None                                                                               |

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

| Name                      | Age | Date of joining our Group | Present position in our Company                                                                               | Date of appointment to present position | Roles and responsibilities in our Group                                           | Relationship with other Directors, Supervisors or members of the senior management |
|---------------------------|-----|---------------------------|---------------------------------------------------------------------------------------------------------------|-----------------------------------------|-----------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| Ms. Zhao Huajuan<br>(趙華娟) | 45  | December 17, 2008         | Chief Financial Officer                                                                                       | January 1, 2014                         | Overseeing our Group's financial and accounting operations                        | None                                                                               |
| Mr. Dai Jianping<br>(戴建平) | 46  | December 17, 2008         | Vice president and general manager of the upscale business hotel development and management business division | October 26, 2017                        | Overseeing the business development and management of our upscale business hotels | None                                                                               |
| Mr. Chen Wenfang<br>(陳文放) | 40  | January 1, 2011           | Vice president and general manager of resort hotel development and management business division               | October 26, 2017                        | Overseeing the business development and management of our resort hotels           | None                                                                               |

**Mr. Hou Frank Feng (侯峰)**, aged 56, has been a vice president of our Company since July 2010, being responsible for the management of the daily operations of our Group.

Mr. Hou has over 26 years of experience in the hotel industry. Prior to joining our Group, Mr. Hou has served as a trainee hotel manager, hotel audit manager, hotel finance deputy manager and director of the investment department at Wyndham Hotel Group LLC from December 1992 to July 1995. Mr. Hou later worked as deputy director of finance department of the Central America region in the headquarters of the Hilton Hotel Group in the United States of America from July 1995 to August 1997. He then took the position of director of finance department in AON Plc. in the United States from August 1997 to August 1999. Subsequently, he joined the investment division of Morgan Stanley as finance analyst from August 1999 to December 2004, being responsible for project management and development of the group. Mr. Hou undertook the role of general manager at Nanjing Jinling Holdings Ltd.\* (南京金陵飯店集團有限公司) from October 2005 to June 2010, where he was responsible for its overall operation, development and management.

Mr. Hou obtained his diploma in hotel management and tourism in Shanghai Institute of Tourism (上海旅遊高等專科學校) in Shanghai, the PRC, in July 1983 and obtained his master's degree in hospitality management in Houston University in Houston, the United States of America in May 1993.



## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Li Donglin (李東林)**, aged 43, has been a vice general manager of our Company from January 2014 to June 2017 and a vice president since June 2017. Mr. Li has also been the secretary to the Board since January 2017, being responsible for oversight of our Group's financial and accounting operations and overall secretarial matters of our Company. Mr. Li has been appointed as one of the joint company secretaries of our Company in July 2018. Mr. Li joined our Group in December 17, 2008 and worked as an assistant to the chief financial officer, assistant to the general manager, vice general manager and vice president successively.

Mr. Li has over 23 years of experience in financial management. Prior to joining our Group, he was an accounting officer and a chief accountant at Hangzhou Xingyuan Filter Technology Co., Ltd.\* (杭州興源過濾機有限公司), a filter manufacturer, from January 1996 to December 2000, where he was mainly responsible for general accounting matters. From March 2001 to June 2003, Mr. Li worked for Zhejiang Huafu Huafang Group\* (浙江華孚華紡集團) as an accounting manager, audit manager and capital resources manager successively, being mainly responsible for financial management and capital resources management. From June 2003 to December 2007, he has successively worked as the assistant to the financial general manager and the audit director of New Century Tourism. From January 2008 to December 2008, he worked as an assistant to the chief financial officer at New Century Hotel Investment.

Mr. Li obtained a diploma of accounting from Jiangxi University of Finance and Economics (江西財經學院) in Nanchang, Jiangxi Province, the PRC, in June 1995. He then studied at the graduate school of Shanghai University of Finance and Economics (上海財經大學) from March 2001 to January 2003 and obtained a postgraduate diploma in corporate management. Mr. Li has been awarded the postgraduate diploma in corporate finance and investment management by The University of Hong Kong in February 2018.

Mr. Li has been an international certified financial engineer of the American Certification Institute since May 2011. He was accredited as a financial engineer by Overseas Education College Shanghai Jiaotong University (上海交通大學海外教育學院) in April 2011. He was also accredited as a qualified company secretary by the Shanghai Stock Exchange and the Shenzhen Stock Exchange in May 2016 and in May 2017, respectively.

Mr. Li was a supervisor/director of the following companies which were incorporated in the PRC and were deregistered for corporate restructuring purposes. The relevant details are as follows:

| Name of the company                                   | Nature of business of the company                | Nature of proceeding     | Date of dissolution |
|-------------------------------------------------------|--------------------------------------------------|--------------------------|---------------------|
| Shanghai New Century Co., Ltd.* (上海開元大酒店有限公司)         | Provision of accommodation and catering services | Voluntary deregistration | October 22, 2012    |
| Changzhou New Century Resort Co., Ltd.* (常州開元度假村有限公司) | Provision of accommodation and catering services | Voluntary deregistration | May 22, 2013        |
| Nanjing Pukou Jiuyue Hotel Co., Ltd.* (南京浦口久悅大酒店有限公司) | Provision of accommodation and catering services | Voluntary deregistration | May 2013            |

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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**Ms. Ye Lv (葉綠)**, aged 46, has been a vice president of our Company since June 2017, being responsible for overseeing the human resources of our Group. Ms. Ye joined our Group in December 2008 as a housekeeping director.

Ms. Ye has over 21 years of experience in the hotel industry. Ms. Ye was a room reservation director at the New Century Resort Hangzhou\* (杭州開元之江度假村) from December 1997 to April 2003. Ms. Ye then worked in New Century Hotel Investment from April 2003 to December 2008 as a room reservation director. After working as the housekeeping director in our Company, she was promoted to vice general manager in January 2013 and held the position until June 2017.

Ms. Ye obtained a diploma in economic management from Zhejiang University (浙江大學), Hangzhou, the PRC, in July 1999.

**Ms. Zhao Huajuan (趙華娟)**, aged 45, has been the chief financial officer of our Group since January 2014, being responsible for overseeing our Group's financial and accounting operations.

Ms. Zhao has over 25 years of experience in financial management. Ms. Zhao served as an accountant in Xiaoshan Grocery Company of Sugar, Cigarette and Alcohol\* (蕭山糖業煙酒副食品公司) from August 1993 to April 1998, and served various positions within the New Century Tourism Group including an accountant supervisor at the Zhejiang New Century Food & Entertainment City Co., Ltd.\* (浙江蕭山開元美食娛樂城有限公司) from May 1998 to December 2002, a finance manager at the Hangzhou New Century Sunshine Leisure Villa\* (杭州開元陽光休閒山莊) from January 2003 to May 2004. From June 2004 to December 2008, Ms. Zhao worked as an audit officer at New Century Hotel Investment. Since January 2009, Ms. Zhao has successively undertaken the positions of audit officer, assistant of financial officer, vice financial officer and chief financial officer at our Company.

Ms. Zhao obtained a diploma in accounting from the Open University of China (中央廣播電視大學) in January 2007. She has been certified by the Institute of Internal Auditors as a Certified Internal Auditor since November 2008 and has been a senior accountant as awarded by the senior accountant qualification approval committee of Zhejiang Province since December 2017. Ms. Zhao obtained her qualification as a certified management accountant of the Institute of Certified Management Accountants of the United States of America in September 2017.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Dai Jianping (戴建平)**, aged 46, has been the vice president and the general manager of upscale business hotel development and management business division of our Company since October 2017, being mainly responsible for the management and business development of our upscale business hotels.

Mr. Dai has over 23 years of experience in hotel operation and management. Prior to joining our group, Mr. Dai served as an assistant to general manager of Zhejiang Golden Horse Hotel\* (浙江金馬飯店) from July 1995 to March 2001, where he was mainly responsible for catering and recreation operations and management. From March 2001 to July 2001, Mr. Dai held the position of assistant to general manager of New Century Resort Hangzhou Zhijiang\* (杭州開元之江度假村), being mainly responsible for assisting the general manager with daily operations. From July 2001 to January 2006, he was in charge of the daily management of the hotel as a deputy general manager of New Century Xiaoshan Guesthouse. Mr. Dai was appointed as the general manager of New Century Resort Hangzhou Zhijiang\* (杭州開元之江度假村) from February 2006 to March 2008, being mainly responsible for its overall management. From March 2008 to October 2017, Mr. Dai has been the general manager of Shaoxing Grand New Century\* (紹興開元名都大酒店) and the general manager of Shaoxing district of our Company.

Mr. Dai obtained a professional certificate in tourism management in Zhejiang University (浙江大學), Hangzhou, the PRC, in January 2001 and a master's degree in hotel and tourism management in the Hong Kong Polytechnic University, Hong Kong, in October 2013.

Mr. Dai was a supervisor of the following company which was incorporated in the PRC and was deregistered due to cessation of business. The relevant details are as follows:

| Name of the company                                                | Nature of business of the company | Nature of proceeding     | Date of dissolution |
|--------------------------------------------------------------------|-----------------------------------|--------------------------|---------------------|
| Hangzhou New Century Zhijiang Resort Co., Ltd.*<br>(杭州開元之江度假村有限公司) | Resort and hotel management       | Voluntary deregistration | March 7, 2018       |

**Mr. Chen Wenfang (陳文放)**, aged 40, has been the vice president and general manager of resort hotel development and management business division of our Company since October 2017, being mainly responsible for the management and business development of our resorts.

Mr. Chen joined our Group in January 2011, since when he has successively undertaken various positions within our Group, including the sales director of our Company from January 2011 to January 2013, the president of sales and marketing of our Company from January 2013 to August 2014, the general manager of Ningbo Shiqifang New Century Resort\* (寧波十七房開元度假村) from August 2014 to August 2015, and was the general manager of New Century Resort Hangzhou Qiandao Lake\* (杭州千島湖開元度假村) from August 2015 to October 2017.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Mr. Chen obtained an associate degree in tourism management from Shanghai Normal University (上海師範大學), Shanghai, the PRC, in December 2002.

Except as disclosed in this document, none of our Directors has any interests in any business, which competes or is likely to compete, either directly or indirectly, with our business.

Except as disclosed in this document, none of our Directors, Supervisors and senior management members is related to other Directors, Supervisors and senior management members.

Except as disclosed above, none of our Directors, Supervisors and senior management members has been a director of any public company, the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Except as disclosed herein, there is no other information that needs to be brought to the attention to the Shareholders under Rule 13.51(2) of the Listing Rules.

## JOINT COMPANY SECRETARIES

**Mr. Li Donglin (李東林)** is one of our joint company secretaries. Please refer to “– Senior Management” in this section for his biography. As Mr. Li does not possess the qualifications stipulated under Rules 3.28 of Listing Rules, we have applied for, [and Stock Exchange has granted,] a waiver from strict compliance with the rules. Please see sub-section headed “Waivers from strict compliance with the Listing Rules – Qualification of Company Secretary” in this document for details.

**Ms. Chan Suet Lam (陳雪霖)** is one of our joint company secretaries. She was appointed as one of the joint company secretaries of our Company in July 2018, with effect from the [REDACTED]. Ms. Chan has over 13 years of experience in providing company secretarial and compliance services to numerous Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Chan currently serves as a manager, corporate services division of Tricor Investor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services.

Ms. Chan graduated from University of Portsmouth with a bachelor's degree in accountancy studies in July 2002. She was admitted as an associate of The Hong Kong Institute of Chartered Secretaries in September 2009 and an associate of The Institute of Chartered Secretaries and Administrators in the United Kingdom in September 2009.

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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### **BOARD COMMITTEES**

#### **Audit Committee**

Our Company established the audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the “**Corporate Governance Code**”). The audit committee has three members, namely Ms. Qiu Yun, our independent non-executive Director, Mr. Jiang Tianyi, our non-executive Director and Mr. Khoo Wun Fat William, our independent non-executive Director. Ms. Qiu Yun has been appointed as the chairperson of the audit committee, and is our independent non-executive Director possessing the appropriate professional qualifications. The primary duties of the audit committee include, among other things, making recommendations to the Board on the appointment, reappointment and removal of the external auditor, reviewing our Group’s financial information, overseeing our Group’s financial reporting system, risk management and internal control systems.

#### **Nomination Committee**

Our Company established the nomination committee with written terms of reference in compliance with the Corporate Governance Code. The nomination committee has three members, namely, Mr. Zhang Rungang, our independent non-executive Director, Mr. Chen Canrong, our executive Director and Mr. Khoo Wun Fat William, our independent non-executive Director. Mr. Zhang Rungang has been appointed as the chairperson of the Nomination Committee. The primary duties of the nomination committee include, among other things, reviewing the structure, size and composition of the Board, assessing the independence of independent non-executive Directors and making recommendations to the Board on matters relating to the appointment of Directors.

#### **Remuneration Committee**

Our Company established the remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The remuneration committee has three members, namely Mr. Zhang Rungang, our independent non-executive Director, Mr. Chen Miaolin, our non-executive Director and Ms. Qiu Yun, our independent non-executive Director. Mr. Zhang Rungang has been appointed as the chairperson of the remuneration committee. The primary duties of the remuneration committee include, among other things, making recommendations to the Board on our Group’s policy and structure for all Directors’ and senior management’s remuneration and on the establishment of a formal and transparent procedure for developing our Group’s remuneration policy and on the remuneration packages of individual executive Directors and senior management.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### Corporate governance functions

For the purpose of performing the corporate governance functions in accordance with provision D.3 of the Corporate Governance Code, the Board has adopted written terms of reference in accordance with provision D.2 of the Corporate Governance Code which provide for, among others, (i) developing and reviewing our Group's policies and practices on corporate governance and making recommendations to the Board; (ii) reviewing and monitoring the training and continuous professional development of our Directors and senior management; (iii) reviewing and monitoring our Group's policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and our Directors; and (v) reviewing our Company's compliance with the Corporate Governance Code and disclosure in the annual reports of our Company.

### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The compensation packages of our Directors and senior management comprise basic salaries, pension, housing fund and other benefits. They are also entitled to medical insurance provided by our Group. Our Group determines the compensation packages of our Directors and senior management by reference to, among other things, their qualifications, experience, duties and responsibilities with our Group, prevailing market rates and performance of our Group. After [REDACTED], the remuneration committee will review annually and make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management with reference to the factors mentioned above.

Details of our Directors' remuneration are set out in note 10 to the Accountant's Report as set out in Appendix I to this document.

For each of the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, the aggregate remuneration (including wages, salaries, contribution to pension schemes, housing fund, discretionary bonuses and other allowances and other benefits in kind) paid to our Group's five highest paid individuals, including our Directors, were approximately RMB9,335,000, RMB5,475,000, RMB9,060,000 and RMB4,481,000, respectively.

No payment was made by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as compensation for loss of office during the Track Record Period. Further, none of our Directors has waived or agreed to waive any remuneration during the same period.

Under the arrangements currently in force and pursuant to our Directors' service agreements and letters of appointment, the aggregate remuneration payable to our Directors for the financial year ended December 31, 2018 was approximately RMB2.8 million and for the financial year ending December 31, 2019 are estimated to be approximately RMB3.0 million. For more particulars on the Director's service agreements and letters of appointment, please refer to the sub-section headed "Appendix VII – Statutory and General Information – C. Further information about Directors, substantial Shareholders and experts – 3. Service contracts" in this document.



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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Save as disclosed above, in the sub-section headed "Appendix VII – Statutory and General Information – C. Further information about Directors, substantial Shareholders and experts – 4. Directors' and Supervisors' remuneration" in this document and in note 10 to the Accountant's Report as set out in Appendix I to this document, no other payments have been made or are payable in respect of the Track Record Period by any of member of our Group to any of our Directors.

### COMPLIANCE ADVISER

We have appointed BOCOM International (Asia) Limited as our Company's compliance adviser in compliance with Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, we will consult with and seek advice from our compliance adviser in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share buyback;
- (iii) where our Company proposes to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in the document or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in the document; and
- (iv) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the securities of our Company, the possible development of a false market in the securities of our Company, any inside information which needs to be disclosed under Part XIVA of the SFO or any other matters.

The term of the appointment shall commence on the [REDACTED] and is expected to end on the date on which our Company distributes its annual report in respect of its financial results for the first full financial year commencing after the [REDACTED]. Our Company may terminate the appointment of its compliance adviser if, amongst others, the compliance adviser's work is of an unacceptable standard or if there is a material dispute (which cannot be resolved within 30 days) over fees payable by our Company to our compliance adviser. Our Company will exercise such a right in compliance with Rule 3A.26 of the Listing Rules.



## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, as at the Latest Practicable Date and immediately following completion of the [REDACTED], the following persons/entities will have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group:

| Name of Shareholder                    | Nature of Interest                                     | Class of Shares                | Shares held as at the Latest Practicable Date and immediately prior to the [REDACTED] |            | Shares held immediately following the completion of the [REDACTED] (assuming no exercise of the [REDACTED]) |            |                                                                                           | Shares held immediately following the completion of the [REDACTED] (assuming full exercise of the [REDACTED]) |            |                                                                     |
|----------------------------------------|--------------------------------------------------------|--------------------------------|---------------------------------------------------------------------------------------|------------|-------------------------------------------------------------------------------------------------------------|------------|-------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|------------|---------------------------------------------------------------------|
|                                        |                                                        |                                | Number                                                                                | Company    | Number                                                                                                      | of Shares  | Approximate % of interest in the total share capital of our relevant class of our Company | Number                                                                                                        | of Shares  | Approximate % of interest in the total share capital of our Company |
|                                        |                                                        |                                |                                                                                       |            |                                                                                                             |            |                                                                                           |                                                                                                               |            |                                                                     |
| New Century Tourism                    | Beneficial owner                                       | Unlisted Shares <sup>(2)</sup> | [REDACTED]                                                                            | [REDACTED] | [REDACTED]                                                                                                  | [REDACTED] | [REDACTED]                                                                                | [REDACTED]                                                                                                    | [REDACTED] | [REDACTED]                                                          |
|                                        | Interest in a controlled corporation <sup>(3)</sup>    | Unlisted Shares                | [REDACTED]                                                                            | [REDACTED] | [REDACTED]                                                                                                  | [REDACTED] | [REDACTED]                                                                                | [REDACTED]                                                                                                    | [REDACTED] | [REDACTED]                                                          |
| Mr. Chen Miaolin                       | Interest in a controlled corporation <sup>(3)(4)</sup> | Unlisted Shares                | [REDACTED]                                                                            | [REDACTED] | [REDACTED]                                                                                                  | [REDACTED] | [REDACTED]                                                                                | [REDACTED]                                                                                                    | [REDACTED] | [REDACTED]                                                          |
| NC Hotels Investment Holding Pte. Ltd. | Interest in a controlled corporation                   | Unlisted Shares                | [REDACTED]                                                                            | [REDACTED] | [REDACTED]                                                                                                  | [REDACTED] | [REDACTED]                                                                                | [REDACTED]                                                                                                    | [REDACTED] | [REDACTED]                                                          |

*Notes:*

- All interests stated are long positions.
- Unlisted Shares include Domestic Shares and Unlisted Foreign Shares. Based on the advice of our PRC Legal Adviser, the holders of Unlisted Foreign Shares and Domestic Shares are entitled to the same rights. Holders of Unlisted Foreign Shares and Domestic Shares will be treated as if they are in the same class of shares under the SFO upon the completion of the [REDACTED].
- New Century Tourism is a general partner of and has full control over Hangzhou Qianhe Qiju Investment Management Partnership (Limited Partnership)\* (杭州謙和祺聚投資管理合夥企業(有限合夥)) (“**Qianhe Qiju**”). New Century Tourism is deemed under the SFO to be interested in the Shares held by Qianhe Qiju.
- Mr. Chen Miaolin indirectly owns as to 85.2% of the equity interests in New Century Tourism and Mr. Chen Miaolin is deemed under the SFO to be interested in the Shares held by New Century Tourism.

## SHARE CAPITAL

### BEFORE THE [REDACTED]

As at the Latest Practicable Date, our registered capital was RMB210,000,000, comprising 159,659,640 Domestic Shares and 50,340,360 Unlisted Foreign Shares as set out as follows:

| Class                                  | Number of<br>Shares | Approximate<br>percentage of<br>issued share<br>capital |
|----------------------------------------|---------------------|---------------------------------------------------------|
| Domestic Shares <sup>(1)</sup>         | 159,659,640         | 76.0%                                                   |
| Unlisted Foreign Shares <sup>(2)</sup> | 50,340,360          | 24.0%                                                   |
|                                        | <b>210,000,000</b>  | <b>100 %</b>                                            |

### UPON COMPLETION OF THE [REDACTED]

Immediately upon the completion of the [REDACTED], assuming that the [REDACTED] is not exercised, our share capital would be as follows:

| Class                                             | Number of<br>Shares | Approximate<br>percentage of<br>issued share<br>capital |
|---------------------------------------------------|---------------------|---------------------------------------------------------|
| Domestic Shares <sup>(1)</sup>                    | [REDACTED]          | [REDACTED]%                                             |
| Unlisted Foreign Shares <sup>(2)</sup>            | [REDACTED]          | [REDACTED]%                                             |
| H Shares [REDACTED] pursuant to<br>the [REDACTED] | [REDACTED]          | [REDACTED]%                                             |
| Total                                             | <b>[REDACTED]</b>   | <b>100 %</b>                                            |

Immediately following completion of the [REDACTED] and assuming that the [REDACTED] is exercised in full, our share capital would be as follows:

| Class                                             | Number of<br>Shares | Approximate<br>percentage of<br>issued share<br>capital |
|---------------------------------------------------|---------------------|---------------------------------------------------------|
| Domestic Shares <sup>(1)</sup>                    | [REDACTED]          | [REDACTED]%                                             |
| Unlisted Foreign Shares <sup>(2)</sup>            | [REDACTED]          | [REDACTED]%                                             |
| H Shares [REDACTED] pursuant to<br>the [REDACTED] | [REDACTED]          | [REDACTED]%                                             |
| Total                                             | <b>[REDACTED]</b>   | <b>100 %</b>                                            |

## SHARE CAPITAL

*Notes:*

1. These Domestic Shares are held by existing Shareholders, namely, (i) New Century Tourism, (ii) Ningbo Meishan Bonded Area Kaihui Taiheng Investment Management Partnership (Limited Partnership)\* (寧波梅山保稅港區開匯泰亨投資管理合夥企業(有限合夥)), (iii) Hangzhou Qianhe Qiju Investment Management Partnership (Limited Partnership)\* (杭州謙和祺聚投資管理合夥企業(有限合夥)), (iv) Ningbo Meishan Bonded Area Kairui Shiqi Investment Management Partnership (Limited Partnership)\* (寧波梅山保稅港區開瑞世祺投資管理合夥企業(有限合夥)) and (v) Shanghai Ouling Bohui Investment Centre (Limited Partnership)\* (上海鵬翎鉞卉投資中心(有限合伙)); and may be converted into H Shares. Please see sub-section headed “Conversion of our unlisted Shares into H Shares” in this section.
2. These Unlisted Foreign Shares are held by NC Hotels Investment Holding Pte. Ltd. and Ocean Century Hotels Limited, which will not be converted into H Shares immediately after the completion of the [REDACTED], and therefore will not be listed on the Stock Exchange. However, these Unlisted Foreign Shares may be converted into H Shares in the future, please see sub-section headed “Conversion of our unlisted Shares into H Shares” in this section.

## CONVERSION OF OUR UNLISTED SHARES INTO H SHARES

### Conversion of Unlisted Shares

Upon the completion of the [REDACTED], we will have three classes of ordinary shares, H Shares, Domestic Shares and Unlisted Foreign Shares. All of our Domestic Shares and Unlisted Foreign Shares are unlisted Shares which are not listed or traded on any stock exchange, therefore, the scope of our unlisted Shares is the same as the scope of our Domestic Shares and Unlisted Foreign Shares. The term “unlisted Shares” is used to describe whether certain Shares are listed on a stock exchange.

According to the stipulations by the State Council’s securities regulatory authority and the Articles of Association, our unlisted Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange provided that prior to the conversion and trading of such converted H Shares, the requisite internal approval processes (but without the necessity of Shareholders’ approval by class) have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council’s securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

If any of our unlisted Shares are to be converted and to be traded as H Shares on the Stock Exchange, such conversion will be subject to the approval of the relevant PRC regulatory authorities including the CSRC. Approval of the Stock Exchange is required for the [REDACTED] of such converted Shares on the Stock Exchange. Based on the methodology and procedures for the conversion of our unlisted Shares into H Shares as described in this section, we can apply for the [REDACTED] of all or any portion of our unlisted Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of shares for entry on the H Share register. As any [REDACTED] of additional shares after our [REDACTED] on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for [REDACTED] at the time of our [REDACTED] in Hong Kong.

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## SHARE CAPITAL

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No Shareholder voting by class is required for the [REDACTED] and trading of the converted Shares on an overseas stock exchange. Any application for [REDACTED] of the converted Shares on the Stock Exchange after our [REDACTED] is subject to prior notification by way of announcement to inform our Shareholders and the public of any proposed conversion.

See sub-section "Risk Factors – Risks Relating to the [REDACTED] – Future sales, or market perception of sales, of substantial amounts of our H Shares or other securities relating to our H Shares in the public market could materially and adversely affect the prevailing market price of our H Shares" for further details.

### **Mechanism and Procedures for Conversion**

After all the requisite approvals have been obtained, the following procedures will need to be completed in order to effect the conversion: the relevant unlisted Shares will be withdrawn from the Domestic Share or the Unlisted Foreign Share registers and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on (i) our H Share Registrar lodging with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates and (ii) the admission of the H Shares to trade on the Stock Exchange complying with the Listing Rules, the General Rules of [REDACTED] and the [REDACTED] Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our existing Shareholders currently proposes to convert any of the Domestic Shares or Unlisted Foreign Shares held by it into H Shares. Our PRC Legal Adviser advised that the Articles of Association is not inconsistent with the relevant PRC laws and regulations with respect to the requirements regarding the conversion.

### **RANKING**

Domestic Shares, Unlisted Foreign Shares and H Shares are ordinary shares in the share capital of our Company. However, unless otherwise approved by relevant authorities, H Shares cannot be subscribed for by, or traded between, legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be subscribed for by, and traded between, legal or natural persons of the PRC or qualified foreign institutional investors or eligible foreign strategic investors, and must be traded in RMB. Unlisted Foreign Shares can be subscribed for by, and traded between, non-Chinese legal or natural persons, in any foreign currency except for RMB. All dividends or distributions declared, paid or made in respect of the Domestic Shares, Unlisted Foreign Shares and H Shares after the date of this document will rank *pari passu* with each other. All dividends in respect of the H Shares are to be paid by us in Hong Kong dollars whereas (i) all dividends in respect of Domestic Shares are to be paid by us in RMB and (ii) all dividends in respect of Unlisted Foreign Shares are to be paid by us in foreign currency except for RMB.

## SHARE CAPITAL

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Except as described above and in relation to the dispatch of notices and financial reports to the shareholders, dispute resolution, registration of shares on different registers of shareholders, the method of share transfer and the appointment of dividend receiving agents, are all provided for in our Articles of Association and summarized in Appendix VI to this document.

### TRANSFER OF SHARES PRIOR TO THE [REDACTED]

The PRC Company Law provides that in relation to the public offer of a company, the shares issued by a company prior to the public offering of shares shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the [REDACTED] shall be subject to this statutory restriction and not be transferred within a period of one year from the [REDACTED].

### REGISTRATION OF SHARES NOT LISTED ON OVERSEAS EXCHANGE

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (關於境外上市公司非境外上市股份集中登記存管有關事宜的通知) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 working days upon [REDACTED].

### SHAREHOLDERS’ GENERAL MEETINGS AND CLASS MEETINGS

For details of circumstances under which the Shareholders’ general meeting and Shareholders’ class meeting are required, see sub-section “The PRC Company Law, the Special Regulations and the Mandatory Provisions – Shareholders’ General Meetings” in Appendix V to this document.

**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**



**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

## FINANCIAL INFORMATION

*You should read this section in conjunction with our consolidated financial information included in “Appendix I – Accountant’s Report” and “Appendix IIA – Unaudited [REDACTED] Financial Information”, in each case together with the accompanying notes, and “Appendix IIB – Profit Estimate”. The financial statements have been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions.*

*The following discussion and analysis contain certain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. You should review the section headed “Risk Factors” for a discussion of important factors that could cause our actual results to differ materially from the results described in or implied by the forward-looking statements.*

## OVERVIEW

We are one of the leading hotel groups in the PRC, and we principally engaged in the operation and management of mid-scale to upscale hotel chains in the PRC. As at August 31, 2018, we operated and/or managed 140 hotels throughout 22 provinces, municipalities and autonomous regions, with over 31,000 hotel rooms in total and out of which, 81 hotels and around 17,000 hotel rooms were located in the Zhejiang Province. According to Horwath, as at March 31, 2018, in terms of number of hotel rooms in operation in China, we were the seventh largest hotel group and second largest domestic hotel group according to the number of upscale hotel rooms, and were the eighth largest hotel group and the fourth largest domestic hotel group according to the number of upscale and mid-scale hotel rooms. In terms of hotel rooms both in operation and under pipeline in China, we were the third largest hotel group and the largest domestic hotel group according to the number of upscale hotel rooms and were the seventh largest hotel group and the fourth largest domestic hotel group according to the number of upscale and mid-scale hotel rooms. As at August 31, 2018, we have a pipeline of 135 hotels (including 129 full service management agreements, four leased agreements and two franchised agreements) with over 33,000 rooms that are expected to commence operation within the next five years.

We currently operate hotels that are either owned or leased by us and we also manage and franchise hotels. Under our hotel operation business, we operate these hotels and bear all of the accompanying hotel operating expenses. We are responsible for recruiting, training and supervising hotel managers and employees, hotel renovation expenses, and purchasing hotel supplies and other required equipment. Under our hotel management business, within our full service management agreements, we provide services to the hotel owners similar to those provided under our hotel operation business except that the respective hotel owners shall bear the full operating expenses of the hotel operation. For our franchised hotels, we grant the franchisees the limited right to use our name, trademarks and operational system in the

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## FINANCIAL INFORMATION

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operation of the franchised hotels in return for a fixed franchise fee. We do not directly participate in the management of the franchised hotels but franchisees are required to operate the franchised hotels consistent with our brand standard.

For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, our revenue was RMB1,522.1 million, RMB1,602.0 million, RMB1,664.6 million, and RMB1,119.2 million, respectively. For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, we had a profit and total comprehensive income of RMB29.6 million, RMB84.1 million, RMB166.6 million, and RMB111.6 million, respectively, and had a profit and total comprehensive income attributable to owners of our Company of RMB30.1 million, RMB84.3 million, RMB163.0 million, and RMB110.0 million during the corresponding periods, respectively.

Set out below is a brief introduction of our two business segments.

### Hotel Operation

As at August 31, 2018, we operated 31 hotels, including 29 hotels under hotel lease agreements and two self-owned hotels. Apart from room revenue, we also generated a substantial portion of our revenue from the provision of F&B services. For the years ended December 31, 2015, 2016 and 2017 and for the eight months ended August 31, 2018, revenue from our hotel operation segment was RMB1,400.6 million, RMB1,490.1 million, RMB1,527.9 million, and RMB1,013.6 million, respectively, representing approximately 92.0%, 93.0%, 91.8%, and 90.6% of our total revenue for the corresponding periods, respectively and during the corresponding periods, our segment gross profit was approximately RMB138.1 million, RMB219.4 million, RMB308.0 million, and RMB153.3 million, respectively. For further details on our hotel operation segment, please see sub-section headed "Business – Our Business Operations – Our Business Models – Hotel Operation" in this document.

### Hotel Management

As at August 31, 2018, we managed 109 hotels, amongst which 96 hotels under full service management agreements and 13 hotels under franchise agreements. For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, revenue from our hotel management segment was approximately RMB121.5 million, RMB111.9 million, RMB136.8 million, and RMB105.6 million, representing approximately 8.0%, 7.0%, 8.2%, and 9.4% of our total revenue for the corresponding periods, respectively, and for the corresponding periods, our gross profit generated from our hotel management segment was RMB106.1 million, RMB100.3 million, RMB123.9 million, and RMB96.6 million, respectively. For further details on the activities of the businesses in our hotel management segment, please see sub-section headed "Business – Our Business Operations – Our Business Models – Hotel Management" in this document.

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## FINANCIAL INFORMATION

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### BASIS OF PREPARATION OF FINANCIAL INFORMATION

The historical financial information of our Group for the years ended December 31, 2015, 2016 and 2017, and the eight months ended August 31, 2018 (the “**Historical Financial Information**”) has been prepared in accordance with the IFRS and the disclosure requirements of the Listing Rules. We prepared the Historical Financial Information under the historical cost convention, with the revaluation of financial assets at fair value through profit or loss carried at fair value.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Historical Financial Information has been prepared in accordance with IFRS. We have identified certain accounting policies that are critical to the preparation of our financial information. These accounting policies are important for an undertaking of our financial position and results of operations and are set forth in Note 2 of the Accountant’s Report in Appendix I to this document.

In addition, the preparation of the Historical Financial Information requires our management to make significant and subjective estimates, assumptions and judgments that affect the reported amounts of revenues, expenses, assets and liabilities, for the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018. However, uncertainties about these assumptions, estimates and judgments could result in outcomes that require a material adjustment to the carrying amounts of the assets and liabilities in the future. These key estimates and judgments are set forth in Note 4 of the Accountant’s Report in Appendix I to this document.

Below is a summary of our critical accounting policies and estimates.

#### Revenue Recognition

Our Group provides hotel management services and operations of hotels including sales of goods.

Revenue is recognized when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point of time. Control of the asset is transferred over time if our Group’s performance:

- provides all of the benefits received and consumed simultaneously by the customer; or
- creates and enhances an asset that the customer controls as our Group performs; or
- do not create an asset with an alternative use of our Group and our Group has an enforceable right to payment for performance completed to date.



## FINANCIAL INFORMATION

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If control of the asset transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation.

Otherwise, revenue is recognized at a point of time when the customer obtains the control of an asset.

The progress towards complete satisfaction of the performance obligation is measured based on our Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract.

An entity is a principal if it controls the promised good or service before transferring it to the customer. An entity is an agent if its role is to arrange for another entity to provide goods or service. Our Group considers it is a principal in providing its services.

### ***Hotel management services***

Revenue arising from hotel management services is recognized over time in the accounting period in which the services are rendered because all of the benefits are received and consumed simultaneously by the customer as our Group performs. Our Group bills the hotel management fee for each month of service provided to its customer and recognizes as revenue in the amount to which our Group has a right to invoice and corresponds directly with the value of performance completed.

### ***Hotel operation services***

Revenue from hotel operation services mainly comprises of room, food and beverage and ancillary services. Except for the revenue from food and beverage which is recognized at a point of time when the services are rendered, revenue from other hotel operation services is recognized over time in the accounting period in which the service are rendered.

### ***Sales of goods***

Revenue from sales of goods are recognized at a point of time when the control of the goods has transferred to the customers, being when the goods are delivered to the customers, there is no unfulfilled obligation that could affect the customers' acceptance of the goods. And the customer has obtained the physical possession or the legal title of the goods and our Group has present right to payment and the collection of the consideration is probable.

## FINANCIAL INFORMATION

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### Impairment of Trade and Other Receivables

Our Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade and other receivables. To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. To manage risk arising from trade receivables, our Group established policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period and the credit quality of the customers are assessed, which takes into account their financial position, past experience and other factors. The management make periodic collective assessments as well as individual assessment on the recoverability of trade receivables taking into account their historical settlement records, financial position, past experience and other factors.

### Current Income Taxes and Deferred Tax

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different.

## IMPACT OF ADOPTION OF CERTAIN ACCOUNTING POLICIES AND AMENDMENTS THERETO

### IFRS 9 and IFRS 15

IFRS 9, 'Financial instruments' and IFRS 15, 'Revenue from contracts with customers' have been adopted by the Group in the preparation of the Historical Financial Information throughout the Track Record Period.

We have assessed the effects of the adoption of IFRS 9 and IFRS 15 on our financial statements and identified the following areas that have been affected:

- Adoption of new impairment model. IFRS 9 requires the recognition of impairment provisions of financial assets measured at amortised cost based on expected credit losses. The Group assessed that the adoption of the new impairment methodology would not result in significant difference on bad debt provision.

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- Presentation of contract liabilities in the consolidated balance sheets. IFRS 15 requires separate presentation of contract liabilities in the consolidated balance sheets. This has resulted in some reclassification in relation to our unsatisfied performance obligations. As of 31 December 2015, 2016, 2017 and 31 August 2018, contract liabilities of RMB161.3 million, RMB186.7 million, RMB192.4 million and RMB208.7 million respectively, should have been presented as "Advances from customers" and "Deferred revenue" should IAS 18 be applied throughout the Track Record Period.

Based on our above assessment, we consider that the adoption of IFRS 9 and IFRS 15 did not have significant impact on our financial position and performance during the Track Record Period.

### IFRS 16 – Leases

IFRS 16, which is not expected to apply until the financial year 2019, addresses the definition of a lease, recognition and measurement of leases and principles for reporting useful information to users of financial information about the leasing activities of both lessees and lessors. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized by lessees. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. Our Group is a lessee of various properties and equipments which are currently classified as operating leases. Our Group's current accounting policy for such leases is set out in Note 2.31 of the Accountant's Report in Appendix I to this document with our Group's future operating lease commitments, which are not reflected in the consolidated balance sheet, set out in Note 33(b) of the Accountant's Report in Appendix I. IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognize certain leases outside of the balance sheets. Instead, almost all leases must be recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of less than twelve months and leases of low-value assets are exempt from the recognition obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheets. As for the financial performance impact in the consolidated statements of comprehensive income, the operating lease expenses will decrease, while depreciation and amortization and interest expense will increase.

### KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors including the following:

#### Global and PRC Economic Conditions and Market Demand

The business and financial performance of all our business segments are closely tied to global and PRC economic conditions.

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Our hotel business may be adversely affected by a reduction in business travelers, affluent leisure travelers or discretionary consumer spending as a result of a downturn in the PRC or global economy, since the consumer demand for hotel services provided by us are considerably sensitive to the recession of the economy. In particular, a significant portion of our revenue is derived from our upscale and mid-scale hotels and is vulnerable to a decline in demand from business and affluent leisure travelers. Changes in consumer preferences, the level of business travel, or discretionary consumer spending caused by deterioration in general economic conditions and decline in consumer confidence in the economy may adversely affect our business and financial performance. Additionally, decline in hotel profitability during an economic downturn directly impacts the incentive portion of our management fees which are calculated based on hotel operating profit of the hotels managed by us. As a result, changes in consumer demand and general economic cycles can subject our revenues to significant volatility. For further details, please see sub-section headed "Risk Factors – Risks relating to our Business and Operations – Our hotel business may be adversely affected by a reduction in business travelers, affluent leisure travelers or discretionary consumer spending as a result of a downturn in the PRC or global economy or any acts or threats of terrorism" in this document.

### **Intensive Market Competition in the PRC Hotel Industry**

We face an intensive competition in the hotel industry in the first-tier cities and several new first-tier cities and second-tier cities in which we operate. Our principal competitors are those Star-rated hotel chains operators with well-established and recognized brands including international and domestic hotel chain operators. We also compete against independent owners or operators of local five Star-rated hotels. In addition to competing for hotel guests, we also compete for recruitment and retention of hotel staff. Employee benefit expenses are one of the largest components in our cost structure which amounted to RMB359.2 million, RMB398.9 million, RMB440.3 million, and RMB310.6 million for the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, respectively, representing 24.4%, 26.6%, 29.8%, and 30.8% of total expenses for the corresponding periods. We believe that our high-quality service, strong customer base, established track record, prominent brand recognition, comprehensive staff training program and strategic property locations have enabled us to compete effectively in the hotel industry.

### **Ability to Maintain Existing Lease Agreements**

Our operated hotels are mostly leased hotels and therefore, the sustainability of our leased hotel business largely depends on the lessors' willingness to maintain the existing hotel lease agreements with us. We typically incur a net loss for the first two or three years of operations of a new hotel, and if a lessor terminates the hotel lease agreement with us when a new hotel starts to generate profit after the ramp up period, profit we generate from the leased hotel will be much lower than our estimated profit for the entire term of the hotel lease agreement, even if we receive compensation from the lessor for early termination of the hotel lease agreement. We believe that we have established strong relationships with our lessors and are committed to maintaining and developing these relationships. These relationships exist with a diverse

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group of lessors and are not heavily concentrated with any particular lessors. During the Track Record Period, there was only one hotel lease agreement that was terminated by the hotel owner due to the hotel being sold by the hotel owner to a third-party, and we were fully compensated for the termination of the hotel lease agreement by the hotel owner pursuant to the terms under the hotel lease agreement.

### **Ability to Maintain Existing Agreements with Hotel Owners**

We depend on our management agreements with hotel owners for our hotel management services. The sustainability of our managed hotel business largely depends on our performance under our management agreements and the maintenance of good relationships with third-party hotel owners. We believe that we have established strong relationships with our third-party owners and are committed to maintaining and developing these relationships. These relationships exist with a diverse group of owners and are not heavily concentrated with any particular hotel owners.

### **Our Ability to Enter into New Lease Agreements and Management Agreements**

During the Track Record Period, our growth was contributed by the increasing number of hotels operated and managed by us, amongst which the number of operated hotels increased from 26 as at December 31, 2015 to 31 as at August 31, 2018, whilst the number of managed hotels increased from 48 as at December 31, 2015 to 109 as at August 31, 2018. As at August 31, 2018, our pipeline consisted of four leased hotels, 129 full service managed hotels and two franchised hotels. Our results of operations will continue to be affected by our ability to engage new hotels under our hotel operation and/or management business.

### **Business and Leisure Travel**

Revenues from our hotel operation segment mainly comprises room revenue and revenue generated from F&B services. Changes in room revenue are mainly driven by the following four performance indicators that are commonly used in the hotel industry:

- (i) total occupied room nights;
- (ii) occupancy rate;
- (iii) ADR; and
- (iv) RevPAR.

Total occupied room nights, the occupancy rate, ADR, RevPAR and revenue of our hotels have been directly affected by the levels of business and leisure travel, which was driven by the development of local economies and the leisure industry, conferences and events in the areas where we operate. We anticipate our results of operations will continue to depend on demand from business and leisure travelers and the attractiveness of our hotels to guests.

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### **Demand for Upscale F&B Services**

In addition to room revenue, revenue from F&B services accounted for 40.6%, 42.5%, 38.2%, and 39.5% of the revenue derived from our hotel operation segment for the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, respectively. Market demand and consumption levels of upscale banquets and by our hotel guests are the main drivers of our F&B services.

Changes in F&B services revenue are mainly driven by the following four performance indicators:

- (i) total available seats;
- (ii) utilization rate of seats;
- (iii) spending per guest; and
- (iv) revenue per sq.m. of banquet rooms.

Utilization rate of seats, average customer spending and revenue per sq.m. of banquet rooms have been directly affected by local market demand and consumption capacity of upscale catering for banquets, which in turn driven by local income levels and local customs.

### **The terms of the full service management agreement**

Depending on the needs of the hotel owners, the salaries of the general manager and financial controller being assigned to the full service managed hotels may be paid by our Group, which will then be reimbursed to us by the hotel owners. The employee benefit expenses of our hotel management segment would therefore be increased despite such expenses would eventually be recovered from the hotel owners and this would potentially impact the gross profit margin of our hotel management segment.

### **Ability to Improve Operational Cost Efficiency**

Parts of our operational expenses are relatively fixed regardless of the fluctuation of our revenue, such as those fixed operating lease expenses with fixed terms, depreciation and employee benefit expenses recognized in our cost of sales. Due to the nature of these expenses, our expenses will not increase in proportion to our revenue growth. As a result, our profit margin will tend to increase with the growth in revenue if we are able to increase our RevPar. However, if we are unable to reduce these costs significantly or rapidly when demand for our hotels decreases, the decline in our revenue can have a particularly adverse effect on our net cash flow, margins and profits. This effect can be especially pronounced during periods of economic contraction or slow economic growth. Economic downturns generally affect the results of our operated hotels more significantly than the results of our managed hotels due to the high fixed costs associated with operating an owned or leased hotel. The effectiveness of

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cost-cutting efforts is limited due to the fixed-cost nature of our business. As a result, we may not always be able to offset the reductions in revenue through cost cutting. In addition, efforts to reduce costs, or to defer or cancel capital improvements, could adversely affect the economic value of our hotels and brands. We intend to manage our cost structure at levels appropriate for the degree of demand and revenue generated at our hotels.

For illustration purpose only, the tables below set forth a sensitivity analysis for the impacts on our profit before income tax if the operating lease expenses, costs of F&B service and employee benefit expenses, the major components of our overall segment expenses, had hypothetically been 5%, 10%, and 15% higher or lower, given that other variables were held constant.

| Change in operating<br>lease expenses | For the year ended December 31, |             |             | For the eight months<br>ended August 31, |             |
|---------------------------------------|---------------------------------|-------------|-------------|------------------------------------------|-------------|
|                                       | 2015                            | 2016        | 2017        | 2017                                     | 2018        |
|                                       | RMB'000                         | RMB'000     | RMB'000     | RMB'000                                  | RMB'000     |
|                                       |                                 |             |             |                                          |             |
| +/-5%                                 | -/+20,151.3                     | -/+19,992.5 | -/+18,703.4 | -/+12,819.2                              | -/+12,769.4 |
| +/-10%                                | -/+40,302.6                     | -/+39,985.0 | -/+37,406.7 | -/+25,638.4                              | -/+25,538.8 |
| +/-15%                                | -/+60,453.9                     | -/+59,977.5 | -/+56,110.1 | -/+38,457.6                              | -/+38,308.2 |

| Change in costs of<br>F&B service | For the year ended December 31, |             |             | For the eight months<br>ended August 31, |             |
|-----------------------------------|---------------------------------|-------------|-------------|------------------------------------------|-------------|
|                                   | 2015                            | 2016        | 2017        | 2017                                     | 2018        |
|                                   | RMB'000                         | RMB'000     | RMB'000     | RMB'000                                  | RMB'000     |
|                                   |                                 |             |             |                                          |             |
| +/-5%                             | -/+11,166.1                     | -/+9,736.1  | -/+8,376.5  | -/+5,034.5                               | -/+5,840.3  |
| +/-10%                            | -/+22,332.2                     | -/+19,472.1 | -/+16,753.0 | -/+11,268.9                              | -/+11,680.5 |
| +/-15%                            | -/+33,498.3                     | -/+29,208.2 | -/+25,129.5 | -/+16,903.4                              | -/+17,520.8 |

| Change in costs of<br>employee benefit<br>expenses | For the year ended December 31, |             |             | For the eight months<br>ended August 31, |             |
|----------------------------------------------------|---------------------------------|-------------|-------------|------------------------------------------|-------------|
|                                                    | 2015                            | 2016        | 2017        | 2017                                     | 2018        |
|                                                    | RMB'000                         | RMB'000     | RMB'000     | RMB'000                                  | RMB'000     |
|                                                    |                                 |             |             |                                          |             |
| +/-5%                                              | -/+17,958.4                     | -/+19,945.4 | -/+22,016.5 | -/+14,137.3                              | -/+15,530.6 |
| +/-10%                                             | -/+35,916.8                     | -/+39,890.8 | -/+44,032.9 | -/+28,274.6                              | -/+31,061.2 |
| +/-15%                                             | -/+53,875.2                     | -/+59,836.2 | -/+66,049.4 | -/+42,411.9                              | -/+46,591.8 |



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### SELECTED HISTORICAL FINANCIAL INFORMATION OF OUR GROUP

The table below sets out the consolidated statements of comprehensive income for the periods as indicated, which is extracted from the Accountant's Report set out in Appendix I to this document.

|                                                                                                                                       | For the years ended December 31, |               |                | For the eight months ended August 31, |                |
|---------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|---------------|----------------|---------------------------------------|----------------|
|                                                                                                                                       | 2015                             | 2016          | 2017           | 2017                                  | 2018           |
|                                                                                                                                       | RMB'000                          | RMB'000       | RMB'000        | RMB'000                               | RMB'000        |
|                                                                                                                                       |                                  |               |                | (unaudited)                           |                |
| <b>Revenue</b>                                                                                                                        | 1,522,082                        | 1,602,006     | 1,664,643      | 1,067,753                             | 1,119,249      |
| Cost of sales                                                                                                                         | (1,277,979)                      | (1,282,271)   | (1,232,702)    | (817,705)                             | (869,310)      |
| <b>Gross profit</b>                                                                                                                   | 244,103                          | 319,735       | 431,941        | 250,048                               | 249,939        |
| Selling and marketing expenses                                                                                                        | (61,617)                         | (70,947)      | (85,457)       | (44,181)                              | (48,234)       |
| Administrative expenses                                                                                                               | (134,861)                        | (148,776)     | (160,543)      | (90,124)                              | (90,308)       |
| Other income                                                                                                                          | 5,031                            | 12,315        | 10,436         | 7,219                                 | 7,376          |
| Other gains – net                                                                                                                     | 3,158                            | 7,324         | 28,644         | 4,634                                 | 20,725         |
| <b>Operating profit</b>                                                                                                               | 55,814                           | 119,651       | 225,021        | 127,596                               | 139,498        |
| Finance income                                                                                                                        | 30,968                           | 12,193        | 5,402          | 3,937                                 | 5,140          |
| Finance costs                                                                                                                         | (30,220)                         | (16,049)      | (10,406)       | (9,140)                               | (6,769)        |
| Finance income/(costs) – net                                                                                                          | 748                              | (3,856)       | (5,004)        | (5,203)                               | (1,629)        |
| Share of net profit of associates and joint ventures accounted for using the equity method                                            | 1,732                            | 1,435         | 3,005          | 1,529                                 | 4,327          |
| <b>Profit before income tax</b>                                                                                                       | 58,294                           | 117,230       | 223,022        | 123,922                               | 142,196        |
| Income tax expense                                                                                                                    | (28,653)                         | (33,175)      | (56,455)       | (34,726)                              | (30,641)       |
| <b>Profit and total comprehensive income for the year/period</b>                                                                      | <u>29,641</u>                    | <u>84,055</u> | <u>166,567</u> | <u>89,196</u>                         | <u>111,555</u> |
| <b>Profit and total comprehensive income/(loss) attributable to:</b>                                                                  |                                  |               |                |                                       |                |
| – Owners of our Company                                                                                                               | 30,107                           | 84,324        | 163,042        | 87,719                                | 109,974        |
| – Non-controlling interests                                                                                                           | (466)                            | (269)         | 3,525          | 1,477                                 | 1,581          |
|                                                                                                                                       | <u>29,641</u>                    | <u>84,055</u> | <u>166,567</u> | <u>89,196</u>                         | <u>111,555</u> |
| <b>Earnings per share for profit attributable to the owners of our Company for the year/period – Basic/Diluted (in RMB per share)</b> | <u>0.14</u>                      | <u>0.40</u>   | <u>0.78</u>    | <u>0.42</u>                           | <u>0.52</u>    |

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### DESCRIPTION OF SELECTED STATEMENT OF COMPREHENSIVE INCOME ITEMS

#### Revenue by Segment

We derive our revenue from the following business segments: (i) hotel operation and (ii) hotel management.

|                  | For the years ended December 31, |              |                  |              |                  |              | For the eight months ended August 31, |              |                  |              |
|------------------|----------------------------------|--------------|------------------|--------------|------------------|--------------|---------------------------------------|--------------|------------------|--------------|
|                  | 2015                             |              | 2016             |              | 2017             |              | 2017                                  |              | 2018             |              |
|                  | % of total                       |              | % of total       |              | % of total       |              | % of total                            |              | % of total       |              |
|                  | RMB'000                          | revenue      | RMB'000          | revenue      | RMB'000          | revenue      | RMB'000                               | revenue      | RMB'000          | revenue      |
|                  |                                  |              |                  |              |                  |              | (unaudited)                           |              |                  |              |
| Hotel operation  | 1,400,592                        | 92.0         | 1,490,139        | 93.0         | 1,527,866        | 91.8         | 982,353                               | 92.0         | 1,013,648        | 90.6         |
| Hotel management | 121,490                          | 8.0          | 111,867          | 7.0          | 136,777          | 8.2          | 85,400                                | 8.0          | 105,601          | 9.4          |
|                  | <u>1,522,082</u>                 | <u>100.0</u> | <u>1,602,006</u> | <u>100.0</u> | <u>1,664,643</u> | <u>100.0</u> | <u>1,067,753</u>                      | <u>100.0</u> | <u>1,119,249</u> | <u>100.0</u> |

**Hotel Operation.** The following table shows a breakdown of our revenue by each hotel operation product and service and as a percentage of the total revenue of our hotel operation segment for the periods indicated.

|                                   | For the years ended December 31, |                 |                  |                 |                  |                 | For the eight months ended August 31, |                 |                  |                 |
|-----------------------------------|----------------------------------|-----------------|------------------|-----------------|------------------|-----------------|---------------------------------------|-----------------|------------------|-----------------|
|                                   | 2015                             |                 | 2016             |                 | 2017             |                 | 2017                                  |                 | 2018             |                 |
|                                   | % of                             |                 | % of             |                 | % of             |                 | % of                                  |                 | % of             |                 |
|                                   | RMB'000                          | segment revenue | RMB'000          | segment revenue | RMB'000          | segment revenue | RMB'000                               | segment revenue | RMB'000          | segment revenue |
|                                   |                                  |                 |                  |                 |                  |                 | (unaudited)                           |                 |                  |                 |
| <b>Hotel</b>                      |                                  |                 |                  |                 |                  |                 |                                       |                 |                  |                 |
| <b>Operation</b>                  |                                  |                 |                  |                 |                  |                 |                                       |                 |                  |                 |
| Room                              | 652,586                          | 46.6            | 666,038          | 44.7            | 732,890          | 48.0            | 494,210                               | 50.4            | 482,285          | 47.6            |
| F&B services                      | 568,679                          | 40.6            | 633,513          | 42.5            | 583,156          | 38.2            | 371,580                               | 37.8            | 400,545          | 39.5            |
| Ancillary services <sup>(1)</sup> | 139,344                          | 9.9             | 151,923          | 10.2            | 178,087          | 11.6            | 96,745                                | 9.8             | 107,163          | 10.6            |
| Rental income                     | 39,983                           | 2.9             | 38,665           | 2.6             | 33,733           | 2.2             | 19,818                                | 2.0             | 23,655           | 2.3             |
| Segment revenue                   | <u>1,400,592</u>                 | <u>100.0</u>    | <u>1,490,139</u> | <u>100.0</u>    | <u>1,527,866</u> | <u>100.0</u>    | <u>982,353</u>                        | <u>100.0</u>    | <u>1,013,648</u> | <u>100.0</u>    |

*Note:*

- Primarily includes (i) hotel-related value-added services such as conference arrangement service, and fitness service, (ii) sales of goods or products such as wine, seafood, moon cakes and rice dumplings, and (iii) room reservation services via our CRS or other reservation channels charged on a per-room-night basis.

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The following table sets out a breakdown of the occupancy rate, ADR and RevPAR of our operated hotels for the periods indicated:

|                | For the years ended December 31, |       |       | For the eight months ended August 31, |       |
|----------------|----------------------------------|-------|-------|---------------------------------------|-------|
|                | 2015                             | 2016  | 2017  | 2017                                  | 2018  |
| Occupancy rate | 59.4%                            | 61.4% | 64.6% | 64.6%                                 | 62.0% |
| ADR (RMB)      | 447.4                            | 439.0 | 447.1 | 448.6                                 | 456.0 |
| RevPAR (RMB)   | 265.5                            | 267.0 | 288.9 | 289.9                                 | 282.6 |

For the years ended December 31, 2015, 2016 and 2017, and the eight months ended August 31, 2018, hotel operation segment revenue derived from our related parties was RMB 19.0 million, RMB31.1 million, RMB29.9 million, and RMB18.5 million, respectively, representing 1.2%, 1.9%, 1.8%, and 1.7% of our total revenue during the same periods, respectively.

**Hotel Management.** Revenue from our hotel management segment is derived from providing hotel management service under (i) our full service hotel management agreements, and (ii) our franchise agreements. During the Track Record Period, revenue generated from our hotel management segment was RMB121.5 million, RMB111.9 million, RMB136.8 million, and RMB105.6 million.

For our full service hotel management services, management fees payable to us mainly comprise three parts, namely (i) basic management fees, (ii) incentive management fees and (iii) marketing and promotion fees. Basic management fees equal to a fixed percentage, normally 2.0% to 5.0% of the total revenue of the hotels payable on a monthly or quarterly basis. Incentive management fees equal to a certain percentage, typically 4.0% to 6.0% of the gross operating profit of the hotel payable on a monthly or quarterly basis and, for a limited number of hotels, such basic management fee is subject to adjustment based on the achievement status of pre-determined targets, which are normally the anticipated total revenue or gross operating profit of the hotels. Marketing and promotion fees for campaigns and services provided, which equal to the sum of a fixed percentage, typically 0.5% of the total revenue of a hotel. We also provide pre-opening consultation services which include hotel design, construction and management consulting services to hotel owners. In exchange for such services, the hotel owners typically pay us a fee ranging from RMB0.8 million to RMB1.5 million annually in the years our services are rendered depending on the type of services provided.

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For our services under our franchise agreements, the franchise fees comprise (i) brand name usage fee, a fixed fee normally payable on a monthly basis as consideration for allowing the franchisee the use of the “New Century (開元)” brand name, (ii) operation management audit fee, payable on an annual basis for the performance of annual audit on the operation and management of the franchisee’s business, (iii) unannounced inspection fee, payable on an annual basis for our Group to engage a third-party hotel expert to inspect on the service standard, hygiene, food safety and fire control facilities of the franchised hotel, (iv) customer satisfaction survey fee, payable on an annual basis for our Group to carry out an annual survey to the franchised hotel’s customers on their satisfaction on their stay at the franchised hotel, (v) employee satisfaction survey fee, payable on an annual basis for our Group to carry out an annual survey to the franchised hotel’s staff on their job satisfaction, and (vi) the staff training fee, a lump sum fee to be agreed upon between our Group and the franchisee for providing appropriate employee training to the franchised hotel staff based on their operational needs.

For the years ended December 31, 2015, 2016 and 2017, and the eight months ended August 31, 2018, the revenue derived from our management of the hotels on behalf of our related parties was RMB59.4 million, RMB34.4 million, RMB35.5 million, and RMB24.9 million, respectively, representing 3.9%, 2.1%, 2.1%, and 2.2% of our total revenue during the same periods, respectively.

During the Track Record Period, the rate of revenue growth for the hotel management segment may appear to be slower than the rate of increase in the number of managed hotels mainly due to: (i) newly-opened hotel takes around one to three years to ramp up operation, build up reputation and hotel guest base before it can generate the expected level of revenue and gross operating profit; (ii) the Group has been expanding and developing the mid-scale select service hotel brands which offer accommodation services with fewer hotel rooms as compared to hotels that offer full service and does not provide any F&B services, hence mid-scale select service hotels normally generate less revenue and gross operating profit in comparison with our upscale hotels and mid-scale full service hotels; and (iii) despite the increase in number of franchised hotels from four as at December 31, 2015 to 11 as at December 31, 2017, the average franchise fee (comprised mainly of fixed fees) generated from a franchised hotel is less than the average management fee generated from a full service managed hotel, and hence the increase in franchised hotels had a less positive impact on our Group’s financial performance than the increase in full service managed hotels.

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### Cost of Sales

Our cost of sales primarily consists of (i) operating lease rentals, (ii) costs of materials consumption, (iii) employee benefit expenses, (iv) utilities and electricity, (v) taxes and levies, and (vi) depreciation of property, plant and equipment. The table below sets forth the components of our cost of sales for the periods indicated.

|                                             | For the years ended December 31, |                  |                  | For the eight months ended August 31, |                |
|---------------------------------------------|----------------------------------|------------------|------------------|---------------------------------------|----------------|
|                                             | 2015                             | 2016             | 2017             | 2017                                  | 2018           |
|                                             | RMB'000                          | RMB'000          | RMB'000          | RMB'000                               | RMB'000        |
|                                             |                                  |                  |                  | (unaudited)                           |                |
| Operating lease rentals                     | 400,671                          | 397,701          | 371,567          | 254,990                               | 252,954        |
| Costs of materials consumption              | 345,279                          | 362,594          | 350,527          | 214,247                               | 239,061        |
| Employee benefit expenses                   | 236,740                          | 265,229          | 282,222          | 192,424                               | 221,118        |
| Utilities and electricity                   | 98,662                           | 92,044           | 90,216           | 61,327                                | 60,538         |
| Taxes and levies                            | 83,988                           | 33,864           | 4,106            | 2,417                                 | 3,373          |
| Depreciation of property, plant & equipment | 42,981                           | 46,532           | 51,555           | 34,472                                | 32,916         |
| Maintenance cost                            | 18,387                           | 23,568           | 24,199           | 14,502                                | 15,561         |
| Laundry cost                                | 14,528                           | 14,506           | 14,659           | 9,614                                 | 10,658         |
| Travelling and communication expenses       | 13,968                           | 14,343           | 14,596           | 9,861                                 | 10,908         |
| Miscellaneous <sup>(1)</sup>                | 22,775                           | 31,890           | 29,055           | 23,851                                | 22,223         |
| <b>Total</b>                                | <b>1,277,979</b>                 | <b>1,282,271</b> | <b>1,232,702</b> | <b>817,705</b>                        | <b>869,310</b> |

Note:

- Miscellaneous includes depreciation of investment properties, amortization of intangible assets, amortization of land use right, transportation expenses, outsourcing service expenses, uniform expenses, and other items.

### Gross Profit and Gross Profit Margin

During the Track Record Period, gross profit margin of hotel management segment was significantly higher than that of hotel operation segment, primarily because during the Track Record Period, the cost of sales for our hotel management service primarily included only a limited amount of employee benefit expenses, while hotel operation segment incurred significant amounts of expenses, including (i) operating lease expenses, (ii) costs of material consumptions, (iii) employee benefit expenses and (iv) utilities cost, which in total represented a significant portion of cost of sales. The table below sets forth a breakdown of our gross profit and gross profit margin for the periods indicated.

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| Segment                                    | For the years ended December 31, |               |              |               |              |               | For the eight months ended August 31, |               |              |               |
|--------------------------------------------|----------------------------------|---------------|--------------|---------------|--------------|---------------|---------------------------------------|---------------|--------------|---------------|
|                                            | 2015                             |               | 2016         |               | 2017         |               | 2017                                  |               | 2018         |               |
|                                            | Gross                            |               | Gross        |               | Gross        |               | Gross                                 |               | Gross        |               |
|                                            | Gross profit                     | profit margin | Gross profit | profit margin | Gross profit | profit margin | Gross profit                          | profit margin | Gross profit | profit margin |
|                                            | RMB'000                          | %             | RMB'000      | %             | RMB'000      | %             | RMB'000                               | %             | RMB'000      | %             |
|                                            | (unaudited)                      |               |              |               |              |               |                                       |               |              |               |
| Hotel operation                            | 138,050                          | 9.9           | 219,402      | 14.7          | 308,015      | 20.2          | 173,163                               | 17.6          | 153,342      | 15.1          |
| Hotel management                           | 106,053                          | 87.3          | 100,333      | 89.7          | 123,926      | 90.6          | 76,885                                | 90.0          | 96,597       | 91.5          |
| Total gross profit and gross profit margin | 244,103                          | 16.0          | 319,735      | 20.0          | 431,941      | 25.9          | 250,048                               | 23.4          | 249,939      | 22.3          |

### Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of employee benefit expenses and marketing and promotion expenses. The table below sets forth a breakdown of our selling and marketing expenses.

|                                       | For the years ended December 31, |         |         | For the eight months ended August 31, |         |
|---------------------------------------|----------------------------------|---------|---------|---------------------------------------|---------|
|                                       | 2015                             | 2016    | 2017    | 2017                                  | 2018    |
|                                       | RMB'000                          | RMB'000 | RMB'000 | RMB'000                               | RMB'000 |
|                                       | (unaudited)                      |         |         |                                       |         |
| Employee benefit expenses             | 27,557                           | 31,738  | 39,316  | 19,771                                | 23,179  |
| Marketing and promotion expenses      | 32,056                           | 37,405  | 44,643  | 23,727                                | 24,420  |
| Travelling and communication expenses | 1,313                            | 1,408   | 1,205   | 683                                   | 635     |
| Miscellaneous                         | 691                              | 396     | 293     | –                                     | –       |
| Total                                 | 61,617                           | 70,947  | 85,457  | 44,181                                | 48,234  |

### Administrative Expenses

The administrative expenses primarily consist of employee benefit expenses, bank charges, travelling and communication expenses, and operating lease rentals. The table below sets out the components of our administrative expenses for the periods indicated.

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|                                                                    | For the years ended December 31, |                |                | For the eight months ended August 31, |               |
|--------------------------------------------------------------------|----------------------------------|----------------|----------------|---------------------------------------|---------------|
|                                                                    | 2015                             | 2016           | 2017           | 2017                                  | 2018          |
|                                                                    | RMB'000                          | RMB'000        | RMB'000        | RMB'000                               | RMB'000       |
|                                                                    |                                  |                |                | (unaudited)                           |               |
| Employee benefit expenses                                          | 94,871                           | 101,941        | 118,791        | 70,551                                | 66,315        |
| Travelling and communication expenses                              | 5,152                            | 6,378          | 8,925          | 4,749                                 | 5,944         |
| Bank charges                                                       | 6,870                            | 8,471          | 3,939          | 2,703                                 | 2,941         |
| Operating lease rentals                                            | 2,355                            | 2,149          | 2,473          | 1,394                                 | 2,434         |
| Transportation expenses                                            | 1,158                            | 1,865          | 1,990          | 1,244                                 | 1,433         |
| Depreciation of property, plant & equipment                        | 2,913                            | 2,540          | 2,380          | 1,395                                 | 384           |
| Taxes and levies                                                   | 2,372                            | 1,900          | 1,585          | 953                                   | 1,011         |
| Allowance/(reversal) for impairment of trade and other receivables | 4,951                            | 5,267          | 958            | (129)                                 | 1,579         |
| Miscellaneous <sup>(1)</sup>                                       | 14,219                           | 18,265         | 19,502         | 7,264                                 | 8,267         |
| <b>Total</b>                                                       | <b>134,861</b>                   | <b>148,776</b> | <b>160,543</b> | <b>90,124</b>                         | <b>90,308</b> |

Note:

- Miscellaneous includes utilities and electricity expenses, uniform expenses, amortization of intangible assets, costs of materials consumption, maintenance cost, professional fees, auditor's remuneration and other items.

### Other Income

Our other income consists of government grants which were provided to some of our subsidiaries with an aim to encourage business investments in the PRC and income from financial assets at fair value through profit or loss. The following table sets out a breakdown of our other income for the periods indicated.

|                                                                   | For the years ended December 31, |               |               | For the eight months ended August 31, |              |
|-------------------------------------------------------------------|----------------------------------|---------------|---------------|---------------------------------------|--------------|
|                                                                   | 2015                             | 2016          | 2017          | 2017                                  | 2018         |
|                                                                   | RMB'000                          | RMB'000       | RMB'000       | RMB'000                               | RMB'000      |
|                                                                   |                                  |               |               | (unaudited)                           |              |
| Government grants                                                 | 5,031                            | 4,438         | 2,272         | 1,060                                 | 2,893        |
| Income from financial assets at fair value through profit or loss | –                                | 7,877         | 8,164         | 6,159                                 | 4,483        |
|                                                                   | <b>5,031</b>                     | <b>12,315</b> | <b>10,436</b> | <b>7,219</b>                          | <b>7,376</b> |



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### Other Gains, Net

Our other gains, net, primarily consist of gains on disposal of subsidiaries, losses/gains on disposal of property, plant and equipment, and compensation income and waived payables due to third parties. The following table sets out a breakdown of our other gains for the periods indicated.

|                                                                 | For the years ended December 31, |              |               | For the eight months ended August 31, |               |
|-----------------------------------------------------------------|----------------------------------|--------------|---------------|---------------------------------------|---------------|
|                                                                 | 2015                             | 2016         | 2017          | 2017                                  | 2018          |
|                                                                 | RMB'000                          | RMB'000      | RMB'000       | RMB'000                               | RMB'000       |
|                                                                 |                                  |              |               | (unaudited)                           |               |
| Net (losses)/gains on disposal of property, plant and equipment | (53)                             | (106)        | 1,094         | 1,798                                 | (54)          |
| Net gains on disposal of subsidiaries                           | –                                | 5,261        | 3,104         | –                                     | 10,794        |
| Compensation income <sup>(1)</sup>                              | –                                | –            | 19,600        | –                                     | 8,400         |
| Waived payables due to third parties <sup>(2)</sup>             | 2,317                            | 1,203        | 3,588         | 2,386                                 | 965           |
| Others                                                          | 894                              | 966          | 1,258         | 450                                   | 620           |
| <b>Total other gains, net</b>                                   | <b>3,158</b>                     | <b>7,324</b> | <b>28,644</b> | <b>4,634</b>                          | <b>20,725</b> |

*Notes:*

1. Compensation income mainly represents the compensation made by a third-party lessor who early terminated a hotel lease agreement with us.
2. Waived payables due to third-parties mainly represents the cash deposits made by hotel guests left uncollected for over 3 years.

The significant increase in other gains, net, for the year ended December 31, 2017 as compared to 2016 was mainly due to RMB19.6 million compensation income received from a third-party lessor who terminated the hotel lease agreement with our Group early due to the third-party lessor selling the hotel to a third-party, and we were fully compensated for the termination of the hotel lease agreement by the hotel owner pursuant to the terms under the hotel lease agreement. The increase in other gains, net, for the year ended December 31, 2016 compared to 2015 was mainly due to the net gains of RMB5.3 million from our disposal of approximately 64.2% interest in our then wholly-owned subsidiary Yuyao Manju in January 2016.

### Finance Income/(Costs), Net

Our finance income consists of interest income derived from bank deposits and interest income derived from loan to related parties. Our finance costs primarily consist of interest expenses on bank and other borrowings and interest expenses on borrowings from related parties.

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The following table sets out our net finance income and costs for the periods indicated.

|                                  | For the years ended December 31, |         |         | For the eight months ended August 31, |         |
|----------------------------------|----------------------------------|---------|---------|---------------------------------------|---------|
|                                  | 2015                             | 2016    | 2017    | 2017                                  | 2018    |
|                                  | RMB'000                          | RMB'000 | RMB'000 | RMB'000                               | RMB'000 |
|                                  |                                  |         |         | (unaudited)                           |         |
| Finance income/<br>(costs) – net | 748                              | (3,856) | (5,004) | (5,203)                               | (1,629) |

### Income Tax Expense

Income tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. Our income tax expenses during the Track Record Period comprises current and deferred PRC enterprise income tax. All of our PRC subsidiaries were subject to income tax rates of 25.0% during the Track Record Period. We expect that our subsidiaries will continue to be subject to the same tax rates in the next three years.

Our effective income tax rate was approximately 49.2%, 28.3%, 25.3% and 21.5% for the years ended December 31, 2015, 2016 and 2017, and the eight months ended August 31, 2018, respectively. The following table sets out a breakdown of our income tax expense for the periods indicated.

|                     | For the years ended December 31, |         |         | For the eight months ended August 31, |         |
|---------------------|----------------------------------|---------|---------|---------------------------------------|---------|
|                     | 2015                             | 2016    | 2017    | 2017                                  | 2018    |
|                     | RMB'000                          | RMB'000 | RMB'000 | RMB'000                               | RMB'000 |
|                     |                                  |         |         | (unaudited)                           |         |
| Current income tax  | 27,844                           | 33,358  | 52,165  | 34,089                                | 36,391  |
| Deferred income tax | 809                              | (183)   | 4,290   | 637                                   | (5,750) |
| Income tax expense  | 28,653                           | 33,175  | 56,455  | 34,726                                | 30,641  |

The 49.2% effective income tax rate, which was significantly higher for the year ended December 31, 2015 as compared to our statutory income tax rate of 25%, was primarily because (i) we did not recognize tax credit of RMB8.3 million for the tax losses incurred by some loss-making subsidiaries in 2015, and (ii) we did not recognize tax credit of RMB4.8 million for temporary differences mainly arising from share-based payment of RMB20.0 million in 2015 which was not tax deductible.

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### RESULTS OF OPERATIONS

The following discussion is based on our historical results of operations as described in the sub-section headed “– Selected Historical Financial Information of our Group” in this section. All segment numbers below are after inter-segment elimination.

**For the eight months ended August 31, 2017 compared to the eight months ended August 31, 2018**

#### *Revenue*

Revenue increased by 4.8% from RMB1,067.8 million for the eight months ended August 31, 2017 to RMB1,119.2 million for the eight months ended August 31, 2018.

#### *Hotel Operation*

Revenue for the hotel operation segment increased by 3.2% from RMB982.4 million for the eight months ended August 31, 2017 to RMB1,013.6 million for the eight months ended August 31, 2018, primarily due to (i) a 7.8% increase in revenue from F&B services from RMB371.6 million to RMB400.5 million, (ii) a 10.8% increase in the revenue from our ancillary services from RMB96.7 million to RMB107.2 million, and (iii) a 19.4% increase in rental income from RMB19.8 million to RMB23.7 million. However, these items were partially offset by a 2.4% decrease in room revenue from RMB494.2 million to RMB482.3 million.

The 7.8% increase in the revenue from our F&B services was largely due to the increase in market demand in Zhejiang Province for banquet services, which further led to (i) a 10.0% increase in the revenue per sq.m. of banquet rooms from RMB7,106.9 for the eight months ended August 31, 2017 to RMB7,820.5 for the eight months ended August 31, 2018 and (ii) a 4.7% increase in average spending per guest from RMB119.8 to RMB125.4 during the same periods.

The 10.8% increase in the revenue from our ancillary services was primarily due to (i) a 5.4% increase in hotel-related value-added services from RMB61.7 million to RMB65.0 million during the same periods, (ii) 23.4% increase in sales of goods and products from RMB20.1 million to RMB24.8 million during the same periods, and (iii) a 15.3% increase in room reservation revenue from RMB12.5 million to RMB14.4 million during the same periods, which was primarily due to a 26.1% increase in the total room nights reserved via our CRS and other reservation channels, generally corresponding to a 32.9% increase in the number of hotels we managed.

The 2.4% decrease in the room revenue was generally in line with an 4.2% decrease in number of total occupied room nights of our operated hotels from 1,083,737 for the eight months ended August 31, 2017 to 1,038,489 for the eight months ended August 31, 2018, respectively, primarily because of (i) the expiration of the hotel lease agreement of Shanghai Ruiya Hotel\* (上海瑞亞酒店) (“Shanghai Ruiya”) in June 2017, (ii) the disposal of 100%

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equity interests in Shaoxing Dayu on September 15, 2017, (iii) the disposal of 100% equity interests in Suzhou Qiju on November 16, 2017, and (iv) the early termination of the lease agreement of Shanghai Puxi by the lessor on September 7, 2017. During the same periods, the occupancy rate decreased from 64.6% to 62.0% and the RevPAR decreased from RMB289.9 to RMB282.6, primarily because we initiated the operations of five hotels during the eight months ended August 31, 2018. These newly established hotels should normally take one to three years to ramp up operation, build up reputation and hotel guest base and therefore, they did not offset the decrease in revenue of hotel operation segment caused by the cease in operations of the leased hotels aforementioned.

### *Hotel Management*

Revenue for the hotel management segment increased by 23.7% from RMB85.4 million for the eight months ended August 31, 2017 to RMB105.6 million for the eight months ended August 31, 2018, primarily due to (i) the expansion of our hotel management business, which led to the 32.9% increase in the number of hotels managed by us from 82 as at August 31, 2017 to 109 as at August 31, 2018, among which, the number of our full service managed hotels increased from 72 to 96 and that of our franchised hotel increased from 10 to 13 during the same period, and (ii) the increase in the underlying revenue and gross operating profit we managed to generate from our full service managed hotels, which led to an increase in the hotel management fee we received from hotel owners in return.

### *Cost of Sales*

The cost of sales increased by 6.3% from RMB817.7 million for the eight months ended August 31, 2017 to RMB869.3 million for the eight months ended August 31, 2018. The increase was primarily due to (i) an increase of RMB28.7 million in employment benefit expenses, and (ii) an increase of RMB24.8 million in costs of materials consumption. Such increases were partially offset by a decrease of RMB2.0 million in operating lease expenses.

During the Track Record Period, employee benefit expenses primarily comprised basic wages and bonuses tied to the profitability of our Group. The increase in employee benefit expenses was mainly due to (i) a 5.2% increase in the average weighted number of our employees from 4,992 for the eight months ended August 31, 2017 to 5,254 for the eight months ended August 31, 2018, which was to accommodate the expansion of our growing business, and (ii) an increase in monthly average employee salary from RMB7,080.0 for the eight months ended August 31, 2017 to RMB7,389.9 for the eight months ended August 31, 2018.

Our operating lease expenses decreased by RMB2.0 million, mainly due to (i) the expiration of the hotel lease agreement of Shanghai Ruiya in June 2017, (ii) the disposal of 100% equity interests in Shaoxing Dayu on September 15, 2017, (iii) the disposal of 100% equity interests in Suzhou Qiju on November 16, 2017 and (iv) the early termination of the lease of Shanghai Puxi by the lessor on September 7, 2017, which was partially offset by four newly-leased hotels that commenced operation during the eight months ended August 31, 2018.

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### ***Gross Profit and Gross Profit Margin***

Our gross profit remained stable at RMB250.0 million and RMB249.9 million for the eight months ended August 31, 2017 and 2018, respectively. The gross profit margin also remained fairly stable at 23.4% and 22.3% for the corresponding periods, respectively.

### ***Hotel Operation***

Gross profit for the hotel operation segment decreased by 11.4% from RMB173.2 million for the eight months ended August 31, 2017 to RMB153.3 million for the eight months ended August 31, 2018 and gross profit margin decreased from 17.6% to 15.1% during the corresponding periods, primarily due to the 2.4% decrease in room revenue while the operating lease expenses only decreased by 0.8%. The 7.8% increase in F&B revenue only partially offset the decrease in gross profit. However, since our F&B revenue had relatively stable gross profit margin, our overall hotel operation gross profit margin decreased slightly nevertheless.

### ***Hotel Management***

Gross profit for the hotel management segment increased by 25.6% from RMB76.9 million for the eight months ended August 31, 2017 to RMB96.6 million for the eight months ended August 31, 2018, which was generally in line with the 23.7% increase in revenue derived from the hotel management segment from RMB85.4 million for the eight months ended August 31, 2017 to RMB105.6 million for the eight months ended August 31, 2018. Gross profit margin for the eight months ended August 31, 2017 and 2018 remained steady at 90.0% and 91.5%, respectively.

### ***Selling and Marketing Expenses***

Selling and marketing expenses increased by 9.2% from RMB44.2 million for the eight months ended August 31, 2017 to RMB48.2 million for the eight months ended August 31, 2018. The increase was primarily due to a 17.2% increase in employee benefit expenses, primarily because during the same period, (i) we hired more selling and marketing personnels to enhance our market efforts during the same periods, and (ii) the average salary of the selling and marketing department of our Group increased due to (a) the increase in bonus accrued in line with the increase in our revenue and (b) the increase in average basic wage of selling and marketing personnels.

### ***Administrative Expenses***

Administrative expenses remained stable at RMB90.1 million and RMB90.3 million for the eight months ended August 31, 2017 and 2018, respectively.

### ***Other Income***

Other income remained stable at RMB7.2 million and RMB7.4 million for the eight months ended August 31, 2017 and 2018, respectively.

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### ***Other Gains, Net***

Other gains, net, increased by RMB16.1 million from RMB4.6 million for the eight months ended August 31, 2017 to RMB20.7 million for the eight months ended August 31, 2018, mainly due to (i) a compensation income of RMB8.4 million received from the third-party lessor due to early termination of the hotel lease agreement of Shanghai Puxi, and (ii) the net gains of RMB10.1 million from the disposal of Chongqing Dazu in June 2018.

### ***Finance Income/(Costs)***

Finance costs – net decreased from RMB5.2 million for the eight months ended August 31, 2017 to RMB1.6 million for the eight months ended August 31, 2018, primarily due to (i) an increase of RMB2.1 million in interest income derived from bank deposits, (ii) a decrease of RMB0.9 million in interest expenses on banks and other borrowings and (iii) a decrease of RMB1.5 million in interest expenses on borrowings from related parties.

### ***Share of Net Results of Associates and Joint Ventures***

Our share of results of associates represents our share of profit or loss of unlisted associate companies and a joint venture that we invested in and are accounted for using the equity method. For further information of our holdings in these unlisted companies, see “Appendix I – Accountant’s Report – Note 12B”. For the eight months ended August 31, 2017 and 2018, our share of results of associates and a joint venture were RMB1.5 million and RMB4.3 million, respectively.

### ***Income Tax Expense***

Though the profit before tax increased by 14.7% from RMB123.9 million for the eight months ended August 31, 2017 to RMB142.2 million for the eight months ended August 31, 2018, income tax expense decreased by 11.8% from RMB34.7 million to RMB30.6 million during the same periods, primarily due to the utilization of previous unrecognized tax losses of RMB5.9 million for the eight months ended August 31, 2018, as compared RMB2.2 million utilized for the same period in 2017 due to the increase in profitability of certain previously loss-making subsidiaries during the same periods. Our effective income tax rate decreased from 28.0% to 21.5% during the same periods.

### ***Profit and Total Comprehensive Income and net profit margin for the Period***

As a result of the foregoing, our profit and total comprehensive income increased by 25.1% from RMB89.2 million for the eight months ended August 31, 2017 to RMB111.6 million for the eight months ended August 31, 2018. Our net profit margin increased from 8.4% for the eight months ended August 31, 2017 to 10.0% for the eight months ended August 31, 2018.

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### Year ended December 31, 2016 Compared to Year ended December 31, 2017

#### *Revenue*

Revenue increased by 3.9% from RMB1,602.0 million for the year ended December 31, 2016 to RMB1,664.6 million for the year ended December 31, 2017.

#### *Hotel Operation*

Revenue for the hotel operation segment increased by 2.5% from RMB1,490.1 million for the year ended December 31, 2016 to RMB1,527.9 million for the year ended December 31, 2017, primarily due to (i) a 10% increase in the room revenue from RMB666.0 million to RMB732.9 million and (ii) an increase of 17.2% in the revenue from our ancillary services, partially offset by an 7.9% decrease in the revenue from our F&B services from RMB633.5 million to RMB583.2 million.

The 10.0% increase in the room revenue of operated hotels was largely due to (i) a 8.8% increase in number of total occupied room nights of our operated hotels from 1,480,417 to 1,611,201 and (ii) a 8.2% increase in RevPAR from RMB267.0 to RMB288.9. Most of our operated upscale and mid-scale hotels in Zhejiang Province, experienced an increase in occupancy rate and RevPAR in 2017.

The 17.2% increase in the revenue of our ancillary services was primarily due to (i) the increase in the number of our hotel guests in line with increase in our occupancy rate, which led to the increase in demand for ancillary service, and (ii) the increase in room reservation revenue which was primarily due to 27.0% increase in the total room nights reserved via our CRS and other reservation channels, corresponding to a 30.0% increase in the number of hotels we managed.

The 7.9% decrease in the revenue from our F&B services of our operated hotels was largely due to the decrease in market demand in Zhejiang Province for the banquet services during the year ended December 31, 2017. Correspondingly, revenue per sq.m. of banquet rooms decreased by 18.6% from RMB14,616.6 for the year ended December 31, 2016 to RMB11,891.1 for the year ended December 31, 2017, and average spending per guest slightly decreased from RMB126.8 for the year ended December 31, 2016 to RMB125.9 for the year ended December 31, 2017.

#### *Hotel Management*

Revenue for the hotel management segment increased by 22.3% from RMB111.9 million for the year ended December 31, 2016 to RMB136.8 million for the year ended December 31, 2017. The increase was primarily due to (i) the expansion of our hotel management business, which led to the 30.0% increase in the number of managed hotels from 70 as at December 31, 2016 to 91 as at December 31, 2017, among which, the number of our full service managed hotels increased from 62 as at December 31, 2016 to 80 as at December 31, 2017 and that of



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our franchised hotels increased from 8 as at December 31, 2016 to 11 as at December 31, 2017, and (ii) increase in the underlying revenue and gross operating profit that we managed to generate from our full service managed hotels, which led to an increase in the hotel management fee we received from hotel owners in return.

### ***Cost of Sales***

Cost of sales decreased by 3.9% from RMB1,282.3 million for the year ended December 31, 2016 to RMB1,232.7 million for the year ended December 31, 2017, primarily due to (i) a 6.6% decrease in operating lease rentals from RMB397.7 million to RMB371.6 million, (ii) an 87.9% decrease in taxes and levies from RMB33.9 million to RMB4.1 million, and (iii) a 3.3% decrease in costs of materials consumption primarily from RMB362.6 million to RMB350.5 million, corresponding to the 7.9% decrease in F&B revenue during the same periods. Such decrease was partially offset by (i) a 6.4% increase in employee benefit expenses from RMB265.2 million to RMB282.2 million and (ii) a 10.8% increase in depreciation of property, plant and equipment from RMB46.5 million to RMB51.6 million.

The decreases in taxes and levies are primarily due to the replacement of the business tax regime with the VAT regime in the PRC since May 2016, under which we are able to net off input VAT incurred by our purchase of services required for our business operations against output VAT payable incurred by our sales of services, whereas under the previous business tax regime, we shall pay the relevant business tax while any tax incurred by our purchase of services shall be fully borne by us.

Our operating lease expenses decreased by 6.6%, primarily due to (i) the replacement of the business tax regime with the VAT regime in the PRC since May 2016, under which the input VAT incurred by operating lease expenses can be used to net off against output VAT payable, whereas under the previous business tax regime, any tax incurred by operating lease expenses shall be borne in full by us, (ii) the expiration of the hotel lease agreement of Shanghai Ruiya in June 2017, (iii) the disposal of 100% equity interests in Shaoxing Dayu on September 15, 2017, (iv) the disposal of 100% equity interests in Suzhou Qiju on November 16, 2017 and (v) the early termination of the lease of Shanghai Puxi with the lessor on September 7, 2017, which was partially offset by (i) an increase in the number of new hotel lease agreements and (ii) the increase in rental expenses of some leased hotels.

The 6.4% increase in employee benefit expenses was primarily due to (i) a 2.1% increase in the weighted average number of employees from 4,911 as at December 31, 2016 to 5,013 as at December 31, 2017, and (ii) an 8.1% increase in monthly average employee salary from RMB6,769.0 for the year ended December 31, 2016 to RMB7,319.8 for the year ended December 31, 2017, which was to accommodate our expansion of business and to maintain our competitive remuneration package to attract and retain talents.

### ***Gross Profit and Gross Profit Margin***

As a result of the foregoing, our gross profit increased by 35.1% from RMB319.7 million for the year ended December 31, 2016 to RMB431.9 million for the year ended December 31, 2017. The gross profit margin increased from 20.0% to 25.9% during the corresponding periods.

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### *Hotel Operation*

Gross profit for our hotel operation segment increased by 40.4% from RMB219.4 million for the year ended December 31, 2016 to RMB308.0 million for the year ended December 31, 2017 and gross profit margin increased from 14.7% to 20.2% during the same periods, primarily due to (i) the increase of RMB66.9 million in our room revenue for the year ended December 31, 2017, as compared to the year ended December 31, 2016, while the operating lease expenses accounted as cost of sales decreased by RMB26.1 million for the year ended December 31, 2017, as compared to the year ended December 31, 2016, (ii) the 7.9% decrease in F&B revenue, which had relatively stable gross profit margin, for the year ended December 31, 2017, as compared to the year ended December 31, 2016, and (iii) the decrease of RMB29.8 million in taxes and levies accounted as cost of sales for the year ended December 31, 2017, as compared to the year ended December 31, 2016.

### *Hotel Management*

Gross profit for the hotel management segment increased by 23.5% from RMB100.3 million for the year ended December 31, 2016 to RMB123.9 million for the year ended December 31, 2017, generally in line with the 22.3% increase in revenue derived from the hotel management segment from RMB111.9 million for the year ended December 31, 2016 to RMB136.8 million for the year ended December 31, 2017. Gross profit margin increased slightly from 89.7% for the year ended December 31, 2016 to 90.6% for the year ended December 31, 2017.

### *Selling and Marketing Expenses*

Selling and marketing expenses increased by 20.5% from RMB70.9 million for the year ended December 31, 2016 to RMB85.5 million for the year ended December 31, 2017. The increase was primarily due to (i) an increase of RMB7.6 million in employee benefit expenses and (ii) an increase of RMB7.2 million in marketing and promotion expenses. As we continued to expand our business, we have hired more selling and marketing employees for the year ended December 31, 2017, and continued to increase our marketing and promotion efforts.

### *Administrative Expenses*

Administrative expenses increased by 7.9% from RMB148.8 million for the year ended December 31, 2016 to RMB160.5 million for the year ended December 31, 2017. Administrative expenses as a percentage of revenue increased from 9.3% for the year ended December 31, 2016 to 9.6% for the year ended December 31, 2017. The increase was primarily due to a 16.5% increase in employee benefit expenses from the year ended December 31, 2016 to the year ended December 31, 2017, which was offset by a decrease of RMB4.5 million or 53.5% in bank charge from the year ended December 31, 2016 to the year ended December 31, 2017. The decrease in bank charge was resulted from (i) the replacement of the business tax regime with the VAT in the PRC since May 2016, under which the input VAT incurred by bank charge can be used to net off against output VAT payable, whereas under the previous business tax regime, any tax incurred by bank charges shall be borne in full by us, and (ii) the decrease in rate of bank charges.

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### ***Other Income***

Other income was RMB10.4 million for the year ended December 31, 2017, compared to RMB12.3 million for the year ended December 31, 2016, representing a decrease of 15.3%. The decrease was mainly due to the decrease in government grants of RMB2.2 million. The government grants received were one-off subsidies offered to a number of our subsidiaries, which were provided with an aim to encourage business investments in the PRC.

### ***Other Gains, Net***

Other gains, net, were RMB28.6 million for the year ended December 31, 2017, compared to RMB7.3 million for the year ended December 31, 2016, representing an increase of 291.1%. The significant increase was mainly due to an one-off compensation income of RMB19.6 million received from a third-party lessor who has early terminated its hotel lease agreement of Shanghai Puxi with us in 2017.

### ***Finance Income/(Costs)***

Our net finance cost increased by RMB1.1 million from RMB3.9 million for the year ended December 31, 2016, to RMB5.0 million for the year ended December 31, 2017, primarily due to a decrease of RMB6.9 million in interest income derived from loan to related parties, as our loan receivables and other receivables due from related parties decreased by RMB66.9 million. It was partially offset by a decrease of RMB5.0 million in interest expenses on bank borrowings due to a decrease in the amount of our outstanding loan balance.

### ***Share of Net Profit of Associates and Joint Ventures***

Share of net profit of associates and joint ventures accounted for using the equity method increased by 109.4% from RMB1.4 million for the year ended December 31, 2016 to RMB3.0 million for the year ended December 31, 2017, primarily due to the increased net profit contributed by Beijing Gehua.

### ***Income Tax Expense***

Income tax expense increased by 70.2% from RMB33.2 million for the year ended December 31, 2016 to RMB56.5 million for the year ended December 31, 2017, primarily due to the increase in our profit before income tax. Our effective income tax rate decreased from 28.3% to 25.3% during the same periods.

### ***Profit and total comprehensive income and net profit margin for the Year***

As a result of the foregoing, our profit and total comprehensive income for the year increased by 98.2% from RMB84.1 million for the year ended December 31, 2016 to RMB166.6 million for the year ended December 31, 2017. Our net profit margin increased from 5.2% for the year ended December 31, 2016 to 10.0% for the year ended December 31, 2017.

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### Year ended December 31, 2015 Compared to Year ended December 31, 2016

#### *Revenue*

Revenue increased by 5.3% from RMB1,522.1 million for the year ended December 31, 2015 to RMB1,602.0 million for the year ended December 31, 2016.

#### *Hotel Operation*

Revenue for the hotel operation segment increased by 6.4% from RMB1,400.6 million for the year ended December 31, 2015 to RMB1,490.1 million for the year ended December 31, 2016. The increase was primarily due to (i) an increase of 11.4% in the revenues from F&B services, (ii) an increase of a 2.1% in our room revenue, and (iii) an increase of 9.0% in revenue from ancillary services.

The 11.4% increase in the revenue from our F&B services was largely due to (i) the increase in demand from the local markets in Zhejiang Province for banquet services, which further led to the increase in utilization rate of seats from 64.2% for the year ended December 31, 2015 to 68.6% for the year ended December 31, 2016, (ii) the increase in average spending per guest from RMB125.9 for the year ended December 31, 2015 to RMB126.8 for the year ended December 31, 2016, and (iii) the 17.6% increase in revenue per sq.m. of banquet rooms from RMB12,431.6 for the year ended December 31, 2015 to RMB14,616.6 for the year ended December 31, 2016.

The 2.1% increase in the room revenue was largely due to (i) an increase in the number of the operated hotels from 26 as at December 31, 2015 to 27 as at December 31, 2016, (ii) an increase in our overall occupancy rate from 59.4% for the year ended December 31, 2015 to 61.4% for the year ended December 31, 2016, and (iii) an increase in RevPAR from RMB265.5 for the year ended December 31, 2015 to RMB267.0 for the year ended December 31, 2016.

The 9.0% increase in the revenue from ancillary services was primarily due to (i) the increase in number of our hotel guests in line with increase in our occupancy rate, which led to the increase in demand for ancillary service, and (ii) the increase in room revenue which was primarily due to the 53.6% increase in the total room nights reserved by our CRS and other reservation channels from the year ended December 31, 2015 to the corresponding period in 2016, corresponding to 45.8% increase in number of hotels which we managed.

#### *Hotel Management*

Revenue for the hotel management segment decreased by 7.9% from RMB121.5 million for the year ended December 31, 2015 to RMB111.9 million for the year ended December 31, 2016, primarily because a hotel owner engaged us to provide comprehensive hotel pre-opening consulting services such as site appraisal, hotel brand positioning and investment cost analysis for a series of potential hotel projects under evaluation, contributed RMB20.0 million to the segment revenue in 2015. For illustration purpose, if such hotel pre-opening consulting

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revenue had been excluded from the calculation of segment revenue for the year ended December 31, 2015, the segment revenue for the year ended December 31, 2016 would have been increased by 10.2%, primarily due to (i) a 45.8% significant increase in the number of the managed hotels from 48 as at December 31, 2015 to 70 as at December 31, 2016 among which, the number of our full service managed hotels increased from 44 to 62 and that of our franchised hotels increased from 4 to 8, and (ii) the increase in the underlying revenue and gross operating profit that we managed to generate from our full service managed hotels, which led to an increase in the hotel management fee we received from hotel owners in return.

### *Cost of sales*

Cost of sales slightly increased by 0.3% from RMB1,278.0 million for the year ended December 31, 2015 to RMB1,282.3 million for the year ended December 31, 2016. The increase was primarily due to (i) an increase of RMB28.5 million in employee benefit expenses for the year ended December 31, 2016, (ii) an increase of RMB17.3 million in costs of materials consumption for the year ended December 31, 2016, corresponding to the 11.4% increase in F&B revenue, and (iii) a RMB5.2 million increase in maintenance fees in 2016 as we spent more in maintaining our facilities in 2016 than in 2015 to accommodate the expansion of our hotel operation business. However, such increases were partially offset by the decrease of RMB50.1 million in taxes and levies for the year ended December 31, 2016 due to the replacement of business tax regime with the VAT regime in the PRC since May 2016.

The 12.0% increase in employee benefit expenses was primarily due to (i) a 2.9% increase in the weighted average number of employees from 4,772 as at December 31, 2015 to 4,911 as at December 31, 2016, and (ii) a 7.9% increase in average monthly employee salary from RMB6,272.1 to RMB6,769.0 during the corresponding period, which was to accommodate the expansion of our business and to maintain our competitive remuneration package to attract and retain talents.

The decrease in taxes and levies are primarily due to the replacement of the business tax regime with the VAT regime in the PRC since May 2016, under which we are able to net off input VAT incurred by our purchase of goods and services required for our business operations against output VAT payable by our revenue generated, whereas under the previous business tax regime, we shall pay the relevant business tax and at the same time, any tax incurred by our purchase of services and goods shall be fully borne by us.

### *Gross Profit and Gross Profit Margin*

As a result of the foregoing, gross profit increased by 31.0% from RMB244.1 million for the year ended December 31, 2015 to RMB319.7 million for the year ended December 31, 2016. Our gross profit margin increased from 16.0% for the year ended December 31, 2015 to 20.0% for the year ended December 31, 2016.

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### *Hotel Operation*

Gross profit for the hotel operation segment increased by 58.9% from RMB138.1 million for the year ended December 31, 2015 to RMB219.4 million for the year ended December 31, 2016 and gross profit margin increased from 9.9% for the year ended December 31, 2015 to 14.7% for the year ended December 31, 2016. The increase in our gross profit and gross profit margin was primarily due to the (i) the increase of RMB13.5 million for the year ended December 31, 2016 as compared to the same period in 2015 in our room revenue while the operating lease expenses decreased by RMB3.0 million for the year ended December 31, 2016 as compared to the same period in 2015, and (ii) the decrease of RMB50.1 million in taxes and levies for the year ended December 31, 2016 as compared to the same period in 2015 as a result of the replacement of the business tax regime with the VAT regime in the PRC since May 2016.

### *Hotel Management*

Gross profit for the hotel management segment decreased by 5.4% from RMB106.1 million for the year ended December 31, 2015 to RMB100.3 million for the year ended December 31, 2016 due to the decrease of RMB9.6 million or 7.9% in our hotel management revenue. Gross profit margin slightly increased from 87.3% for the year ended December 31, 2015 to 89.7% for the year ended December 31, 2016.

### *Selling and Marketing Expenses*

In order to strengthen our marketing efforts, we have hired more marketing personnel during the year ended December 31, 2016 and established an operating center under Jinshanzi Network to manage our regional marketing, our customers loyalty program, our relationship with corporate customers, room reservation system and our relationship with third-party distribution channels. Therefore, our selling and marketing expenses increased by 15.1% from RMB61.6 million for the year ended December 31, 2015 to RMB70.9 million for the year ended December 31, 2016. The increase was primarily due to (i) an increase of 15.2% in employee benefit expenses from RMB27.6 million for the year ended December 31, 2015 to RMB31.7 million for the year ended December 31, 2016 and (ii) an increase of 16.7% in marketing and promotion expenses from RMB32.1 million for the year ended December 31, 2015 to RMB37.4 million for the year ended December 31, 2016.

### *Administrative Expenses*

Administrative expenses increased by 10.3% from RMB134.9 million for the year ended December 31, 2015 to RMB148.8 million for the year ended December 31, 2016. Administrative expenses as a percentage of revenue increased from 8.9% for the year ended December 31, 2015 to 9.3% for the year ended December 31, 2016. The increase was primarily due to (i) an increase of RMB7.1 million in employee benefit expenses for the year ended December 31, 2016 as compared to the same period in 2015 which was to improve our competitive remuneration package to attract and retain talents, (ii) a 23.3% increase in bank charges for the year ended December 31, 2016 as compared to the same period in 2015, and (iii) a 23.8% increase in travelling and communication expenses for the year ended December 31, 2016 as compared to the same period in 2015.



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### ***Other Income***

Other income was RMB12.3 million for the year ended December 31, 2016, as compared to RMB5.0 million for the year ended December 31, 2015, representing an increase of 144.8%. The increase comprised an increase of RMB7.9 million from the financial assets at fair value through profit or loss for the year ended December 31, 2016 as compared to the same period in 2015. Such increase in other income was slightly offset by the decrease in government grants from RMB5.0 million for the year ended December 31, 2015 to RMB4.4 million for the year ended December 31, 2016. The government grants received were one-off subsidies offered to a number of our subsidiaries, which were provided with an aim to encourage business investments in the PRC.

### ***Other Gains, Net***

Other gains, net, increased by 131.9% from RMB3.2 million for the year ended December 31, 2015 to RMB7.3 million for the year ended December 31, 2016, primarily due to the net gains of RMB5.3 million from our disposal of approximately 64.2% interest in our then wholly-owned subsidiary Yuyao Manju, which is non-recurring in nature.

### ***Finance Income/(Costs)***

We recorded net finance costs of RMB3.9 million for the year ended December 31, 2016, as compared to net finance income of RMB0.7 million for the year ended December 31, 2015, primarily due to a decrease of RMB17.9 million in interest income derived from loan to related parties, as the loan of RMB170.0 million due from one of our related parties, Taizhou New Century Grand Real Estate Co., Ltd.\* (台州開元名都置業有限公司) as at December 31, 2015 was fully settled in 2016, partially offset by a decrease of RMB15.4 million in interest expenses on bank and other borrowings for the year ended December 31, 2016 as compared to the same period in 2015.

### ***Share of Net Results of Associates and Joint Ventures***

Share of net profit of associates and joint ventures accounted for using the equity method decreased by 17.1% from RMB1.7 million for the year ended December 31, 2015 to RMB1.4 million for the year ended December 31, 2016, due to the decrease in our net profit generated from Beijing Gehua, partially offset by the increase of RMB0.4 million in share of result due to the increases in net profit generated from Zhejiang Haogu and Yuyao Manju.

### ***Income Tax Expense***

Income tax expense increased by 15.8% from RMB28.7 million for the year ended December 31, 2015 to RMB33.2 million for the year ended December 31, 2016, primarily due to an increase in our profit before income tax. Our effective income tax rate significantly decreased from 49.2% to 28.3% during the same periods. The 49.2% effective income tax rate which was significantly higher for the year ended December 31, 2015 as compared to the same period in 2016, was primarily because we did not recognize (i) tax credit of RMB8.3 million for tax losses incurred by some loss-making subsidiaries in 2015 and (ii) tax credit of RMB4.8 million for temporary differences arising from share-based payment of RMB20.0 million in 2015 which was not tax deductible.



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### *Profit and Total Comprehensive Income and net profit margin for the Year*

As a result of the foregoing, our profit and total comprehensive income for the year increased by 183.6%, from RMB29.6 million for the year ended December 31, 2015 to RMB84.1 million for the year ended December 31, 2016. Our net profit margin increased from 1.9% for the year ended December 31, 2015 to 5.2% for the year ended December 31, 2016.

### DESCRIPTION OF SELECTED BALANCE SHEET ITEMS

The consolidated balance sheets as at December 31, 2015, 2016 and 2017 and August 31, 2018, extracted from the Accountant's Report set out in Appendix I to this document, are set out below.

|                                                       | As at December 31, |                  |                  | As at<br>August 31, |
|-------------------------------------------------------|--------------------|------------------|------------------|---------------------|
|                                                       | 2015               | 2016             | 2017             | 2018                |
|                                                       | RMB'000            | RMB'000          | RMB'000          | RMB'000             |
| <b>Assets</b>                                         |                    |                  |                  |                     |
| <b>Non-current assets</b>                             |                    |                  |                  |                     |
| Property, plant and equipment                         | 272,777            | 343,803          | 408,053          | 502,197             |
| Investment properties                                 | 954                | 939              | 925              | 915                 |
| Land use rights                                       | 30,682             | 47,330           | 46,142           | 45,322              |
| Intangible assets                                     | 23,884             | 18,137           | 15,037           | 14,715              |
| Investments accounted for using equity method         | 108,351            | 115,857          | 118,388          | 119,261             |
| Other non-current assets                              | 24,117             | 22,125           | 14,554           | 3,527               |
| Deferred tax assets                                   | 24,739             | 25,160           | 19,560           | 25,345              |
| <b>Total non-current assets</b>                       | <b>485,504</b>     | <b>573,351</b>   | <b>622,659</b>   | <b>711,282</b>      |
| <b>Current assets</b>                                 |                    |                  |                  |                     |
| Inventories                                           | 24,206             | 22,086           | 26,793           | 27,750              |
| Trade, other receivables and prepayments              | 408,755            | 253,394          | 239,090          | 334,885             |
| Financial assets at fair value through profit or loss | –                  | 155,590          | –                | –                   |
| Cash and cash equivalent                              | 126,385            | 176,164          | 424,109          | 288,242             |
| Restricted cash                                       | 72,400             | 72,400           | –                | 72,100              |
|                                                       | 631,746            | 679,634          | 689,992          | 722,977             |
| Assets classified as held for sale                    | 17,603             | –                | –                | –                   |
| <b>Total current assets</b>                           | <b>649,349</b>     | <b>679,634</b>   | <b>689,992</b>   | <b>722,977</b>      |
| <b>Total assets</b>                                   | <b>1,134,853</b>   | <b>1,252,985</b> | <b>1,312,651</b> | <b>1,434,259</b>    |

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|                                                           | As at December 31, |           |           | As at<br>August 31, |
|-----------------------------------------------------------|--------------------|-----------|-----------|---------------------|
|                                                           | 2015               | 2016      | 2017      | 2018                |
|                                                           | RMB'000            | RMB'000   | RMB'000   | RMB'000             |
| <b>Equity and liabilities</b>                             |                    |           |           |                     |
| <b>Equity attributable to owners of our Company</b>       |                    |           |           |                     |
| Paid-in capital/share capital                             | 173,680            | 173,680   | 210,000   | 210,000             |
| Other reserves                                            | 111,531            | 81,531    | 267,355   | 267,355             |
| (Accumulated losses)/retained earnings                    | (29,121)           | 55,203    | 36,441    | 105,177             |
| <b>Total equity attributable to owners of our Company</b> | 256,090            | 310,414   | 513,796   | 582,532             |
| Non-controlling interests                                 | 6,884              | 6,615     | 15,297    | 18,903              |
| <b>Total equity</b>                                       | 262,974            | 317,029   | 529,093   | 601,435             |
| <b>Liabilities</b>                                        |                    |           |           |                     |
| <b>Non-current liabilities</b>                            |                    |           |           |                     |
| Borrowings                                                | 175,000            | 219,000   | 160,000   | 194,200             |
| Deferred income                                           | 6,000              | 12,823    | 21,714    | 20,444              |
| Deferred tax liabilities                                  | 29                 | 267       | 137       | –                   |
| <b>Total non-current liabilities</b>                      | 181,029            | 232,090   | 181,851   | 214,644             |
| <b>Current liabilities</b>                                |                    |           |           |                     |
| Contract liabilities                                      | 161,284            | 186,695   | 192,352   | 208,673             |
| Borrowings                                                | 135,000            | 135,000   | 5,000     | 3,000               |
| Trade and other payables                                  | 372,518            | 365,872   | 380,088   | 393,396             |
| Current income tax liabilities                            | 7,755              | 15,593    | 23,561    | 11,925              |
| Current portion of long-term liabilities                  | –                  | 706       | 706       | 1,186               |
|                                                           | 676,557            | 703,866   | 601,707   | 618,180             |
| Liabilities classified as held for sale                   | 14,293             | –         | –         | –                   |
| <b>Total current liabilities</b>                          | 690,850            | 703,866   | 601,707   | 618,180             |
| <b>Total liabilities</b>                                  | 871,879            | 935,956   | 783,558   | 832,824             |
| <b>Total equity and liabilities</b>                       | 1,134,853          | 1,252,985 | 1,312,651 | 1,434,259           |

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### Property, Plant and Equipment

During the Track Record Period, our property, plant and equipment comprised leasehold improvements, construction in progress, buildings and facilities, machinery and equipment, office and electronic equipment and vehicles. The table below sets forth the net book amount for each of these components of property, plant and equipment as at the dates indicated.

|                                 | As at December 31, |                |                | As at<br>August 31, |
|---------------------------------|--------------------|----------------|----------------|---------------------|
|                                 | 2015               | 2016           | 2017           | 2018                |
|                                 | RMB'000            | RMB'000        | RMB'000        | RMB'000             |
| Leasehold improvements          | 174,993            | 186,136        | 155,080        | 190,926             |
| Construction in progress        | 31,213             | 9,765          | 100,299        | 5,972               |
| Building and facilities         | 20,284             | 88,698         | 84,162         | 201,008             |
| Machinery and equipment         | 13,763             | 20,548         | 20,711         | 33,710              |
| Office and electronic equipment | 29,033             | 34,826         | 43,974         | 66,630              |
| Vehicles                        | 3,491              | 3,830          | 3,827          | 3,951               |
| <b>Total</b>                    | <b>272,777</b>     | <b>343,803</b> | <b>408,053</b> | <b>502,197</b>      |

Our property, plant and equipment amounted to RMB272.8 million, RMB343.8 million, RMB408.1 million and RMB502.2 million as at December 31, 2015, 2016 and 2017 and August 31, 2018, respectively, representing 24.0%, 27.4%, 31.1% and 35.0% of our total assets as at the respective dates. Certain buildings and facilities with carrying amount of RMB55.2 million and RMB54.0 million were pledged as collaterals for our bank borrowings as at December 31, 2017 and as at August 31, 2018, respectively.

The increase in building and facilities from RMB20.3 million as at December 31, 2015 to RMB88.7 million as at December 31, 2016 was primarily due to the completion of construction of Changxing New Century Wonderland Resort (長興開元芳草地鄉村酒店) in 2016, resulting in a corresponding decrease in construction in progress during the same periods.

The significant increase of RMB90.5 million in construction in progress from RMB9.8 million as at December 31, 2016 to RMB100.3 million as December 31, 2017, was primarily due to the commencement of construction of Hangzhou Fuchun New Century Wonderland Resort (杭州富春開元芳草地鄉村酒店).

The increase in building and facilities from RMB84.2 million as at December 31, 2017 to RMB201.0 million as at August 31, 2018 was primarily due to the completion of the construction of Hangzhou Fuchun New Century Wonderland Resort (杭州富春開元芳草地鄉村酒店) which commenced operation in January 2018, resulting in a corresponding decrease in construction in progress during the same periods.

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The increase in total property, plant and equipment from RMB408.1 million as at December 31, 2017 to RMB502.2 million as at August 31, 2018, was primarily due to (i) the completion of construction of Hangzhou Fuchun New Century Wonderland Resort (杭州富春開元芳草地鄉村酒店) which commenced operation in January 2018 and (ii) the renovation work performed on some of our leased hotels during the eight months ended August 31, 2018, which further led to the increases in the balance of leasehold improvements and machinery and equipment.

### Intangible assets

As at December 31 2015, 2016, 2017 and August 31 2018, the carrying amount of our intangible assets was RMB23.9 million, RMB18.1 million, RMB15.0 million and RMB14.7 million, respectively, which consisted mainly of software, favorable lease contracts and goodwill. The goodwill of RMB2.1 million as at August 31 2018, represented 0.15% of the Group's total assets, and 1.49% of the consolidated profit before tax for the eight months ended 31 August 2018. The goodwill resulted from the Company's acquisition of its subsidiary Yuyao Manju, which was completed on August 31, 2018, and the Directors consider that there is no impairment indicator and believe that there is no impairment in the value of the goodwill as at August 31 2018.

### Investments Accounted for Using Equity Method

Investments accounted for using equity method during the Track Record Period comprised our Group's investments in Beijing Gehua, and its associates, Zhejiang Haogu and Yuyao Manju. The table below sets out the balance of these investments accounted for using equity method as at the dates indicated.

|                                                                          | As at December 31, |                |                | As at          |
|--------------------------------------------------------------------------|--------------------|----------------|----------------|----------------|
|                                                                          | 2015               | 2016           | 2017           | August 31,     |
|                                                                          | RMB'000            | RMB'000        | RMB'000        | 2018           |
|                                                                          |                    |                |                | RMB'000        |
| Investments in a joint venture, Beijing Gehua                            | 108,351            | 109,414        | 112,297        | 116,299        |
| Investments in associates, Zhejiang Haogu and Yuyao Manju <sup>(1)</sup> | –                  | 6,443          | 6,091          | 2,962          |
|                                                                          | <u>108,351</u>     | <u>115,857</u> | <u>118,388</u> | <u>119,261</u> |

Note:

(1) As at August 31, 2018, our investment in associate solely comprised the investment in Zhejiang Haogu.

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The increase of RMB7.5 million from December 31, 2015 to December 31, 2016 was mainly due to the disposal of 64% interest in our then wholly-owned subsidiary Yuyao Manju in January 2016. The increases of RMB2.5 million from December 31, 2016 to December 31, 2017 was primarily driven by the share of net profits of respective investees recognized under equity method. It was further increased to RMB119.3 million, due to the increase of RMB4.0 million in our interest in Beijing Gehua, partially offset by the decrease of RMB3.1 million in our investment in associates primarily because we acquired approximately 19.8% equity interests in aggregate in Yuyao Manju, since which Yuyao Manju was indirectly held as to approximately 55.7% by our Company and has been reclassified from an associate to a subsidiary of our Company.

### Financial Assets at Fair Value through Profit or Loss

We held financial assets at fair value through profit or loss amounting to RMB155.6 million as at December 31, 2016, and did not hold any such financial assets as at December 31, 2015 and 2017 and August 31, 2018.

Our financial assets at fair value through profit or loss are short-term wealth management products issued by PRC commercial banks. These wealth management products, denominated in RMB, with expected rates of return ranging from 6.9% to 7.2% per annum during the Track Record Period, had initial terms ranging from 91 days to 289 days, and the returns on all of these wealth management products are not guaranteed. Therefore they are measured at fair value through profit or loss.

### Inventories

Our inventories consist of foods and beverage and consumables, supplies and others. As at December 31, 2015, 2016, 2017 and August 31, 2018, our inventories amounted to approximately RMB24.2 million, RMB22.1 million, RMB26.8 million and RMB27.8 million, respectively. The following table sets out a breakdown of our inventory balances as at the dates indicated:

|                                  | As at December 31, |               |               | As at         |
|----------------------------------|--------------------|---------------|---------------|---------------|
|                                  | 2015               | 2016          | 2017          | August 31,    |
|                                  | RMB'000            | RMB'000       | RMB'000       | 2018          |
|                                  |                    |               |               | RMB'000       |
| Foods and beverage               | 15,764             | 13,408        | 17,625        | 18,898        |
| Consumables, supplies and others | 8,442              | 8,678         | 9,168         | 8,852         |
|                                  | <u>24,206</u>      | <u>22,086</u> | <u>26,793</u> | <u>27,750</u> |

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The balance of our inventories as at December 31, 2016 was lower than that as at December 31, 2015 and 2017 primarily due to an increase in the level of consumption of foods and beverage which was generally in line with our higher F&B revenue for the year ended December 31, 2016 as compared to the same period in 2015 and 2017.

The average turnover days for inventory during the Track Record Period were as below:

|                                               | For the years ended December 31, |      |      | For the<br>eight months<br>ended<br>August 31, |
|-----------------------------------------------|----------------------------------|------|------|------------------------------------------------|
|                                               | 2015                             | 2016 | 2017 | 2018                                           |
| Turnover days for<br>inventory <sup>(1)</sup> | 25.1                             | 22.9 | 25.0 | 27.3                                           |

*Note:*

- (1) Turnover days for inventory is calculated based on the average balances at the beginning and the end of the year/period divided by total costs of materials consumption for the relevant year/period multiplied by 360/240 days.

Our average turnover days for inventories decreased from 25.1 days for the year ended December 31, 2015 to 22.9 days for the year ended December 31, 2016, primarily due to an increase in demand for F&B services, corresponding to the 11.4% increase in revenue of our F&B revenue. The average turnover days for inventories increased from 22.9 days for the year ended December 31, 2016 to 25.0 days for the year ended December 31, 2017, primarily due to a decrease in demand for F&B services, corresponding to the 8.0% decrease in F&B revenue. The average turnover days for inventories increased from 25.0 days for the year ended December 31, 2017 to 27.3 days for the eight months ended August 31, 2018. As at December 31, 2018, RMB18.1 million or 65.2% of our inventories outstanding as at August 31, 2018 were utilised or sold.

### Trade, Other Receivables and Prepayments

Our trade, other receivables and prepayments amounted to RMB408.8 million, RMB253.4 million, RMB239.1 million and RMB334.9 million as at December 31, 2015, 2016 and 2017 and August 31, 2018, respectively. As of each of these dates, all of our trade and other receivables and prepayments were non-interest bearing and were denominated in Renminbi.

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The table below sets out a summary of the balance of our trade and other receivables and prepayments as at the dates indicated.

|                                              | As at December 31, |         |         | As at      |
|----------------------------------------------|--------------------|---------|---------|------------|
|                                              | 2015               | 2016    | 2017    | August 31, |
|                                              | RMB'000            | RMB'000 | RMB'000 | 2018       |
|                                              |                    |         |         | RMB'000    |
| Trade receivables – net                      | 65,087             | 58,849  | 67,228  | 86,648     |
| Other receivables – net                      | 320,853            | 164,420 | 132,454 | 181,921    |
| Prepayments                                  | 22,815             | 30,125  | 39,408  | 66,316     |
| Total, and other receivables and prepayments | 408,755            | 253,394 | 239,090 | 334,885    |

### Trade Receivables

Our trade receivables primarily consist of management fees receivable and receivable from our corporate customers for room and MICE services.

The following table sets out a breakdown of the trade receivables as at dates indicated.

|                                            | As at December 31, |         |         | As at      |
|--------------------------------------------|--------------------|---------|---------|------------|
|                                            | 2015               | 2016    | 2017    | August 31, |
|                                            | RMB'000            | RMB'000 | RMB'000 | 2018       |
|                                            |                    |         |         | RMB'000    |
| Trade receivables due from third parties   | 61,597             | 56,257  | 68,216  | 83,006     |
| Trade receivables due from related parties | 9,033              | 6,822   | 4,235   | 7,301      |
|                                            | 70,630             | 63,079  | 72,451  | 90,307     |
| Less: provision for impairment             | (5,543)            | (4,230) | (5,223) | (3,659)    |
| Trade receivables – net                    | 65,087             | 58,849  | 67,228  | 86,648     |

Before provision for impairment, our trade receivables decreased by RMB7.6 million from RMB70.6 million as at December 31, 2015 to RMB63.1 million as at December 31, 2016.

As at December 31, 2017, our trade receivables increased by RMB9.4 million from RMB63.1 million as at December 31, 2016 to RMB72.5 million, which was in line with the increase in revenue in 2017.



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As at August 31, 2018, our trade receivables increased by RMB17.9 million from RMB72.5 million as at December 31, 2017 to RMB90.3 million as at August 31, 2018, resulting in our average turnover days for trade receivables to increase from 13.6 days for the year ended December 31, 2017 to 16.5 days for the eight months ended August 31, 2018. As at December 31, 2018, RMB83.5 million, representing 92.5% of our trade receivables outstanding as at August 31, 2018, were settled.

Provisions for impairment of trade receivables have been made for estimated irrecoverable amounts from the sales of goods/rendering of service during the Track Record Period. We made provisions for impairment of trade receivables of RMB5.5 million, RMB4.2 million, RMB5.2 million and RMB3.7 million as at December 31, 2015, 2016 and 2017 and August 31, 2018, respectively. These provisions have been determined with reference to the expected credit losses and considering whether there has been a significant change in credit quality and whether the balances are fully recoverable.

We normally grant to customers a credit period of 30 to 90 days. The ageing analysis of trade receivables based on invoice dates, before provision for impairment, as at December 31, 2015, 2016 and 2017 and August 31, 2018 is as follows:

|                      | As at December 31, |               |               | As at         |
|----------------------|--------------------|---------------|---------------|---------------|
|                      | 2015               | 2016          | 2017          | August 31,    |
|                      | RMB'000            | RMB'000       | RMB'000       | 2018          |
|                      |                    |               |               | RMB'000       |
| – Up to 3 months     | 53,977             | 49,989        | 62,272        | 77,364        |
| – 3 months to 1 year | 10,902             | 5,539         | 4,987         | 9,786         |
| – 1 year to 2 years  | 2,955              | 5,652         | 2,473         | 1,381         |
| – 2 years to 3 years | 1,406              | 1,254         | 1,085         | 324           |
| – Over 3 years       | 1,390              | 645           | 1,634         | 1,452         |
|                      | <u>70,630</u>      | <u>63,079</u> | <u>72,451</u> | <u>90,307</u> |

The average turnover days for trade receivables during the Track Record Period were as below:

|                            | For the years ended December 31, |      |      | For the    |
|----------------------------|----------------------------------|------|------|------------|
|                            | 2015                             | 2016 | 2017 | eight      |
|                            |                                  |      |      | months     |
|                            |                                  |      |      | ended      |
|                            |                                  |      |      | August 31, |
|                            |                                  |      |      | 2018       |
| Turnover days for trade    |                                  |      |      |            |
| receivables <sup>(1)</sup> | 15.4                             | 13.9 | 13.6 | 16.5       |

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*Note:*

1. Turnover days for trade receivable is calculated based on the average balances of trade receivable at the beginning and the end of the year/period divided by the total revenue for the relevant year/period multiplied by 360/240 days.

Our average turnover days for trade receivables remained relatively stable at 15.4 days, 13.9 days, 13.6 days and 16.5 days during the Track Record Period, which are within the credit period granted to our customers.

### *Other Receivables and Prepayments*

Other receivables are mainly composed of (i) deposits to suppliers, which primarily represented the deposits to existing lessors, (ii) VAT recoverables, and (iii) loan receivables and other receivables due from related parties. The table below sets out the breakdown of the other trade receivables and prepayments as at the dates indicated.

|                                                                        | <b>As at December 31,</b> |                |                | <b>As at<br/>August 31,</b> |
|------------------------------------------------------------------------|---------------------------|----------------|----------------|-----------------------------|
|                                                                        | <b>2015</b>               | <b>2016</b>    | <b>2017</b>    | <b>2018</b>                 |
|                                                                        | <i>RMB'000</i>            | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i>              |
| Deposits to suppliers                                                  | 42,428                    | 44,138         | 54,753         | 55,314                      |
| Loans receivables and<br>other receivables due from<br>related parties | 251,321                   | 87,418         | 20,518         | 20,837                      |
| VAT recoverable                                                        | 391                       | 5,371          | 21,361         | 33,525                      |
| Interest receivable                                                    | 3,183                     | 6,209          | –              | 229                         |
| Financial assets at amortized<br>cost                                  | –                         | –              | –              | 60,000                      |
| Others                                                                 | 24,478                    | 26,097         | 40,323         | 19,660                      |
|                                                                        | 321,801                   | 169,233        | 136,955        | 189,565                     |
| Less: provision for other<br>receivables                               | (948)                     | (4,813)        | (4,501)        | (7,644)                     |
| Other receivables – net                                                | 320,853                   | 164,420        | 132,454        | 181,921                     |
| Prepayments                                                            | 22,815                    | 30,125         | 39,408         | 66,316                      |
|                                                                        | <u>343,668</u>            | <u>194,545</u> | <u>171,862</u> | <u>248,237</u>              |

The significant decrease of RMB156.4 million in other receivables – net from RMB320.9 million as at December 31, 2015 to RMB164.4 million as at December 31, 2016 was primarily due to the repayment of an entrusted loan of RMB170.0 million in March 2016 by Taizhou New Century, one of our related parties.

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## FINANCIAL INFORMATION

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Our other receivables – net decreased by RMB32.0 million from RMB164.4 million as at December 31, 2016 to RMB132.5 million as at December 31, 2017, primarily due to the repayment of RMB66.9 million of loan receivables and other receivables by related parties in 2017, partially offset by (i) an increase of RMB10.6 million in deposits to suppliers in 2017, primarily due to the increase in the number of our leased hotels under pipeline, and (ii) an increase of RMB16.0 million in VAT recoverable in 2017 due to new VAT regime launched from May 2016.

Our other receivables – net increased by RMB49.5 million from December 31, 2017 to August 31, 2018, primarily due to (i) an increase of RMB60.0 million financial assets at amortized cost as a result of our investment in wealth management product and (ii) an increase of RMB12.2 million in VAT recoverable during the same periods, which was partially offset by a decrease of RMB20.7 million in others during the same periods primarily as a result of a return of our rental prepayment in January 2018 from the lessor who early terminated the lease agreement of Shanghai Puxi with us.

The prepayment increased from RMB39.4 million as at December 31, 2017 to RMB66.3 million August 31, 2018, primarily due to the prepayment of [REDACTED] expenses during the eight months ended August 31, 2018.

The wealth management product of RMB60 million was investment in financial instruments issued by reputable banks which had guaranteed principal and return, hence its contractual cash flows qualify for solely payments of principal and interest. Therefore they are measured at amortised cost.

We adopt a strict and prudent investment and treasury policy, under which we carefully assess the risks of investment and the amount of cash that we need for operational and liquidity purpose, and aim at earning low-risk return by utilizing our idle cash. We invest in short-term wealth management products with features of structured deposits that possess considerably low risks (being principal-protected and return-guaranteed product and therefore as an alternative to bank fixed deposits) from reputable licensed banking institutions in the PRC only when our internal cash flow and liquidity budget indicate that we have sufficient capital resources for our short-term operating activities and capital expenditure needs. The decision to purchase these wealth management products will need to be assessed by the relevant finance manager, who will submit the analysis and proposal to the chief financial officer of the Company and the president of the Company for consent before obtaining final approval from the chief executive officer of the Company. Our finance department would then record and update all our investment activities.

Our current financing manager, Ms. Shen Hongyan, graduated from The Open University of China (中央廣播電視大學) with Bachelor's degree in accounting, and has obtained the certificate of junior accountant (初級會計師資格證) granted by Ministry of Finance of the PRC. She has over 20 years of experience in financial management and is responsible for obtaining loan financing and sourcing low risk investment products for the Group. For the relevant qualifications and experience of our chief executive officer, our president and chief financial officer, please refer to the subsections headed "Directors, Supervisors, and Senior Management – Directors" and "Directors, Supervisors, and Senior Management – Senior Management" in this document.

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During the Track Record Period, others primarily represented the amounts to be collected from the third-party payment channels for customers that made payments through credit cards or other third-party payment platforms. Specifically, as at December 31, 2017, others comprised (i) the amounts to be collected from the third-party payment channels and (ii) the rental prepayment of approximate RMB19.9 million to be returned from the lessor who early terminated the lease agreement of Shanghai Puxi with us. Such prepayment was fully settled in January 2018.

### Trade and Other Payables

Our trade and other payables amounted to RMB372.5 million, RMB365.9 million, RMB380.1 million and RMB393.4 million as at December 31, 2015, 2016 and 2017 and August 31, 2018, respectively. As at December 31, 2015, 2016 and 2017 and August 31, 2018, all of our trade and other payables were non-interest bearing and were denominated in Renminbi.

The table below sets out the components of our trade payables and other payables as at the dates indicated.

|                                                        | As at December 31, |                |                | As at          |
|--------------------------------------------------------|--------------------|----------------|----------------|----------------|
|                                                        | 2015               | 2016           | 2017           | August 31,     |
|                                                        | RMB'000            | RMB'000        | RMB'000        | 2018           |
|                                                        |                    |                |                | RMB'000        |
| Trade payables:                                        |                    |                |                |                |
| – Due to third parties                                 | 127,897            | 153,857        | 164,667        | 158,823        |
| – Due to related parties                               | 50,193             | 30,036         | 22,323         | 19,613         |
|                                                        | 178,090            | 183,893        | 186,990        | 178,436        |
| Other payables due to related parties                  | 20,095             | 18,449         | 10,397         | 12,799         |
| Payables for purchase of property, plant and equipment | 4,815              | 24,167         | 35,428         | 74,035         |
| Customers' deposits                                    | 35,637             | 34,357         | 32,845         | 32,867         |
| Accrued expenses                                       | 21,444             | 23,807         | 26,113         | 25,189         |
| Staff salaries and welfare payables                    | 56,134             | 78,089         | 85,760         | 67,034         |
| Accrued taxes other than income tax                    | 8,090              | 2,713          | 2,401          | 2,737          |
| Interest payables                                      | 438                | 397            | 154            | 299            |
| Dividend payable                                       | 295                | –              | –              | –              |
| Others                                                 | 47,480             | –              | –              | –              |
|                                                        | <u>372,518</u>     | <u>365,872</u> | <u>380,088</u> | <u>393,396</u> |

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Trade payables consist of (i) payables due to third parties and related parties in respect of leasing hotels and (ii) payables due to third parties and related parties in respect of purchase of goods and services. The fluctuation in trade payables due to related parties was primarily due to changes in the outstanding lease rental payments at the end of each year/period payable to New Century Hotel Investment, manager to the REIT for the five hotels that we leased under the Master Hotel Lease and Management Agreement. Please refer to the sub-section headed "Connected Transactions – Continuing Connected Transactions Subject to the Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirement" in this document for more details on the Hotel Lease and Management Agreements.

Others represented the present value of deposits received from customers under a gift card promotion program launched from February 2015 to September 2015. All outstanding deposits were refunded to the customers in 2016 due to expiry of the promotion program.

As at December 31, 2018, RMB125.7 million or 70.4% of our trade payables outstanding as at August 31, 2018 were settled.

The ageing analysis of the trade payables during the Track Record Period is as follows:

|                      | As at December 31, |                |                | As at<br>August 31, |
|----------------------|--------------------|----------------|----------------|---------------------|
|                      | 2015               | 2016           | 2017           | 2018                |
|                      | RMB'000            | RMB'000        | RMB'000        | RMB'000             |
| – Within 1 year      | 169,466            | 180,801        | 175,556        | 159,425             |
| – 1 year to 2 years  | 7,417              | 1,626          | 10,237         | 12,685              |
| – 2 years to 3 years | 611                | 617            | 599            | 5,636               |
| – Over 3 years       | 596                | 849            | 598            | 690                 |
|                      | <u>178,090</u>     | <u>183,893</u> | <u>186,990</u> | <u>178,436</u>      |

The average turnover days for trade payables during the Track Record Period were as below:

|                                                    | For the years ended December 31, |      |      | For the eight<br>months ended<br>August 31, |
|----------------------------------------------------|----------------------------------|------|------|---------------------------------------------|
|                                                    | 2015                             | 2016 | 2017 | 2018                                        |
| Turnover days for<br>trade payables <sup>(1)</sup> | 50.2                             | 50.8 | 54.2 | 50.4                                        |

Note:

1. Turnover days for trade payable is calculated based on the average balances of trade payable at the beginning and the end of the year/period divided by the total costs of sales for the relevant year/period multiplied by 360/240 days.

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The credit period provided by our suppliers ranges from 45 days to 90 days (except the rental in respect of hotels leased, which shall be settled by the 10th of each month). Our average turnover days for trade payables during the Track Record Period remained stable at 50.2 days, 50.8 days, 54.2 days and 50.4 days, respectively, and are within the credit period offered by our suppliers.

### Contract Liabilities

Our contract liabilities substantially comprised the advances from customers with minor contribution from the customer loyalty program. Advances from customers primarily represented prepayment received from prepaid card holders and advances from banquet customers. Customer loyalty program primarily represented a promotion program under which customers accumulate points for hotel service purchases made which entitle them to discounts on future hotel service purchases. The following table sets forth a breakdown of the contract liabilities as at the dates indicated.

|                          | As at December 31, |                |                | As at<br>August 31, |
|--------------------------|--------------------|----------------|----------------|---------------------|
|                          | 2015               | 2016           | 2017           | 2018                |
|                          | RMB'000            | RMB'000        | RMB'000        | RMB'000             |
| Advances from customers  | 157,688            | 181,476        | 187,086        | 200,291             |
| Customer loyalty program | 3,596              | 5,219          | 5,266          | 8,382               |
|                          | <u>161,284</u>     | <u>186,695</u> | <u>192,352</u> | <u>208,673</u>      |

During the Track Record Period, our contract liabilities increased from RMB161.3 million as at December 31, 2015 to RMB208.7 million as at August 31, 2018, mainly due to the increase in the number of our prepaid cards issued under Century Club reward program from approximately 18,000 as at December 31, 2015 to approximately 41,000 as at August 31, 2018 corresponding to our continuous efforts to attract and enhance the loyalty of our hotel guests.

### LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we have funded our growth principally from cash generated from operations, debt financings, and advances and capital contributions from shareholders and we had generated sufficient cash and cash equivalent to meet our capital requirements. Our cash requirements relate primarily to operation of our business, investments and acquisitions and debt repayment. Our liquidity primarily depends on our ability to generate cash flows from operations and obtain external financing to meet our debt obligations as they become due, as well as our future capital expenditures.

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Going forward, we believe that our liquidity requirements will be satisfied by cash generated from our operating activities, banking facilities available to us, and the [REDACTED] received from the [REDACTED].

### Cash Flow Information

The following table sets out selected cash flow data from our consolidated statements of cash flows for the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2017 and 2018:

|                                                               | For the years ended<br>December 31, |          |           | For the eight months<br>ended August 31, |           |
|---------------------------------------------------------------|-------------------------------------|----------|-----------|------------------------------------------|-----------|
|                                                               | 2015                                | 2016     | 2017      | 2017                                     | 2018      |
|                                                               | RMB'000                             | RMB'000  | RMB'000   | RMB'000                                  | RMB'000   |
|                                                               |                                     |          |           | <i>(unaudited)</i>                       |           |
| Net cash generated from operating activities                  | 97,442                              | 168,931  | 268,073   | 87,883                                   | 33,594    |
| Net cash (used in)/generated from investing activities        | (90,574)                            | (85,377) | 86,885    | 61,943                                   | (143,420) |
| Net cash (used in) financing activities                       | (35,148)                            | (33,775) | (107,013) | (131,613)                                | (26,041)  |
| Net (decrease)/increase in cash and cash equivalents          | (28,280)                            | 49,779   | 247,945   | 18,213                                   | (135,867) |
| Cash and cash equivalents at the beginning of the year/period | 154,665                             | 126,385  | 176,164   | 176,194                                  | 424,109   |
| Cash and cash equivalents at the end of the year/period       | 126,385                             | 176,164  | 424,109   | 194,377                                  | 288,242   |

### Cash Flow Generated from Operating Activities

Net cash from operating activities primarily represented cash generated from operations minus income tax paid and interest paid. Cash generated from operations primarily comprised profit before income tax adjusted by non-cash expenses and changes in working capital.



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Net cash generated from our operating activities was RMB33.6 million for the eight months ended August 31, 2018, representing cash generated from operations of RMB88.3 million minus income tax paid of RMB48.0 million and interest paid of RMB6.6 million. Cash generated from operations was primarily attributable to profit before tax of RMB142.2 million, as (i) positively adjusted for depreciation of property, plant and equipment of RMB33.3 million, (ii) negatively adjusted for net gains on disposal of subsidiaries of RMB10.8 million and (iii) negatively adjusted for change in working capital of RMB69.2 million. The change in working capital primarily consisted of (i) an increase of RMB32.7 million of trade and other debtors (ii) an increase of RMB66.0 million in restricted cash, which represented term deposit, guaranteed deposits held in separate reserve accounts pledged as security deposits under bank borrowing agreements and some hotel lease agreements, (iii) an increase of RMB30.8 million in trade and other creditors.

Net cash generated from our operating activities was RMB268.1 million for the year ended December 31, 2017, representing cash generated from operations of RMB323.8 million minus income tax paid of RMB44.2 million and interest paid of RMB11.6 million. Cash generated from operations was primarily attributable to profit before tax of RMB223.0 million as (i) positively adjusted for depreciation of property, plant and equipment of RMB53.9 million, and (ii) positively adjusted for change in the working capital of RMB25.9 million. The change in working capital primarily consisted of (i) a decrease in restricted cash of RMB32.4 million, (ii) an increase in trade and other debtors of RMB13.2 million and (iii) an increase of RMB11.4 million in trade and other creditors.

Net cash generated from our operating activities was RMB168.9 million for the year ended December 31, 2016, representing cash generated from operations of RMB209.4 million minus income tax paid of RMB25.5 million and interest paid of RMB14.9 million. Cash generated from operations was primarily attributable to profit before tax of RMB117.2 million as (i) positively adjusted for depreciation of property, plant and equipment of RMB49.1 million, and (ii) positively adjusted for change in the working capital of RMB26.7 million. The change in working capital primarily consisted of (i) an increase in trade and other debtors of RMB14.5 million and (ii) an increase in trade and other creditors of RMB39.0 million.

Net cash generated from our operating activities was RMB97.4 million for the year ended December 31, 2015, representing cash generated from operations of RMB141.8 million minus income tax paid of RMB28.2 million and interest paid of RMB16.2 million. Cash generated from operations was primarily attributable to profit before tax of RMB58.3 million as (i) positively adjusted for depreciation of property, plant and equipment of RMB46.0 million, (ii) positively adjusted for non-cash share-based payment of RMB20.0 million, and (iii) positively adjusted for change in working capital of RMB7.8 million. The change in working capital primarily consisted of (i) an increase in trade and other debtors of RMB20.5 million and (ii) an increase in trade and other creditors of RMB31.5 million.

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### *Cash Flow Generated from/Used in Investing Activities*

Net cash used in investing activities was RMB143.4 million for the eight months ended August 31, 2018, primarily due to (i) the payment of RMB91.5 million for property, plant and equipment, land use rights, intangible assets and other long-term assets for the for the operation of Hangzhou Fuchun New Century Wonderland Resort (杭州富春開元芳草地鄉村酒店), and (ii) the purchase of short-term wealth management products of RMB60.0 million.

Net cash generated from our investing activities was RMB86.9 million for the year ended December 31, 2017, which was primarily due to cash generated from (i) net proceeds from sale of financial assets at fair value through profit or loss of RMB317.9 million and (ii) repayment of loan of RMB56.0 million by related parties. These items were partially offset by cash used in (i) payments for property, plant and equipment, land use rights, intangible assets and other long-term assets of RMB150.4 million primarily for the operation of Hangzhou Fuchun New Century Wonderland Resort (杭州富春開元芳草地鄉村酒店), and (ii) payment for short-term wealth management products of approximately RMB162.9 million.

Net cash used in our investing activities was RMB85.4 million for the year ended December 31, 2016, which was primarily due to cash used in (i) payments for short-term wealth management products of approximately of RMB155.0 million and (ii) payments for property, plant and equipment, land use rights, intangible assets and other long-term assets of RMB118.2 million, primarily for the construction of Changxing New Century Wonderland Resort (長興開元芳草地鄉村酒店) and Hangzhou Fuchun New Century Wonderland Resort (杭州富春開元芳草地鄉村酒店). These items were partially offset by cash generated from repayment of loans by related parties of RMB170.0 million.

Net cash used in our investing activities was RMB90.6 million for the year ended December 31, 2015, which was primarily due to cash used in (i) the payments for property, plant and equipment, land use rights, intangible assets and other long-term assets of RMB88.6 million primarily for the construction of Changxing New Century Wonderland Resort (長興開元芳草地鄉村酒店), and (ii) the provisions of loans to related parties of RMB80.0 million. These items were partially offset by cash generated from (i) repayments of loan of RMB40.0 million by related parties, and (ii) interests received from loans to related parties of RMB26.2 million.

### *Cash Flow Generated from/Used in Financing Activities*

Net cash used in financing activities was RMB26.0 million for the eight months end August 31, 2018, primarily due to (i) the dividends paid to the shareholders of RMB41.2 million, (ii) the repayment of borrowings of RMB9.5 million, and (iii) the payment for [REDACTED] expenses of RMB9.8 million, partially offset by the proceeds from the borrowings of RMB 35.0 million.

Net cash used in our financing activities was RMB107.0 million for the year ended December 31, 2017, which was primarily due to the cash used in (i) repayment of borrowings of RMB509.1 million, and (ii) dividends paid to Company's shareholders of RMB59.7 million. These items were partially offset by cash generated from (i) proceeds from borrowings of RMB320.1 million, and (ii) proceeds of capital injection from shareholders of RMB136.6 million.

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Net cash used in our financing activities was RMB33.8 million for the year ended December 31, 2016, primarily due to the cash used in (i) repayment of borrowings of RMB135.0 million, (ii) repayment of other financing instruments of RMB47.5 million, and (iii) the consideration payment of RMB30.0 million for a related-party acquisition of Jiande New Century Wonderland Resort Co., Ltd.\* (建德開元芳草地酒店有限公司), partially offset by the cash generated from net proceeds from borrowings of RMB179.0 million.

Net cash used in our financing activities was RMB35.1 million for the year ended December 31, 2015, which was primarily due to the cash used in (i) repayment of RMB328.0 million of borrowings and (ii) repayment of other financing instruments of RMB160.7 million comprised of the refund of deposits to the holders of gift cards, which was partially offset by cash generated from proceeds from borrowings of RMB364.0 million.

### Net Current Assets and Liabilities

The table below sets out our current assets, current liabilities and net current (liabilities)/assets as at the dates indicated:

|                                                          | As at December 31, |                 |                | As at<br>August 31, | As at<br>December 31,  |
|----------------------------------------------------------|--------------------|-----------------|----------------|---------------------|------------------------|
|                                                          | 2015               | 2016            | 2017           | 2018                | 2018                   |
|                                                          | RMB'000            | RMB'000         | RMB'000        | RMB'000             | RMB'000<br>(unaudited) |
| <b>Current assets</b>                                    |                    |                 |                |                     |                        |
| Inventories                                              | 24,206             | 22,086          | 26,793         | 27,750              | 28,322                 |
| Trade and other receivables<br>and prepayments           | 408,755            | 253,394         | 239,090        | 334,885             | 282,289                |
| Financial assets at fair value<br>through profit or loss | –                  | 155,590         | –              | –                   | –                      |
| Cash and cash equivalent                                 | 126,385            | 176,164         | 424,109        | 288,242             | 369,688                |
| Restricted cash                                          | 72,400             | 72,400          | –              | 72,100              | 66,000                 |
| Assets classified as held for<br>sale                    | 17,603             | –               | –              | –                   | –                      |
|                                                          | <u>649,349</u>     | <u>679,634</u>  | <u>689,992</u> | <u>722,977</u>      | <u>746,299</u>         |
| <b>Current Liabilities</b>                               |                    |                 |                |                     |                        |
| Contract liabilities                                     | 161,284            | 186,695         | 192,352        | 208,673             | 194,194                |
| Borrowings                                               | 135,000            | 135,000         | 5,000          | 3,000               | 500                    |
| Trade and other payables                                 | 372,518            | 365,872         | 380,088        | 393,396             | 443,130                |
| Current income tax<br>liabilities                        | 7,755              | 15,593          | 23,561         | 11,925              | 19,054                 |
| Current portion of long-term<br>liabilities              | –                  | 706             | 706            | 1,186               | 6,186                  |
| Liabilities classified as held<br>for sale               | 14,293             | –               | –              | –                   | –                      |
|                                                          | <u>690,850</u>     | <u>703,866</u>  | <u>601,707</u> | <u>618,180</u>      | <u>663,064</u>         |
| <b>Net current<br/>(liabilities)/assets</b>              | <u>(41,501)</u>    | <u>(24,232)</u> | <u>88,285</u>  | <u>104,797</u>      | <u>83,235</u>          |

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## FINANCIAL INFORMATION

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We had net current liabilities of RMB41.5 million and RMB24.2 million as at December 31, 2015 and 2016, respectively, and net current assets of RMB88.3 million and RMB104.8 million as at December 31, 2017 and August 31, 2018, respectively.

Although we recorded a net asset position of RMB263.0 million as at December 31, 2015 and generated profit and total comprehensive income of RMB29.6 million for the year ended December 31, 2015, we had net current liabilities of RMB41.5 million as at the same date, primarily due to the expenditure of RMB88.6 million in cash primarily in connection with the construction of Changxing New Century Wonderland Resort (長興開元芳草地鄉村酒店), including purchase of land use right and construction of building and facilities, which were accounted as non-current assets.

Despite recording a net assets position of RMB317.0 million as at December 31, 2016 and generating a profit and total comprehensive income of RMB84.1 million for the year ended December 31, 2016, we had a net current liabilities position of RMB24.2 million as at December 31, 2016, representing a 41.7% decrease as compared to the net current liabilities of RMB41.5 million as at December 31, 2015, primarily due to the expenditure of RMB118.2 million in cash primarily in connection with the construction of Changxing New Century Wonderland Resort (長興開元芳草地鄉村酒店) and Hangzhou Fuchun New Century Wonderland Resort (杭州富春開元芳草地鄉村酒店), which were accounted as non-current assets.

As at December 31, 2017, we had net current assets of RMB88.3 million, as compared to net current liabilities of RMB24.2 million as December 31, 2016, which was primarily due to (i) an increase of RMB247.9 million in cash and cash equivalent in 2017 and (ii) a significant decrease of RMB130.0 million in borrowings in 2017, partially offset by a decrease of RMB155.6 million in financial assets at fair value through profit or loss in 2017.

Our net current assets increased by RMB16.5 million from RMB88.3 million as at December 31, 2017 to RMB104.8 million as at August 31, 2018, primarily due to (i) the increase in trade, other receivables and prepayments of RMB95.8 million and (ii) the increase in restricted cash of RMB72.1 million for the eight months ended August 31, 2018. Yet it was partially offset by the decrease in cash and cash equivalent of RMB135.9 million.

Our net current assets decreased from RMB104.8 million as at August 31, 2018 to RMB83.2 million as at December 31, 2018 primarily due to increase in trade and other payables of RMB49.7 million and the increase in current income tax liabilities of RMB7.1 million.

### Working Capital Sufficiency

We finance our working capital needs primarily through cash flow from operations and bank borrowings. During the Track Record Period, we had generated sufficient cash and cash equivalent to meet our capital requirements. Taking into account the [REDACTED] available to us from the [REDACTED], banking facilities available to us and our operating cash flows, our Directors confirm, and the Joint Sponsors concur with our Directors, that we have sufficient working capital for our present requirements and for the next 12 months from the date of this document. Save as disclosed in this document and other than the [REDACTED], we currently have no other external financing plan.

## FINANCIAL INFORMATION

### CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

#### Capital Commitments

Capital expenditure which we have contracted for at the end of the year/period, but not yet incurred was as follows:

|                               | As at December 31, |         |         | As at      |
|-------------------------------|--------------------|---------|---------|------------|
|                               | 2015               | 2016    | 2017    | August 31, |
|                               | RMB'000            | RMB'000 | RMB'000 | 2018       |
|                               |                    |         |         | RMB'000    |
| Property, plant and equipment | 200                | –       | 6,464   | 9,324      |

The significant increase in capital commitments from RMB6.5 million as at December 31, 2017 to RMB9.3 million as at August 31, 2018 was primarily due to renovation work expected to be performed on our hotels in operations and under pipeline.

#### Operating Lease Commitments

We lease hotels to operate under hotel lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under these operating leases are set out as follows:

|                             | As at December 31, |                  |                  | As at            |
|-----------------------------|--------------------|------------------|------------------|------------------|
|                             | 2015               | 2016             | 2017             | August 31,       |
|                             | RMB'000            | RMB'000          | RMB'000          | 2018             |
|                             |                    |                  |                  | RMB'000          |
| Within one year             | 156,927            | 148,723          | 269,609          | 169,868          |
| Later than one year but not |                    |                  |                  |                  |
| later than five years       | 523,468            | 596,161          | 739,613          | 708,896          |
| Later than five years       | 760,791            | 828,684          | 839,653          | 807,053          |
|                             | <u>1,441,186</u>   | <u>1,573,568</u> | <u>1,848,875</u> | <u>1,685,817</u> |

The increase of our operating lease commitments during the Track Record Period was primarily due to the increase in number of hotels we leased.

## FINANCIAL INFORMATION

### INDEBTEDNESS

#### Banking Facilities

As at December 31, 2018, we have a total banking facilities of RMB310.0 million, of which the unutilized banking facilities amounted to RMB120.0 million.

#### Borrowings

Our interest-bearing bank loans and other borrowings as at the dates indicated are set out in the table below.

|                            | As at December 31, |                |                | As at<br>August 31, | As at<br>December 31,  |
|----------------------------|--------------------|----------------|----------------|---------------------|------------------------|
|                            | 2015               | 2016           | 2017           | 2018                | 2018                   |
|                            | RMB'000            | RMB'000        | RMB'000        | RMB'000             | RMB'000<br>(unaudited) |
| <b>Non-current</b>         |                    |                |                |                     |                        |
| Bank borrowings            | 150,000            | 150,000        | 160,000        | 187,500             | 185,000                |
| Loans from a related party | 25,000             | 69,000         | –              | 6,700               | –                      |
|                            | <u>175,000</u>     | <u>219,000</u> | <u>160,000</u> | <u>194,200</u>      | <u>185,000</u>         |
| <b>Current</b>             |                    |                |                |                     |                        |
| Bank borrowings            | <u>135,000</u>     | <u>135,000</u> | <u>5,000</u>   | <u>3,000</u>        | <u>5,500</u>           |
| Total borrowings           | <u>310,000</u>     | <u>354,000</u> | <u>165,000</u> | <u>197,200</u>      | <u>190,500</u>         |

All of our borrowings during the Track Record Period were denominated in Renminbi. During the Track Record Periods, we had loans of RMB25.0 million, RMB69.0 million and RMB6.7 million provided by New Century Tourism as at December 31, 2015 and 2016, and August 31, 2018, respectively. The balance as at December 31, 2015 and 2016 was fully repaid in 2017 and the balance as at August 31, 2018 was fully repaid as at September 30, 2018. Certain of our bank borrowings were secured by property, plant and equipment and land use rights banks deposits, and guaranteed by related parties. All financial guarantees provided by the related parties have been fully released in July 2018.

As at December 31, 2018, the aggregate amount of our borrowings was RMB190.5 million.

## FINANCIAL INFORMATION

The following table sets out a breakdown of the maturity profile of our total borrowings as at the dates indicated.

|                            | As at December 31, |                |                | As at<br>August 31, | As at<br>December 31,  |
|----------------------------|--------------------|----------------|----------------|---------------------|------------------------|
|                            | 2015               | 2016           | 2017           | 2018                | 2018                   |
|                            | RMB'000            | RMB'000        | RMB'000        | RMB'000             | RMB'000<br>(unaudited) |
| On demand or within 1 year | 135,000            | 135,000        | 5,000          | 3,000               | 5,500                  |
| Between 1 and 2 years      | –                  | 175,000        | 5,000          | 70,000              | 115,000                |
| Between 2 and 5 years      | 175,000            | 44,000         | 145,000        | 91,700              | 45,000                 |
| Over 5 years               | –                  | –              | 10,000         | 32,500              | 25,000                 |
|                            | <u>310,000</u>     | <u>354,000</u> | <u>165,000</u> | <u>197,200</u>      | <u>190,500</u>         |

The weighted average effective interest rates of our current and non-current bank borrowings during the Track Record Period were as follows:

|                          | For the years ended December 31, |              |              | For the<br>eight<br>months<br>ended<br>August 31, |
|--------------------------|----------------------------------|--------------|--------------|---------------------------------------------------|
|                          | 2015                             | 2016         | 2017         | 2018                                              |
|                          | RMB'000                          | RMB'000      | RMB'000      | RMB'000                                           |
| Borrowings – current     |                                  |              |              |                                                   |
| – RMB                    | <u>5.89%</u>                     | <u>5.01%</u> | <u>4.67%</u> | <u>4.67%</u>                                      |
| Borrowings – non-current |                                  |              |              |                                                   |
| – RMB                    | <u>5.52%</u>                     | <u>5.11%</u> | <u>4.77%</u> | <u>4.83%</u>                                      |



## FINANCIAL INFORMATION

### Financial Guarantees and Collateral

The borrowings of RMB285.0 million, RMB285.0 million, RMB165.0 million and RMB90.5 million as at December 31, 2015, 2016 and 2017 and August 31, 2018, respectively, were secured by property, plant and equipment, land use rights, bank deposits, and guaranteed by related parties. Under the terms of these secured borrowings, upon our failure to make payments when they become due, we will make payments to reimburse the lenders and/or the lenders will have the right to take possession of the collateral, sell the collateral and use the sale proceeds to pay off the amounts owing and due in respect of our bank borrowings. All financial guarantees provided by the related parties have been fully released in July 2018.

|                                                              | As at December 31, |                |                | As at         | As at         |
|--------------------------------------------------------------|--------------------|----------------|----------------|---------------|---------------|
|                                                              | 2015               | 2016           | 2017           | August 31,    | December 31,  |
|                                                              | RMB'000            | RMB'000        | RMB'000        | 2018          | 2018          |
|                                                              |                    |                |                | RMB'000       | RMB'000       |
|                                                              |                    |                |                |               | (unaudited)   |
| Guaranteed by related parties                                | 249,000            | 249,000        | 100,000        | –             | –             |
| Secured by bank deposit                                      | 36,000             | 36,000         | –              | –             | –             |
| Secured by property, plant and equipment and land use rights | –                  | –              | 65,000         | 90,500        | 90,500        |
|                                                              | <u>285,000</u>     | <u>285,000</u> | <u>165,000</u> | <u>90,500</u> | <u>90,500</u> |

Our Directors confirm that as of the Latest Practicable Date, there was no material covenant on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirmed that our Group did not experience any difficulty or default in payment of our borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

Except as disclosed above, as at December 31, 2018, being the latest practicable date for determining our indebtedness, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Our Directors confirm that there has not been any material change in our indebtedness since December 31, 2018 and up to the Latest Practicable Date.

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### Contingent Liabilities

As at December 31, 2018, we did not have any material contingent liabilities or any litigations or claims of material importance, pending or threatened against any member of our Group. Our Directors have confirmed that there has not been any material change in the contingent liabilities of our Group since December 31, 2018 and up to the Latest Practicable Date.

### Off-balance Sheet Commitments and Arrangements

As at the Latest Practicable Date, we did not have any off-balance sheet commitments and arrangements, except capital commitment and operating lease commitment as disclosed in this section.

### KEY FINANCIAL RATIOS

The table below sets forth a summary of the key financial ratios for the periods and/or as at the dates indicated.

|                                    | For the years ended/<br>As at December 31, |       |       | For the eight months<br>ended/As at August 31, |       |
|------------------------------------|--------------------------------------------|-------|-------|------------------------------------------------|-------|
|                                    | 2015                                       | 2016  | 2017  | 2017                                           | 2018  |
|                                    |                                            |       |       | <i>(unaudited)</i>                             |       |
| Gross Profit Margin <sup>(1)</sup> | 16.0%                                      | 20.0% | 25.9% | 23.4%                                          | 22.3% |
| Net Profit Margin <sup>(2)</sup>   | 1.9%                                       | 5.2%  | 10.0% | 8.4%                                           | 10.0% |
| Return on equity <sup>(3)</sup>    | 15.4%                                      | 29.8% | 39.6% | N/A                                            | N/A   |
| Current Ratio <sup>(4)</sup>       | 0.9x                                       | 1.0x  | 1.1x  | N/A                                            | 1.2x  |
| Gearing Ratio <sup>(5)</sup>       | 27.3%                                      | 28.3% | 12.6% | N/A                                            | 13.7% |

*Notes:*

1. Gross profit margin is calculated by dividing gross profit by revenue. For underlying reasons for fluctuations of gross profit margin during the Track Record Period, please see sub-section headed "Results of Operations" in this section.
2. Net profit margin is calculated by dividing net profit by revenue. For underlying reasons for fluctuations of net profit margin during the Track Record Period, please see sub-section headed "Results of Operations" in this section.
3. Return on equity is calculated by dividing profit and total comprehensive income attributable to owners of our Company for the period by the average total equity attributable to owners of our Company at the beginning and the end of the period.
4. Current ratio is calculated by dividing currents assets by current liabilities at the end of the period.
5. Gearing ratio is calculated by dividing total borrowings by total assets at the end of the period.

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## FINANCIAL INFORMATION

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### Return on Equity

Return on equity increased from 15.4% for the year ended December 31, 2015 to 29.8% for the year ended December 31, 2016, mainly due to a 180.1% increase in profit and total comprehensive income attributable to owners of our Company. For the year ended December 31, 2017, return on equity further increased to 39.6% mainly due to a 93.4% increase in profit and total comprehensive income attributable to owners of our Company.

### Current Ratio

Our current ratio as at December 31, 2015, 2016 and 2017 and August 31, 2018 remained relatively stable at 0.9x, 1.0x, 1.1x and 1.2x, respectively.

### Gearing Ratio

Our gearing ratio increased to 28.3% as at December 31, 2016 mainly due to a 25.1% increase in non-current borrowing. Our gearing ratio decreased to 12.6% as at December 31, 2017 mainly due to a decrease of RMB130.0 million in current borrowing and a decrease of RMB59.0 million in non-current borrowing. Our gearing ratio slightly increased to 13.7% as at August 31, 2018.

### NON-IFRS MEASURES

The measures of financial performance described in this section are non-IFRS measures and accordingly are not audited, not included in the financial statements and not presented in accordance with IFRS. We present these financial measures as they are used by our management to evaluate our operating performance. We also believe that these financial measures provide useful information to investors in understanding and evaluating our consolidated results of operation in the same manner as our management.

## FINANCIAL INFORMATION

The following table sets out the reconciliation of our EBITDA, EBITDA margin, EBITDAR and EBITDAR margin, all of which are non-IFRS measures:

|                                                           | For the years ended December 31, |                |                | For the eight months ended August 31, |                |
|-----------------------------------------------------------|----------------------------------|----------------|----------------|---------------------------------------|----------------|
|                                                           | 2015                             | 2016           | 2017           | 2017                                  | 2018           |
|                                                           | RMB'000                          | RMB'000        | RMB'000        | RMB'000                               | RMB'000        |
| Profit and total comprehensive income for the year/period | 29,641                           | 84,055         | 166,567        | 89,196                                | 111,555        |
| Adjusted for:                                             |                                  |                |                |                                       |                |
| Income tax expense                                        | 28,653                           | 33,175         | 56,455         | 34,726                                | 30,641         |
| Finance costs                                             | 30,220                           | 16,049         | 10,406         | 9,140                                 | 6,769          |
| Depreciation and amortization                             | 53,120                           | 56,936         | 59,879         | 39,899                                | 38,090         |
| Finance income                                            | (30,968)                         | (12,193)       | (5,402)        | (3,937)                               | (5,140)        |
| EBITDA <sup>(1)</sup>                                     | <u>110,666</u>                   | <u>178,022</u> | <u>287,905</u> | <u>169,024</u>                        | <u>181,915</u> |
| EBITDA Margin <sup>(2)</sup>                              | <u>7.3%</u>                      | <u>11.1%</u>   | <u>17.3%</u>   | <u>15.8%</u>                          | <u>16.3%</u>   |
| Adjusted for:                                             |                                  |                |                |                                       |                |
| Operating lease expenses                                  | <u>403,026</u>                   | <u>399,850</u> | <u>374,067</u> | <u>256,384</u>                        | <u>255,388</u> |
| EBITDAR <sup>(3)</sup>                                    | <u>513,692</u>                   | <u>577,872</u> | <u>661,972</u> | <u>425,408</u>                        | <u>437,303</u> |
| EBITDAR Margin <sup>(4)</sup>                             | <u>33.7%</u>                     | <u>36.1%</u>   | <u>39.8%</u>   | <u>39.8%</u>                          | <u>39.1%</u>   |

*Notes:*

1. EBITDA is profit before income tax, finance income, finance costs and depreciation and amortization.
2. EBITDA margin is calculated by dividing EBITDA by revenue.
3. EBITDAR is calculated by EBITDA added by operating lease expenses.
4. EBITDAR margin is calculated by dividing EBITDAR by revenue.
5. EBITDA and EBITDAR are used by management as the primary measurement of operating performance of our Group's hotels and are used as a common performance measurement to compare results or estimate valuations across companies in the hotel industry. By computing the operating income before deducting interest, taxes, depreciation and amortization in the case of EBITDA and also the rent expenses in the case of EBITDAR, its management or potential investors in the hotel industry would be able to more effectively compare and assess the actual underlying operating performance of different hotel operators, by excluding the effect on net profitability position as a result of different capital structure (for example, the use of equity versus debt when developing new hotels) and/or ownership structure (for example, leasing versus owning of hotel assets) adopted by hotel operators.

## FINANCIAL INFORMATION

### RELATED PARTY TRANSACTIONS AND BALANCES

#### Material Related Party Transactions

The following table sets out a breakdown of the overall amounts of transactions with related parties for the years ended December 31, 2015, 2016 and 2017, and the eight months ended August 31, 2017 and 2018.

|                                          | For the years ended December 31, |                |                | For the eight months ended August 31, |                |
|------------------------------------------|----------------------------------|----------------|----------------|---------------------------------------|----------------|
|                                          | 2015                             | 2016           | 2017           | 2017                                  | 2018           |
|                                          | RMB'000                          | RMB'000        | RMB'000        | RMB'000                               | RMB'000        |
|                                          |                                  |                |                | (unaudited)                           |                |
| <b>Related party income</b>              |                                  |                |                |                                       |                |
| Hotel management revenue                 | 59,423                           | 34,380         | 35,530         | 23,764                                | 24,854         |
| Hotel operation revenue                  | 1,192                            | 2,165          | 2,645          | 1,383                                 | 1,696          |
| Rental income                            | 1,600                            | 1,555          | 1,528          | 1,098                                 | 166            |
| Sales of goods                           | 10,755                           | 20,366         | 17,607         | 8,447                                 | 9,787          |
| Interest charged                         | 25,674                           | 7,799          | 907            | 907                                   | –              |
| Other service income                     | 5,428                            | 7,032          | 8,139          | 5,277                                 | 6,870          |
|                                          | <u>104,072</u>                   | <u>73,297</u>  | <u>66,356</u>  | <u>40,876</u>                         | <u>43,373</u>  |
| <b>Related party expenses</b>            |                                  |                |                |                                       |                |
| Purchase of goods                        | 7,093                            | 5,622          | 7,705          | 6,111                                 | 3,678          |
| Purchase of services                     | 10,918                           | 11,292         | 11,477         | 6,457                                 | 7,369          |
| Purchase of non-current assets           | 5,263                            | 24,882         | 2,432          | 811                                   | 927            |
| Interest paid                            | 890                              | 2,124          | 1,520          | 1,520                                 | –              |
| Rental expenses payable/paid             | 217,344                          | 213,656        | 214,020        | 137,599                               | 140,073        |
|                                          | <u>241,508</u>                   | <u>257,576</u> | <u>237,154</u> | <u>152,498</u>                        | <u>152,047</u> |
| <b>Related party guarantees</b>          |                                  |                |                |                                       |                |
| Borrowings guaranteed by related parties | <u>249,000</u>                   | <u>249,000</u> | <u>100,000</u> | <u>100,000</u>                        | <u>–</u>       |

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## FINANCIAL INFORMATION

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### ***Provision of hotel management and related services***

For the years ended December 31, 2015, 2016 and 2017, and the eight months ended August 31, 2017 and 2018, we recorded revenue from provision of hotel management services to related parties amounting to RMB59.4 million, RMB34.4 million, RMB35.5 million, RMB23.8 million and RMB24.9 million, respectively. These are the full service hotel management services provided by our Group to the New Century Tourism Group and companies controlled by our Controlling Shareholders.

For the years ended December 31, 2015, 2016 and 2017, and the eight months ended August 31, 2017 and 2018, we recorded revenue from provision of other services to related parties amounting to RMB5.4 million, RMB7.0 million, RMB8.1 million, RMB5.3 million and RMB6.9 million, respectively. Such services include hotel supplies sourcing services by our Group to the New Century Tourism Group and companies controlled by our Controlling Shareholders.

Please refer to Note 35 of the Accountant's Report in Appendix I to this document for further details on the companies controlled by our Controlling Shareholders.

### ***Sales of goods***

For the years ended December 31, 2015, 2016 and 2017, and the eight months ended August 31, 2017 and 2018, we recorded revenue from sales of goods to related parties amounting to RMB10.8 million, RMB20.4 million, RMB17.6 million, RMB8.4 million and RMB9.8 million, respectively. These are the sale of certain goods including hotel supplies and red wine by our Group to the New Century Tourism Group and companies controlled by our Controlling Shareholders.

Please refer to Note 35 of the Accountant's Report in Appendix I to this document for further details on the companies controlled by our Controlling Shareholders.

### ***Purchase of services***

For the years ended December 31, 2015, 2016 and 2017, and the eight months ended August 31, 2017 and 2018, our purchase of services from related parties amounted to RMB10.9 million, RMB11.3 million, RMB11.5 million, RMB6.5 million and RMB7.4 million, respectively. These are the sale of certain services including cleaning services and renovation and maintenance services by the New Century Tourism Group to our Group and companies controlled by our Controlling Shareholders.

Please refer to Note 35 of the Accountant's Report in Appendix I to this document for further details on the companies controlled by our Controlling Shareholders.

### ***Rental expenses payable/paid***

For the years ended December 31, 2015, 2016 and 2017, and the eight months ended August 31, 2017 and 2018, we incurred rental expenses payable and paid to related parties amounting to RMB217.3 million, RMB213.7 million, RMB214.0 million, RMB137.6 million and RMB140.1 million. These are primarily related to rent paid by our Group to New Century REIT for leasing of the five New Century REIT Hotel Properties.

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## FINANCIAL INFORMATION

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### *Discontinued related party transactions*

During the Track Record Period, our Group purchased renovation materials from Hangzhou New Century Decorating Co., Ltd.\* (杭州開元裝飾工程有限公司), a company controlled by New Century Tourism, one of our Controlling Shareholders, which amounted to RMB5.2 million, RMB22.8 million and RMB0.4 million for the years ended December 31, 2015, 2016 and 2017, respectively. We had ceased to purchase renovation materials from this company in 2018.

During the Track Record Period, we recorded a portion of rental income of RMB0.6 million, RMB0.6 million, RMB0.6 million and RMB0.4 million from Hangzhou Qiandao Lake Resort Yacht Club Co., Ltd.\* (杭州千島湖開元度假村遊艇俱樂部有限公司), a company then controlled by New Century Tourism, one of our Controlling Shareholders, for the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2017, respectively. It ceased to be our related party in February 2018 due to disposal of interest in this company by New Century Tourism.

During the Track Record Period, we generated a portion of hotel management revenue of RMB0.5 million and RMB0.6 million from Deqing New Century Investment & Management Co., Ltd. New Century Business Hotel\* (德清開元投資管理有限公司開元商務酒店) for the years ended December 31, 2015 and 2016. It ceased to be our related party in December 2017 due to the deregistration in December 2017.

During the Track Record Period, we generated a portion of hotel operation revenue of RMB0.1 million, RMB0.3 million and RMB0.1 million from Hangzhou New Century International Tourism Co., Ltd.\* (杭州開元國際旅行社有限公司) a company controlled by New Century Holdings, an associate of Mr. Chen Miaolin, one of our Controlling Shareholders, for the years ended December 31, 2015, 2016 and 2017. It ceased to be our related party in September 2017 due to the disposal of interest in this company by New Century Holdings.

During the Track Record Period, the transaction amounts between our Group and Beijing New Century Grand Hotel Management Co., Ltd.\* (北京開元名都大酒店管理有限公司), a company controlled by our Controlling Shareholders, were RMB6.5 million and RMB4.4 million for the years ended December 31, 2015 and 2016. It ceased to be our related party in September 2016 due to disposal of interest in this company by our Controlling Shareholders.

During the Track Record Period, Zhejiang New Century Property Management Co., Ltd. and the New Century Holdings Group had leased two staff dormitories to our Group. For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, the total amount of rental expenses paid by our Group amounted to approximately RMB1.6 million, RMB1.9 million, RMB2.6 million and RMB0.9 million, respectively. These two lease agreements had been terminated by August 2018 and hence will not constitute the continuing connected transactions upon [REDACTED].



## FINANCIAL INFORMATION

During the Track Record Period, we provided hotel management services and goods to Shanghai Songjiang Grand New Century Hotel Co., Ltd.\* (上海松江開元名都大酒店有限公司) (“**Shanghai Songjiang**”), a company then controlled by the daughter of Mr. Chen Miaolin, one of the Controlling Shareholders. For the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2017, the transaction amounts between our Group and Shanghai Songjiang were RMB9.6 million, RMB9.7 million, RMB6.3 million and RMB4.9 million, respectively. In December 2017, Shanghai Songjiang was disposed by the daughter of Mr. Chen Miaolin to Independent Third Parties and hence the transactions with Shanghai Songjiang will not constitute continuing connected transaction upon [REDACTED].

During the Track Record Period, our Group purchased printed goods from time to time to replenish its hotel supplies, from Hangzhou Huangshi Chaoyi Printing Co., Ltd.\* (杭州黃氏超藝印刷有限公司) (“**Chaoyi Printing**”), a company wholly-owned by Mr. Huang Yong, brother-in-law of Mr. Chen Miaolin, our Controlling Shareholders, which amounted to RMB0.6 million, RMB0.4 million, RMB0.4 million and RMB0.2 million for the years ended December 31, 2015, 2016 and 2017 and the eight months ended August 31, 2018, respectively. It ceased to be our related party in July 2018 as Mr. Huang Yong transferred all his interest in Chaoyi Printing to an Independent Third Party.

### Balances with related parties

The following table sets out a breakdown of the overall amounts of balances with related parties as at December 31, 2015, 2016 and 2017, and as at August 31, 2017 and 2018.

|                                         | As at December 31, |               |               | As at August 31, |
|-----------------------------------------|--------------------|---------------|---------------|------------------|
|                                         | 2015               | 2016          | 2017          | 2018             |
|                                         | RMB'000            | RMB'000       | RMB'000       | RMB'000          |
| <b>Receivables from related parties</b> |                    |               |               |                  |
| Trade receivables                       | 9,033              | 6,822         | 4,235         | 7,301            |
| Loan receivables and other receivables  | 251,328            | 87,418        | 20,518        | 20,837           |
| Prepayment                              | 932                | 960           | 1,144         | 301              |
| Interest receivables                    | 70                 | 85            | –             | –                |
|                                         | <u>261,363</u>     | <u>95,285</u> | <u>25,897</u> | <u>28,439</u>    |
| <b>Payables due to related parties</b>  |                    |               |               |                  |
| Trade payable                           | 50,193             | 30,036        | 22,323        | 19,613           |
| Other payables                          | 22,387             | 18,449        | 10,397        | 12,799           |
| Advances                                | 1,756              | 986           | 501           | 606              |
|                                         | <u>74,336</u>      | <u>49,471</u> | <u>33,221</u> | <u>33,018</u>    |

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## FINANCIAL INFORMATION

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Our Directors confirm that each of the related party transactions set out in Note 35 to the Accountant's Report in Appendix I to this document was conducted in the ordinary course of business on an arm's length basis with normal commercial terms between the relevant parties. Our Directors confirm that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance. Except for the loans with related parties, all the balances are trade in nature. Our Directors confirm that all related parties balances which are non-trade in nature have been fully settled as at October 31, 2018. For further details on related party balances and transactions, please refer to Note 35 of the Accountant's Report in Appendix I to this document.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to various market risks in the ordinary course of business, including interest rate risk, foreign exchange risk, credit risk and liquidity risk.

#### Interest Rate Risk

As we have no significant interest-bearing assets except for cash and cash equivalents, restricted cash and interest bearing receivables, our income and operating cash flows are substantially independent of changes in market interest rates.

Our interest rate risk arises from borrowings. Borrowings obtained at variable rates expose us to cash flow interest rate risk. Borrowings obtained at fixed rates expose us to fair value interest rate risk. We have not hedged our cash flow or fair value interest rate risk. The interest rates and terms of repayments of borrowings are disclosed in Appendix I to this document. As at December 31, 2015, 2016 and 2017 and August 31, 2018, if the interest rate on borrowings had been higher or lower by 0.5%, the net profit for each year would have decreased or increased by RMB0.4 million, RMB0.2 million, RMB0.4 million and RMB0.4 million, respectively.

The fair value of our future cash flow fluctuates when the interest rates of our financial instruments change.

#### Foreign Exchange Risk

We receive substantially all of our income from hotel operation and management in Renminbi, which is not freely convertible into other currencies. Our assets and liabilities are all denominated in Renminbi. We have only minimal exposure to foreign exchange fluctuation. In 2005, the PRC Government changed its Renminbi policy to permit fluctuations within a managed band against a basket of foreign currencies. This change in policy has resulted in the appreciation of the Renminbi against the U.S. dollar. We do not currently use any foreign currency forward contracts to hedge our exposure to foreign exchange risk. However, fluctuations in exchange rates generally may adversely affect the value, translated or converted into Hong Kong dollars, of our net assets, earnings and any dividends we declare.

An increase or decrease of 5.0% in the exchange rate between U.S. dollar and Renminbi would have no material impact on our profit or loss during the Track Record Period and would have no impact on our equity.

## FINANCIAL INFORMATION

### Credit Risk

As at December 31, 2015, 2016 and 2017 and August 31, 2018, all cash and cash equivalents and restricted cash were deposited in major financial institutions in the PRC, which our Directors believe are of high credit quality.

We have established policies to ensure that provision of services and sales of properties are made to customers with an appropriate credit history and we assess the creditworthiness and financial strength of our customers as well as considering prior dealings with the customers and volume of sales. For the ageing analysis of our trade and other receivables, see Note 9 to the Accountant's Report set out in Appendix I to this document. Our management makes periodic collective assessments as well as individual assessments on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes.

### Liquidity Risk

Our objective is to maintain sufficient cash and sources of funding through committed credit facilities. To manage the liquidity risk, management monitors rolling forecasts of our liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. We expect to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyzes our financial liabilities that will be settled on a net basis into relevant maturity groups based on the remaining period from August 31, 2018 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

|                                 | <b>Less than<br/>1 year</b> | <b>Between<br/>1-2 years</b> | <b>Between<br/>2-3 years</b> | <b>Over<br/>3 years</b> | <b>Total</b>   |
|---------------------------------|-----------------------------|------------------------------|------------------------------|-------------------------|----------------|
|                                 | <i>RMB'000</i>              | <i>RMB'000</i>               | <i>RMB'000</i>               | <i>RMB'000</i>          | <i>RMB'000</i> |
| <b>As at August 31, 2018</b>    |                             |                              |                              |                         |                |
| Bank borrowings                 | 3,000                       | 70,000                       | 55,000                       | 62,500                  | 190,500        |
| Loan from a related party       | –                           | –                            | 6,700                        | –                       | 6,700          |
| Interest payables on borrowings | 10,098                      | 9,453                        | 4,001                        | 6,208                   | 29,760         |
| Trade and other payables        | 298,137                     | –                            | –                            | –                       | 298,137        |
|                                 | <u>311,235</u>              | <u>79,453</u>                | <u>65,701</u>                | <u>68,708</u>           | <u>525,097</u> |

## FINANCIAL INFORMATION

Our approach to managing liquidity risk is to ensure that we have sufficient liquidity to meet our liabilities when they fall due, under normal and stressed situations, without incurring unacceptable losses or risking reputational damage. Taking into account these factors, our expected cash generated from operating activities and our planned business expansion, our Directors believe that we will not have material difficulties in meeting our liquidity needs within the twelve months following the date of this document.

### Capital Risk Management

Our objectives when managing capital are to safeguard our ability to continue as a going concern in order to provide returns for Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, we monitor capital based on our gearing ratio. This ratio is calculated as total borrowings divided by total assets. Total borrowings include non-current borrowings and current borrowings.

The gearing ratios as at December 31, 2015, 2016 and 2017 and August 31, 2018 are as follows:

|                  | As at December 31, |              |              | As at        |
|------------------|--------------------|--------------|--------------|--------------|
|                  | 2015               | 2016         | 2017         | August 31,   |
|                  | RMB'000            | RMB'000      | RMB'000      | 2018         |
|                  |                    |              |              | RMB'000      |
| Total borrowings | 310,000            | 354,000      | 165,000      | 197,200      |
| Total assets     | 1,134,853          | 1,252,985    | 1,312,651    | 1,434,259    |
| Gearing ratio    | <u>27.3%</u>       | <u>28.3%</u> | <u>12.6%</u> | <u>13.7%</u> |

### Inflation

Inflation in China has not materially impacted our results of operations in recent years. According to the National Bureau of Statistics of China, the change in the Consumer Price Index in China was 1.9%, 1.4%, 2.0% and 1.6% in 2014, 2015, 2016 and 2017, respectively. Although inflation has not materially affected our operations, higher rates of inflation in China may affect our business in the future. For example, certain operating costs and expenses, such as the cost of raw materials, travel expenses, and labor expenses may increase as a result of higher inflation.

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## FINANCIAL INFORMATION

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### [REDACTED] EXPENSES

[REDACTED] expenses represent professional fees, [REDACTED] commissions and other fees incurred in connection with the [REDACTED] and the [REDACTED]. [REDACTED] expenses to be borne by us are estimated to be approximately RMB[REDACTED] million (equivalent to HK\$[REDACTED] million) (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the price range stated in this document), of which RMB[REDACTED] million (equivalent to HK\$[REDACTED] million) is directly attributable to the [REDACTED] of H Shares to the [REDACTED] and to be capitalized, whereas the remainder is expected to be reflected in the consolidated statement of comprehensive income for the year ending December 31, 2019. Our Directors do not expect such expenses to materially impact our results of operations for 2018 and 2019.

### DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules had the Shares been listed on the Stock Exchange on that date.

### RECENT DEVELOPMENT

Our business operations had remained stable after the Track Record Period and up to the Latest Practicable Date as there were no material changes to our business model and the general economic and regulatory environment in which we operate.

### DIVIDENDS

Our board of directors is responsible for submitting proposals in respect of dividend payments to the shareholders' general meeting for approval. The determination of whether to pay a dividend and in what amount is based on our general business conditions, our financial results, our capital requirements, payment by our subsidiaries of cash dividends to our Company, interests of our shareholders and any other factors which the Board may deem relevant.

We may distribute dividends in the form of cash, shares or a combination of cash and shares. Under the PRC Company Law and our Articles of Association, all of our shareholders holding the same class of share have equal rights to dividends and other distributions proportionate to their shareholding. Under the PRC Company Law, we may only pay dividends out of our profit after tax as determined in accordance with generally acceptable accounting principles in the PRC, after we have made the following appropriations:

- (i) recovery of accumulated losses from previous years, if any; and
- (ii) appropriations to the statutory surplus reserve equal to certain percentage of the annual statutory net profits after offsetting any prior years' losses as determined under the generally acceptable accounting standards in the PRC.

## FINANCIAL INFORMATION

After the completion of the [REDACTED], dividends may be paid only out of distributable profits as determined in accordance with generally acceptable accounting standards in the PRC. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years.

We generally do not distribute dividends in a year in which there is no profit available for distribution. The payment of any dividend by us must also be approved at a shareholders' general meeting. We are not allowed to distribute profits to our shareholders until we have made up our losses and made appropriations to our statutory reserves as described above. The statutory surplus reserve can be utilized to offset prior years' losses, if any, and may be converted into paid-in-capital.

During the Track Record Period, we declared and fully paid the following dividends:

- On April 24, 2017, a dividend of RMB59,690,000 was declared to the shareholders of our Company and fully paid subsequently.
- On June 15, 2018, a dividend of RMB41,238,000 was declared to the shareholders of our Company and fully paid subsequently.

Our historical dividends may not be indicative of the future payments.

### UNAUDITED [REDACTED] ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited [REDACTED] adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the [REDACTED] on the consolidated net tangible assets of our Group attributable to the equity holders of our Company as at August 31, 2018 as if the [REDACTED] had taken place on that date.

The unaudited [REDACTED] adjusted net tangible assets have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group had the [REDACTED] been completed as at August 31, 2018 or at any future dates.

|                                                                                      | Audited<br>Consolidated Net<br>Tangible Assets<br>of the Group<br>attributable to<br>the equity<br>holders of the<br>Company as at<br>August 31,<br>2018 <sup>(1)</sup> | Estimated<br>[REDACTED]<br>from the<br>[REDACTED] <sup>(2)</sup> | Unaudited<br>[REDACTED]<br>adjusted<br>Net Tangible<br>Assets of<br>the Group<br>attributable to<br>the equity<br>holders of the<br>Company | Unaudited [REDACTED]<br>Consolidated Net Tangible<br>Assets per Share <sup>(3)</sup> |            |
|--------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|------------|
|                                                                                      | RMB'000                                                                                                                                                                 | RMB'000                                                          | RMB'000                                                                                                                                     | RMB                                                                                  | HK\$       |
| Based on the minimum indicative<br>[REDACTED] of<br>HK\$[REDACTED]<br>per [REDACTED] | [REDACTED]                                                                                                                                                              | [REDACTED]                                                       | [REDACTED]                                                                                                                                  | [REDACTED]                                                                           | [REDACTED] |
| Based on the maximum indicative<br>[REDACTED] of<br>HK\$[REDACTED]<br>per [REDACTED] | [REDACTED]                                                                                                                                                              | [REDACTED]                                                       | [REDACTED]                                                                                                                                  | [REDACTED]                                                                           | [REDACTED] |

## FINANCIAL INFORMATION

*Notes:*

1. The audited consolidated net tangible assets information of the Group attributable to the equity holders of the Company as at August 31, 2018 is extracted from the Accountant's Report set out in Appendix I, which is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company as at August 31, 2018 of RMB582,532,000 with an adjustment for the intangible assets attributable to the equity holders of the Company as at August 31, 2018 of RMB[REDACTED].
2. The estimated [REDACTED] to be received by our Company from the [REDACTED] are based on the indicative [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per Share, respectively, after deduction of the [REDACTED] fees and other related expenses payable by our Company and takes no account of any Shares which may fall to be issued upon the exercise of the [REDACTED].
3. The unaudited [REDACTED] net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] Shares were in issue assuming that the [REDACTED] has been completed on August 31, 2018.

For the purpose of this unaudited [REDACTED] adjusted net tangible assets, the amounts stated in RMB are converted into Hong Kong dollars at a rate of RMB1.00 to HK\$1.145. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

4. No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to August 31, 2018.

### PROFIT ESTIMATE FOR THE YEAR ENDED DECEMBER 31, 2018

|                                                                                              |                                     |
|----------------------------------------------------------------------------------------------|-------------------------------------|
| Estimated unaudited consolidated profit attributable to owners of our Company <sup>(1)</sup> | not less than<br>[RMB185.0 million] |
| Unaudited [REDACTED] estimated earnings per Share <sup>(2)</sup>                             | not less than<br>[RMB[REDACTED]]    |

*Notes:*

1. The bases on which the above profit estimate for the year ended December 31, 2018 has been prepared and summarized in Appendix IIB to this document. The estimated unaudited consolidated profit attributable to owners of our Company for the year ended December 31, 2018 is based on the audited consolidated results of the Group for the eight months ended August 31, 2018, the unaudited consolidated results based on management accounts of the Group for the three months ended November 30, 2018 and an estimate of the consolidated results of the Group for the month ended December 31, 2018. The profit estimate has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in note 2.1 of the Accountant's Report, the text of which is set out in Appendix I to this document.
2. The calculation of the unaudited [REDACTED] estimated earnings per Share is based on the estimated unaudited consolidated profit attributable to owners of our Company for the year ended December 31, 2018 and the weighted average number of [REDACTED] Shares that are outstanding during the year ended December 31, 2018 and on the assumption that the [REDACTED] had been completed on January 1, 2018, but takes no account of any Shares which may fall to be issued upon the exercise of the [REDACTED].



## FINANCIAL INFORMATION

### DISTRIBUTABLE RESERVES

As at January 1, 2015 and December 31, 2015, we recorded an accumulated loss of RMB59.2 million and RMB29.1 million, respectively. This was primarily due to (i) the adjustments arisen from the New Century Hotel Investment Reorganization after the distribution of dividend to its then shareholders in 2012, which turned our retained earning position as at January 1, 2012 to an accumulated loss position as at December 31, 2012 under the consolidated PRC GAAP financial statement of our Group; and (ii) the hotel industry in the PRC experiencing a downturn in 2013 to 2014, which in turn adversely affected our Group's principal business particularly our upscale hotel operations. The recovery in the overall market conditions of the hotel industry and the implementation of cost control measures by our Group led to the improved financial performance of our Group since 2015 and we recorded a net profit of RMB29.6 million, RMB84.1 million and RMB166.6 million for the years ended December 31, 2015, 2016 and 2017, respectively. As at December 31, 2016 and August 31, 2018, we recorded RMB55.2 million and RMB105.2 million respectively in retained earnings, as determined under IFRS, available for distribution to our shareholders..

### PROPERTY INTERESTS AND PROPERTY VALUATION

Particulars of our property interests are set out in Appendix III to this document. Cushman & Wakefield Limited, an independent property valuer, has valued our property interests as at November 30, 2018. The full text of its letters, summaries of values and valuation certificates in connection with such property interests are set out in Appendix III to this document.

The table below sets forth the reconciliation of aggregate carrying amounts of property interests from our financial information as at August 31, 2018 to November 30, 2018 and the revalued amount of our property interests as at November 30, 2018.

|                                                                                                              | <b>RMB in<br/>thousands</b> |
|--------------------------------------------------------------------------------------------------------------|-----------------------------|
| Net book value of property interests as at August 31, 2018                                                   | 201,008                     |
| Less: Depreciation of building and facilities during the period from<br>August 31, 2018 to November 30, 2018 | <u>2,360</u>                |
| Net book value of property interests as at November 30, 2018                                                 | 198,648                     |
| Valuation surplus as at November 30, 2018                                                                    | <u>329,122</u>              |
| Valuation as at November 30, 2018                                                                            | <u><u>527,770</u></u>       |

### NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in our financial or trading position since August 31, 2018, the date of our latest consolidated financial results set forth in the Accountant's Report in Appendix I to this document, up to the date of this document.

## FUTURE PLANS AND [REDACTED]

### FUTURE PLANS AND BUSINESS STRATEGIES

Please refer to the sub-section headed "Business – Strategies" in this document or a detailed description of our Group's business objectives and strategies.

[REDACTED]

The table below sets out the estimate of the [REDACTED] of the [REDACTED] which we will receive after deduction of [REDACTED] commissions and other estimated expenses in connection with the [REDACTED] payable by our Company:

|                                                                                                                                        | Assuming the<br>[REDACTED] is<br>not exercised | Assuming the<br>[REDACTED] is<br>exercised in full |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|----------------------------------------------------|
| Assuming an [REDACTED] of<br>HK\$[REDACTED] per [REDACTED]<br>(being the low end of the [REDACTED]<br>range stated in this document)   | Approximately<br>HK\$[REDACTED]                | Approximately<br>HK\$[REDACTED]                    |
| Assuming an [REDACTED] of<br>HK\$[REDACTED] per [REDACTED]<br>(being the mid-point of the [REDACTED]<br>range stated in this document) | Approximately<br>HK\$[REDACTED]                | Approximately<br>HK\$[REDACTED]                    |
| Assuming an [REDACTED] of<br>HK\$[REDACTED] per [REDACTED]<br>(being the high end of the [REDACTED]<br>range stated in this document)  | Approximately<br>HK\$[REDACTED]                | Approximately<br>HK\$[REDACTED]                    |

We intend to use the [REDACTED] from the [REDACTED] for the following purposes (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the [REDACTED] range stated in this document, after deduction of [REDACTED] commissions and other estimated expenses in connection with the [REDACTED] and the [REDACTED] is not exercised) and in the amounts set out below, subject to changes in light of our evolving business needs and changing market conditions:

- (a) approximately HK\$[REDACTED], or approximately [REDACTED]%, of the [REDACTED] from the [REDACTED] will be used for the development of our upscale business and resort hotel segment, of which:
  - (i) HK\$[REDACTED], will be allocated towards expanding our hotel portfolio through entering into new hotel lease agreements. We target to lease and operate (1) two new upscale business hotels under the brand of "Grand New Century (開元名都)" with around 550 hotel rooms in total, expected to be located in the Zhejiang and Hunan Province, all of which are expected to commence operation in or before 2021; and (2) two new upscale resort hotels under the brands of "New Century Resort (開元度假村)" and "New Century Wonderland (開元芳草地鄉村酒店)" with around 400 hotel rooms in total, expected to be located in Southern or South-western region of the PRC, all of

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## FUTURE PLANS AND [REDACTED]

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which are expected to commence operation in or before 2021. For leased hotels, we would be responsible for hotel renovation expenses, and purchasing all related fixed assets, supplies and other required equipment. The projected aggregate hotel renovation and sourcing expenditure for our two new upscale business hotels and two new upscale resort hotels are approximately HK\$[REDACTED] (amongst which HK\$[REDACTED] will be used for the hotel renovation cost and HK\$[REDACTED] for the sourcing expenditure) and HK\$[REDACTED] (amongst which HK\$[REDACTED] will be used for the hotel renovation cost and HK\$[REDACTED] for the sourcing expenditure), respectively. The estimated renovation cost per hotel room for our upscale hotels typically range from RMB[REDACTED] to RMB[REDACTED], depending on the location of the hotel, size of the operating area of the hotel and the level and scale of fitting out works required to get the leased properties operationally ready; and

- (ii) HK\$[REDACTED], will be allocated towards on-going maintenance and upgrade of our existing upscale business and resort hotels owned or leased by us, including seven existing upscale business hotels, with a projected aggregate maintenance cost of HK\$[REDACTED] and four existing upscale resort hotels, with a projected aggregate maintenance cost of HK\$[REDACTED]. Of the abovementioned eleven hotels, seven business and three resort hotels have been opened for an average of 7.5 years and since 2016, have underwent on-going maintenance and upgrade work in areas such as renovation of hotel rooms, conference rooms and ballrooms and kitchen facilities, divided in phases to minimize disruption to our daily hotel operations. Such maintenance and upgrade work is expected to continue and expected to be completed by 2021. The maintenance and upgrade work in areas such as the construction of outdoor swimming pool for the remaining resort hotel which has been opened since 2018 is expected to commence in 2019 and completed by 2021.

Please see section headed "Business – Strategies – Enhance our leading position in the upscale business and resort hotels market through our hotel operation and hotel management business models" in this document.

- (b) approximately HK\$[REDACTED], or approximately [REDACTED]%, of the [REDACTED] from the [REDACTED] will be used for the development of our mid-scale hotel segment, of which:
  - (i) HK\$[REDACTED], will be allocated towards expanding our hotel portfolio through entering into new hotel lease agreements. We target to lease and operate 17 new mid-scale select service hotels under the brand of "New Century Manju Hotel (開元•曼居)", with around 2,200 hotel rooms in total, expected to be in 16 different cities including Beijing, Shanghai, Hangzhou, Nanning and Guangzhou, all of which are expected to commence operation in or before 2021. Our investment would be required in renovation and purchase of relevant fixed assets, supplies and other required equipment. The projected aggregate hotel renovation and sourcing expenditure for our 17 new mid-scale

## **FUTURE PLANS AND [REDACTED]**

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select service hotels are approximately HK\$[REDACTED] (amongst which HK\$[REDACTED] will be used for the hotel renovation cost and HK\$[REDACTED] for the sourcing expenditures). The estimated renovation cost per hotel room for our mid-scale select hotels typically range from [REDACTED] to [REDACTED], depending on the location of the hotel, the size of the operating area of the hotel and the level and scale of fitting out works required to get the leased properties operationally ready; and

- (ii) HK\$[REDACTED], will be allocated towards on-going maintenance and upgrade of existing mid-scale select service hotels leased by us, including seven mid-scale full service hotels, with a projected aggregate maintenance cost of HK\$[REDACTED] and four existing mid-scale select service hotels, with a projected aggregate maintenance cost of HK\$[REDACTED]. Of the abovementioned eleven hotels, seven full-service and one limited service mid-scale hotels have been opened for an average of 9.5 years and since 2016, have underwent on-going maintenance and upgrade work in areas such as renovation of hotel rooms and dining area and replacement of carpets, divided in phases to minimize disruption to our daily hotel operations. Such maintenance and upgrade work is expected to continue and expected to be completed by 2021. The maintenance and upgrade work in areas such as renovation of hotel rooms and replacement of carpets and furnitures for the remaining three mid-scale limited service hotels, which have been opened for an average of 5.3 years, is expected to commence in 2020 and completed by 2021.

Please see section headed "Business – Strategies – Further expand our business in mid-scale hotel chains" in this document.

- (c) approximately HK\$[REDACTED], or approximately [REDACTED]%, of the [REDACTED] from the [REDACTED] will be used for brand building and promotion including but not limited to, engaging in marketing and promotional activities, sponsorship of industry events and advertising, of which:
  - (i) HK\$[REDACTED] will be allocated towards brand building, including but not limited to producing brand advertising videos, upgrading brand designs and other production expenses; and
  - (ii) HK\$[REDACTED], will be allocated towards marketing and campaign expenses, including but not limited to advertising in various media, and engaging in promotional activities and sponsorship in various industry events.

Please see section headed "Business – Strategies – Increase marketing activities and crossover marketing initiatives to maintain our strong brand recognition and expand our guests base" in this document.

## **FUTURE PLANS AND [REDACTED]**

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- (d) approximately HK\$[REDACTED], or approximately [REDACTED]%, of the [REDACTED] from the [REDACTED] will be used for recruitment of more talent and strengthening our implementation of training to our staff and recruitment programs for supporting our business expansion, of which:
  - (i) HK\$[REDACTED], will be allocated towards employee training and training courses development including organization of programs under our “three-tier talent training system” and for providing on-going training for our general managers in anticipation of our future expansion; and
  - (ii) HK\$[REDACTED], will be allocated towards recruitment expenses including the engagement of recruitment agencies and publication of recruitment advertisements for the hiring of a total of 148 senior level managerial staff including: (1) seven senior management and 42 general managers for the development of our upscale and mid-scale full service hotels; and (2) four vice presidents, 60 hotel project development managers, seven marketing and promotion directors, a quality control manager, a finance director, a brand promotion director and 25 hotel supplies general managers for the development of our mid-scale select service hotels in anticipation for our future expansion.

Please see section headed “Business – Strategies – Attract, retain and promote a dedicated, efficient and creative workforce” in this document.

- (e) approximately HK\$[REDACTED], or approximately [REDACTED]%, of the [REDACTED] from the [REDACTED] will be used for development of our information technology system by upgrading existing operational and IT system infrastructure, including but not limited to, strengthening and upgrading our centralized data system and expanding our range of hotel operation related technologies to improve experience of hotel guests such as keyless entry, voice control and use of mobile application, of which:
  - (i) HK\$[REDACTED], will be allocated towards upgrade of management system, including but not limited to development and upgrade of our financial and human resources system, and development of big data system;
  - (ii) HK\$[REDACTED], will be allocated towards development of PMS system;
  - (iii) HK\$[REDACTED], will be allocated towards development and upgrade of membership management system; and
  - (iv) HK\$[REDACTED], will be allocated towards renovation and upgrade of smart guestrooms, including but not limited to keyless entry, voice control and use of mobile application.

Please see section headed “Business – Strategies – Further investment and development in innovative digital strategies and improving operational efficiency” in this document.

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## FUTURE PLANS AND [REDACTED]

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- (f) approximately HK\$[REDACTED], representing approximately [REDACTED]% of our [REDACTED] from the [REDACTED] will be used for our general corporate purposes and working capital.

In the event that the [REDACTED] per Share is not finally determined to be HK\$[REDACTED] (being the mid-point of the stated range of the [REDACTED] of between HK\$[REDACTED] and HK\$[REDACTED] per [REDACTED]), the amount of [REDACTED] for each use set out above will be increased or reduced, as the case may be, on a pro-rata basis.

In the event that the [REDACTED] is exercised in full, we estimate we would receive additional [REDACTED] of approximately HK\$[REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the [REDACTED] range stated in this document. We intend to use the additional [REDACTED] for the aforesaid purposes in the same proportion as disclosed above.

To the extent our [REDACTED] are not sufficient to fund the purposes set out above, we intend to fund the balance through a variety of means, including but not limited to, cash generated from operations and bank financing.

To the extent our [REDACTED] are not immediately used for the aforesaid purposes or if we are unable to effect any part of our future plans, we may hold such [REDACTED] in deposits with certain financial institutions.

### REASONS FOR [REDACTED]

Based on the reasons set out below, we believe that the [REDACTED] on the Stock Exchange will increase our competitiveness and enhance our business development, market share, financial results and business prospect. We believe that the [REDACTED] would facilitate the implementation of our business strategies. As stated in the sub-section headed "Business – Strategies" in this document, we plan to enhance our leading position in the upscale business hotels market, further expand our business in mid-scale hotel chains and resort hotels, increase marketing activities and crossover marketing initiatives, introduce smart hotel room technology and further invest and develop innovative digital strategies.

Furthermore, considering that many of our competitors have their respective parent company, group companies or itself listed on the Stock Exchange or other exchanges, we believe that the [REDACTED] on the Stock Exchange will also enable us to increase market awareness of our brand name, maintain our competitive advantages in the PRC and to increase our level of competitiveness in the PRC hotel industry, in view of the fact that Hong Kong is a gateway to mainland China.

For the reasons stated above, our Directors believe that the [REDACTED] is commercially sensible and justifiable.

**[REDACTED]**

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**[REDACTED]**



**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**



## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**



## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**



## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**



## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR THE [REDACTED]**

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**[REDACTED]**

## APPENDIX I

## ACCOUNTANT'S REPORT

*The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.*

*[Letterhead to be inserted]*

*[Draft]*

### **ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ZHEJIANG NEW CENTURY HOTEL MANAGEMENT CO., LTD., CHINA GALAXY INTERNATIONAL SECURITIES (HONG KONG) CO., LIMITED AND BOCOM INTERNATIONAL (ASIA) LIMITED**

#### **Introduction**

We report on the historical financial information of Zhejiang New Century Hotel Management Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-[101], which comprises the consolidated balance sheets as at December 31, 2015, 2016, 2017 and August 31, 2018, the Company's balance sheets as at December 31, 2015, 2016, 2017 and August 31, 2018, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the periods then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-[101] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [date] (the "**Document**") in connection with the **[REDACTED]** of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

#### **Directors' responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

## APPENDIX I

## ACCOUNTANT'S REPORT

### Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at December 31, 2015, 2016, 2017 and August 31, 2018 and the consolidated financial position of the Group as at December 31, 2015, 2016, 2017 and August 31, 2018 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

### Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the eight months ended August 31, 2017 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our



## APPENDIX I

## ACCOUNTANT'S REPORT

responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board ("IAASB"). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

### **Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

#### ***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

#### ***Dividends***

We refer to Note 15 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Track Record Period.

**[PricewaterhouseCoopers]**

*Certified Public Accountants*

Hong Kong

[Date]

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**APPENDIX I****ACCOUNTANT'S REPORT**

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**I HISTORICAL FINANCIAL INFORMATION OF THE GROUP**

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合夥)) in accordance with International Standards on Auditing issued by the IAASB ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

**APPENDIX I**

**ACCOUNTANT'S REPORT**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

|                                                                                                                                                           | <i>Notes</i> | For the years ended<br>December 31, |                        |                        | For the eight months<br>ended August 31, |                        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-------------------------------------|------------------------|------------------------|------------------------------------------|------------------------|
|                                                                                                                                                           |              | 2015<br><i>RMB'000</i>              | 2016<br><i>RMB'000</i> | 2017<br><i>RMB'000</i> | 2017<br><i>RMB'000</i><br>(unaudited)    | 2018<br><i>RMB'000</i> |
| <b>Revenue</b>                                                                                                                                            | 5            | 1,522,082                           | 1,602,006              | 1,664,643              | 1,067,753                                | 1,119,249              |
| Cost of sales                                                                                                                                             | 8            | (1,277,979)                         | (1,282,271)            | (1,232,702)            | (817,705)                                | (869,310)              |
| <b>Gross profit</b>                                                                                                                                       |              | 244,103                             | 319,735                | 431,941                | 250,048                                  | 249,939                |
| Selling and marketing expenses                                                                                                                            | 8            | (61,617)                            | (70,947)               | (85,457)               | (44,181)                                 | (48,234)               |
| Administrative expenses                                                                                                                                   | 8            | (134,861)                           | (148,776)              | (160,543)              | (90,124)                                 | (90,308)               |
| Other income                                                                                                                                              | 6            | 5,031                               | 12,315                 | 10,436                 | 7,219                                    | 7,376                  |
| Other gains – net                                                                                                                                         | 7            | 3,158                               | 7,324                  | 28,644                 | 4,634                                    | 20,725                 |
| <b>Operating profit</b>                                                                                                                                   |              | 55,814                              | 119,651                | 225,021                | 127,596                                  | 139,498                |
| Finance income                                                                                                                                            | 11           | 30,968                              | 12,193                 | 5,402                  | 3,937                                    | 5,140                  |
| Finance costs                                                                                                                                             | 11           | (30,220)                            | (16,049)               | (10,406)               | (9,140)                                  | (6,769)                |
| Finance income/(costs) – net                                                                                                                              | 11           | 748                                 | (3,856)                | (5,004)                | (5,203)                                  | (1,629)                |
| Share of net profit of associates<br>and joint ventures accounted<br>for using the equity method                                                          | 12B          | 1,732                               | 1,435                  | 3,005                  | 1,529                                    | 4,327                  |
| <b>Profit before income tax</b>                                                                                                                           |              | 58,294                              | 117,230                | 223,022                | 123,922                                  | 142,196                |
| Income tax expense                                                                                                                                        | 13           | (28,653)                            | (33,175)               | (56,455)               | (34,726)                                 | (30,641)               |
| <b>Profit and total comprehensive<br/>income for the year/period</b>                                                                                      |              | <u>29,641</u>                       | <u>84,055</u>          | <u>166,567</u>         | <u>89,196</u>                            | <u>111,555</u>         |
| <b>Profit and total comprehensive<br/>income/(loss) attributable to:</b>                                                                                  |              |                                     |                        |                        |                                          |                        |
| – Owners of the Company                                                                                                                                   |              | 30,107                              | 84,324                 | 163,042                | 87,719                                   | 109,974                |
| – Non-controlling interests                                                                                                                               |              | (466)                               | (269)                  | 3,525                  | 1,477                                    | 1,581                  |
|                                                                                                                                                           |              | <u>29,641</u>                       | <u>84,055</u>          | <u>166,567</u>         | <u>89,196</u>                            | <u>111,555</u>         |
| <b>Earnings per share for profit<br/>attributable to the<br/>owners of the Company for<br/>the year/period –<br/>Basic/Diluted (in RMB<br/>per share)</b> | 14           | <u>0.14</u>                         | <u>0.40</u>            | <u>0.78</u>            | <u>0.42</u>                              | <u>0.52</u>            |

## APPENDIX I

## ACCOUNTANT'S REPORT

### CONSOLIDATED BALANCE SHEETS

|                                                           |       | As at December 31,      |                         |                         | As at                   |
|-----------------------------------------------------------|-------|-------------------------|-------------------------|-------------------------|-------------------------|
|                                                           | Notes | 2015                    | 2016                    | 2017                    | August 31,              |
|                                                           |       | RMB'000                 | RMB'000                 | RMB'000                 | 2018                    |
|                                                           |       |                         |                         |                         | RMB'000                 |
| <b>Assets</b>                                             |       |                         |                         |                         |                         |
| <b>Non-current assets</b>                                 |       |                         |                         |                         |                         |
| Property, plant and equipment                             | 16    | 272,777                 | 343,803                 | 408,053                 | 502,197                 |
| Investment properties                                     |       | 954                     | 939                     | 925                     | 915                     |
| Land use rights                                           | 17    | 30,682                  | 47,330                  | 46,142                  | 45,322                  |
| Intangible assets                                         | 18    | 23,884                  | 18,137                  | 15,037                  | 14,715                  |
| Investments accounted for using the equity method         | 12B   | 108,351                 | 115,857                 | 118,388                 | 119,261                 |
| Other non-current assets                                  | 19    | 24,117                  | 22,125                  | 14,554                  | 3,527                   |
| Deferred tax assets                                       | 30    | 24,739                  | 25,160                  | 19,560                  | 25,345                  |
| <b>Total non-current assets</b>                           |       | <u>485,504</u>          | <u>573,351</u>          | <u>622,659</u>          | <u>711,282</u>          |
| <b>Current assets</b>                                     |       |                         |                         |                         |                         |
| Inventories                                               | 20    | 24,206                  | 22,086                  | 26,793                  | 27,750                  |
| Trade, other receivables and prepayments                  | 21    | 408,755                 | 253,394                 | 239,090                 | 334,885                 |
| Financial assets at fair value through profit or loss     | 22    | –                       | 155,590                 | –                       | –                       |
| Cash and cash equivalent                                  | 23    | 126,385                 | 176,164                 | 424,109                 | 288,242                 |
| Restricted cash                                           | 23    | 72,400                  | 72,400                  | –                       | 72,100                  |
|                                                           |       | <u>631,746</u>          | <u>679,634</u>          | <u>689,992</u>          | <u>722,977</u>          |
| Assets classified as held for sale                        | 31(a) | 17,603                  | –                       | –                       | –                       |
| <b>Total current assets</b>                               |       | <u>649,349</u>          | <u>679,634</u>          | <u>689,992</u>          | <u>722,977</u>          |
| <b>Total assets</b>                                       |       | <u><u>1,134,853</u></u> | <u><u>1,252,985</u></u> | <u><u>1,312,651</u></u> | <u><u>1,434,259</u></u> |
| <b>Equity and liabilities</b>                             |       |                         |                         |                         |                         |
| <b>Equity attributable to owners of the Company</b>       |       |                         |                         |                         |                         |
| Paid-in capital/share capital                             | 25    | 173,680                 | 173,680                 | 210,000                 | 210,000                 |
| Other reserves                                            | 26    | 111,531                 | 81,531                  | 267,355                 | 267,355                 |
| (Accumulated losses)/retained earnings                    |       | (29,121)                | 55,203                  | 36,441                  | 105,177                 |
| <b>Total equity attributable to owners of the Company</b> |       | <u>256,090</u>          | <u>310,414</u>          | <u>513,796</u>          | <u>582,532</u>          |
| Non-controlling interests                                 |       | <u>6,884</u>            | <u>6,615</u>            | <u>15,297</u>           | <u>18,903</u>           |
| <b>Total equity</b>                                       |       | <u>262,974</u>          | <u>317,029</u>          | <u>529,093</u>          | <u>601,435</u>          |

## APPENDIX I

## ACCOUNTANT'S REPORT

|                                          |       | As at December 31, |                  |                  | As at            |
|------------------------------------------|-------|--------------------|------------------|------------------|------------------|
|                                          | Notes | 2015               | 2016             | 2017             | August 31,       |
|                                          |       | RMB'000            | RMB'000          | RMB'000          | 2018             |
|                                          |       |                    |                  |                  | RMB'000          |
| <b>Liabilities</b>                       |       |                    |                  |                  |                  |
| <b>Non-current liabilities</b>           |       |                    |                  |                  |                  |
| Borrowings                               | 28    | 175,000            | 219,000          | 160,000          | 194,200          |
| Deferred income                          | 29    | 6,000              | 12,823           | 21,714           | 20,444           |
| Deferred tax liabilities                 | 30    | 29                 | 267              | 137              | –                |
| <b>Total non-current liabilities</b>     |       | <u>181,029</u>     | <u>232,090</u>   | <u>181,851</u>   | <u>214,644</u>   |
| <b>Current liabilities</b>               |       |                    |                  |                  |                  |
| Contract liabilities                     | 5(c)  | 161,284            | 186,695          | 192,352          | 208,673          |
| Borrowings                               | 28    | 135,000            | 135,000          | 5,000            | 3,000            |
| Trade and other payables                 | 27    | 372,518            | 365,872          | 380,088          | 393,396          |
| Current income tax liabilities           |       | 7,755              | 15,593           | 23,561           | 11,925           |
| Current portion of long-term liabilities | 29    | –                  | 706              | 706              | 1,186            |
|                                          |       | <u>676,557</u>     | <u>703,866</u>   | <u>601,707</u>   | <u>618,180</u>   |
| Liabilities classified as held for sale  | 31(a) | 14,293             | –                | –                | –                |
| <b>Total current liabilities</b>         |       | <u>690,850</u>     | <u>703,866</u>   | <u>601,707</u>   | <u>618,180</u>   |
| <b>Total liabilities</b>                 |       | <u>871,879</u>     | <u>935,956</u>   | <u>783,558</u>   | <u>832,824</u>   |
| <b>Total equity and liabilities</b>      |       | <u>1,134,853</u>   | <u>1,252,985</u> | <u>1,312,651</u> | <u>1,434,259</u> |

## APPENDIX I

## ACCOUNTANT'S REPORT

### COMPANY BALANCE SHEETS

|                                                       |       | As at December 31,    |                       |                       | As at                   |
|-------------------------------------------------------|-------|-----------------------|-----------------------|-----------------------|-------------------------|
|                                                       | Notes | 2015                  | 2016                  | 2017                  | August 31,              |
|                                                       |       | RMB'000               | RMB'000               | RMB'000               | 2018                    |
|                                                       |       |                       |                       |                       | RMB'000                 |
| <b>Assets</b>                                         |       |                       |                       |                       |                         |
| <b>Non-current assets</b>                             |       |                       |                       |                       |                         |
| Property, plant and equipment                         | 16    | 104,292               | 91,211                | 87,550                | 93,445                  |
| Investment properties                                 |       | 954                   | 939                   | 925                   | 915                     |
| Intangible assets                                     | 18    | 1,089                 | 679                   | 1,686                 | 1,824                   |
| Investments in subsidiaries                           | 12A   | 170,260               | 205,815               | 220,440               | 262,240                 |
| Investments accounted for using the equity method     | 12B   | 108,351               | 113,972               | 115,246               | 119,261                 |
| Other non-current assets                              | 19    | 24,117                | 20,333                | 14,202                | 754                     |
| Deferred tax assets                                   | 30    | 10,379                | 11,210                | 6,605                 | 5,084                   |
| <b>Total non-current assets</b>                       |       | <u>419,442</u>        | <u>444,159</u>        | <u>446,654</u>        | <u>483,523</u>          |
| <b>Current assets</b>                                 |       |                       |                       |                       |                         |
| Inventories                                           | 20    | 16,654                | 14,342                | 13,887                | 14,693                  |
| Trade, other receivables and prepayments              | 21    | 433,993               | 237,622               | 337,159               | 401,418                 |
| Financial assets at fair value through profit or loss | 22    | –                     | 129,000               | –                     | –                       |
| Cash and cash equivalent                              | 23    | 38,314                | 71,253                | 184,968               | 100,588                 |
| Restricted cash                                       | 23    | 72,400                | 72,400                | –                     | 72,100                  |
| <b>Total current assets</b>                           |       | <u>561,361</u>        | <u>524,617</u>        | <u>536,014</u>        | <u>588,799</u>          |
| <b>Total assets</b>                                   |       | <u><u>980,803</u></u> | <u><u>968,776</u></u> | <u><u>982,668</u></u> | <u><u>1,072,322</u></u> |
| <b>Equity and liabilities</b>                         |       |                       |                       |                       |                         |
| <b>Equity attributable to owners of the Company</b>   |       |                       |                       |                       |                         |
| Paid-in capital/share capital                         | 25    | 173,680               | 173,680               | 210,000               | 210,000                 |
| Other reserves                                        | 26    | 54,207                | 54,262                | 256,200               | 256,200                 |
| Retained earnings                                     |       | 33,121                | 117,765               | 93,570                | 167,762                 |
| <b>Total equity</b>                                   |       | <u>261,008</u>        | <u>345,707</u>        | <u>559,770</u>        | <u>633,962</u>          |
| <b>Liabilities</b>                                    |       |                       |                       |                       |                         |
| <b>Non-current liabilities</b>                        |       |                       |                       |                       |                         |
| Borrowings                                            |       | <u>150,000</u>        | <u>150,000</u>        | <u>100,000</u>        | <u>100,000</u>          |
| <b>Total non-current liabilities</b>                  |       | <u>150,000</u>        | <u>150,000</u>        | <u>100,000</u>        | <u>100,000</u>          |
| <b>Current liabilities</b>                            |       |                       |                       |                       |                         |
| Borrowings                                            |       | 135,000               | 135,000               | 5,000                 | 500                     |
| Trade and other payables                              | 27    | 321,284               | 228,842               | 214,405               | 229,191                 |
| Contract liabilities                                  |       | 109,325               | 98,944                | 86,850                | 98,634                  |
| Current income tax liabilities                        |       | 4,186                 | 10,283                | 16,643                | 10,035                  |
| <b>Total current liabilities</b>                      |       | <u>569,795</u>        | <u>473,069</u>        | <u>322,898</u>        | <u>338,360</u>          |
| <b>Total liabilities</b>                              |       | <u>719,795</u>        | <u>623,069</u>        | <u>422,898</u>        | <u>438,360</u>          |
| <b>Total equity and liabilities</b>                   |       | <u><u>980,803</u></u> | <u><u>968,776</u></u> | <u><u>982,668</u></u> | <u><u>1,072,322</u></u> |

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**ACCOUNTANT'S REPORT**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

|                                                             | <i>Notes</i> | Attributable to owners of the Company<br>(Accumulated losses)/ |                              |                                 |                  | Non-<br>controlling<br>interests<br>RMB'000 | Total<br>Equity<br>RMB'000 |
|-------------------------------------------------------------|--------------|----------------------------------------------------------------|------------------------------|---------------------------------|------------------|---------------------------------------------|----------------------------|
|                                                             |              | Paid-in<br>capital<br>RMB'000                                  | Other<br>reserves<br>RMB'000 | Retained<br>earnings<br>RMB'000 | Total<br>RMB'000 |                                             |                            |
| <b>As at January 1, 2015</b>                                |              | 165,000                                                        | 30,261                       | (59,228)                        | 136,033          | 8,045                                       | 144,078                    |
| <b>Comprehensive income/(loss)</b>                          |              |                                                                |                              |                                 |                  |                                             |                            |
| Profit/(loss) for the year                                  |              | —                                                              | —                            | 30,107                          | 30,107           | (466)                                       | 29,641                     |
| <b>Total comprehensive income/(loss)</b>                    |              | —                                                              | —                            | 30,107                          | 30,107           | (466)                                       | 29,641                     |
| <b>Transactions with owners in their capacity as owners</b> |              |                                                                |                              |                                 |                  |                                             |                            |
| Capital injections from shareholders                        |              | 8,680                                                          | 1,320                        | —                               | 10,000           | 1,000                                       | 11,000                     |
| Dividends provided for or paid                              |              | —                                                              | —                            | —                               | —                | (1,695)                                     | (1,695)                    |
| <b>Others</b>                                               |              |                                                                |                              |                                 |                  |                                             |                            |
| Employee share-based compensations                          | 26           | —                                                              | 19,950                       | —                               | 19,950           | —                                           | 19,950                     |
| Business combination under common control                   | 12A          | —                                                              | 60,000                       | —                               | 60,000           | —                                           | 60,000                     |
| <b>As at December 31, 2015</b>                              |              | <u>173,680</u>                                                 | <u>111,531</u>               | <u>(29,121)</u>                 | <u>256,090</u>   | <u>6,884</u>                                | <u>262,974</u>             |
| <b>Comprehensive income/(loss)</b>                          |              |                                                                |                              |                                 |                  |                                             |                            |
| Profit/(loss) for the year                                  |              | —                                                              | —                            | 84,324                          | 84,324           | (269)                                       | 84,055                     |
| <b>Total comprehensive income/(loss)</b>                    |              | —                                                              | —                            | 84,324                          | 84,324           | (269)                                       | 84,055                     |
| <b>Others</b>                                               |              |                                                                |                              |                                 |                  |                                             |                            |
| Business combination under common control                   | 12A          | —                                                              | (30,000)                     | —                               | (30,000)         | —                                           | (30,000)                   |
| <b>As at December 31, 2016</b>                              |              | <u>173,680</u>                                                 | <u>81,531</u>                | <u>55,203</u>                   | <u>310,414</u>   | <u>6,615</u>                                | <u>317,029</u>             |

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**ACCOUNTANT'S REPORT**

|                                                             |              | Attributable to owners of the Company                     |                                     |                                        |                         |                                                    |                                   |
|-------------------------------------------------------------|--------------|-----------------------------------------------------------|-------------------------------------|----------------------------------------|-------------------------|----------------------------------------------------|-----------------------------------|
|                                                             |              | Paid-in<br>capital/<br>share<br>capital<br><i>RMB'000</i> | Other<br>reserves<br><i>RMB'000</i> | Retained<br>earnings<br><i>RMB'000</i> | Total<br><i>RMB'000</i> | Non-<br>controlling<br>interests<br><i>RMB'000</i> | Total<br>Equity<br><i>RMB'000</i> |
|                                                             | <i>Notes</i> |                                                           |                                     |                                        |                         |                                                    |                                   |
| <b>As at January 1, 2017</b>                                |              | 173,680                                                   | 81,531                              | 55,203                                 | 310,414                 | 6,615                                              | 317,029                           |
| <b>Comprehensive income</b>                                 |              |                                                           |                                     |                                        |                         |                                                    |                                   |
| Profit for the year                                         |              | <u>–</u>                                                  | <u>–</u>                            | <u>163,042</u>                         | <u>163,042</u>          | <u>3,525</u>                                       | <u>166,567</u>                    |
| <b>Total comprehensive income</b>                           |              | <u>–</u>                                                  | <u>–</u>                            | <u>163,042</u>                         | <u>163,042</u>          | <u>3,525</u>                                       | <u>166,567</u>                    |
| <b>Transactions with owners in their capacity as owners</b> |              |                                                           |                                     |                                        |                         |                                                    |                                   |
| Capital injections from shareholders                        |              | 15,100                                                    | 121,420                             | –                                      | 136,520                 | 6,590                                              | 143,110                           |
| Dividends provided for or paid                              | 15           | –                                                         | –                                   | (59,690)                               | (59,690)                | (1,433)                                            | (61,123)                          |
| Appropriation to statutory reserve                          |              | –                                                         | 2,985                               | (2,985)                                | –                       | –                                                  | –                                 |
| <b>Others</b>                                               |              |                                                           |                                     |                                        |                         |                                                    |                                   |
| Employee share-based compensation                           | 26           | –                                                         | 3,510                               | –                                      | 3,510                   | –                                                  | 3,510                             |
| Conversion into a joint stock company                       | 25           | 21,220                                                    | 97,909                              | (119,129)                              | –                       | –                                                  | –                                 |
| Business combination under common control                   | 12A          | <u>–</u>                                                  | <u>(40,000)</u>                     | <u>–</u>                               | <u>(40,000)</u>         | <u>–</u>                                           | <u>(40,000)</u>                   |
| <b>As at December 31, 2017</b>                              |              | <u>210,000</u>                                            | <u>267,355</u>                      | <u>36,441</u>                          | <u>513,796</u>          | <u>15,297</u>                                      | <u>529,093</u>                    |



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|                                                             | Notes | Attributable to owners of the Company |                |                                         | Non-controlling interests | Total Equity   |
|-------------------------------------------------------------|-------|---------------------------------------|----------------|-----------------------------------------|---------------------------|----------------|
|                                                             |       | Paid-in capital                       | Other reserves | Retained earnings/ (Accumulated losses) |                           |                |
|                                                             |       | RMB'000                               | RMB'000        | RMB'000                                 | RMB'000                   | RMB'000        |
| <b>As at January 1, 2017</b>                                |       | 173,680                               | 81,531         | 55,203                                  | 6,615                     | 317,029        |
| Profit for the period                                       |       | –                                     | –              | 87,719                                  | 1,477                     | 89,196         |
| <b>Total comprehensive income</b>                           |       | –                                     | –              | 87,719                                  | 1,477                     | 89,196         |
| <b>Transactions with owners in their capacity as owners</b> |       |                                       |                |                                         |                           |                |
| Capital injections from shareholders                        |       | 15,100                                | 121,420        | –                                       | 5,990                     | 142,510        |
| Dividends provided for or paid                              | 15    | –                                     | –              | (59,690)                                | (1,433)                   | (61,123)       |
| Appropriation to statutory reserve                          |       | –                                     | 2,985          | (2,985)                                 | –                         | –              |
| <b>Others</b>                                               |       |                                       |                |                                         |                           |                |
| Employee share-based compensation                           | 26    | –                                     | 3,510          | –                                       | –                         | 3,510          |
| Conversion into a joint stock company                       | 25    | 21,220                                | 97,909         | (119,129)                               | –                         | –              |
| Business combination under common control                   | 12A   | –                                     | (40,000)       | –                                       | –                         | (40,000)       |
| <b>As at August 31, 2017 (unaudited)</b>                    |       | <u>210,000</u>                        | <u>267,355</u> | <u>(38,882)</u>                         | <u>12,649</u>             | <u>451,122</u> |
|                                                             | Notes | Attributable to owners of the Company |                |                                         | Non-controlling interests | Total Equity   |
|                                                             |       | Share capital                         | Other reserves | Retained earnings                       |                           |                |
|                                                             |       | RMB'000                               | RMB'000        | RMB'000                                 | RMB'000                   | RMB'000        |
| <b>As at January 1, 2018</b>                                |       | 210,000                               | 267,355        | 36,441                                  | 15,297                    | 529,093        |
| Profit for the period                                       |       | –                                     | –              | 109,974                                 | 1,581                     | 111,555        |
| <b>Total comprehensive income</b>                           |       | –                                     | –              | 109,974                                 | 1,581                     | 111,555        |
| <b>Transactions with owners in their capacity as owners</b> |       |                                       |                |                                         |                           |                |
| Capital injections from non-controlling shareholders        |       | –                                     | –              | –                                       | 1,200                     | 1,200          |
| Dividends provided for or paid                              | 15    | –                                     | –              | (41,238)                                | (1,659)                   | (42,897)       |
| <b>Others</b>                                               |       |                                       |                |                                         |                           |                |
| Acquisition of a subsidiary                                 | 32    | –                                     | –              | –                                       | 2,484                     | 2,484          |
| <b>As at August 31, 2018</b>                                |       | <u>210,000</u>                        | <u>267,355</u> | <u>105,177</u>                          | <u>18,903</u>             | <u>601,435</u> |

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## ACCOUNTANT'S REPORT

### CONSOLIDATED STATEMENTS OF CASH FLOWS

|                                                                                                           | Notes | For the year ended<br>December 31, |                       |                       | For the eight months<br>ended August 31, |                       |
|-----------------------------------------------------------------------------------------------------------|-------|------------------------------------|-----------------------|-----------------------|------------------------------------------|-----------------------|
|                                                                                                           |       | 2015<br>RMB'000                    | 2016<br>RMB'000       | 2017<br>RMB'000       | 2017<br>RMB'000<br>(unaudited)           | 2018<br>RMB'000       |
| <b>Cash flows from operating activities</b>                                                               |       |                                    |                       |                       |                                          |                       |
| Cash generated from operations                                                                            | 33(a) | 141,802                            | 209,388               | 323,831               | 137,493                                  | 88,266                |
| Interest paid                                                                                             |       | (16,164)                           | (14,937)              | (11,561)              | (9,462)                                  | (6,624)               |
| Income tax paid                                                                                           |       | (28,196)                           | (25,520)              | (44,197)              | (40,148)                                 | (48,048)              |
| <b>Net cash generated from operating activities</b>                                                       |       | <u>97,442</u>                      | <u>168,931</u>        | <u>268,073</u>        | <u>87,883</u>                            | <u>33,594</u>         |
| <b>Cash flows from investing activities</b>                                                               |       |                                    |                       |                       |                                          |                       |
| Payments for the investments of associates                                                                | 12B   | –                                  | (3,000)               | –                     | –                                        | –                     |
| Payments for financial assets at fair value through profit or loss                                        |       | –                                  | (155,000)             | (162,897)             | (162,897)                                | (376,849)             |
| Payments for property, plant and equipment, land use rights, intangible assets and other long-term assets |       | (88,574)                           | (118,221)             | (150,425)             | (59,182)                                 | (91,492)              |
| Loans to related parties                                                                                  |       | (80,000)                           | –                     | –                     | –                                        | –                     |
| Change of restricted cash for term deposit                                                                |       | –                                  | –                     | –                     | (7,000)                                  | (6,100)               |
| Payment for financial instruments with guaranteed principal & return                                      |       | –                                  | –                     | –                     | –                                        | (60,000)              |
| Payment for acquisition of a subsidiary, net of cash acquired                                             | 32    | –                                  | –                     | –                     | –                                        | (1,545)               |
| Proceeds from sale of financial assets at fair value through profit or loss                               |       | 11,139                             | –                     | 317,897               | 224,726                                  | 376,849               |
| Proceeds from sale of property, plant and equipment                                                       | 33(b) | 634                                | 649                   | 3,469                 | 3,554                                    | 1,637                 |
| Proceed from the repayment of loans to related parties                                                    |       | 40,000                             | 170,000               | 56,000                | 56,000                                   | –                     |
| Dividends received from associates and joint ventures                                                     |       | –                                  | –                     | 474                   | 474                                      | 136                   |
| Interest received from loans to related parties                                                           |       | 26,227                             | 7,784                 | 992                   | 992                                      | –                     |
| Interest received from financial assets at fair value through profit or loss                              |       | –                                  | 7,287                 | 8,754                 | 5,276                                    | 4,483                 |
| Proceeds from disposal of subsidiaries, net of cash disposed                                              | 31    | –                                  | 5,124                 | 12,621                | –                                        | 9,461                 |
| <b>Net cash (used in)/generated from investing activities</b>                                             |       | <u>(90,574)</u>                    | <u>(85,377)</u>       | <u>86,885</u>         | <u>61,943</u>                            | <u>(143,420)</u>      |
| <b>Cash flows from financing activities</b>                                                               |       |                                    |                       |                       |                                          |                       |
| Payment for business combination under common control                                                     | 12A   | –                                  | (30,000)              | (40,000)              | (40,000)                                 | –                     |
| Payment for [REDACTED] expenses                                                                           |       | –                                  | –                     | –                     | –                                        | (9,844)               |
| Contributions to subsidiaries by the controlling shareholders                                             |       | 60,000                             | –                     | –                     | –                                        | –                     |
| Proceeds from borrowings                                                                                  |       | 364,000                            | 179,000               | 320,100               | 220,100                                  | 35,000                |
| Repayment of borrowings                                                                                   |       | (328,000)                          | (135,000)             | (509,100)             | (433,100)                                | (9,500)               |
| Repayment of other financing instruments                                                                  |       | (160,748)                          | (47,480)              | –                     | –                                        | –                     |
| Dividends paid to the Company's shareholders                                                              | 15    | –                                  | –                     | (59,690)              | (59,690)                                 | (41,238)              |
| Dividends paid to non-controlling interests in subsidiaries                                               |       | (1,400)                            | (295)                 | (1,433)               | (1,433)                                  | (1,659)               |
| Change of restricted cash pledged for bank borrowings                                                     | 23    | 20,000                             | –                     | 40,000                | 40,000                                   | –                     |
| Proceeds of capital injection from shareholders                                                           |       | 10,000                             | –                     | 136,520               | 136,520                                  | –                     |
| Proceeds from capital injection of non-controlling interests in subsidiaries                              |       | 1,000                              | –                     | 6,590                 | 5,990                                    | 1,200                 |
| <b>Net cash used in financing activities</b>                                                              |       | <u>(35,148)</u>                    | <u>(33,775)</u>       | <u>(107,013)</u>      | <u>(131,613)</u>                         | <u>(26,041)</u>       |
| <b>Net (decrease)/increase in cash and cash equivalents</b>                                               |       | <u>(28,280)</u>                    | <u>49,779</u>         | <u>247,945</u>        | <u>18,213</u>                            | <u>(135,867)</u>      |
| Cash and cash equivalents at beginning of the year/period                                                 | 23    | <u>154,665</u>                     | <u>126,385</u>        | <u>176,164</u>        | <u>176,164</u>                           | <u>424,109</u>        |
| <b>Cash and cash equivalents at end of the year/period</b>                                                | 23    | <u><u>126,385</u></u>              | <u><u>176,164</u></u> | <u><u>424,109</u></u> | <u><u>194,377</u></u>                    | <u><u>288,242</u></u> |

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## ACCOUNTANT’S REPORT

### II NOTES TO THE FINANCIAL INFORMATION

#### 1 GENERAL INFORMATION

The Company, initially known as Zhejiang New Century Hotel Management Limited (浙江開元酒店管理有限公司, the “Company”) was incorporated in People’s Republic of China (the “PRC”) on December 15, 2008 as a limited liability company. On June 25, 2017, the Company was converted into a joint stock company with limited liabilities under the Company law of the PRC and changed its name to Zhejiang New Century Hotel Management Co., Ltd. (浙江開元酒店管理股份有限公司). The Company and its subsidiaries (together, the “Group”) are principally engaged in hotel operation and management business in the PRC. The parent company of the Group is New Century Tourism Group Co., Ltd. and Mr. Chen Miaolin (陳妙林) is the founder and one of the controlling shareholders of the Group.

The address of the Company’s registered office is 18/F, 818 Shixin Middle Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC.

The English names of companies mentioned in this report represented the best effort by directors of the Company in translating their Chinese names as they may not have official English names.

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

##### 2.1 Basis of preparation

The Historical Financial Information of the Group has been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board (“IASB”). The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information, are disclosed in Note 4.

##### 2.1.1 Issued but not yet effective IFRSs

*New standards and interpretations have not yet been adopted:*

|                                                       |                                                                                       | Effective for annual periods beginning on or after |
|-------------------------------------------------------|---------------------------------------------------------------------------------------|----------------------------------------------------|
| IFRS 16                                               | Leases                                                                                | January 1, 2019                                    |
| IFRIC 23                                              | Uncertainty over income tax treatments                                                | January 1, 2019                                    |
| IAS 19                                                | Employee benefits on plan amendment, curtailment or settlement                        | January 1, 2019                                    |
| Amendments to IFRS 10 and IAS 28                      | Sale or contribution of assets between an investor and its associate or joint venture | To be determined                                   |
| IFRS 17                                               | Insurance contracts                                                                   | January 1, 2021                                    |
| Amendments to IFRS 9                                  | Prepayment features with negative compensation                                        | January 1, 2019                                    |
| Amendments to IAS 28                                  | Long-term interests in associates and joint ventures                                  | January 1, 2019                                    |
| Annual improvements to IFRS Standards 2015-2017 cycle | Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23                                      | January 1, 2019                                    |

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## ACCOUNTANT'S REPORT

None of these IFRSs is expected to have a significant effect on the Historical Financial Information of the Group, except for the following as set out below:

### IFRS 16 – Leases ("IFRS 16")

IFRS 16 addresses the definition of a lease, recognition and measurement of leases and principles for reporting useful information to users of financial information about the leasing activities of both lessees and lessors. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized by lessees. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The Group is a lessee of various properties and equipments which are currently classified as operating leases. The Group's current accounting policy for such leases is set out in Note 2.31 with the Group's future operating lease commitments, which are not reflected in the consolidated balance sheet, set out in Note 34(b). IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognize certain leases outside of the balance sheets. Instead, almost all leases must be recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of less than twelve months and leases of low-value assets are exempt from the recognition obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheets. As for the financial performance impact in the consolidated statements of comprehensive income, the operating lease expenses will decrease, while depreciation and amortization and interest expense will increase. The new standard is not expected to apply until the financial year 2019.

## 2.2 Subsidiaries

### 2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-Group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred assets. Profits and loss resulting from inter-company transactions that are recognized in assets are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

#### (a) Business combinations

The Group applies the acquisition method to account for business combinations except for business combination under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interests in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognized in profit or loss.

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Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interests in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If those amount are less than the fair value of the net assets of the business acquired in the case of a bargain purchase, the difference is recognized directly in the profit or loss.

### *(b) Common control combinations*

For common control combinations, the consolidated financial statements incorporate the financial entities of the combining entities or businesses as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognized in consideration of goodwill or excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combinations, to the extent of the continuation of the controlling party's interest.

The statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

Transaction costs, including professional fees, registration fees, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognized as an expense in the year in which it is incurred.

### *(c) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

### *(d) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

### **2.2.2 Separate financial statements**

Investments in subsidiaries (including controlled structured entities) are accounted for at cost less impairment. Cost includes direct attributable cost of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial information of the investee's net assets including goodwill.

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### 2.3 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting in accordance with IAS 28.

Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to the profit or loss where appropriate.

The Group's share of associate's post-acquisition profit or loss is recognized in the profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in "share of net profit/(loss) of associates and joint ventures accounted for using the equity method" in the statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognized in the profit or loss.

### 2.4 Joint arrangements

Joint ventures are all entities over which the Group has joint control but not solo control. Investments in joint ventures are accounted for using the equity method of accounting. Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition of profits or losses and movements in other comprehensive income. Dividends received or receivable from joint venture are recognized as a reduction in the carrying amount of a joint venture.

When the Group's share of losses in a joint venture equals or exceeds its interests in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

The Group's investment in joint ventures includes goodwill identified on acquisition, net of any accumulated impairment loss. If the ownership interest in a joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognizes the amount to the "share of net profit/(loss) of associates and joint ventures accounted for using the equity method" in the consolidated statements of comprehensive income.

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### 2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that makes strategic decisions.

### 2.6 Foreign currency translation

#### (a) *Functional and presentation currency*

Items included in the financial information of each of the entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Historical Financial Information are presented in RMB, which is the Group's functional and presentation currency.

#### (b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within "finance income/(costs) – net" and "other income". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other income".

Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognized in profit or loss as part of the fair value changes. Translation differences on monetary financial assets, such as debt securities classified as available for sale, are recognized in profit or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

### 2.7 Property, plant and equipment

Property, plant and equipment other than construction-in-progress are stated at historical cost less accumulated depreciation and impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

|                                 |                                                   |
|---------------------------------|---------------------------------------------------|
| Buildings and facilities        | 20 to 60 years                                    |
| Machinery and equipment         | 5 to 10 years                                     |
| Office and electronic equipment | 5 years                                           |
| Vehicles                        | 5 years                                           |
| Leasehold improvements          | 3 to 15 years, but not exceeding the lease period |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Construction-in-progress mainly represents properties under construction and is stated at actual construction cost less accumulated impairment losses, if any. Construction-in-progress is transferred to appropriate categories of property, plant and equipment upon the completion of their respective construction and depreciated over their respective estimated useful lives.



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An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains – net" in the statement of comprehensive income.

### 2.8 Investment properties

Investment properties comprise buildings, held for long-term rental yields or for capital appreciation or both and not occupied by the Group, and is measured initially at its cost, including related transaction costs. After initial recognition, the Group chooses the cost model to measure all of its investment properties, which are stated at historical costs less accumulated depreciation and accumulated impairment losses, if any. Depreciation of buildings is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives of 65 years.

The investment properties' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An investment property's carrying amount is written down immediately to its recoverable amount if the investment property's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in the profit or loss.

### 2.9 Land use rights

Land use rights represent the upfront payments made for the land use rights in the PRC for the development of hotel buildings and self-use buildings. It is stated at cost initially and expensed to the profit or loss on a straight-line basis over the period of the leases of 40 years, net of any impairment losses, if any.

### 2.10 Intangible assets

#### (a) Computer software

Computer software is the acquired software used for operation and financial reporting. Computer software are initially recognized and measured at costs incurred to acquire and bring them to use. The computer software are amortized on a straight-line basis over their estimated useful lives, and recorded in amortization in profit or loss over their estimated useful lives from 2 to 10 years, which are estimated by the Group based on the functionality equipped by the software and the daily operation needs.

#### (b) Favorable lease contracts

Favorable lease contracts represent the fair value of favorable contractual hotel lease agreements arising from the acquisition of subsidiaries which is amortized over the remaining period of the hotel lease agreement from 7 to 15 years.

#### (c) Goodwill

Goodwill is measured as described in Note 2.11. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments as described in Note 5.



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### 2.11 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization, which are at least tested annually for impairment. Other assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("CGUs"). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries, associates or joint ventures are required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate or jointly controlled entities in the period the dividend is declared or if the carrying amount of the investments in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.12 Financial assets

#### (a) *Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and;
- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will be depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

See Note 24 for details of each type of financial asset.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

#### (b) *Measurement*

At initial recognition, the Group measures a financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

#### *Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost

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and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest method.

- Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gains or loss previously recognized in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses and impairment expenses are presented in "other gains/(losses) – net".
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss in the period in which it arises.

### *Equity instruments*

The Group subsequent measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in profit or loss. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

### **(c) Impairment**

The Group has types of financial assets subjects to IFRS 9's new expected credit loss model:

- loan receivables;
- trade receivables for provision of services or sales of goods; and
- other receivables

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost including loan receivables, and with the exposure arising from financial guarantee contracts. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted in IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

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### (d) *Derecognition*

#### *Financial assets*

The Group derecognizes a financial asset, if the part being considered for the derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of derecognition of transfer of cash flows ("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

When a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized in profit or loss:

- The carrying amount of the financial asset transferred, and;
- The sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability.

#### *Other financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, canceled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

### **2.13 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses and related tax.

### **2.14 Trade and other receivables**

Trade receivables are amounts due from customers for products sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. See Note 2.12(c) for a description of the Group's impairment policy for trade and other receivables.

### **2.15 Cash and cash equivalents**

In the consolidated statements of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted cash is excluded from cash and cash equivalent.

### **2.16 Restricted cash**

Restricted cash represents guaranteed deposits held in a separate reserve account to be pledged to the bank as security deposits under bank borrowing agreement. Such restricted cash will be released when the Group repays the related bank loans or lease agreement expires.

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### 2.17 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### 2.18 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

### 2.19 Contract assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or to provide services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. A contract asset is the Group's right to consideration in exchange for services that the Group has transferred to a customer. Incremental costs incurred to obtain a contract, if recoverable, are capitalized and presented as assets and subsequently amortized when the related revenue is recognized. If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers services to the customer, the Group presents the contract as a contract liability when the payment is received or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. The contract liabilities of the Group mainly included advance payments made by customers and reward points under the customer loyalty program. For the advance payments made by customers, revenue is recognized when the underlying services are provided.

#### *Customer loyalty program*

The Group operates a loyalty program where customers accumulate points for hotel service purchases made which entitle them to discounts on future hotel service purchases. The reward points are recognized as a separately identifiable component of the initial sale transaction by allocating the fair value of the consideration received between the award points and the other components of the sale such that the reward points are initially recognized as deferred income at their fair value. Revenue from the reward points is recognized when the points are redeemed or the points expire. Breakage is recognized as reward points are redeemed based upon expected redemption rates. Reward points expire 12 to 24 months after the initial sale.

### 2.20 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### 2.21 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

### 2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's consolidated balance sheet in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

### 2.23 Current and deferred income tax

The income tax expense for the period comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the income tax is also recognized in other comprehensive income or directly in equity, respectively.

#### (a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, joint ventures and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### (b) Deferred income tax

##### *Inside basis differences*

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred tax liabilities are not recognized if they arise from initial recognition of goodwill, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

##### *Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except for deferred income tax liability where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

#### (c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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### 2.24 Employee benefits

#### (a) Pension obligations

The PRC employees of the Group covered by various PRC government-sponsored define-contribution pension plans under which the employees become entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expenses as incurred. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans. The non-PRC employees are covered by other defined-contribution pension plans sponsored by local government.

#### (b) Housing benefits

The PRC employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries. The Group's liability in respect of these funds is limited to the contribution payable in each period. The non-PRC employees are not covered by the housing benefits.

### 2.25 Share-based compensation benefits

The Group operates the equity-settled, share-based compensation plan, under which the entities receives services from employees as consideration for equity instruments of the Group. The fair value of the services received in exchange for the grant of the equity instruments is recognized as an expense on the consolidated statement of comprehensive income with a corresponding increase in equity.

In terms of the equity instruments awarded to employees, the total amount to be expensed is determined by reference to the fair value of equity instruments granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Non-marketing performance and service conditions are included in calculation of the number of the equity instruments that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied.

At the end of each reporting period, the Group revises its estimates of the number of the equity instruments that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

### 2.26 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment and other non-current assets are included in non-current liabilities as deferred income and are recognized in profit or loss on a straight line basis over the expected lives of the related assets.

### 2.27 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

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Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

### 2.28 Revenue recognition

The Group provides hotel management services, operation of hotels and sales of goods.

Revenue is recognized when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point of time. Control of the asset is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer; or
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use of the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation.

Otherwise, revenue is recognized at a point of time when the customer obtains the control of an asset.

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract.

An entity is a principal if it controls the promised good or service before transferring it to the customer. And an entity is an agent if its role is to arrange for another entity to provide goods or service. The Group considers it is a principal in providing its services.

#### *(a) Hotel management services*

Revenue arising from hotel management services is recognized over time in the accounting period in which the services are rendered because all of the benefits are received and consumed simultaneously by the customer as the Group performs. The Group bills the hotel management fee for each month of service provided to its customer and recognizes as revenue in the amount to which the Group has a right to invoice and corresponds directly with the value of performance completed.

#### *(b) Hotel operation*

Revenue from hotel operation services mainly comprises of room, food and beverage and ancillary services. Except for the revenue from food and beverage which is recognized at a point of time when the services are rendered, revenue from other hotel operation services is recognized over time in the accounting period in which the service are rendered.

#### *(c) Sales of goods*

Revenue from sales of goods is recognized at a point of time when the control of the goods has transferred to the customers, being when the goods are delivered to the customers, there is no unfulfilled obligation that could affect the customers' acceptance of the goods. And the customer has obtained the physical possession or the legal title of the goods and the Group has present right to payment and the collection of the consideration is probable.



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### 2.29 Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount at interest income.

### 2.30 Dividend income

Dividend income is recognized when the right to receive payment is established.

### 2.31 Lease

#### *(a) The Group is the lessee*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

#### *(b) The Group is the lessor*

When assets are leased out under operating lease, the assets are included in the balance sheet based on the nature of the assets. Rental income is recognized in the profit or loss on a straight-line basis over the term of the lease.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group, who manages and monitors these risk exposures to ensure appropriate measures are implemented in a timely and effective manner.

#### *(a) Market risk*

##### *(i) Foreign exchange risk*

As the Group's operation is in the PRC, most of the transactions, assets and liabilities are denominated in RMB. As at December 31, 2015, 2016, 2017 and August 31, 2018, all assets and liabilities are denominated in RMB. The Group's exposure to foreign exchange fluctuation is not material.

##### *(ii) Interest rate risk*

The Group has no significant interest-bearing assets except for cash and cash equivalents, restricted cash and interest bearing receivables temporarily lent to related parties. Therefore, the Group's interest rate risk mainly arises from borrowings, cash and cash equivalents, restricted cash and interest bearing receivables temporarily lent to related parties. Borrowings, cash and cash equivalents, restricted cash and interest bearing receivables temporarily lent to related parties obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings, cash and cash equivalents, restricted cash and interest bearing receivables temporarily lent to related parties obtained at fixed rates expose the Group to fair value interest rate risk.



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As at December 31, 2015, 2016, 2017 and August 31, 2018, if the interest rates on borrowings with floating rate, interest bearing receivables temporarily lent to related parties, short-term bank deposits, cash and cash equivalents and restricted cash had been 50 basis points higher/lower with all other variables held constant, the change of the post-tax profit would be disclosed as follows:

### The Group

|                              | For the years ended December 31, |         |         | For the eight months ended |
|------------------------------|----------------------------------|---------|---------|----------------------------|
|                              | 2015                             | 2016    | 2017    | August 31, 2018            |
|                              | RMB'000                          | RMB'000 | RMB'000 | RMB'000                    |
| <b>Year/period ended</b>     |                                  |         |         |                            |
| Net profit                   |                                  |         |         |                            |
| decreased/(increased)        |                                  |         |         |                            |
| – Increase in interest rates | 443                              | 182     | 406     | 369                        |
| – Decrease in interest rates | (443)                            | (182)   | (406)   | (369)                      |

The Group and the Company regularly monitors its interest rate risk to ensure there is no undue exposure to significant interest rate movements.

### (b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, restricted cash, interest bearing receivables temporarily lent to related parties, trade and other receivables. The carrying amount of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

As at December 31, 2015, 2016, 2017 and August 31, 2018, all cash and cash equivalents and restricted cash were deposited in the major reputable financial institutions in the PRC, which the directors of the Company believe are of high credit quality and do not expect any losses from non-performance by the counterparties.

- Group 1 – Top 4 banks in the PRC;
- Group 2 – Other major listed banks in the PRC; and
- Group 3 – Regional banks in the PRC

### The Group

| Category | As at December 31, |                |                | As at           |
|----------|--------------------|----------------|----------------|-----------------|
|          | 2015               | 2016           | 2017           | August 31, 2018 |
|          | RMB'000            | RMB'000        | RMB'000        | RMB'000         |
| Group 1  | 104,736            | 189,422        | 141,289        | 179,896         |
| Group 2  | 59,790             | 54,966         | 279,238        | 175,518         |
| Group 3  | 33,085             | 2,600          | 1,669          | 3,287           |
|          | <u>197,611</u>     | <u>246,988</u> | <u>422,196</u> | <u>358,701</u>  |

The directors of the Company do not expect any losses from non-performance by these counterparties.

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To manage risk arising from trade and other receivable, the Group established policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 30-90 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. The management make periodic collective assessments as well as individual assessment on the recoverability of trade and other receivables taking into account their historical settlement records, financial position, past experience and other factors.

### (c) Liquidity risk

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expected to fund the future cash flow needs through internally generated cash flows from operations, borrowings from financial institutions.

The following table below analyzed the Group's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

#### The Group

|                                 | Less than<br>1 year<br>RMB'000 | Between<br>1-2 years<br>RMB'000 | Between<br>2-3 years<br>RMB'000 | Over<br>3 years<br>RMB'000 | Total<br>RMB'000 |
|---------------------------------|--------------------------------|---------------------------------|---------------------------------|----------------------------|------------------|
| <b>As at December 31, 2015</b>  |                                |                                 |                                 |                            |                  |
| Bank borrowings                 | 135,000                        | –                               | 150,000                         | –                          | 285,000          |
| Loan from a related party       | –                              | –                               | 25,000                          | –                          | 25,000           |
| Interest payables on borrowings | 12,695                         | 8,400                           | 4,159                           | –                          | 25,254           |
| Trade and other payables        | 286,412                        | –                               | –                               | –                          | 286,412          |
|                                 | <u>434,107</u>                 | <u>8,400</u>                    | <u>179,159</u>                  | <u>–</u>                   | <u>621,666</u>   |
| <b>As at December 31, 2016</b>  |                                |                                 |                                 |                            |                  |
| Bank borrowings                 | 135,000                        | 150,000                         | –                               | –                          | 285,000          |
| Loan from a related party       | –                              | 25,000                          | 44,000                          | –                          | 69,000           |
| Interest payables on borrowings | 14,773                         | 6,741                           | 694                             | –                          | 22,208           |
| Trade and other payables        | 260,866                        | –                               | –                               | –                          | 260,866          |
|                                 | <u>410,639</u>                 | <u>181,741</u>                  | <u>44,694</u>                   | <u>–</u>                   | <u>637,074</u>   |
| <b>As at December 31, 2017</b>  |                                |                                 |                                 |                            |                  |
| Bank borrowings                 | 5,000                          | 5,000                           | 115,000                         | 40,000                     | 165,000          |
| Interest payables on borrowings | 7,993                          | 7,673                           | 5,614                           | 2,886                      | 24,166           |
| Trade and other payables        | 265,660                        | –                               | –                               | –                          | 265,660          |
|                                 | <u>278,653</u>                 | <u>12,673</u>                   | <u>120,614</u>                  | <u>42,886</u>              | <u>454,826</u>   |
| <b>As at August 31, 2018</b>    |                                |                                 |                                 |                            |                  |
| Bank borrowings                 | 3,000                          | 70,000                          | 55,000                          | 62,500                     | 190,500          |
| Loan from a related party       | –                              | –                               | 6,700                           | –                          | 6,700            |
| Interest payables on borrowings | 10,098                         | 9,453                           | 4,001                           | 6,208                      | 29,760           |
| Trade and other payables        | 298,137                        | –                               | –                               | –                          | 298,137          |
|                                 | <u>311,235</u>                 | <u>79,453</u>                   | <u>65,701</u>                   | <u>68,708</u>              | <u>525,097</u>   |

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### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in long-term.

The Group monitors capital by regularly reviewing the capital structure. As a part of this review, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, repurchase the Company's shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total assets. Total borrowings include non-current borrowings and current borrowings.

The gearing ratio as at December 31, 2015, 2016, 2017 and August 31, 2018 are as follows:

|                  | As at December 31, |           |           | As at      |
|------------------|--------------------|-----------|-----------|------------|
|                  | 2015               | 2016      | 2017      | August 31, |
|                  | RMB'000            | RMB'000   | RMB'000   | 2018       |
|                  |                    |           |           | RMB'000    |
| Total borrowings | 310,000            | 354,000   | 165,000   | 197,200    |
| Total assets     | 1,134,853          | 1,252,985 | 1,312,651 | 1,434,259  |
| Gearing ratio    | 27%                | 28%       | 13%       | 14%        |

### 3.3 Fair value estimation

The table below analyzes financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at December 31, 2015, 2017 and August 31, 2018, the Group did not have any financial assets or liabilities that were measured at fair value. The fair value measurements by level of the fair value measurement hierarchy as at December 31, 2016 were as follows:

#### The Group

|                                                       | Level 1 | Level 2 | Level 3 | Total   |
|-------------------------------------------------------|---------|---------|---------|---------|
|                                                       | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| <b>Assets</b>                                         |         |         |         |         |
| Financial assets at fair value through profit or loss | –       | 155,590 | –       | 155,590 |

#### (a) Fair value measurements using quoted prices (Level 1)

The fair value of financial instruments traded in active markets is based on quoted market prices at each of the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

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### **(b) Valuation techniques used to derive fair value (Level 2)**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

### **(c) Fair value measurements using significant unobservable inputs (Level 3)**

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discounted rate; and
- A combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

There were no transfers among different levels during the Track Record Period.

## **4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### **(a) Useful lives of property, plant and equipment, land use rights and intangible assets**

The Group determines the estimated useful lives for its properties, plant and equipment, land use rights and intangible assets (other than goodwill) based on the historical experience of the actual useful lives of property, plant and equipment, land use rights and intangible assets of similar nature and functions. The Group will revise the depreciation charges where useful lives are different from previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

### **(b) Current income taxes and deferred tax**

The Group is subject to income taxes in different areas in the PRC. Significant judgement is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different.

### **(c) Impairment of trade and other receivables**

The Group follows the guidance of IFRS 9 to determine when a trade and other receivable is impaired. This determination requires significant judgement and estimation. In making this judgement and estimation, the Group evaluates, among other factors, the duration of receivables and the financial health collection history of individual debtors and expected future change of credit risks, including the consideration of factors such as general economy measure, change in macro economic indicators etc.

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### 5 SEGMENT INFORMATION AND REVENUE

The chief operating decision-maker has been identified as senior executive management. Senior executive management reviews the Group's internal reporting in order to assess performance and allocate resources. Senior executive management has determined the operating segment based on these reports.

As a result of this evaluation, the Group determined that it has operating segments as follows:

- Hotel operation;
- Hotel management;

Revenue from hotel operations primarily comprise revenues from providing room, food and beverage, sales of goods and products, providing room reservation services and other ancillary services;

Revenue from hotel management are derived from providing hotel management services;

Senior executive management considers the business from a business perspective, and assesses the performance of operating segments based on segment revenue and profit before income tax without allocation of finance income/(costs), share of gains/(losses) of investments accounted for using equity method, other income and other gains.

There was no information on separate segment assets and segment liabilities provided by senior executive management, as senior executive management does not use such information to allocate resources to or evaluate the performance of the operating segments.

#### (a) Segment revenues

The revenue of the Group for the Track Record Period is set out as follows:

|                                               | For the years ended December 31, |                  |                  | For the eight months ended August 31, |                  |
|-----------------------------------------------|----------------------------------|------------------|------------------|---------------------------------------|------------------|
|                                               | 2015                             | 2016             | 2017             | 2017                                  | 2018             |
|                                               | RMB'000                          | RMB'000          | RMB'000          | RMB'000                               | RMB'000          |
|                                               |                                  |                  |                  | (unaudited)                           |                  |
| <b>Hotel operation</b>                        |                                  |                  |                  |                                       |                  |
| Room                                          | 652,586                          | 666,038          | 732,890          | 494,210                               | 482,285          |
| Food and beverage                             | 568,679                          | 633,513          | 583,156          | 371,580                               | 400,545          |
| Ancillary services                            | 139,344                          | 151,923          | 178,087          | 96,745                                | 107,163          |
| Rental income                                 | 39,983                           | 38,665           | 33,733           | 19,818                                | 23,655           |
| <b>Subtotal of hotel operation</b>            | <b>1,400,592</b>                 | <b>1,490,139</b> | <b>1,527,866</b> | <b>982,353</b>                        | <b>1,013,648</b> |
| <b>Hotel Management</b>                       | <b>121,490</b>                   | <b>111,867</b>   | <b>136,777</b>   | <b>85,400</b>                         | <b>105,601</b>   |
|                                               | <b>1,522,082</b>                 | <b>1,602,006</b> | <b>1,664,643</b> | <b>1,067,753</b>                      | <b>1,119,249</b> |
| <b>Revenue from contracts with customers:</b> |                                  |                  |                  |                                       |                  |
| – Recognized at a point of time               | 630,515                          | 696,952          | 652,011          | 394,116                               | 428,248          |
| – Recognized over time                        | 851,584                          | 866,389          | 978,899          | 653,819                               | 667,346          |
|                                               | <b>1,482,099</b>                 | <b>1,563,341</b> | <b>1,630,910</b> | <b>1,047,935</b>                      | <b>1,095,594</b> |
| <b>Revenue from other resources:</b>          |                                  |                  |                  |                                       |                  |
| – Rental income                               | 39,983                           | 38,665           | 33,733           | 19,818                                | 23,655           |

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### (b) Segment information

The segment information provided to senior executive management for the business segments for the Track Record Period are as follows:

| Business segments                       | For the year ended December 31, 2015 |                                |                  |
|-----------------------------------------|--------------------------------------|--------------------------------|------------------|
|                                         | Hotel<br>operation<br>RMB'000        | Hotel<br>management<br>RMB'000 | Total<br>RMB'000 |
| <b>Revenue</b>                          |                                      |                                |                  |
| Segment revenue                         | 1,404,312                            | 121,817                        | 1,526,129        |
| Inter-segment sales                     | (3,720)                              | (327)                          | (4,047)          |
| Segment revenue from external customers | 1,400,592                            | 121,490                        | 1,522,082        |
| Cost of sales                           | (1,262,542)                          | (15,437)                       | (1,277,979)      |
| Selling and marketing expenses          | (57,983)                             | (3,634)                        | (61,617)         |
| Administrative expenses                 | (107,379)                            | (27,482)                       | (134,861)        |
| <b>Segment (loss)/profit</b>            | <b>(27,312)</b>                      | <b>74,937</b>                  | <b>47,625</b>    |

| Business segments                       | For the year ended December 31, 2016 |                                |                  |
|-----------------------------------------|--------------------------------------|--------------------------------|------------------|
|                                         | Hotel<br>operation<br>RMB'000        | Hotel<br>management<br>RMB'000 | Total<br>RMB'000 |
| <b>Revenue</b>                          |                                      |                                |                  |
| Segment revenue                         | 1,496,788                            | 116,927                        | 1,613,715        |
| Inter-segment sales                     | (6,649)                              | (5,060)                        | (11,709)         |
| Segment revenue from external customers | 1,490,139                            | 111,867                        | 1,602,006        |
| Cost of sales                           | (1,270,737)                          | (11,534)                       | (1,282,271)      |
| Selling and marketing expenses          | (62,841)                             | (8,106)                        | (70,947)         |
| Administrative expenses                 | (126,825)                            | (21,951)                       | (148,776)        |
| <b>Segment profit</b>                   | <b>29,736</b>                        | <b>70,276</b>                  | <b>100,012</b>   |

| Business segments                       | For the year ended December 31, 2017 |                                |                  |
|-----------------------------------------|--------------------------------------|--------------------------------|------------------|
|                                         | Hotel<br>operation<br>RMB'000        | Hotel<br>management<br>RMB'000 | Total<br>RMB'000 |
| <b>Revenue</b>                          |                                      |                                |                  |
| Segment revenue                         | 1,537,466                            | 146,803                        | 1,684,269        |
| Inter-segment sales                     | (9,600)                              | (10,026)                       | (19,626)         |
| Segment revenue from external customers | 1,527,866                            | 136,777                        | 1,664,643        |
| Cost of sales                           | (1,219,851)                          | (12,851)                       | (1,232,702)      |
| Selling and marketing expenses          | (71,690)                             | (13,767)                       | (85,457)         |
| Administrative expenses                 | (127,231)                            | (33,312)                       | (160,543)        |
| <b>Segment profit</b>                   | <b>109,094</b>                       | <b>76,847</b>                  | <b>185,941</b>   |

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| For the eight months ended August 31, 2017 |                               |                                |                  |
|--------------------------------------------|-------------------------------|--------------------------------|------------------|
| (unaudited)                                |                               |                                |                  |
| Business segments                          | Hotel<br>operation<br>RMB'000 | Hotel<br>management<br>RMB'000 | Total<br>RMB'000 |
| <b>Revenue</b>                             |                               |                                |                  |
| Segment revenue                            | 988,340                       | 89,312                         | 1,077,652        |
| Inter-segment sales                        | (5,987)                       | (3,912)                        | (9,899)          |
| Segment revenue from<br>external customers | 982,353                       | 85,400                         | 1,067,753        |
| Cost of sales                              | (809,190)                     | (8,515)                        | (817,705)        |
| Selling and marketing expenses             | (36,783)                      | (7,398)                        | (44,181)         |
| Administrative expenses                    | (69,190)                      | (20,934)                       | (90,124)         |
| <b>Segment profit</b>                      | <b>67,190</b>                 | <b>48,553</b>                  | <b>115,743</b>   |

| For the eight months ended August 31, 2018 |                               |                                |                  |
|--------------------------------------------|-------------------------------|--------------------------------|------------------|
| (unaudited)                                |                               |                                |                  |
| Business segments                          | Hotel<br>operation<br>RMB'000 | Hotel<br>management<br>RMB'000 | Total<br>RMB'000 |
| <b>Revenue</b>                             |                               |                                |                  |
| Segment revenue                            | 1,020,670                     | 110,418                        | 1,131,088        |
| Inter-segment sales                        | (7,022)                       | (4,817)                        | (11,839)         |
| Segment revenue from<br>external customers | 1,013,648                     | 105,601                        | 1,119,249        |
| Cost of sales                              | (860,306)                     | (9,004)                        | (869,310)        |
| Selling and marketing expenses             | (38,804)                      | (9,430)                        | (48,234)         |
| Administrative expenses                    | (65,663)                      | (24,645)                       | (90,308)         |
| <b>Segment profit</b>                      | <b>48,875</b>                 | <b>62,522</b>                  | <b>111,397</b>   |

(c) **Contract liabilities**

The Group has recognized the following revenue – related contract liabilities.

|                                         | As at December 31, |                 |                 | As at<br>August 31, |
|-----------------------------------------|--------------------|-----------------|-----------------|---------------------|
|                                         | 2015<br>RMB'000    | 2016<br>RMB'000 | 2017<br>RMB'000 | 2018<br>RMB'000     |
| Advances from customers                 | 157,688            | 181,476         | 187,086         | 200,291             |
| Customer loyalty program<br>(Note 2.19) | 3,596              | 5,219           | 5,266           | 8,382               |
|                                         | <b>161,284</b>     | <b>186,695</b>  | <b>192,352</b>  | <b>208,673</b>      |

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### (i) Revenue recognized in relation to contract liabilities

The following table shows how much of the revenue recognized in the Track Record Period relates to carried-forward contract liabilities:

|                                                                                                    | For the years ended December 31, |                |                | For the eight months ended |
|----------------------------------------------------------------------------------------------------|----------------------------------|----------------|----------------|----------------------------|
|                                                                                                    | 2015                             | 2016           | 2017           | August 31,                 |
|                                                                                                    | RMB'000                          | RMB'000        | RMB'000        | 2018                       |
|                                                                                                    |                                  |                |                | RMB'000                    |
| Revenue recognized that was included in the contact liability balance at the beginning of the year |                                  |                |                |                            |
| Advances from customers                                                                            | 141,765                          | 157,688        | 181,476        | 187,086                    |
| Customer loyalty program                                                                           | 3,628                            | 3,596          | 5,219          | 5,266                      |
|                                                                                                    | <u>145,393</u>                   | <u>161,284</u> | <u>186,695</u> | <u>192,352</u>             |

### (ii) Unsatisfied long-term franchise hotel contracts

The following table shows unsatisfied performance obligations resulting from fixed-price long-term franchise hotel contracts:

|                                                                                                                                                                                                        | For the years ended December 31, |               |               | For the eight months ended |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|---------------|---------------|----------------------------|
|                                                                                                                                                                                                        | 2015                             | 2016          | 2017          | August 31,                 |
|                                                                                                                                                                                                        | RMB'000                          | RMB'000       | RMB'000       | 2018                       |
|                                                                                                                                                                                                        |                                  |               |               | RMB'000                    |
| Aggregate amount of the transaction price allocated to long-term franchise hotel contracts that the performance obligations of which are partially or fully unsatisfied at the end of each year/period |                                  |               |               |                            |
| Expected to be recognized over one year                                                                                                                                                                | 26,681                           | 30,583        | 43,279        | 37,813                     |
| Expected to be recognized within one year                                                                                                                                                              | 3,952                            | 5,082         | 6,979         | 8,020                      |
|                                                                                                                                                                                                        | <u>30,633</u>                    | <u>35,665</u> | <u>50,258</u> | <u>45,833</u>              |

The amount disclosed above does not include variable consideration which is constrained.

All other hotel management contracts are billed based on the actual performance of the managed hotels. For hotel operation services, they are rendered in short period of time and there is no unsatisfied performance obligation at the end of respective periods.



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### 6 OTHER INCOME

|                                                                             | For the years ended December 31, |                 |                 | For the eight months ended August 31, |                 |
|-----------------------------------------------------------------------------|----------------------------------|-----------------|-----------------|---------------------------------------|-----------------|
|                                                                             | 2015<br>RMB'000                  | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000<br>(unaudited)        | 2018<br>RMB'000 |
| Government grants                                                           | 5,031                            | 4,438           | 2,272           | 1,060                                 | 2,893           |
| Income from financial assets at fair value through profit or loss (Note 22) | –                                | 7,877           | 8,164           | 6,159                                 | 4,483           |
|                                                                             | <u>5,031</u>                     | <u>12,315</u>   | <u>10,436</u>   | <u>7,219</u>                          | <u>7,376</u>    |

### 7 OTHER GAINS – NET

|                                                                 | For the years ended December 31, |                 |                 | For the eight months ended August 31, |                 |
|-----------------------------------------------------------------|----------------------------------|-----------------|-----------------|---------------------------------------|-----------------|
|                                                                 | 2015<br>RMB'000                  | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000<br>(unaudited)        | 2018<br>RMB'000 |
| Net (losses)/gains on disposal of property, plant and equipment | (53)                             | (106)           | 1,094           | 1,798                                 | (54)            |
| Net gains on disposal of subsidiaries (Note 31)                 | –                                | 5,261           | 3,104           | –                                     | 10,794          |
| Compensation income (a)                                         | –                                | –               | 19,600          | –                                     | 8,400           |
| Waived payables due to third parties                            | 2,317                            | 1,203           | 3,588           | 2,386                                 | 965             |
| Others                                                          | 894                              | 966             | 1,258           | 450                                   | 620             |
|                                                                 | <u>3,158</u>                     | <u>7,324</u>    | <u>28,644</u>   | <u>4,634</u>                          | <u>20,725</u>   |

- (a) It represented the compensation payment received from a third party lessor who has early terminated the hotel lease agreement with the Group.

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### 8 EXPENSES BY NATURE

|                                                                              | For the years ended December 31, |                  |                  | For the eight months ended August 31, |                  |
|------------------------------------------------------------------------------|----------------------------------|------------------|------------------|---------------------------------------|------------------|
|                                                                              | 2015                             | 2016             | 2017             | 2017                                  | 2018             |
|                                                                              | RMB'000                          | RMB'000          | RMB'000          | RMB'000                               | RMB'000          |
|                                                                              |                                  |                  |                  | (unaudited)                           |                  |
| Operating lease expenses                                                     | 403,026                          | 399,850          | 374,067          | 256,384                               | 255,388          |
| Costs of materials consumption                                               | 346,646                          | 363,574          | 352,150          | 214,815                               | 239,906          |
| Employee benefit expenses (Note 9)                                           | 359,168                          | 398,908          | 440,329          | 282,746                               | 310,612          |
| Utility cost                                                                 | 99,115                           | 92,417           | 90,563           | 61,348                                | 60,762           |
| Taxes and levies (a)                                                         | 86,403                           | 35,796           | 5,691            | 3,370                                 | 4,384            |
| Depreciation of property, plant and equipment (Note 16)                      | 46,036                           | 49,084           | 53,949           | 35,867                                | 33,300           |
| Marketing and promotion expenses                                             | 32,247                           | 38,946           | 45,447           | 24,526                                | 25,723           |
| Repairs and maintenance                                                      | 20,368                           | 25,652           | 26,144           | 15,000                                | 16,240           |
| Travelling and communication expenses                                        | 20,433                           | 22,129           | 24,726           | 15,293                                | 17,487           |
| Laundry costs                                                                | 14,854                           | 14,820           | 15,007           | 9,850                                 | 10,946           |
| Allowance/(reversal) for impairment of trade and other receivables (Note 21) | 4,951                            | 5,267            | 958              | (129)                                 | 1,579            |
| Bank charges                                                                 | 6,870                            | 8,471            | 3,939            | 2,703                                 | 2,941            |
| Amortization of intangible assets (Note 18)                                  | 6,483                            | 6,985            | 4,727            | 3,257                                 | 3,960            |
| Out-sourcing service                                                         | 3,156                            | 3,847            | 4,994            | 2,771                                 | 3,360            |
| Uniform expenses                                                             | 3,043                            | 3,245            | 3,597            | 2,195                                 | 2,094            |
| Transportation expenses                                                      | 2,595                            | 3,621            | 3,486            | 2,125                                 | 2,419            |
| Professional fees                                                            | 617                              | 3,199            | 4,227            | 2,818                                 | 1,383            |
| Auditor's remuneration                                                       | 1,358                            | 1,283            | 1,326            | 884                                   | 600              |
| Amortization of land use rights (Note 17)                                    | 586                              | 852              | 1,188            | 765                                   | 820              |
| Depreciation of investment properties                                        | 15                               | 15               | 15               | 10                                    | 10               |
| Miscellaneous                                                                | 16,487                           | 24,033           | 22,172           | 15,412                                | 13,938           |
| Total cost of sales, selling and marketing and administrative expenses       | <u>1,474,457</u>                 | <u>1,501,994</u> | <u>1,478,702</u> | <u>952,010</u>                        | <u>1,007,852</u> |

- (a) Pursuant to the "Circular on the Overall Promotion of Pilot Program of Levying VAT in place of Business Tax" ("Cai Shui 2016 No. 36") jointly issued by the Ministry of Finance and the State Administration of Taxation, the Group were subject to value added tax ("VAT") on their revenues of hotel operation and hotel management instead of business tax since May 1, 2016, which were subject to business tax before then.

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### 9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTOR'S EMOLUMENTS)

|                                                            | For the years ended December 31, |                 |                 | For the eight months ended August 31, |                 |
|------------------------------------------------------------|----------------------------------|-----------------|-----------------|---------------------------------------|-----------------|
|                                                            | 2015<br>RMB'000                  | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000<br>(unaudited)        | 2018<br>RMB'000 |
| Wages, salaries and bonuses                                | 271,307                          | 319,280         | 340,783         | 214,391                               | 237,426         |
| Pension costs – defined contribution plan                  | 19,476                           | 21,265          | 25,792          | 15,778                                | 18,173          |
| Housing fund, medical insurance and other social insurance | 19,716                           | 21,102          | 25,160          | 10,626                                | 12,543          |
| Other employee benefits                                    | 28,719                           | 37,261          | 45,084          | 38,441                                | 42,470          |
| Share-based compensation expenses (Note 26)                | 19,950                           | –               | 3,510           | 3,510                                 | –               |
|                                                            | <u>359,168</u>                   | <u>398,908</u>  | <u>440,329</u>  | <u>282,746</u>                        | <u>310,612</u>  |

#### (a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the Track Record Period included 1 director whose emoluments are reflected in the analysis shown in Note 10. The emoluments payable to the remaining 4 individuals during the Track Record Period are as follows:

|                                                                                        | For the years ended December 31, |                 |                 | For the eight months ended August 31, |                 |
|----------------------------------------------------------------------------------------|----------------------------------|-----------------|-----------------|---------------------------------------|-----------------|
|                                                                                        | 2015<br>RMB'000                  | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000<br>(unaudited)        | 2018<br>RMB'000 |
| Wages, salaries and bonuses                                                            | 3,748                            | 3,809           | 4,251           | 2,834                                 | 3,258           |
| Pension costs – defined contribution plan                                              | 90                               | 93              | 98              | 65                                    | 71              |
| Housing fund, medical insurance and other social insurance and other employee benefits | 158                              | 172             | 189             | 126                                   | 140             |
| Share-based compensation expenses (Note 26)                                            | 2,839                            | –               | 2,632           | 2,632                                 | –               |
|                                                                                        | <u>6,835</u>                     | <u>4,074</u>    | <u>7,170</u>    | <u>5,657</u>                          | <u>3,469</u>    |

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The number of highest paid non-director individuals whose remuneration fell within the following bands is set out below:

|                              | Number of individuals            |                                  |                                  | For the eight months |                  |
|------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------|------------------|
|                              | For the years ended December 31, | For the years ended December 31, | For the years ended December 31, | ended August 31,     | ended August 31, |
|                              | 2015                             | 2016                             | 2017                             | 2017                 | 2018             |
|                              | RMB'000                          | RMB'000                          | RMB'000                          | RMB'000              | RMB'000          |
|                              |                                  |                                  |                                  | (unaudited)          |                  |
| RMB0 to RMB500,000           | –                                | –                                | –                                | –                    | –                |
| RMB500,000 to RMB1,000,000   | –                                | 3                                | –                                | –                    | –                |
| RMB1,000,000 to RMB1,500,000 | 3                                | 1                                | 3                                | 3                    | 4                |
| RMB1,500,000 to RMB3,500,000 | 1                                | –                                | 1                                | 1                    | –                |
|                              | <u>4</u>                         | <u>4</u>                         | <u>4</u>                         | <u>4</u>             | <u>4</u>         |

### 10 DIRECTORS' EMOLUMENTS

The emoluments paid or payable to the directors and chief-executive of the Company (including the emoluments for services as employee/director of the group entities prior to becoming the directors of the Company) by entities comprising the Group during the Track Record Period are disclosed as below:

|                                | For the year ended December 31, 2015 |              |              |              |              |
|--------------------------------|--------------------------------------|--------------|--------------|--------------|--------------|
|                                | Director's                           | Salaries     | Pension      | Other        | Total        |
|                                | fee                                  | and bonuses  | costs –      | employee     |              |
|                                | RMB'000                              | RMB'000      | defined      | benefit and  |              |
|                                |                                      |              | contribution | share-based  |              |
|                                |                                      |              | plan         | compensation |              |
|                                |                                      |              |              | expense      |              |
|                                |                                      |              |              | RMB'000      | RMB'000      |
| <i>Executive directors</i>     |                                      |              |              |              |              |
| Mr. Jin Wenjie                 | –                                    | –            | –            | 998          | 998          |
| Mr. Chen Miaoqiang             | –                                    | 1,434        | 22           | 1,044        | 2,500        |
| <i>Non-executive directors</i> |                                      |              |              |              |              |
| Mr. Chen Miaolin               | –                                    | –            | –            | –            | –            |
| Mr. Chen Canrong               | –                                    | –            | –            | –            | –            |
| Mr. Zhang Guanming             | –                                    | –            | –            | –            | –            |
| Mr. Wen Wei                    | –                                    | –            | –            | –            | –            |
| Mr. Feng Junyuan               | –                                    | –            | –            | –            | –            |
|                                | <u>–</u>                             | <u>1,434</u> | <u>22</u>    | <u>2,042</u> | <u>3,498</u> |

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| For the year ended December 31, 2016 |                              |                                    |                                                                  |                                                                                       |                  |
|--------------------------------------|------------------------------|------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------------|------------------|
|                                      | Director's<br>fee<br>RMB'000 | Salaries<br>and bonuses<br>RMB'000 | Pension<br>costs –<br>defined<br>contribution<br>plan<br>RMB'000 | Other<br>employee<br>benefit and<br>share-based<br>compensation<br>expense<br>RMB'000 | Total<br>RMB'000 |
| <i>Executive directors</i>           |                              |                                    |                                                                  |                                                                                       |                  |
| Mr. Jin Wenjie                       | –                            | –                                  | –                                                                | –                                                                                     | –                |
| Mr. Chen Miaoqiang                   | –                            | 1,328                              | 23                                                               | 50                                                                                    | 1,401            |
| <i>Non-executive directors</i>       |                              |                                    |                                                                  |                                                                                       |                  |
| Mr. Chen Miaolin                     | –                            | –                                  | –                                                                | –                                                                                     | –                |
| Mr. Chen Canrong                     | –                            | –                                  | –                                                                | –                                                                                     | –                |
| Mr. Zhang Guanming (i)               | –                            | –                                  | –                                                                | –                                                                                     | –                |
| Mr. Wen Wei (i)                      | –                            | –                                  | –                                                                | –                                                                                     | –                |
| Mr. Feng Junyuan (i)                 | –                            | –                                  | –                                                                | –                                                                                     | –                |
| Mr. Jiang Tianyi (ii)                | –                            | –                                  | –                                                                | –                                                                                     | –                |
| Mr. Zhang Chi (ii)                   | –                            | –                                  | –                                                                | –                                                                                     | –                |
|                                      | –                            | 1,328                              | 23                                                               | 50                                                                                    | 1,401            |

(i) Resigned from non-executive directors since November 2016

(ii) Non-executive directors since November 2016

| For the year ended December 31, 2017       |                              |                                    |                                                                  |                                                                                        |                  |
|--------------------------------------------|------------------------------|------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------------------------------|------------------|
|                                            | Director's<br>fee<br>RMB'000 | Salaries<br>and bonuses<br>RMB'000 | Pension<br>costs –<br>defined<br>contribution<br>plan<br>RMB'000 | Other<br>employee<br>benefits and<br>share-based<br>compensation<br>expense<br>RMB'000 | Total<br>RMB'000 |
| <i>Executive directors</i>                 |                              |                                    |                                                                  |                                                                                        |                  |
| Mr. Jin Wenjie                             | –                            | 299                                | 6                                                                | 258                                                                                    | 563              |
| Mr. Chen Miaoqiang                         | –                            | 1,569                              | 25                                                               | 296                                                                                    | 1,890            |
| <i>Non-executive directors</i>             |                              |                                    |                                                                  |                                                                                        |                  |
| Mr. Chen Miaolin                           | –                            | –                                  | –                                                                | –                                                                                      | –                |
| Mr. Chen Canrong                           | –                            | –                                  | –                                                                | –                                                                                      | –                |
| Mr. Jiang Tianyi                           | –                            | –                                  | –                                                                | –                                                                                      | –                |
| Mr. Zhang Chi                              | –                            | –                                  | –                                                                | –                                                                                      | –                |
| <i>Independent non-executive directors</i> |                              |                                    |                                                                  |                                                                                        |                  |
| Mr. Zhang Rungang (i)                      | 60                           | –                                  | –                                                                | –                                                                                      | 60               |
| Mr. Li Zhiqiang (i)                        | 60                           | –                                  | –                                                                | –                                                                                      | 60               |
| Ms. Qiu Yun (i)                            | 60                           | –                                  | –                                                                | –                                                                                      | 60               |
|                                            | 180                          | 1,868                              | 31                                                               | 554                                                                                    | 2,633            |

(i) Independent non-executive directors since June 2017.

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### For the eight months ended August 31, 2017 (Unaudited)

|                                            | Director's<br>fee<br>RMB'000 | Salaries<br>and bonuses<br>RMB'000 | Pension<br>costs –<br>defined<br>contribution<br>plan<br>RMB'000 | Other<br>employee<br>benefits and<br>share-based<br>compensation<br>expense<br>RMB'000 | Total<br>RMB'000 |
|--------------------------------------------|------------------------------|------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------------------------------|------------------|
| <i>Executive directors</i>                 |                              |                                    |                                                                  |                                                                                        |                  |
| Mr. Jin Wenjie                             | –                            | 199                                | 4                                                                | 11                                                                                     | 214              |
| Mr. Chen Miaoqiang                         | –                            | 983                                | 16                                                               | 37                                                                                     | 1,036            |
| <i>Non-executive directors</i>             |                              |                                    |                                                                  |                                                                                        |                  |
| Mr. Chen Miaolin                           | –                            | –                                  | –                                                                | –                                                                                      | –                |
| Mr. Chen Canrong                           | –                            | –                                  | –                                                                | –                                                                                      | –                |
| Mr. Jiang Tianyi                           | –                            | –                                  | –                                                                | –                                                                                      | –                |
| Mr. Zhang Chi                              | –                            | –                                  | –                                                                | –                                                                                      | –                |
| <i>Independent non-executive directors</i> |                              |                                    |                                                                  |                                                                                        |                  |
| Mr. Zhang Rungang                          | 20                           | –                                  | –                                                                | –                                                                                      | 20               |
| Mr. Li Zhiqiang                            | 20                           | –                                  | –                                                                | –                                                                                      | 20               |
| Ms. Qiu Yun                                | 20                           | –                                  | –                                                                | –                                                                                      | 20               |
|                                            | <u>60</u>                    | <u>1,182</u>                       | <u>20</u>                                                        | <u>48</u>                                                                              | <u>1,310</u>     |

### For the eight months ended August 31, 2018

|                                            | Director's<br>fee<br>RMB'000 | Salaries<br>and<br>allowances<br>RMB'000 | Discretionary<br>bonuses<br>RMB'000 | Other<br>employee<br>benefits and<br>share-based<br>payment<br>RMB'000 | Total<br>RMB'000 |
|--------------------------------------------|------------------------------|------------------------------------------|-------------------------------------|------------------------------------------------------------------------|------------------|
| <i>Executive directors</i>                 |                              |                                          |                                     |                                                                        |                  |
| Mr. Jin Wenjie                             | –                            | 200                                      | 2                                   | 277                                                                    | 479              |
| Mr. Chen Miaoqiang                         | –                            | 860                                      | 18                                  | 134                                                                    | 1,012            |
| <i>Non-executive directors</i>             |                              |                                          |                                     |                                                                        |                  |
| Mr. Chen Miaolin                           | –                            | –                                        | –                                   | –                                                                      | –                |
| Mr. Chen Canrong                           | –                            | –                                        | –                                   | –                                                                      | –                |
| Mr. Jiang Tianyi                           | –                            | –                                        | –                                   | –                                                                      | –                |
| Mr. Zhang Chi                              | –                            | –                                        | –                                   | –                                                                      | –                |
| <i>Independent non-executive directors</i> |                              |                                          |                                     |                                                                        |                  |
| Mr. Zhang Rungang                          | 80                           | –                                        | –                                   | –                                                                      | 80               |
| Mr. Li Zhiqiang (i)                        | 80                           | –                                        | –                                   | –                                                                      | 80               |
| Ms. Qiu Yun                                | 80                           | –                                        | –                                   | –                                                                      | 80               |
| Mr. Qiu Huanfa (ii)                        | –                            | –                                        | –                                   | –                                                                      | –                |
|                                            | <u>240</u>                   | <u>1,060</u>                             | <u>20</u>                           | <u>411</u>                                                             | <u>1,731</u>     |

(i) Resigned from independent non-executive directors since August 2018.

(ii) Independent non-executive directors since August 2018.

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### (a) Directors' termination benefits

No directors' retirement or termination benefits subsisted at the end of the year or at any time during the Track Record Period.

### (b) Directors' benefits and interests

No directors' benefits and interests subsisted at the end of the year or at any time during the Track Record Period.

### (c) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available directors' services subsisted at the end of the year or at any time during the Track Record Period.

### (d) Information about loans, quasi-loans and other dealings in favor of directors, controlling bodies corporate by and connected entities with such directors

No loans, quasi-loans or other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of the year or at any time during the Track Record Period.

### (e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Track Record Period.

## 11 FINANCE INCOME/(COSTS) – NET

|                                                                  | For the years ended December 31, |                 |                 | For the eight months ended August 31, |                |
|------------------------------------------------------------------|----------------------------------|-----------------|-----------------|---------------------------------------|----------------|
|                                                                  | 2015                             | 2016            | 2017            | 2017                                  | 2018           |
|                                                                  | RMB'000                          | RMB'000         | RMB'000         | RMB'000                               | RMB'000        |
|                                                                  |                                  |                 |                 | (unaudited)                           |                |
| <b>Finance income</b>                                            |                                  |                 |                 |                                       |                |
| – Interest income derived from bank deposits                     | 5,294                            | 4,394           | 4,495           | 3,030                                 | 5,140          |
| – Interest income derived from loan to related parties (Note 35) | 25,674                           | 7,799           | 907             | 907                                   | –              |
|                                                                  | <u>30,968</u>                    | <u>12,193</u>   | <u>5,402</u>    | <u>3,937</u>                          | <u>5,140</u>   |
| <b>Finance costs</b>                                             |                                  |                 |                 |                                       |                |
| – Interest expenses on bank and other borrowings                 | (29,330)                         | (13,925)        | (8,886)         | (7,620)                               | (6,769)        |
| – Interest expenses on borrowings from related parties (Note 35) | (890)                            | (2,124)         | (1,520)         | (1,520)                               | –              |
|                                                                  | <u>(30,220)</u>                  | <u>(16,049)</u> | <u>(10,406)</u> | <u>(9,140)</u>                        | <u>(6,769)</u> |
| <b>Finance income/(costs) – net</b>                              | <u>748</u>                       | <u>(3,856)</u>  | <u>(5,004)</u>  | <u>(5,203)</u>                        | <u>(1,629)</u> |

Finance costs have been capitalized on qualifying assets at average interest rates of 5.10%, 5.14%, 4.31%, 4.63% with amount of RMB395,000, RMB934,000, RMB912,000, RMB118,000 for the years ended December 31, 2015, 2016, 2017 and for the eight months ended August 31, 2017, respectively (for the eight months ended August 31, 2018:nil).

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### 12A INVESTMENTS IN SUBSIDIARIES

As at December 31, 2015, 2016, 2017, August 31, 2018, the Company had the following subsidiaries (including direct and indirect held):

| Name of subsidiaries                                                        | Date of establishment | Place of establishment | Principal activities                                           | Registered capital (RMB) | Equity interest held by the Company |      |      | As at August 31, 2018 | Directly/indirectly held |
|-----------------------------------------------------------------------------|-----------------------|------------------------|----------------------------------------------------------------|--------------------------|-------------------------------------|------|------|-----------------------|--------------------------|
|                                                                             |                       |                        |                                                                |                          | As at December 31, 2015             | 2016 | 2017 |                       |                          |
| Ninghai Jinhai Grand New Century Hotel Co., Ltd. (寧海金海開元名都大酒店有限公司)          | 2012-03-23            | Zhejiang, China        | Hotel operation                                                | 10,000,000               | 100%                                | 100% | 100% | 100%                  | Directly                 |
| Zhejiang New Century Manju Hotel Management Co., Ltd. (浙江開元曼居酒店管理有限公司)      | 2010-09-20            | Zhejiang, China        | Hotel management                                               | 27,000,000               | 100%                                | 100% | 100% | 100%                  | Directly                 |
| Shanghai Yuege Hotel Operation Co., Ltd. (上海悅閣酒店經營有限公司)                     | 2010-01-21            | Shanghai, China        | Hotel operation                                                | 12,000,000               | 65%                                 | 65%  | 65%  | 65%                   | Directly                 |
| Shanghai Ruiya Hotel Management Co., Ltd. ("Shanghai Ruiya") (上海瑞亞酒店管理有限公司) | 2010-06-23            | Shanghai, China        | Hotel operation                                                | 5,000,000                | 65%                                 | 65%  | 65%  | N/A                   | Indirectly               |
| Shanghai Ruiyue Hotel Co., Ltd. (上海瑞悅酒店有限公司)                                | 2010-05-07            | Shanghai, China        | Hotel operation                                                | 5,000,000                | 65%                                 | 65%  | 65%  | 65%                   | Indirectly               |
| Hangzhou New Century Hotel Supplies Co., Ltd. (杭州開元酒店用品有限公司)                | 1998-09-09            | Zhejiang, China        | Hotel supplies sales                                           | 10,000,000               | 100%                                | 100% | 100% | 100%                  | Directly                 |
| Hangzhou Biluo Wine Co., Ltd. (杭州璧蘿酒業有限公司)                                  | 2015-02-12            | Zhejiang, China        | Wine sales                                                     | 1,000,000                | 100%                                | 100% | 100% | 100%                  | Indirectly               |
| Hangzhou New Century Information System Co., Ltd. (杭州開元信息系統有限公司)            | 2009-12-24            | Zhejiang, China        | Computer software, hardware and network products               | 5,000,000                | 100%                                | 100% | 100% | 100%                  | Directly                 |
| Zhejiang Jinshanzi Network Technology Co., Ltd. (浙江金扇子網絡科技有限公司)             | 2013-11-06            | Zhejiang, China        | Computer software, hardware and network design and development | 12,500,000               | 100%                                | 100% | 80%  | 80%                   | Directly                 |



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## ACCOUNTANT’S REPORT

| Name of subsidiaries                                                                           | Date of establishment | Place of establishment | Principal activities                                           | Registered capital (RMB) | Equity interest held by the Company |          |         | As at August 31, 2018 | Directly/ indirectly held |
|------------------------------------------------------------------------------------------------|-----------------------|------------------------|----------------------------------------------------------------|--------------------------|-------------------------------------|----------|---------|-----------------------|---------------------------|
|                                                                                                |                       |                        |                                                                |                          | As at December 31, 2015             | 2016     | 2017    |                       |                           |
| Tianjin Ruiwan New Century Hotel Management Co., Ltd. (天津瑞灣開元酒店管理有限公司)                         | 2012-12-28            | Tianjin, China         | Hotel management & consulting service                          | 10,000,000               | 100%                                | 100%     | 100%    | 100%                  | Directly                  |
| Hangzhou New Century Chuanqi Property Leasing Co., Ltd. (杭州開元傳祺房屋租賃有限公司)                       | 2013-04-24            | Zhejiang, China        | Property service & lease of property                           | 26,800,000               | 100%                                | 100%     | 100%    | 100%                  | Directly                  |
| Haining Yanguan Ancient City New Century Resort Hotel Co., Ltd. (海寧鹽官古城開元度假酒店有限公司)             | 2014-03-28            | Zhejiang, China        | Hotel operation                                                | 50,000,000               | 100%                                | 100%     | 100%    | 100%                  | Directly                  |
| Jiande New Century Wonderland Resort Co., Ltd. (“Jiande Wonderland”) (a) (建德開元芳草地酒店有限公司)       | 2015-12-10            | Zhejiang, China        | Hotel operation                                                | 30,000,000               | Note (a)                            | 100%     | 100%    | 100%                  | Directly                  |
| Changxing New Century Wonderland Resort Co., Ltd. (“Changxing Wonderland”) (a) (長興開元芳草地酒店有限公司) | 2014-12-24            | Zhejiang, China        | Hotel operation                                                | 30,000,000               | Note (a)                            | Note (a) | 100%    | 100%                  | Directly                  |
| Suzhou Qiju Hotel Management Co., Ltd. (“Suzhou Qiju”) (蘇州祺聚酒店管理有限公司)                          | 2010-09-03            | Jiangsu, China         | Hotel operation                                                | 5,000,000                | 100%                                | 100%     | Note 31 | Note 31               | Directly                  |
| Shaoxing Dayu New Century Resort Co., Ltd. (“Shaoxing Dayu”) (紹興大禹開元度假村有限公司)                   | 2010-07-20            | Zhejiang, China        | Hotel operation                                                | 10,000,000               | 100%                                | 100%     | Note 31 | Note 31               | Directly                  |
| Hangzhou Kaiyuan Life Hotel Management Co., Ltd. (杭州開元頤居酒店管理有限公司)                              | 2014-08-18            | Zhejiang, China        | Hotel management and consulting services investment management | 5,000,000                | 55%                                 | 55%      | 55%     | 55%                   | Indirectly                |

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| Name of subsidiaries                                                                | Date of establishment | Place of establishment | Principal activities           | Registered capital<br>(RMB) | Equity interest held by the Company |         |         |                     | Directly/indirectly held |
|-------------------------------------------------------------------------------------|-----------------------|------------------------|--------------------------------|-----------------------------|-------------------------------------|---------|---------|---------------------|--------------------------|
|                                                                                     |                       |                        |                                |                             | As at December 31,                  |         |         | As at August 31,    |                          |
|                                                                                     |                       |                        |                                |                             | 2015                                | 2016    | 2017    | 2018                |                          |
| Yuyao New Century Manju Hotel Management Co., Ltd. (“Yuyao Manju”) (余姚開元曼居酒店管理有限公司) | 2015-11-23            | Zhejiang, China        | Hotel management and operation | 3,000,000                   | 100%                                | Note 31 | Note 31 | 55.66%<br>(Note 32) | Directly                 |
| Ningbo New Century Manju Hotel Management Co., Ltd. (寧波開元曼居酒店管理有限公司)                | 2016-03-19            | Zhejiang, China        | Hotel management               | 1,000,000.00                | N/A                                 | 100%    | 100%    | 100%                | Indirectly               |
| Tianjin Manju Hotel Management Co., Ltd. (天津曼居酒店管理有限公司)                             | 2016-12-08            | Tianjin, China         | Hotel management and operation | 200,000                     | N/A                                 | 100%    | 100%    | 100%                | Indirectly               |
| Zhoushan New Century Manju Hotel Management Co., Ltd. (舟山開元曼居酒店管理有限公司)              | 2017-03-23            | Zhejiang, China        | Hotel management and operation | 5,000,000                   | N/A                                 | N/A     | 100%    | 100%                | Indirectly               |
| Shanghai New Century Manju Hotel Management Co., Ltd. (上海開元曼居酒店管理有限公司)              | 2017-07-24            | Shanghai, China        | Hotel management               | 5,000,000                   | N/A                                 | N/A     | 70%     | 70%                 | Indirectly               |
| Beijing New Century Manju Hotel Management Co., Ltd. (北京開元曼居酒店管理有限公司)               | 2017-06-21            | Beijing, China         | Hotel management               | 10,000,000                  | N/A                                 | N/A     | 70%     | 70%                 | Indirectly               |
| Chongqing New Century Manju Hotel Management Co., Ltd. (重慶開元曼居酒店管理有限公司)             | 2017-06-13            | Chongqing, China       | Hotel management               | 3,000,000                   | N/A                                 | N/A     | 70%     | 70%                 | Indirectly               |
| Dalian New Century Manju Hotel Management Co., Ltd. (大連開元曼居酒店管理有限公司)                | 2017-11-13            | Liaoning, China        | Hotel management and operation | 5,000,000                   | N/A                                 | N/A     | 100%    | 100%                | Indirectly               |

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| Name of subsidiaries                                                               | Date of establishment | Place of establishment | Principal activities                  | Registered capital (RMB) | Equity interest held by the Company |      |      | As at August 31, 2018 | Directly/indirectly held |
|------------------------------------------------------------------------------------|-----------------------|------------------------|---------------------------------------|--------------------------|-------------------------------------|------|------|-----------------------|--------------------------|
|                                                                                    |                       |                        |                                       |                          | As at December 31, 2015             | 2016 | 2017 |                       |                          |
| Chongqing Dazu District New Century Grand House Hotel Co., Ltd. (重慶市大足區開元觀堂酒店有限公司) | 2017-08-10            | Chongqing, China       | Hotel operation                       | 10,000,000               | N/A                                 | N/A  | 100% | N/A<br>(Note 31)      | Directly                 |
| Zhejiang New Century Catering Management Co., Ltd. (浙江開元餐飲管理有限公司)                  | 2017-07-06            | Zhejiang, China        | Catering services                     | 10,000,000               | N/A                                 | N/A  | 100% | 100%                  | Directly                 |
| Zhejiang Meizhen Hotel Management Co., Ltd. (浙江美鎮酒店管理有限公司)                         | 2017-12-12            | Zhejiang, China        | Hotel management & consulting service | 10,000,000               | N/A                                 | N/A  | 60%  | 60%                   | Directly                 |
| Shanghai Yueshang Hotel Management Co., Ltd. (上海閩尚酒店管理有限公司)                        | 2017-09-29            | Shanghai, China        | Hotel management and operation        | 500,000                  | N/A                                 | N/A  | 70%  | 70%                   | Indirectly               |
| Hunan Manju Hotel Management Co., Ltd. (湖南曼居酒店管理有限責任公司)                            | 2018-01-24            | Hunan, China           | Hotel management and operation        | 5,000,000                | N/A                                 | N/A  | N/A  | 100%                  | Indirectly               |
| Chengdu Liju Hotel Management Co., Ltd. (成都麗居酒店管理有限公司)                             | 2018-03-20            | Sichuan, China         | Hotel management and operation        | 5,000,000                | N/A                                 | N/A  | N/A  | 100%                  | Indirectly               |
| Ningbo New Century Manfei Hotel Management Co., Ltd. (寧波開元曼菲酒店管理有限公司)              | 2018-05-02            | Zhejiang, China        | Hotel management and operation        | 5,000,000                | N/A                                 | N/A  | N/A  | 100%                  | Indirectly               |
| Changxing Grand New Century Hotel Co., Ltd. (長興開元名都大酒店有限公司)                        | 2018-07-09            | Zhejiang, China        | Hotel operation                       | 50,000,000               | N/A                                 | N/A  | N/A  | 100%                  | Directly                 |
| Changxing New Century Mayart Hotel Co., Ltd. (長興開元美途酒店有限公司)                        | 2018-08-24            | Zhejiang, China        | Hotel operation                       | 5,000,000                | N/A                                 | N/A  | N/A  | 100%                  | Directly                 |

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- (a) During the Track Record Period, the Company has acquired the total share of Jiande Wonderland and Changxing Wonderland from New Century Tourism Group Co., Ltd. on October 31, 2016 and March 31, 2017 respectively. The purchase considerations for the acquisitions of Jiande Wonderland and Changxing Wonderland were RMB30,000,000 and RMB40,000,000 (Note 26(b)), respectively. The Company, Jiande Wonderland and Changxing Wonderland are under common control of New Century Tourism Group Co., Ltd. both before and after the acquisitions, the acquisitions are therefore regarded as a common control combination (Note 2.2.1(b)). Since completion of the acquisitions, the financial statements of Jiande Wonderland and Changxing Wonderland have been included in the consolidated financial statements of the Group during the Track Record Period as if the acquisitions had occurred from the date when Jiande Wonderland and Changxing Wonderland first came under the control of New Century Tourism Group Co., Ltd., the capital injections from New Century Tourism Group Co., Ltd. to Jiande Wonderland and Changxing Wonderland in 2015 with amount of RMB60,000,000 were recorded in "Capital reserve" (Note 26(b)) as contribution to subsidiaries by the controlling shareholders.

### 12B INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

#### The Group and the Company

|                                    | As at December 31, |                |                | As at<br>August 31, |
|------------------------------------|--------------------|----------------|----------------|---------------------|
|                                    | 2015               | 2016           | 2017           | 2018                |
|                                    | RMB'000            | RMB'000        | RMB'000        | RMB'000             |
| Investments in a joint venture (a) | 108,351            | 109,414        | 112,297        | 116,299             |
| Investments in associates (b)      | —                  | 6,443          | 6,091          | 2,962               |
|                                    | <u>108,351</u>     | <u>115,857</u> | <u>118,388</u> | <u>119,261</u>      |

- (a) Investments in a joint venture

|                                 | For the years ended December 31, |                |                | For the eight months<br>ended August 31, |                |
|---------------------------------|----------------------------------|----------------|----------------|------------------------------------------|----------------|
|                                 | 2015                             | 2016           | 2017           | 2017                                     | 2018           |
|                                 | RMB'000                          | RMB'000        | RMB'000        | RMB'000                                  | RMB'000        |
|                                 |                                  |                |                | (unaudited)                              |                |
| Beginning of the<br>year/period | 106,619                          | 108,351        | 109,414        | 109,414                                  | 112,297        |
| Share of result                 | <u>1,732</u>                     | <u>1,063</u>   | <u>2,883</u>   | <u>1,509</u>                             | <u>4,002</u>   |
| End of the<br>year/period       | <u>108,351</u>                   | <u>109,414</u> | <u>112,297</u> | <u>110,923</u>                           | <u>116,299</u> |

Particulars of the joint venture of the Group during the Track Record Period, which is unlisted, is set out as below:

| Company Name                                                                         | Place of<br>establishment | Date of<br>establishment | Principal<br>activities           | Equity interest held by the<br>Company |      |      |                             |
|--------------------------------------------------------------------------------------|---------------------------|--------------------------|-----------------------------------|----------------------------------------|------|------|-----------------------------|
|                                                                                      |                           |                          |                                   | As at December 31,<br>2015             | 2016 | 2017 | As at<br>August 31,<br>2018 |
| Beijing Gehua New<br>Century Hotel Co., Ltd.<br>(北京歌華開元大酒店有<br>限公司, "Beijing Gehua") | Beijing, China            | 2005-09-19               | Hotel operation<br>and management | 49%                                    | 49%  | 49%  | 49%                         |

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Summarized key financial information for the joint venture is as follows:

|                                      | As at December 31, |          |          | As at      |
|--------------------------------------|--------------------|----------|----------|------------|
|                                      | 2015               | 2016     | 2017     | August 31, |
|                                      | RMB'000            | RMB'000  | RMB'000  | 2018       |
|                                      |                    |          |          | RMB'000    |
| Current assets                       | 8,982              | 11,297   | 18,305   | 33,958     |
| Including: Cash and cash equivalents | 5,025              | 5,446    | 10,330   | 20,555     |
| Non-current assets                   | 276,934            | 246,149  | 217,941  | 200,891    |
| Total assets                         | 285,916            | 257,446  | 236,246  | 234,849    |
| Current liabilities                  | (39,797)           | (43,158) | (44,076) | (49,511)   |
| Non-current liabilities              | (77,000)           | (43,000) | (15,000) | —          |
| Total liabilities                    | (116,797)          | (86,158) | (59,076) | (49,511)   |
| Net assets                           | 169,119            | 171,288  | 177,170  | 185,338    |
| Reconciliation to carrying amount:   |                    |          |          |            |
| Opening net assets                   | 165,584            | 169,119  | 171,288  | 177,170    |
| Net profit for the year/period       | 3,535              | 2,169    | 5,882    | 8,168      |
| Closing net assets                   | 169,119            | 171,288  | 177,170  | 185,338    |
| Group's share in %                   | 49%                | 49%      | 49%      | 49%        |
| Group's share in RMB                 | 82,868             | 83,931   | 86,814   | 90,816     |
| Goodwill                             | 25,483             | 25,483   | 25,483   | 25,483     |
| Carrying amount                      | 108,351            | 109,414  | 112,297  | 116,299    |

|                                                     | For the years ended December 31, |         |         | For the eight months ended August 31, |         |
|-----------------------------------------------------|----------------------------------|---------|---------|---------------------------------------|---------|
|                                                     | 2015                             | 2016    | 2017    | 2017                                  | 2018    |
|                                                     | RMB'000                          | RMB'000 | RMB'000 | RMB'000                               | RMB'000 |
|                                                     |                                  |         |         | (unaudited)                           |         |
| Revenue                                             | 116,790                          | 124,316 | 130,880 | 83,552                                | 90,549  |
| Interest income                                     | 14                               | 20      | 26      | 11                                    | 15      |
| Interest expense                                    | (5,839)                          | (3,406) | (1,508) | (1,433)                               | (385)   |
| Income tax                                          | —                                | (1,705) | (1,615) | (1,081)                               | (476)   |
| Net profit after tax and total comprehensive income | 3,535                            | 2,169   | 5,882   | 3,080                                 | 8,168   |
| Share of result                                     | 1,732                            | 1,063   | 2,883   | 1,509                                 | 4,002   |

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(b) Investments in associates

|                                                                | For the years ended December 31, |              |              | For the eight months ended August 31, |              |
|----------------------------------------------------------------|----------------------------------|--------------|--------------|---------------------------------------|--------------|
|                                                                | 2015                             | 2016         | 2017         | 2017                                  | 2018         |
|                                                                | RMB'000                          | RMB'000      | RMB'000      | RMB'000                               | RMB'000      |
|                                                                |                                  |              |              | (unaudited)                           |              |
| Beginning of the year/period                                   | —                                | —            | 6,443        | 6,443                                 | 6,091        |
| New investments in associates                                  | —                                | 3,000        | —            | —                                     | —            |
| Transferred from a subsidiary to an associates<br>(Note 31(a)) | —                                | 3,071        | —            | —                                     | —            |
| Transferred from an associate to a subsidiary<br>(Note 32)     | —                                | —            | —            | —                                     | (3,318)      |
| Share of result                                                | —                                | 372          | 122          | 20                                    | 325          |
| Declaration of dividends                                       | —                                | —            | (474)        | (474)                                 | (136)        |
|                                                                | <u>—</u>                         | <u>—</u>     | <u>(474)</u> | <u>(474)</u>                          | <u>(136)</u> |
| End of the year/period                                         | <u>—</u>                         | <u>6,443</u> | <u>6,091</u> | <u>5,989</u>                          | <u>2,962</u> |

Particulars of the associates of the Group during the Track Record Period, which is unlisted, is set out as below:

| Company Name                                                | Registered capital | Date of establishment | Principal activities            | Equity interest held by the Company |        |        |                      |
|-------------------------------------------------------------|--------------------|-----------------------|---------------------------------|-------------------------------------|--------|--------|----------------------|
|                                                             |                    |                       |                                 | As at December 31,                  |        |        | As at August 31,     |
|                                                             |                    |                       |                                 | 2015                                | 2016   | 2017   | 2018                 |
|                                                             | RMB                |                       |                                 |                                     |        |        |                      |
| Zhejiang Haogu Internet Technology Co., Ltd. (浙江皓谷網絡科技有限公司) | 15,000,000         | 2016-05-20            | Internet technology development | N/A                                 | 20%    | 20%    | 20%                  |
| Yuyao Manju                                                 | 3,000,000          | 2015-11-23            | Hotel management and operation  | Note 12A                            | 35.83% | 35.83% | Note 12A and Note 31 |

### 13 INCOME TAX EXPENSE

|                                  | For the years ended December 31, |               |               | For the eight months ended August 31, |               |
|----------------------------------|----------------------------------|---------------|---------------|---------------------------------------|---------------|
|                                  | 2015                             | 2016          | 2017          | 2017                                  | 2018          |
|                                  | RMB'000                          | RMB'000       | RMB'000       | RMB'000                               | RMB'000       |
|                                  |                                  |               |               | (unaudited)                           |               |
| Current income tax               | 27,844                           | 33,358        | 52,165        | 34,089                                | 36,391        |
| Deferred income tax<br>(Note 30) | 809                              | (183)         | 4,290         | 637                                   | (5,750)       |
|                                  | <u>28,653</u>                    | <u>33,175</u> | <u>56,455</u> | <u>34,726</u>                         | <u>30,641</u> |
| Income tax expenses              | <u>28,653</u>                    | <u>33,175</u> | <u>56,455</u> | <u>34,726</u>                         | <u>30,641</u> |

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The tax on the Group's profit before income tax differs from the theoretical amount that could arise using the statutory corporate income tax rate of 25% in the PRC during the Track Record Period is as follows:

|                                                                                | For the years ended December 31, |               |               | For the eight months ended August 31, |               |
|--------------------------------------------------------------------------------|----------------------------------|---------------|---------------|---------------------------------------|---------------|
|                                                                                | 2015                             | 2016          | 2017          | 2017                                  | 2018          |
|                                                                                | RMB'000                          | RMB'000       | RMB'000       | RMB'000                               | RMB'000       |
|                                                                                |                                  |               |               | (unaudited)                           |               |
| Profit before income tax                                                       | 58,294                           | 117,230       | 223,022       | 123,922                               | 142,196       |
| Tax calculated at statutory tax rates applicable to each of the Group's entity | 14,574                           | 29,308        | 55,756        | 30,981                                | 35,549        |
| Tax effect of:                                                                 |                                  |               |               |                                       |               |
| Expenses not deductible for income tax purpose                                 | 1,482                            | 154           | 824           | 824                                   | 839           |
| Tax losses for which no deferred income tax assets were recognized             | 8,256                            | 2,876         | 1,990         | 3,486                                 | 1,061         |
| Temporary difference for which no deferred income tax assets were recognized   | 4,774                            | 1,196         | 2,024         | 2,048                                 | 188           |
| Utilization of previous unrecognized tax losses                                | —                                | —             | (3,388)       | (2,231)                               | (5,914)       |
| Effect of exclusion of share of profit tax of joint ventures and associates    | (433)                            | (359)         | (751)         | (382)                                 | (1,082)       |
| Income tax expenses                                                            | <u>28,653</u>                    | <u>33,175</u> | <u>56,455</u> | <u>34,726</u>                         | <u>30,641</u> |

### (a) PRC corporate income tax

Enterprises incorporated in the PRC are subject to income tax rates of 25% throughout the Track Record Period. The income tax provision of the Group has been calculated at the applicable tax rate on the estimated assessable profits for the Track Record Period based on existing legislations, interpretations and practices.

## 14 EARNINGS PER SHARE

On June 25, 2017, the Company was converted into a joint stock company with limited liability with registered capital of RMB210,000,000 and 210,000,000 shares in issue. In calculating earnings per share, it is assumed that 210,000,000 shares had been issued at the beginning of year 2015.

Basic earnings per share of the Track Record Period are calculated by dividing the profit attributable to the owners of the Company by the weighted average number of shares in issue or deemed to be in issue during the Track Record Period. Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. The fully diluted earnings per share for the Track Record Period is the same as the basic earnings per share as there is no dilutive potential share during the Track Record Period.

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|                                                                                               | For the years ended December 31, |         |         | For the eight months ended August 31, |         |
|-----------------------------------------------------------------------------------------------|----------------------------------|---------|---------|---------------------------------------|---------|
|                                                                                               | 2015                             | 2016    | 2017    | 2017                                  | 2018    |
|                                                                                               |                                  |         |         | (unaudited)                           |         |
| Profit attributable to owners of the Company (in RMB'000)                                     | 30,107                           | 84,324  | 163,042 | 87,719                                | 109,974 |
| Weighted average number of ordinary shares in issue or deemed to be in issue (in '000 shares) | 210,000                          | 210,000 | 210,000 | 210,000                               | 210,000 |
| Basic earnings per share (in RMB per share)                                                   | 0.14                             | 0.40    | 0.78    | 0.42                                  | 0.52    |

### 15 DIVIDENDS

On April 24, 2017, a final dividend of RMB59,690,000 was declared to certain shareholders of the Company. The dividends were presented as dividends provided for or paid to the shareholders in the consolidated statements of changes in equity.

On June 15, 2018, a final dividend of RMB41,238,000 was declared to certain shareholders of the Company. The dividends were presented as dividends provided for or paid to the shareholders in the consolidated statements of changes in equity.

Other than the above, no dividend was paid or declared by the Company during the Track Record Period.

### 16 PROPERTY, PLANT AND EQUIPMENT

#### The Group

|                                                | Buildings and facilities<br>RMB'000 | Machinery and equipment<br>RMB'000 | Office and electronic equipment<br>RMB'000 | Vehicles<br>RMB'000 | Leasehold improvements<br>RMB'000 | Construction in progress<br>RMB'000 | Total<br>RMB'000 |
|------------------------------------------------|-------------------------------------|------------------------------------|--------------------------------------------|---------------------|-----------------------------------|-------------------------------------|------------------|
| <b>As at January 1, 2015</b>                   |                                     |                                    |                                            |                     |                                   |                                     |                  |
| Cost                                           | 21,446                              | 38,803                             | 102,990                                    | 10,614              | 314,346                           | 3,803                               | 492,002          |
| Accumulated depreciation                       | (701)                               | (22,873)                           | (64,100)                                   | (6,155)             | (117,362)                         | –                                   | (211,191)        |
| Net book amount                                | 20,745                              | 15,930                             | 38,890                                     | 4,459               | 196,984                           | 3,803                               | 280,811          |
| <b>For the year ended December 31, 2015</b>    |                                     |                                    |                                            |                     |                                   |                                     |                  |
| Opening net book amount                        | 20,745                              | 15,930                             | 38,890                                     | 4,459               | 196,984                           | 3,803                               | 280,811          |
| Additions                                      | 69                                  | 1,568                              | 4,663                                      | 750                 | 10,304                            | 38,052                              | 55,406           |
| Transferred from construction in progress      | –                                   | 240                                | 372                                        | –                   | 10,030                            | (10,642)                            | –                |
| Disposals                                      | –                                   | (111)                              | (365)                                      | (211)               | –                                 | –                                   | (687)            |
| Reclassified as assets held for sale (Note 31) | –                                   | (198)                              | (2,970)                                    | (2)                 | (13,547)                          | –                                   | (16,717)         |
| Depreciation charge (Note 8)                   | (530)                               | (3,666)                            | (11,557)                                   | (1,505)             | (28,778)                          | –                                   | (46,036)         |
| Closing net book amount                        | 20,284                              | 13,763                             | 29,033                                     | 3,491               | 174,993                           | 31,213                              | 272,777          |
| <b>As at December 31, 2015</b>                 |                                     |                                    |                                            |                     |                                   |                                     |                  |
| Cost                                           | 21,515                              | 39,944                             | 102,980                                    | 10,775              | 319,327                           | 31,213                              | 525,754          |
| Accumulated depreciation                       | (1,231)                             | (26,181)                           | (73,947)                                   | (7,284)             | (144,334)                         | –                                   | (252,977)        |
| Net book amount                                | 20,284                              | 13,763                             | 29,033                                     | 3,491               | 174,993                           | 31,213                              | 272,777          |



## APPENDIX I

## ACCOUNTANT'S REPORT

|                                              | Buildings<br>and<br>facilities<br><i>RMB'000</i> | Machinery<br>and<br>equipment<br><i>RMB'000</i> | Office and<br>electronic<br>equipment<br><i>RMB'000</i> | Vehicles<br><i>RMB'000</i> | Leasehold<br>improvements<br><i>RMB'000</i> | Construction<br>in progress<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|----------------------------------------------|--------------------------------------------------|-------------------------------------------------|---------------------------------------------------------|----------------------------|---------------------------------------------|-----------------------------------------------|-------------------------|
| <b>For the year ended</b>                    |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| <b>December 31, 2016</b>                     |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Opening net book amount                      | 20,284                                           | 13,763                                          | 29,033                                                  | 3,491                      | 174,993                                     | 31,213                                        | 272,777                 |
| Additions                                    | 39                                               | 5,020                                           | 11,669                                                  | 1,855                      | 27,631                                      | 74,651                                        | 120,865                 |
| Transferred from construction<br>in progress | 71,339                                           | 6,210                                           | 5,415                                                   | –                          | 13,135                                      | (96,099)                                      | –                       |
| Disposals                                    | (37)                                             | (54)                                            | (417)                                                   | (247)                      | –                                           | –                                             | (755)                   |
| Depreciation charge ( <i>Note 8</i> )        | (2,927)                                          | (4,391)                                         | (10,874)                                                | (1,269)                    | (29,623)                                    | –                                             | (49,084)                |
| Closing net book amount                      | 88,698                                           | 20,548                                          | 34,826                                                  | 3,830                      | 186,136                                     | 9,765                                         | 343,803                 |
| <b>As at December 31, 2016</b>               |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Cost                                         | 92,853                                           | 50,780                                          | 118,460                                                 | 10,457                     | 347,968                                     | 9,765                                         | 630,283                 |
| Accumulated depreciation                     | (4,155)                                          | (30,232)                                        | (83,634)                                                | (6,627)                    | (161,832)                                   | –                                             | (286,480)               |
| Net book amount                              | 88,698                                           | 20,548                                          | 34,826                                                  | 3,830                      | 186,136                                     | 9,765                                         | 343,803                 |
| <b>For the year ended</b>                    |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| <b>December 31, 2017</b>                     |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Opening net book amount                      | 88,698                                           | 20,548                                          | 34,826                                                  | 3,830                      | 186,136                                     | 9,765                                         | 343,803                 |
| Additions                                    | 318                                              | 4,258                                           | 21,985                                                  | 1,214                      | 12,467                                      | 116,592                                       | 156,834                 |
| Transferred from construction<br>in progress | 28                                               | 1,913                                           | 393                                                     | –                          | 23,724                                      | (26,058)                                      | –                       |
| Disposals                                    | (1,137)                                          | (308)                                           | (793)                                                   | (137)                      | –                                           | –                                             | (2,375)                 |
| Disposal of subsidiaries                     | –                                                | (1,397)                                         | (924)                                                   | (78)                       | (33,861)                                    | –                                             | (36,260)                |
| Depreciation charge ( <i>Note 8</i> )        | (3,745)                                          | (4,303)                                         | (11,513)                                                | (1,002)                    | (33,386)                                    | –                                             | (53,949)                |
| Closing net book amount                      | 84,162                                           | 20,711                                          | 43,974                                                  | 3,827                      | 155,080                                     | 100,299                                       | 408,053                 |
| <b>As at December 31, 2017</b>               |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Cost                                         | 91,971                                           | 51,827                                          | 124,727                                                 | 9,658                      | 326,830                                     | 100,299                                       | 705,312                 |
| Accumulated depreciation                     | (7,809)                                          | (31,116)                                        | (80,753)                                                | (5,831)                    | (171,750)                                   | –                                             | (297,259)               |
| Net book amount                              | 84,162                                           | 20,711                                          | 43,974                                                  | 3,827                      | 155,080                                     | 100,299                                       | 408,053                 |
| <b>For the eight months ended</b>            |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| <b>August 31, 2017</b>                       |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| <b>(unaudited)</b>                           |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Opening net book amount                      | 88,698                                           | 20,548                                          | 34,826                                                  | 3,830                      | 186,136                                     | 9,765                                         | 343,803                 |
| Additions                                    | 149                                              | 4,893                                           | 15,498                                                  | 479                        | 18,952                                      | 37,467                                        | 77,438                  |
| Transferred from construction<br>in progress | –                                                | 1,729                                           | 393                                                     | –                          | 3,886                                       | (6,008)                                       | –                       |
| Disposals                                    | (1,116)                                          | (152)                                           | (462)                                                   | (26)                       | –                                           | –                                             | (1,756)                 |
| Depreciation charge ( <i>Note 8</i> )        | (2,527)                                          | (3,447)                                         | (7,339)                                                 | (703)                      | (21,851)                                    | –                                             | (35,867)                |
| Closing net book amount                      | 85,204                                           | 23,571                                          | 42,916                                                  | 3,580                      | 187,123                                     | 41,224                                        | 383,618                 |
| <b>As at August 31, 2017</b>                 |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| <b>(unaudited)</b>                           |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Cost                                         | 91,829                                           | 56,805                                          | 131,277                                                 | 10,631                     | 368,448                                     | 41,224                                        | 700,214                 |
| Accumulated depreciation                     | (6,625)                                          | (33,234)                                        | (88,361)                                                | (7,051)                    | (181,325)                                   | –                                             | (316,596)               |
| Net book amount                              | 85,204                                           | 23,571                                          | 42,916                                                  | 3,580                      | 187,123                                     | 41,224                                        | 383,618                 |

## APPENDIX I

## ACCOUNTANT'S REPORT

|                                                       | Buildings<br>and<br>facilities<br><i>RMB'000</i> | Machinery<br>and<br>equipment<br><i>RMB'000</i> | Office and<br>electronic<br>equipment<br><i>RMB'000</i> | Vehicles<br><i>RMB'000</i> | Leasehold<br>improvements<br><i>RMB'000</i> | Construction<br>in progress<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|-------------------------------------------------------|--------------------------------------------------|-------------------------------------------------|---------------------------------------------------------|----------------------------|---------------------------------------------|-----------------------------------------------|-------------------------|
| <b>For the eight months ended<br/>August 31, 2018</b> |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Opening net book amount                               | 84,162                                           | 20,711                                          | 43,974                                                  | 3,827                      | 155,080                                     | 100,299                                       | 408,053                 |
| Additions                                             | 14,083                                           | 22,520                                          | 21,653                                                  | 1,130                      | 10,211                                      | 58,796                                        | 128,393                 |
| Acquisition of a subsidiary<br>(Note 32)              | –                                                | 592                                             | 1,102                                                   | 1                          | 9,969                                       | –                                             | 11,664                  |
| Transferred from construction<br>in progress          | 108,144                                          | –                                               | 14,325                                                  | –                          | 30,654                                      | (153,123)                                     | –                       |
| Disposals                                             | –                                                | (317)                                           | (1,332)                                                 | (42)                       | –                                           | –                                             | (1,691)                 |
| Disposal of subsidiaries<br>(Note 31)                 | –                                                | (6,304)                                         | (4,378)                                                 | (240)                      | –                                           | –                                             | (10,922)                |
| Depreciation charge (Note 8)                          | (5,381)                                          | (3,492)                                         | (8,714)                                                 | (725)                      | (14,988)                                    | –                                             | (33,300)                |
| Closing net book amount                               | 201,008                                          | 33,710                                          | 66,630                                                  | 3,951                      | 190,926                                     | 5,972                                         | 502,197                 |
| <b>As at August 31, 2018</b>                          |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Cost                                                  | 214,198                                          | 66,895                                          | 155,415                                                 | 10,268                     | 360,238                                     | 5,972                                         | 812,986                 |
| Accumulated depreciation                              | (13,190)                                         | (33,185)                                        | (88,785)                                                | (6,317)                    | (169,312)                                   | –                                             | (310,789)               |
| Net book amount                                       | 201,008                                          | 33,710                                          | 66,630                                                  | 3,951                      | 190,926                                     | 5,972                                         | 502,197                 |

As at December 31, 2017 and August 31, 2018, certain buildings and facilities with carrying amount of RMB55,212,975 and RMB54,006,699 were pledged as collaterals for the Group's bank borrowings (Note 28) (December 31, 2015 and 2016: nil).

Depreciation of property, plant and equipment have been charged to profit or loss (Note 8) as follows:

|                         | <b>For the years ended December 31,</b> |                |                | <b>For the eight months<br/>ended August 31,</b> |                |
|-------------------------|-----------------------------------------|----------------|----------------|--------------------------------------------------|----------------|
|                         | <b>2015</b>                             | <b>2016</b>    | <b>2017</b>    | <b>2017</b>                                      | <b>2018</b>    |
|                         | <i>RMB'000</i>                          | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i>                                   | <i>RMB'000</i> |
|                         |                                         |                |                | (unaudited)                                      |                |
| Administrative expenses | 1,876                                   | 1,658          | 1,595          | 1,336                                            | 979            |
| Cost of sales           | 44,160                                  | 47,426         | 52,354         | 34,531                                           | 32,321         |
|                         | 46,036                                  | 49,084         | 53,949         | 35,867                                           | 33,300         |

### The Company

|                              | Buildings<br>and<br>facilities<br><i>RMB'000</i> | Machinery<br>and<br>equipment<br><i>RMB'000</i> | Office and<br>electronic<br>equipment<br><i>RMB'000</i> | Vehicles<br><i>RMB'000</i> | Leasehold<br>improvements<br><i>RMB'000</i> | Construction<br>in progress<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|------------------------------|--------------------------------------------------|-------------------------------------------------|---------------------------------------------------------|----------------------------|---------------------------------------------|-----------------------------------------------|-------------------------|
| <b>As at January 1, 2015</b> |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Cost                         | 1,066                                            | 29,608                                          | 59,749                                                  | 7,445                      | 173,458                                     | 120                                           | 271,446                 |
| Accumulated depreciation     | (152)                                            | (18,625)                                        | (40,201)                                                | (4,443)                    | (85,616)                                    | –                                             | (149,037)               |
| Net book amount              | 914                                              | 10,983                                          | 19,548                                                  | 3,002                      | 87,842                                      | 120                                           | 122,409                 |

## APPENDIX I

## ACCOUNTANT'S REPORT

|                                              | Buildings<br>and<br>facilities<br><i>RMB'000</i> | Machinery<br>and<br>equipment<br><i>RMB'000</i> | Office and<br>electronic<br>equipment<br><i>RMB'000</i> | Vehicles<br><i>RMB'000</i> | Leasehold<br>improvements<br><i>RMB'000</i> | Construction<br>in progress<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|----------------------------------------------|--------------------------------------------------|-------------------------------------------------|---------------------------------------------------------|----------------------------|---------------------------------------------|-----------------------------------------------|-------------------------|
| <b>For the year ended</b>                    |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| <b>December 31, 2015</b>                     |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Opening net book amount                      | 914                                              | 10,983                                          | 19,548                                                  | 3,002                      | 87,842                                      | 120                                           | 122,409                 |
| Additions                                    | 29                                               | 955                                             | 2,436                                                   | 13                         | 2,007                                       | 120                                           | 5,560                   |
| Transferred from construction<br>in progress | –                                                | 240                                             | –                                                       | –                          | –                                           | (240)                                         | –                       |
| Disposals                                    | –                                                | (20)                                            | (377)                                                   | (193)                      | –                                           | –                                             | (590)                   |
| Depreciation charge                          | (110)                                            | (2,644)                                         | (5,408)                                                 | (959)                      | (13,966)                                    | –                                             | (23,087)                |
| Closing net book amount                      | 833                                              | 9,514                                           | 16,199                                                  | 1,863                      | 75,883                                      | –                                             | 104,292                 |
| <b>As at December 31, 2015</b>               |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Cost                                         | 1,095                                            | 30,585                                          | 61,538                                                  | 6,897                      | 175,465                                     | –                                             | 275,580                 |
| Accumulated depreciation                     | (262)                                            | (21,071)                                        | (45,339)                                                | (5,034)                    | (99,582)                                    | –                                             | (171,288)               |
| Net book amount                              | 833                                              | 9,514                                           | 16,199                                                  | 1,863                      | 75,883                                      | –                                             | 104,292                 |
| <b>For the year ended</b>                    |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| <b>December 31, 2016</b>                     |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Opening net book amount                      | 833                                              | 9,514                                           | 16,199                                                  | 1,863                      | 75,883                                      | –                                             | 104,292                 |
| Additions                                    | 25                                               | 1,022                                           | 3,676                                                   | 1,087                      | 5,189                                       | –                                             | 10,999                  |
| Disposals                                    | –                                                | (35)                                            | (33)                                                    | (125)                      | –                                           | –                                             | (193)                   |
| Depreciation charge                          | (149)                                            | (2,813)                                         | (5,522)                                                 | (692)                      | (14,711)                                    | –                                             | (23,887)                |
| Closing net book amount                      | 709                                              | 7,688                                           | 14,320                                                  | 2,133                      | 66,361                                      | –                                             | 91,211                  |
| <b>As at December 31, 2016</b>               |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Cost                                         | 1,120                                            | 31,394                                          | 64,870                                                  | 6,077                      | 180,654                                     | –                                             | 284,115                 |
| Accumulated depreciation                     | (411)                                            | (23,706)                                        | (50,550)                                                | (3,944)                    | (114,293)                                   | –                                             | (192,904)               |
| Net book amount                              | 709                                              | 7,688                                           | 14,320                                                  | 2,133                      | 66,361                                      | –                                             | 91,211                  |
| <b>For the year ended</b>                    |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| <b>December 31, 2017</b>                     |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Opening net book amount                      | 709                                              | 7,688                                           | 14,320                                                  | 2,133                      | 66,361                                      | –                                             | 91,211                  |
| Additions                                    | 240                                              | 1,447                                           | 4,652                                                   | –                          | 3,245                                       | 13,458                                        | 23,042                  |
| Transferred from construction<br>in progress | –                                                | –                                               | 393                                                     | –                          | 3,888                                       | (4,281)                                       | –                       |
| Disposals                                    | (21)                                             | (227)                                           | (613)                                                   | (117)                      | –                                           | –                                             | (978)                   |
| Depreciation charge                          | (132)                                            | (2,721)                                         | (4,724)                                                 | (475)                      | (17,673)                                    | –                                             | (25,725)                |
| Closing net book amount                      | 796                                              | 6,187                                           | 14,028                                                  | 1,541                      | 55,821                                      | 9,177                                         | 87,550                  |
| <b>As at December 31, 2017</b>               |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Cost                                         | 1,304                                            | 32,183                                          | 67,491                                                  | 4,915                      | 187,787                                     | 9,177                                         | 302,857                 |
| Accumulated depreciation                     | (508)                                            | (25,996)                                        | (53,463)                                                | (3,374)                    | (131,966)                                   | –                                             | (215,307)               |
| Net book amount                              | 796                                              | 6,187                                           | 14,028                                                  | 1,541                      | 55,821                                      | 9,177                                         | 87,550                  |

## APPENDIX I

## ACCOUNTANT’S REPORT

|                                                                       | Buildings<br>and<br>facilities<br><i>RMB'000</i> | Machinery<br>and<br>equipment<br><i>RMB'000</i> | Office and<br>electronic<br>equipment<br><i>RMB'000</i> | Vehicles<br><i>RMB'000</i> | Leasehold<br>improvements<br><i>RMB'000</i> | Construction<br>in progress<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|-----------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------|---------------------------------------------------------|----------------------------|---------------------------------------------|-----------------------------------------------|-------------------------|
| <b>For the eight months ended<br/>August 31, 2017<br/>(unaudited)</b> |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Opening net book amount                                               | 709                                              | 7,688                                           | 14,320                                                  | 2,133                      | 66,361                                      | –                                             | 91,211                  |
| Additions                                                             | 240                                              | 1,188                                           | 3,037                                                   | 80                         | 2,409                                       | 10,572                                        | 17,526                  |
| Transferred from construction<br>in progress                          | –                                                | –                                               | 393                                                     | –                          | 3,886                                       | (4,279)                                       | –                       |
| Disposals                                                             | –                                                | (79)                                            | (299)                                                   | (6)                        | –                                           | –                                             | (384)                   |
| Depreciation charge                                                   | (86)                                             | (1,962)                                         | (3,541)                                                 | (343)                      | (10,160)                                    | –                                             | (16,092)                |
| Closing net book amount                                               | 863                                              | 6,835                                           | 13,910                                                  | 1,864                      | 62,496                                      | 6,293                                         | 92,261                  |
| <b>As at August 31, 2017<br/>(unaudited)</b>                          |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Cost                                                                  | 1,360                                            | 32,439                                          | 67,712                                                  | 6,035                      | 184,608                                     | 6,293                                         | 298,447                 |
| Accumulated depreciation                                              | (497)                                            | (25,604)                                        | (53,802)                                                | (4,171)                    | (122,112)                                   | –                                             | (206,186)               |
| Net book amount                                                       | 863                                              | 6,835                                           | 13,910                                                  | 1,864                      | 62,496                                      | 6,293                                         | 92,261                  |
| <b>For the eight months ended<br/>August 31, 2018</b>                 |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Opening net book amount                                               | 796                                              | 6,187                                           | 14,028                                                  | 1,541                      | 55,821                                      | 9,177                                         | 87,550                  |
| Additions                                                             | 301                                              | 1,954                                           | 5,905                                                   | 419                        | 4,105                                       | 5,323                                         | 18,007                  |
| Transferred from construction<br>in progress                          | –                                                | –                                               | 538                                                     | –                          | 12,194                                      | (12,732)                                      | –                       |
| Disposals                                                             | –                                                | (312)                                           | (1,069)                                                 | (40)                       | –                                           | –                                             | (1,421)                 |
| Depreciation charge                                                   | (106)                                            | (839)                                           | (2,382)                                                 | (376)                      | (6,988)                                     | –                                             | (10,691)                |
| Closing net book amount                                               | 991                                              | 6,990                                           | 17,020                                                  | 1,544                      | 65,132                                      | 1,768                                         | 93,445                  |
| <b>As at August 31, 2018</b>                                          |                                                  |                                                 |                                                         |                            |                                             |                                               |                         |
| Cost                                                                  | 1,605                                            | 33,586                                          | 71,082                                                  | 5,086                      | 189,994                                     | 1,768                                         | 303,121                 |
| Accumulated depreciation                                              | (614)                                            | (26,596)                                        | (54,062)                                                | (3,542)                    | (124,862)                                   | –                                             | (209,676)               |
| Net book amount                                                       | 991                                              | 6,990                                           | 17,020                                                  | 1,544                      | 65,132                                      | 1,768                                         | 93,445                  |

### 17 LAND USE RIGHTS

#### The Group

Land use rights represent prepaid operating lease payments for land located in the PRC, which are held on leases of 40 years. The net book values are analyzed as below:

|                     | <b>As at December 31,</b> |                |                | <b>As at<br/>August 31,</b> |
|---------------------|---------------------------|----------------|----------------|-----------------------------|
|                     | <b>2015</b>               | <b>2016</b>    | <b>2017</b>    | <b>2018</b>                 |
|                     | <i>RMB'000</i>            | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i>              |
| In the PRC          |                           |                |                |                             |
| – Lease of 40 years | 30,682                    | 47,330         | 46,142         | 45,322                      |

## APPENDIX I

## ACCOUNTANT'S REPORT

|                                  | For the years ended December 31, |                 |                 | For the eight months ended August 31, |                 |
|----------------------------------|----------------------------------|-----------------|-----------------|---------------------------------------|-----------------|
|                                  | 2015<br>RMB'000                  | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000<br>(unaudited)        | 2018<br>RMB'000 |
| Beginning of the year/period     | –                                | 30,682          | 47,330          | 47,330                                | 46,142          |
| Additions                        | 31,268                           | 17,500          | –               | –                                     | –               |
| Amortization charges<br>(Note 8) | (586)                            | (852)           | (1,188)         | (765)                                 | (820)           |
| End of the year/period           | <u>30,682</u>                    | <u>47,330</u>   | <u>46,142</u>   | <u>46,565</u>                         | <u>45,322</u>   |

As at December 31, 2017 and August 31, 2018, certain land use rights with a carrying amount of RMB46,142,000 and RMB45,322,000 were pledged as collaterals for the Group's bank borrowings (Note 28) (December 31, 2015 and 2016: nil).

The amortization of land use rights have been charged to profit or loss (Note 8) as follows:

|               | For the years ended December 31, |                 |                 | For the eight months ended August 31, |                 |
|---------------|----------------------------------|-----------------|-----------------|---------------------------------------|-----------------|
|               | 2015<br>RMB'000                  | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000<br>(unaudited)        | 2018<br>RMB'000 |
| Cost of sales | <u>586</u>                       | <u>852</u>      | <u>1,188</u>    | <u>765</u>                            | <u>820</u>      |

### 18 INTANGIBLE ASSETS

#### The Group

|                                                | Computer software<br>RMB'000 | Favorable operating lease<br>RMB'000 | Total<br>RMB'000 |
|------------------------------------------------|------------------------------|--------------------------------------|------------------|
| <b>As at January 1, 2015</b>                   |                              |                                      |                  |
| Cost                                           | 28,646                       | 30,454                               | 59,100           |
| Accumulated amortization                       | <u>(16,159)</u>              | <u>(14,124)</u>                      | <u>(30,283)</u>  |
| Net book amount                                | <u>12,487</u>                | <u>16,330</u>                        | <u>28,817</u>    |
| <b>For the year ended December 31, 2015</b>    |                              |                                      |                  |
| Opening net book amount                        | 12,487                       | 16,330                               | 28,817           |
| Additions                                      | 1,588                        | –                                    | 1,588            |
| Reclassified as assets held for sale (Note 31) | (38)                         | –                                    | (38)             |
| Amortization charge (Note 8)                   | <u>(3,557)</u>               | <u>(2,926)</u>                       | <u>(6,483)</u>   |
| Closing net book amount                        | <u>10,480</u>                | <u>13,404</u>                        | <u>23,884</u>    |
| <b>As at December 31, 2015</b>                 |                              |                                      |                  |
| Cost                                           | 28,968                       | 30,454                               | 59,422           |
| Accumulated amortization                       | <u>(18,488)</u>              | <u>(17,050)</u>                      | <u>(35,538)</u>  |
| Net book amount                                | <u>10,480</u>                | <u>13,404</u>                        | <u>23,884</u>    |

## APPENDIX I

## ACCOUNTANT'S REPORT

|                                                                   | Computer<br>software<br>RMB'000 | Favorable<br>operating lease<br>RMB'000 | Total<br>RMB'000 |
|-------------------------------------------------------------------|---------------------------------|-----------------------------------------|------------------|
| <b>For the year ended December 31, 2016</b>                       |                                 |                                         |                  |
| Opening net book amount                                           | 10,480                          | 13,404                                  | 23,884           |
| Additions                                                         | 1,238                           | –                                       | 1,238            |
| Amortization charge (Note 8)                                      | (4,059)                         | (2,926)                                 | (6,985)          |
| Closing net book amount                                           | 7,659                           | 10,478                                  | 18,137           |
| <b>As at December 31, 2016</b>                                    |                                 |                                         |                  |
| Cost                                                              | 29,960                          | 30,454                                  | 60,414           |
| Accumulated amortization                                          | (22,301)                        | (19,976)                                | (42,277)         |
| Net book amount                                                   | 7,659                           | 10,478                                  | 18,137           |
| <b>For the year ended December 31, 2017</b>                       |                                 |                                         |                  |
| Opening net book amount                                           | 7,659                           | 10,478                                  | 18,137           |
| Additions                                                         | 2,223                           | –                                       | 2,223            |
| Disposal of subsidiaries                                          | (18)                            | (578)                                   | (596)            |
| Amortization charge (Note 8)                                      | (2,531)                         | (2,196)                                 | (4,727)          |
| Closing net book amount                                           | 7,333                           | 7,704                                   | 15,037           |
| <b>As at December 31, 2017</b>                                    |                                 |                                         |                  |
| Cost                                                              | 30,650                          | 18,696                                  | 49,346           |
| Accumulated amortization                                          | (23,317)                        | (10,992)                                | (34,309)         |
| Net book amount                                                   | 7,333                           | 7,704                                   | 15,037           |
|                                                                   | Computer<br>software<br>RMB'000 | Favorable<br>operating lease<br>RMB'000 | Total<br>RMB'000 |
| <b>For the eight months ended August 31, 2017<br/>(unaudited)</b> |                                 |                                         |                  |
| Opening net book amount                                           | 7,659                           | 10,478                                  | 18,137           |
| Additions                                                         | 1,037                           | –                                       | 1,037            |
| Amortization charge (Note 8)                                      | (2,390)                         | (867)                                   | (3,257)          |
| Closing net book amount                                           | 6,306                           | 9,611                                   | 15,917           |
| <b>As at August 31, 2017 (unaudited)</b>                          |                                 |                                         |                  |
| Cost                                                              | 30,997                          | 30,454                                  | 61,451           |
| Accumulated amortization                                          | (24,691)                        | (20,843)                                | (45,534)         |
| Net book amount                                                   | 6,306                           | 9,611                                   | 15,917           |

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## ACCOUNTANT'S REPORT

|                                                       | Computer<br>software<br>RMB'000 | Favorable<br>operating<br>lease<br>RMB'000 | Goodwill<br>RMB'000 | Total<br>RMB'000 |
|-------------------------------------------------------|---------------------------------|--------------------------------------------|---------------------|------------------|
| <b>For the eight months ended<br/>August 31, 2018</b> |                                 |                                            |                     |                  |
| Opening net book amount                               | 7,333                           | 7,704                                      | –                   | 15,037           |
| Additions                                             | 1,706                           | –                                          | –                   | 1,706            |
| Acquisition of a subsidiary<br>(Note 32)              | –                               | –                                          | 2,132               | 2,132            |
| Disposal of subsidiaries (Note 31)                    | (200)                           | –                                          | –                   | (200)            |
| Amortization charge (Note 8)                          | (3,051)                         | (909)                                      | –                   | (3,960)          |
|                                                       | <u>5,788</u>                    | <u>6,795</u>                               | <u>2,132</u>        | <u>14,715</u>    |
| Closing net book amount                               | <u>5,788</u>                    | <u>6,795</u>                               | <u>2,132</u>        | <u>14,715</u>    |
| <b>As at August 31, 2018</b>                          |                                 |                                            |                     |                  |
| Cost                                                  | 32,118                          | 18,696                                     | 2,132               | 52,946           |
| Accumulated amortization                              | <u>(26,330)</u>                 | <u>(11,901)</u>                            | <u>–</u>            | <u>(38,231)</u>  |
| Net book amount                                       | <u>5,788</u>                    | <u>6,795</u>                               | <u>2,132</u>        | <u>14,715</u>    |

The amortization of intangible assets have been charged to profit or loss (Note 8) as follows:

|                         | <b>For the years ended December 31,</b> |                |                | <b>For the eight months<br/>ended August 31,</b> |                |
|-------------------------|-----------------------------------------|----------------|----------------|--------------------------------------------------|----------------|
|                         | <b>2015</b>                             | <b>2016</b>    | <b>2017</b>    | <b>2017</b>                                      | <b>2018</b>    |
|                         | <i>RMB'000</i>                          | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i>                                   | <i>RMB'000</i> |
|                         |                                         |                |                | (unaudited)                                      |                |
| Administrative expenses | 1,653                                   | 1,386          | 1,378          | 772                                              | 772            |
| Cost of sales           | <u>4,830</u>                            | <u>5,599</u>   | <u>3,349</u>   | <u>2,485</u>                                     | <u>3,188</u>   |
|                         | <u>6,483</u>                            | <u>6,985</u>   | <u>4,727</u>   | <u>3,257</u>                                     | <u>3,960</u>   |

### The Company

|                                             | Computer<br>software<br>RMB'000 |
|---------------------------------------------|---------------------------------|
| <b>As at January 1, 2015</b>                |                                 |
| Cost                                        | 4,103                           |
| Accumulated amortization                    | <u>(3,316)</u>                  |
| Net book amount                             | <u>787</u>                      |
| <b>For the year ended December 31, 2015</b> |                                 |
| Opening net book amount                     | 787                             |
| Additions                                   | 841                             |
| Amortization charge                         | <u>(539)</u>                    |
| Closing net book amount                     | <u>1,089</u>                    |
| <b>As at December 31, 2015</b>              |                                 |
| Cost                                        | 3,776                           |
| Accumulated amortization                    | <u>(2,687)</u>                  |
| Net book amount                             | <u>1,089</u>                    |

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## ACCOUNTANT'S REPORT

### Computer software RMB'000

#### For the year ended December 31, 2016

|                         |       |
|-------------------------|-------|
| Opening net book amount | 1,089 |
| Additions               | 363   |
| Amortization charge     | (773) |

|                         |     |
|-------------------------|-----|
| Closing net book amount | 679 |
|-------------------------|-----|

#### As at December 31, 2016

|                          |         |
|--------------------------|---------|
| Cost                     | 3,989   |
| Accumulated amortization | (3,310) |

|                 |     |
|-----------------|-----|
| Net book amount | 679 |
|-----------------|-----|

#### For the year ended December 31, 2017

|                         |       |
|-------------------------|-------|
| Opening net book amount | 679   |
| Additions               | 1,571 |
| Amortization charge     | (564) |

|                         |       |
|-------------------------|-------|
| Closing net book amount | 1,686 |
|-------------------------|-------|

#### As at December 31, 2017

|                          |         |
|--------------------------|---------|
| Cost                     | 4,485   |
| Accumulated amortization | (2,799) |

|                 |       |
|-----------------|-------|
| Net book amount | 1,686 |
|-----------------|-------|

#### For the eight months ended August 31, 2017 (unaudited)

|                         |       |
|-------------------------|-------|
| Opening net book amount | 679   |
| Additions               | 264   |
| Amortization charge     | (361) |

|                         |     |
|-------------------------|-----|
| Closing net book amount | 582 |
|-------------------------|-----|

#### As at August 31, 2017 (unaudited)

|                          |         |
|--------------------------|---------|
| Cost                     | 4,253   |
| Accumulated amortization | (3,671) |

|                 |     |
|-----------------|-----|
| Net book amount | 582 |
|-----------------|-----|

#### For the eight months ended August 31, 2018

|                         |       |
|-------------------------|-------|
| Opening net book amount | 1,686 |
| Additions               | 1,052 |
| Amortization charge     | (914) |

|                         |       |
|-------------------------|-------|
| Closing net book amount | 1,824 |
|-------------------------|-------|

#### As at August 31, 2018

|                          |         |
|--------------------------|---------|
| Cost                     | 5,537   |
| Accumulated amortization | (3,713) |

|                 |       |
|-----------------|-------|
| Net book amount | 1,824 |
|-----------------|-------|



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## ACCOUNTANT'S REPORT

### 19 OTHER NON-CURRENT ASSETS

Other long-term assets represent prepayment of operating lease expenses.

#### The Group

|                                        | As at December 31, |         |         | As at      |
|----------------------------------------|--------------------|---------|---------|------------|
|                                        | 2015               | 2016    | 2017    | August 31, |
|                                        | RMB'000            | RMB'000 | RMB'000 | 2018       |
|                                        |                    |         |         | RMB'000    |
| Prepayment of operating lease expenses | 24,117             | 22,125  | 14,554  | 3,527      |

#### The Company

|                                        | As at December 31, |         |         | As at      |
|----------------------------------------|--------------------|---------|---------|------------|
|                                        | 2015               | 2016    | 2017    | August 31, |
|                                        | RMB'000            | RMB'000 | RMB'000 | 2018       |
|                                        |                    |         |         | RMB'000    |
| Prepayment of operating lease expenses | 24,117             | 20,333  | 14,202  | 754        |

### 20 INVENTORIES

#### The Group

|                                                     | As at December 31, |         |         | As at      |
|-----------------------------------------------------|--------------------|---------|---------|------------|
|                                                     | 2015               | 2016    | 2017    | August 31, |
|                                                     | RMB'000            | RMB'000 | RMB'000 | 2018       |
|                                                     |                    |         |         | RMB'000    |
| Foods and beverage Consumables, supplies and others | 15,764             | 13,408  | 17,625  | 18,898     |
|                                                     | 8,442              | 8,678   | 9,168   | 8,852      |
|                                                     | 24,206             | 22,086  | 26,793  | 27,750     |
| Less: provision for impairment                      | —                  | —       | —       | —          |
|                                                     | 24,206             | 22,086  | 26,793  | 27,750     |

#### The Company

|                                                     | As at December 31, |         |         | As at      |
|-----------------------------------------------------|--------------------|---------|---------|------------|
|                                                     | 2015               | 2016    | 2017    | August 31, |
|                                                     | RMB'000            | RMB'000 | RMB'000 | 2018       |
|                                                     |                    |         |         | RMB'000    |
| Foods and beverage Consumables, supplies and others | 11,995             | 9,023   | 9,057   | 9,894      |
|                                                     | 4,659              | 5,319   | 4,830   | 4,799      |
|                                                     | 16,654             | 14,342  | 13,887  | 14,693     |
| Less: provision for impairment                      | —                  | —       | —       | —          |
|                                                     | 16,654             | 14,342  | 13,887  | 14,693     |

## APPENDIX I

## ACCOUNTANT'S REPORT

### 21 TRADE, OTHER RECEIVABLES AND PREPAYMENTS

#### The Group

|                                                                               | As at December 31, |         |         | As at      |
|-------------------------------------------------------------------------------|--------------------|---------|---------|------------|
|                                                                               | 2015               | 2016    | 2017    | August 31, |
|                                                                               | RMB'000            | RMB'000 | RMB'000 | 2018       |
|                                                                               |                    |         |         | RMB'000    |
| Trade receivables due from third parties                                      | 61,597             | 56,257  | 68,216  | 83,006     |
| Trade receivables due from related parties (Note 35(c))                       | 9,033              | 6,822   | 4,235   | 7,301      |
|                                                                               | 70,630             | 63,079  | 72,451  | 90,307     |
| Less: provision for impairment (Note 8)                                       | (5,543)            | (4,230) | (5,223) | (3,659)    |
| Trade receivables – net                                                       | 65,087             | 58,849  | 67,228  | 86,648     |
| Deposits to suppliers                                                         | 42,428             | 44,138  | 54,753  | 55,314     |
| Loans receivables and other receivables due from related parties (Note 35(c)) | 251,321            | 87,418  | 20,518  | 20,837     |
| VAT recoverable                                                               | 391                | 5,371   | 21,361  | 33,525     |
| Interest receivable                                                           | 3,183              | 6,209   | –       | 229        |
| Financial instruments with guaranteed principal & return                      | –                  | –       | –       | 60,000     |
| Others                                                                        | 24,478             | 26,097  | 40,323  | 19,660     |
|                                                                               | 321,801            | 169,233 | 136,955 | 189,565    |
| Less: provision for other receivables (Note 8)                                | (948)              | (4,813) | (4,501) | (7,644)    |
| Other receivables – net                                                       | 320,853            | 164,420 | 132,454 | 181,921    |
| Prepayments                                                                   | 22,815             | 30,125  | 39,408  | 66,316     |
| Total trade, other receivables and prepayments                                | 408,755            | 253,394 | 239,090 | 334,885    |

## APPENDIX I

## ACCOUNTANT'S REPORT

### (a) Trade receivables

During the Track Record Period, the fair values of the trade receivables of the Group approximately their carrying amount and the carrying amounts of all the Group's trade receivables are denominated in RMB.

The Group allows a credit period of within 30-90 days to its customers. Aging analysis of trade receivables based on invoice date, before provision for impairment, were as follows:

|                      | As at December 31, |               |               | As at<br>August 31, |
|----------------------|--------------------|---------------|---------------|---------------------|
|                      | 2015               | 2016          | 2017          | 2018                |
|                      | RMB'000            | RMB'000       | RMB'000       | RMB'000             |
| – Up to 3 months     | 53,977             | 49,989        | 62,272        | 77,364              |
| – 3 months to 1 year | 10,902             | 5,539         | 4,987         | 9,786               |
| – 1 year to 2 years  | 2,955              | 5,652         | 2,473         | 1,381               |
| – 2 years to 3 years | 1,406              | 1,254         | 1,085         | 324                 |
| – Over 3 years       | 1,390              | 645           | 1,634         | 1,452               |
|                      | <u>70,630</u>      | <u>63,079</u> | <u>72,451</u> | <u>90,307</u>       |

Movements in the provision for impairment of trade receivables that are assessed for impairment collectively are as follows:

|                                  | For the years ended December 31, |                |                | For the eight months<br>ended August 31, |                |
|----------------------------------|----------------------------------|----------------|----------------|------------------------------------------|----------------|
|                                  | 2015                             | 2016           | 2017           | 2017                                     | 2018           |
|                                  | RMB'000                          | RMB'000        | RMB'000        | RMB'000                                  | RMB'000        |
|                                  |                                  |                |                | (unaudited)                              |                |
| Beginning of the<br>year/period  | (1,771)                          | (5,543)        | (4,230)        | (4,230)                                  | (5,223)        |
| (Additions)/reversal<br>(Note 8) | (4,168)                          | (1,375)        | (1,267)        | 297                                      | 1,564          |
| Write-off                        | <u>396</u>                       | <u>2,688</u>   | <u>274</u>     | <u>219</u>                               | <u>–</u>       |
| End of the year/period           | <u>(5,543)</u>                   | <u>(4,230)</u> | <u>(5,223)</u> | <u>(3,714)</u>                           | <u>(3,659)</u> |

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision as at December 31, 2015, 2016, 2017 and August 31, 2018 is determined as follows, the expected credit losses below also incorporate forward looking information.

|                                       | Related<br>parties | Within<br>credit<br>period | Up to<br>3 months<br>past due | 3 months<br>to 1 year<br>past due | 1 to 2<br>years<br>past due | 2 to 3<br>years<br>past due | Above<br>3 years<br>past due | Total          |
|---------------------------------------|--------------------|----------------------------|-------------------------------|-----------------------------------|-----------------------------|-----------------------------|------------------------------|----------------|
| <b>As at December 31, 2015</b>        |                    |                            |                               |                                   |                             |                             |                              |                |
| Expected loss rate                    | 1.00%              | 0.92%                      | 3.91%                         | 9.54%                             | 21.80%                      | 69.00%                      | 100.00%                      |                |
| Gross carrying amount<br>(RMB'000)    | 9,033              | 8,626                      | 37,908                        | 9,312                             | 2,955                       | 1,406                       | 1,390                        | 70,630         |
| Loss allowance<br>provision (RMB'000) | <u>(90)</u>        | <u>(79)</u>                | <u>(1,482)</u>                | <u>(888)</u>                      | <u>(644)</u>                | <u>(970)</u>                | <u>(1,390)</u>               | <u>(5,543)</u> |

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## ACCOUNTANT'S REPORT

|                                    | Related parties | Within credit period | Up to 3 months past due | 3 months to 1 year past due | 1 to 2 years past due | 2 to 3 years past due | Above 3 years past due | Total   |
|------------------------------------|-----------------|----------------------|-------------------------|-----------------------------|-----------------------|-----------------------|------------------------|---------|
| <b>As at December 31, 2016</b>     |                 |                      |                         |                             |                       |                       |                        |         |
| Expected loss rate                 | 1.00%           | 0.91%                | 3.89%                   | 8.12%                       | 21.05%                | 68.24%                | 100.00%                |         |
| Gross carrying amount (RMB'000)    | 6,822           | 15,286               | 32,666                  | 754                         | 5,652                 | 1,254                 | 645                    | 63,079  |
| Loss allowance provision (RMB'000) | (68)            | (139)                | (1,271)                 | (61)                        | (1,190)               | (856)                 | (645)                  | (4,230) |
| <b>As at December 31, 2017</b>     |                 |                      |                         |                             |                       |                       |                        |         |
| Expected loss rate                 | 1.00%           | 0.98%                | 3.98%                   | 9.41%                       | 20.95%                | 68.83%                | 100.00%                |         |
| Gross carrying amount (RMB'000)    | 4,235           | 16,414               | 41,700                  | 4,910                       | 2,473                 | 1,085                 | 1,634                  | 72,451  |
| Loss allowance provision (RMB'000) | (42)            | (160)                | (1,660)                 | (462)                       | (518)                 | (747)                 | (1,634)                | (5,223) |
| <b>As at August 31, 2018</b>       |                 |                      |                         |                             |                       |                       |                        |         |
| Expected loss rate                 | 1.00%           | 0.96%                | 3.95%                   | 9.38%                       | 20.95%                | 68.44%                | 100.00%                |         |
| Gross carrying amount (RMB'000)    | 7,301           | 58,196               | 17,807                  | 3,846                       | 1,381                 | 324                   | 1,452                  | 90,307  |
| Loss allowance provision (RMB'000) | (73)            | (559)                | (703)                   | (361)                       | (289)                 | (222)                 | (1,452)                | (3,659) |

### (b) Other receivables

Other receivables are measured at amortized costs. The receivables are mainly composed of the deposits to suppliers, VAT recoverable, interest receivables, receivables due from related parties and financial instruments with guaranteed principal & return, which were considered to be low credit risk, and thus the impairment provision recognized during Track Record Period was limited to 12 months expected losses.

Movements in the provision for impairment of other receivables are as follows:

|                               | For the years ended December 31, |         |         | For the eight months ended August 31, |         |
|-------------------------------|----------------------------------|---------|---------|---------------------------------------|---------|
|                               | 2015                             | 2016    | 2017    | 2017                                  | 2018    |
|                               | RMB'000                          | RMB'000 | RMB'000 | RMB'000                               | RMB'000 |
|                               |                                  |         |         | (unaudited)                           |         |
| Beginning of the year/period  | (165)                            | (948)   | (4,813) | (4,813)                               | (4,501) |
| (Additions)/reversal (Note 8) | (783)                            | (3,892) | 309     | (168)                                 | (3,143) |
| Write-off                     | —                                | 27      | 3       | —                                     | —       |
| End of the year/period        | (948)                            | (4,813) | (4,501) | (4,981)                               | (7,644) |

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## ACCOUNTANT'S REPORT

|                                    | Related parties | Financial instruments with guaranteed principal & return | Within credit period | Up to 3 months past due | 3 months to 1 year past due | 1 to 2 years past due | 2 to 3 years past due | Above 3 years past due | Total   |
|------------------------------------|-----------------|----------------------------------------------------------|----------------------|-------------------------|-----------------------------|-----------------------|-----------------------|------------------------|---------|
| <b>As at December 31, 2015</b>     |                 |                                                          |                      |                         |                             |                       |                       |                        |         |
| Expected loss rate                 | 0.05%           | –                                                        | 0.04%                | 0.50%                   | 1.00%                       | 3.00%                 | 36.50%                | 40.39%                 |         |
| Gross carrying amount (RMB'000)    | 251,321         | –                                                        | 52,007               | 4,997                   | 49                          | 12,395                | 215                   | 817                    | 321,801 |
| Loss allowance provision (RMB'000) | (126)           | –                                                        | (18)                 | (25)                    | –                           | (371)                 | (78)                  | (330)                  | (948)   |
| <b>As at December 31, 2016</b>     |                 |                                                          |                      |                         |                             |                       |                       |                        |         |
| Expected loss rate                 | 0.05%           | –                                                        | 0.04%                | 0.50%                   | 1.00%                       | 3.00%                 | 39.62%                | 44.67%                 |         |
| Gross carrying amount (RMB'000)    | 87,418          | –                                                        | 56,770               | 8,961                   | 4,353                       | 43                    | 11,219                | 469                    | 169,233 |
| Loss allowance provision (RMB'000) | (44)            | –                                                        | (24)                 | (45)                    | (44)                        | (1)                   | (4,445)               | (210)                  | (4,813) |
| <b>As at December 31, 2017</b>     |                 |                                                          |                      |                         |                             |                       |                       |                        |         |
| Expected loss rate                 | 0.05%           | –                                                        | 0.04%                | 0.50%                   | 1.00%                       | 3.00%                 | 39.72%                | 44.67%                 |         |
| Gross carrying amount (RMB'000)    | 20,518          | –                                                        | 70,140               | 29,227                  | 3,791                       | 3,968                 | 20                    | 9,291                  | 136,955 |
| Loss allowance provision (RMB'000) | (10)            | –                                                        | (30)                 | (146)                   | (38)                        | (119)                 | (8)                   | (4,150)                | (4,501) |
| <b>As at August 31, 2018</b>       |                 |                                                          |                      |                         |                             |                       |                       |                        |         |
| Expected loss rate                 | 0.05%           | 0.05%                                                    | 0.04%                | 0.50%                   | 1.00%                       | 3.00%                 | 39.69%                | 62.25%                 |         |
| Gross carrying amount (RMB'000)    | 20,837          | 60,000                                                   | 66,655               | 23,479                  | 4,589                       | 2,173                 | 75                    | 11,757                 | 189,565 |
| Loss allowance provision (RMB'000) | (10)            | (30)                                                     | (27)                 | (117)                   | (46)                        | (65)                  | (30)                  | (7,319)                | (7,644) |

### The Company

|                                                     | <b>As at December 31,</b> |                |                | <b>As at August 31, 2018</b> |
|-----------------------------------------------------|---------------------------|----------------|----------------|------------------------------|
|                                                     | <b>2015</b>               | <b>2016</b>    | <b>2017</b>    | <b>2018</b>                  |
|                                                     | <i>RMB'000</i>            | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i>               |
| Trade receivables due from third parties            | 47,923                    | 41,304         | 47,856         | 56,615                       |
| Trade receivables due from related parties          | 9,659                     | 4,560          | 7,334          | 12,843                       |
|                                                     | 57,582                    | 45,864         | 55,190         | 69,458                       |
| Less: provision for impairment                      | (5,246)                   | (3,248)        | (4,204)        | (2,551)                      |
| Trade receivables – net                             | 52,336                    | 42,616         | 50,986         | 66,907                       |
| Deposits to suppliers                               | 33,401                    | 33,975         | 34,620         | 37,158                       |
| Loan and other receivables due from related parties | 320,281                   | 130,715        | 200,468        | 185,656                      |
| VAT recoverable                                     | –                         | 545            | 2,107          | 1,935                        |
| Interest receivable                                 | 3,647                     | 7,370          | 2,026          | 1,038                        |
| Financial assets at amortized cost                  | –                         | –              | –              | 60,000                       |
| Others                                              | 16,086                    | 17,659         | 36,653         | 12,590                       |
|                                                     | 373,415                   | 190,264        | 275,874        | 298,377                      |
| Less: provision for other receivables               | (874)                     | (4,752)        | (4,413)        | (5,056)                      |
| Other receivables – net                             | 372,541                   | 185,512        | 271,461        | 293,321                      |
| Prepayments                                         | 9,116                     | 9,494          | 14,712         | 41,190                       |
| Total trade, other receivables and prepayments      | 433,993                   | 237,622        | 337,159        | 401,418                      |

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### 22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

#### The Group

|                                                       | As at December 31, |         |         | As at      |
|-------------------------------------------------------|--------------------|---------|---------|------------|
|                                                       | 2015               | 2016    | 2017    | August 31, |
|                                                       | RMB'000            | RMB'000 | RMB'000 | 2018       |
|                                                       |                    |         |         | RMB'000    |
| Financial assets at fair value through profit or loss | –                  | 155,590 | –       | –          |

#### The Company

|                                                       | As at December 31, |         |         | As at      |
|-------------------------------------------------------|--------------------|---------|---------|------------|
|                                                       | 2015               | 2016    | 2017    | August 31, |
|                                                       | RMB'000            | RMB'000 | RMB'000 | 2018       |
|                                                       |                    |         |         | RMB'000    |
| Financial assets at fair value through profit or loss | –                  | 129,000 | –       | –          |

The financial assets at fair value through profit or loss are wealth management products, denominated in RMB, with expected rates of return ranging from 6.90% to 7.20% per annum during the Track Record Period. They had initial terms ranging from 91 days to 289 days. The returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss.

### 23 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

#### The Group

|                           | As at December 31, |          |         | As at      |
|---------------------------|--------------------|----------|---------|------------|
|                           | 2015               | 2016     | 2017    | August 31, |
|                           | RMB'000            | RMB'000  | RMB'000 | 2018       |
|                           |                    |          |         | RMB'000    |
| Cash at bank and in hand  | 198,785            | 248,564  | 424,109 | 360,342    |
| Less: restricted cash (a) | (72,400)           | (72,400) | –       | (72,100)   |
| Cash and cash equivalents | 126,385            | 176,164  | 424,109 | 288,242    |

During the Track Record Period, all the cash at bank and in hand are denominated in RMB.

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- (a) Restricted cash represents term deposit, guaranteed deposits held in separate reserve accounts pledged as security deposits under bank borrowing agreements (Note 28) and certain hotel lease agreements.

|                                                    | As at December 31, |               |          | As at         |
|----------------------------------------------------|--------------------|---------------|----------|---------------|
|                                                    | 2015               | 2016          | 2017     | August 31,    |
|                                                    | RMB'000            | RMB'000       | RMB'000  | 2018          |
|                                                    |                    |               |          | RMB'000       |
| Deposits pledged for the bank borrowings           | 40,000             | 40,000        | –        | –             |
| Deposits pledged for issued of letter of guarantee | 32,400             | 32,400        | –        | 66,000        |
| Term deposit                                       | –                  | –             | –        | 6,100         |
|                                                    | <u>72,400</u>      | <u>72,400</u> | <u>–</u> | <u>72,100</u> |

### The Company

|                           | As at December 31, |                 |                | As at           |
|---------------------------|--------------------|-----------------|----------------|-----------------|
|                           | 2015               | 2016            | 2017           | August 31,      |
|                           | RMB'000            | RMB'000         | RMB'000        | 2018            |
|                           |                    |                 |                | RMB'000         |
| Cash at bank and in hand  | 110,714            | 143,653         | 184,968        | 172,688         |
| Less: restricted cash     | <u>(72,400)</u>    | <u>(72,400)</u> | <u>–</u>       | <u>(72,100)</u> |
| Cash and cash equivalents | <u>38,314</u>      | <u>71,253</u>   | <u>184,968</u> | <u>100,588</u>  |

## 24 FINANCIAL INSTRUMENTS BY CATEGORY

|                                                                         | As at December 31, 2015                     |                          |                |
|-------------------------------------------------------------------------|---------------------------------------------|--------------------------|----------------|
|                                                                         | Assets at fair value through profit or loss | Assets at amortized cost | Total          |
|                                                                         | RMB'000                                     | RMB'000                  | RMB'000        |
| <b>Assets as per consolidated balance sheets</b>                        |                                             |                          |                |
| Trade and other receivables (excluding VAT recoverable and prepayments) | –                                           | 385,549                  | 385,549        |
| Restricted cash                                                         | –                                           | 72,400                   | 72,400         |
| Cash and cash equivalent                                                | <u>–</u>                                    | <u>126,385</u>           | <u>126,385</u> |
| Total                                                                   | <u>–</u>                                    | <u>584,334</u>           | <u>584,334</u> |

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| As at December 31, 2016                                                    |                                                              |                                        |                  |
|----------------------------------------------------------------------------|--------------------------------------------------------------|----------------------------------------|------------------|
|                                                                            | Assets at fair<br>value through<br>profit or loss<br>RMB'000 | Assets at<br>amortized cost<br>RMB'000 | Total<br>RMB'000 |
| <b>Assets as per consolidated balance sheets</b>                           |                                                              |                                        |                  |
| Trade and other receivables (excluding VAT<br>recoverable and prepayments) | –                                                            | 217,898                                | 217,898          |
| Restricted cash                                                            | –                                                            | 72,400                                 | 72,400           |
| Cash and cash equivalent                                                   | –                                                            | 176,164                                | 176,164          |
| Financial assets at fair value through<br>profit or loss                   | 155,590                                                      | –                                      | 155,590          |
| Total                                                                      | 155,590                                                      | 466,462                                | 622,052          |

| As at December 31, 2017                                                    |                                                              |                                        |                  |
|----------------------------------------------------------------------------|--------------------------------------------------------------|----------------------------------------|------------------|
|                                                                            | Assets at fair<br>value through<br>profit or loss<br>RMB'000 | Assets at<br>amortized cost<br>RMB'000 | Total<br>RMB'000 |
| <b>Assets as per consolidated balance sheets</b>                           |                                                              |                                        |                  |
| Trade and other receivables (excluding VAT<br>recoverable and prepayments) | –                                                            | 178,321                                | 178,321          |
| Cash and cash equivalent                                                   | –                                                            | 424,109                                | 424,109          |
| Total                                                                      | –                                                            | 602,430                                | 602,430          |

| As at August 31, 2018                                                      |                                                              |                                        |                  |
|----------------------------------------------------------------------------|--------------------------------------------------------------|----------------------------------------|------------------|
|                                                                            | Assets at fair<br>value through<br>profit or loss<br>RMB'000 | Assets at<br>amortized cost<br>RMB'000 | Total<br>RMB'000 |
| <b>Assets as per consolidated balance sheets</b>                           |                                                              |                                        |                  |
| Trade and other receivables (excluding VAT<br>recoverable and prepayments) | –                                                            | 235,044                                | 235,044          |
| Restricted cash                                                            | –                                                            | 72,100                                 | 72,100           |
| Cash and cash equivalent                                                   | –                                                            | 288,242                                | 288,242          |
| Total                                                                      | –                                                            | 595,386                                | 595,386          |



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| As at December 31, 2015                                                                    |                                                                      |                                             |                  |
|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------|---------------------------------------------|------------------|
|                                                                                            | Liabilities at<br>fair value<br>through<br>profit or loss<br>RMB'000 | Liabilities at<br>amortized cost<br>RMB'000 | Total<br>RMB'000 |
| <b>Liabilities as per consolidated balance sheets</b>                                      |                                                                      |                                             |                  |
| Bank and other borrowings                                                                  | –                                                                    | 310,000                                     | 310,000          |
| Trade and other payables (excluding accrued<br>expenses, tax payables and salary payables) | –                                                                    | 286,850                                     | 286,850          |
| Total                                                                                      | –                                                                    | 596,850                                     | 596,850          |

| As at December 31, 2016                                                                    |                                                                      |                                             |                  |
|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------|---------------------------------------------|------------------|
|                                                                                            | Liabilities at<br>fair value<br>through<br>profit or loss<br>RMB'000 | Liabilities at<br>amortized cost<br>RMB'000 | Total<br>RMB'000 |
| <b>Liabilities as per consolidated balance sheets</b>                                      |                                                                      |                                             |                  |
| Bank and other borrowings                                                                  | –                                                                    | 354,000                                     | 354,000          |
| Trade and other payables (excluding accrued<br>expenses, tax payables and salary payables) | –                                                                    | 261,263                                     | 261,263          |
| Total                                                                                      | –                                                                    | 615,263                                     | 615,263          |

| As at December 31, 2017                                                                    |                                                                      |                                             |                  |
|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------|---------------------------------------------|------------------|
|                                                                                            | Liabilities at<br>fair value<br>through<br>profit or loss<br>RMB'000 | Liabilities at<br>amortized cost<br>RMB'000 | Total<br>RMB'000 |
| <b>Liabilities as per consolidated balance sheets</b>                                      |                                                                      |                                             |                  |
| Bank and other borrowings                                                                  | –                                                                    | 165,000                                     | 165,000          |
| Trade and other payables (excluding accrued<br>expenses, tax payables and salary payables) | –                                                                    | 265,814                                     | 265,814          |
| Total                                                                                      | –                                                                    | 430,814                                     | 430,814          |

| As at August 31, 2018                                                                      |                                                                      |                                             |                  |
|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------|---------------------------------------------|------------------|
|                                                                                            | Liabilities at<br>fair value<br>through<br>profit or loss<br>RMB'000 | Liabilities at<br>amortized cost<br>RMB'000 | Total<br>RMB'000 |
| <b>Liabilities as per consolidated balance sheets</b>                                      |                                                                      |                                             |                  |
| Bank and other borrowings                                                                  | –                                                                    | 197,200                                     | 197,200          |
| Trade and other payables (excluding accrued<br>expenses, tax payables and salary payables) | –                                                                    | 298,436                                     | 298,436          |
| Total                                                                                      | –                                                                    | 495,636                                     | 495,636          |

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### 25 PAID-IN CAPITAL/SHARE CAPITAL

The paid-in capital of the Company as at December 31, 2015 and 2016 was both RMB173,680,000.

In 2015 and 2017, the Company increased its paid-in capital by amount of RMB8,680,000 and RMB15,100,000 respectively, the excess of the cash consideration received for the capital injection over the paid-in capital with amount of RMB1,320,000 and RMB121,420,000 were recorded in “other reserve” as capital reserve (Note 26).

On June 25, 2017, the Company was converted into a joint-stock company with limited liability by converting total equity as at April 30, 2017 into 210,000,000 ordinary shares of nominal value of RMB1.00 each. Excess of total equity of the Company over nominal value of total issued share capital with the amount of RMB97,909,000 has been recognized as “other reserves” in the consolidated balance sheets (Note 26).

|                               | As at December 31, |         |         | As at      |
|-------------------------------|--------------------|---------|---------|------------|
|                               | 2015               | 2016    | 2017    | August 31, |
|                               | RMB'000            | RMB'000 | RMB'000 | 2018       |
|                               |                    |         |         | RMB'000    |
| Paid-in capital/share capital | 173,680            | 173,680 | 210,000 | 210,000    |

### 26 OTHER RESERVES

#### The Group

|                                         | As at December 31, |         |         | As at      |
|-----------------------------------------|--------------------|---------|---------|------------|
|                                         | 2015               | 2016    | 2017    | August 31, |
|                                         | RMB'000            | RMB'000 | RMB'000 | 2018       |
|                                         |                    |         |         | RMB'000    |
| Statutory reserve (a)                   | 12,788             | 12,788  | 15,773  | 15,773     |
| Capital reserve (b)                     | 78,793             | 48,793  | 228,122 | 228,122    |
| Share-based compensation<br>reserve (c) | 19,950             | 19,950  | 23,460  | 23,460     |
| Total                                   | 111,531            | 81,531  | 267,355 | 267,355    |

#### (a) Statutory Reserve

In accordance with the Articles of Association and board resolutions of the Company and its PRC subsidiaries, certain percentage of the annual statutory net profits is appropriated after offsetting accumulated losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any dividends. The statutory surplus reserve can be used to offset accumulated losses, if any, and may be converted into paid-in-capital.

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(b) Capital reserve

|                                                                                       | <i>RMB'000</i> |
|---------------------------------------------------------------------------------------|----------------|
| <b>As at January 1, 2015</b>                                                          | 17,473         |
| Excess of the cash consideration received over the paid-in capital ( <i>Note 25</i> ) | 1,320          |
| Contributions to subsidiaries by the controlling shareholders ( <i>Note 12A</i> )     | 60,000         |
|                                                                                       | <hr/>          |
| <b>As at December 31, 2015</b>                                                        | 78,793         |
| Payment for acquisition of a subsidiary under common control ( <i>Note 12A</i> )      | (30,000)       |
|                                                                                       | <hr/>          |
| <b>As at December 31, 2016</b>                                                        | 48,793         |
| Excess of the cash consideration received over the paid-in capital ( <i>Note 25</i> ) | 121,420        |
| Conversion into a joint stock company ( <i>Note 25</i> )                              | 97,909         |
| Payment for acquisition of a subsidiary under common control ( <i>Note 12A</i> )      | (40,000)       |
|                                                                                       | <hr/>          |
| <b>As at December 31, 2017 and August 31, 2018</b>                                    | <u>228,122</u> |

(c) Share-based compensation reserve

In 2015, Hangzhou Qianhe Qiju Investment and Management Partnership (Limited Partnership) (“杭州謙和祺聚投資管理合夥企業(有限合夥)”) was set up by certain long serviced employees, and has acquired 5% newly issued shares of the Company. As there were no vesting periods for the equity interests granted, the difference between the fair value of the equity interest at the grant date and the cash consideration for the capital injection with amount of RMB19,950,000 was recorded as an expense in the consolidated statements of comprehensive income in 2015 (*Note 9*).

In 2017, Ningbo Meishan Bonded Area Meiyuangu Investment Management Partnership (Limited Partnership) (“寧波梅山保稅港區美源穀投資管理合夥企業(有限合夥)”) was set up by certain long serviced employees, and has acquired 20% newly issued shares of Zhejiang Jinshanzi Network Technology Co., Ltd., the subsidiary of the Company. As there were no vesting periods for the equity interests granted, the difference between the fair value of the equity interest at the grant date and the cash consideration for the capital injection with amount of RMB3,510,000 was recorded as an expense in the consolidated statements of comprehensive income in 2017 (*Note 9*).

The Company has engaged the independent valuers to determine the fair values of the equity interests granted to the employees, and income approach has been applied in the determination of the fair value of the equity interests.

The key assumptions used in determining the fair value of the equity interests granted mainly included:

|               | Equity interests of the<br>Company granted in 2015 | Equity interests of Zhejiang<br>Jinshanzi Network Technology<br>Co., Ltd. granted in 2017 |
|---------------|----------------------------------------------------|-------------------------------------------------------------------------------------------|
| Growth rate   | 1.00% to 8.00%                                     | 4.66% to 4.71%                                                                            |
| Discount rate | 12.57% to 15.37%                                   | 14.00%                                                                                    |

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During the Track Record Period, expenses arising from the share-based compensation plans were as below:

|                                  | For the years ended December 31, |                 |                 | For the eight months ended August 31, |                 |
|----------------------------------|----------------------------------|-----------------|-----------------|---------------------------------------|-----------------|
|                                  | 2015<br>RMB'000                  | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000<br>(unaudited)        | 2018<br>RMB'000 |
| Administrative expenses          | 19,950                           | –               | 3,510           | 3,510                                 | –               |
| <b>The Company</b>               |                                  |                 |                 |                                       |                 |
|                                  | As at December 31,               |                 |                 | As at August 31,                      |                 |
|                                  | 2015<br>RMB'000                  | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000                       | 2018<br>RMB'000 |
| Statutory reserve                | 12,788                           | 12,788          | 12,788          |                                       | 12,788          |
| Capital reserve                  | 21,469                           | 21,524          | 223,462         |                                       | 223,462         |
| Share-based compensation reserve | 19,950                           | 19,950          | 19,950          |                                       | 19,950          |
| Total                            | 54,207                           | 54,262          | 256,200         |                                       | 256,200         |

### 27 TRADE AND OTHER PAYABLES

#### The Group

|                                                        | As at December 31, |                 |                 | As at August 31, |                 |
|--------------------------------------------------------|--------------------|-----------------|-----------------|------------------|-----------------|
|                                                        | 2015<br>RMB'000    | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000  | 2018<br>RMB'000 |
| Trade payables:                                        |                    |                 |                 |                  |                 |
| – Due to third parties                                 | 127,897            | 153,857         | 164,667         |                  | 158,823         |
| – Due to related parties (Note 35(c))                  | 50,193             | 30,036          | 22,323          |                  | 19,613          |
|                                                        | 178,090            | 183,893         | 186,990         |                  | 178,436         |
| Other payables due to related parties (Note 35(c))     | 20,095             | 18,449          | 10,397          |                  | 12,799          |
| Payables for purchase of property, plant and equipment | 4,815              | 24,167          | 35,428          |                  | 74,035          |
| Customers' deposits                                    | 35,637             | 34,357          | 32,845          |                  | 32,867          |
| Accrued expenses                                       | 21,444             | 23,807          | 26,113          |                  | 25,189          |
| Staff salaries and welfare payables                    | 56,134             | 78,089          | 85,760          |                  | 67,034          |
| Accrued taxes other than income tax                    | 8,090              | 2,713           | 2,401           |                  | 2,737           |
| Interest payables                                      | 438                | 397             | 154             |                  | 299             |
| Dividend payable                                       | 295                | –               | –               |                  | –               |
| Others (a)                                             | 47,480             | –               | –               |                  | –               |
|                                                        | 372,518            | 365,872         | 380,088         |                  | 393,396         |

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- (a) The balance represented the present value of deposits received from customers under a gift card promotion program launched in February to September 2015. Such deposits were refunded to the customers one year after the dates of receipts. During the promotion period, the customers under this gift card promotion program were entitled to free services like room rental, food and beverage and other ancillary services in the hotels operated by the Group, the total nominal value of which was equivalent to 12% of the deposits placed by the holders. Any unutilized amount of free services expired after one year.

The deposits received were initially recognized at fair value based on cash flows discounted at prevailing market interest rate for similar period, and subsequently amortized using the effective interest method. The differences between gross amount of the deposits received and the fair value of the payable upon initial recognition were recognized as contract liabilities and realized in profit or loss upon the delivery of the related services during the service period of one year.

All the deposits received were paid in 2016 and no such promotion program launched since 2016.

As at December 31, 2015, 2016, 2017 and August 31, 2018, all trade and other payables of the Group were non-interest bearing. Their fair values, which are not financial liabilities, approximate to their carrying amounts due to their short maturities.

As at December 31, 2015, 2016, 2017 and August 31, 2018, trade and other payables were all denominated in RMB.

As at December 31, 2015, 2016, 2017 and August 31, 2018, the aging analysis of the trade payables of the Group based on invoice date were as follows:

|                      | As at December 31, |                |                | As at          |
|----------------------|--------------------|----------------|----------------|----------------|
|                      | 2015               | 2016           | 2017           | August 31,     |
|                      | RMB'000            | RMB'000        | RMB'000        | 2018           |
|                      |                    |                |                | RMB'000        |
| – Within 1 year      | 169,466            | 180,801        | 175,556        | 159,425        |
| – 1 year to 2 years  | 7,417              | 1,626          | 10,237         | 12,685         |
| – 2 years to 3 years | 611                | 617            | 599            | 5,636          |
| – Over 3 years       | 596                | 849            | 598            | 690            |
|                      | <u>178,090</u>     | <u>183,893</u> | <u>186,990</u> | <u>178,436</u> |

### The Company

|                                                        | As at December 31, |                |                | As at          |
|--------------------------------------------------------|--------------------|----------------|----------------|----------------|
|                                                        | 2015               | 2016           | 2017           | August 31,     |
|                                                        | RMB'000            | RMB'000        | RMB'000        | 2018           |
|                                                        |                    |                |                | RMB'000        |
| Trade payables:                                        |                    |                |                |                |
| – Due to third parties                                 | 84,253             | 85,195         | 89,391         | 77,717         |
| – Due to related parties                               | <u>51,861</u>      | <u>32,508</u>  | <u>24,563</u>  | <u>22,458</u>  |
|                                                        | 136,114            | 117,703        | 113,954        | 100,175        |
| Other payables due to related parties                  | 66,856             | 11,525         | 5,407          | 53,349         |
| Payables for purchase of property, plant and equipment | 1,765              | 1,258          | 7,964          | 7,841          |
| Customers' deposits                                    | 20,596             | 16,470         | 14,302         | 14,910         |
| Accrued expenses                                       | 22,590             | 25,221         | 14,118         | 10,076         |
| Staff salaries and welfare payables                    | 37,622             | 54,887         | 57,247         | 40,686         |
| Accrued taxes other than income tax                    | 6,781              | 1,393          | 1,259          | 2,007          |
| Interest payables                                      | 438                | 385            | 154            | 147            |
| Others                                                 | <u>28,522</u>      | <u>–</u>       | <u>–</u>       | <u>–</u>       |
|                                                        | <u>321,284</u>     | <u>228,842</u> | <u>214,405</u> | <u>229,191</u> |

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### 28 BORROWINGS

#### The Group

|                                | As at December 31, |                |                | As at          |
|--------------------------------|--------------------|----------------|----------------|----------------|
|                                | 2015               | 2016           | 2017           | August 31,     |
|                                | RMB'000            | RMB'000        | RMB'000        | 2018           |
|                                |                    |                |                | RMB'000        |
| Non-current                    |                    |                |                |                |
| Bank borrowings – secured (a)  | 150,000            | 150,000        | 160,000        | 87,500         |
| Bank borrowings – unsecured    | –                  | –              | –              | 100,000        |
| Loans from a related party (b) | 25,000             | 69,000         | –              | 6,700          |
|                                | <u>175,000</u>     | <u>219,000</u> | <u>160,000</u> | <u>194,200</u> |
| Current                        |                    |                |                |                |
| Bank borrowings – secured (a)  | <u>135,000</u>     | <u>135,000</u> | <u>5,000</u>   | <u>3,000</u>   |

The carrying amounts of the Group's borrowings are all denominated in RMB.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity date whichever is earlier during the Track Record Period are as follows:

|                         | 6 months<br>or less | Between<br>6 and 12<br>months | Over 1 year  | Total          |
|-------------------------|---------------------|-------------------------------|--------------|----------------|
|                         | RMB'000             | RMB'000                       | RMB'000      | RMB'000        |
| As at December 31, 2015 | 285,000             | –                             | 25,000       | 310,000        |
| As at December 31, 2016 | 285,000             | –                             | 69,000       | 354,000        |
| As at December 31, 2017 | 165,000             | –                             | –            | 165,000        |
| As at August 31, 2018   | <u>190,500</u>      | <u>–</u>                      | <u>6,700</u> | <u>197,200</u> |

The maturity of the borrowings is as follows:

|                            | As at December 31, |                |                | As at          |
|----------------------------|--------------------|----------------|----------------|----------------|
|                            | 2015               | 2016           | 2017           | August 31,     |
|                            | RMB'000            | RMB'000        | RMB'000        | 2018           |
|                            |                    |                |                | RMB'000        |
| On demand or within 1 year | 135,000            | 135,000        | 5,000          | 3,000          |
| Between 1 and 2 years      | –                  | 175,000        | 5,000          | 70,000         |
| Between 2 and 5 years      | 175,000            | 44,000         | 145,000        | 91,700         |
| Over 5 years               | <u>–</u>           | <u>–</u>       | <u>10,000</u>  | <u>32,500</u>  |
|                            | <u>310,000</u>     | <u>354,000</u> | <u>165,000</u> | <u>197,200</u> |

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The weighted average effective interest rates during the Track Record Period were as follows:

|                          | For the years ended December 31, |         |         | For the<br>eight months<br>ended |
|--------------------------|----------------------------------|---------|---------|----------------------------------|
|                          | 2015                             | 2016    | 2017    | August 31,                       |
|                          | RMB'000                          | RMB'000 | RMB'000 | 2018                             |
|                          |                                  |         |         | RMB'000                          |
| Borrowings – current     |                                  |         |         |                                  |
| – RMB                    | 5.89%                            | 5.01%   | 4.67%   | 4.67%                            |
| Borrowings – non-current |                                  |         |         |                                  |
| – RMB                    | 5.52%                            | 5.11%   | 4.77%   | 4.83%                            |

The fair values of current borrowings equal their carrying amounts as the discounting impact is not significant.

The carrying amounts and fair values of the non-current borrowings are as follows:

|                            | As at December 31, |         |         | As at      |
|----------------------------|--------------------|---------|---------|------------|
|                            | 2015               | 2016    | 2017    | August 31, |
|                            | RMB'000            | RMB'000 | RMB'000 | 2018       |
|                            |                    |         |         | RMB'000    |
| Carrying amount            |                    |         |         |            |
| Bank borrowings            | 150,000            | 150,000 | 160,000 | 187,500    |
| Loans from a related party | 25,000             | 69,000  | –       | 6,700      |
|                            | 175,000            | 219,000 | 160,000 | 194,200    |
| Fair value                 |                    |         |         |            |
| Bank borrowings            | 153,804            | 161,131 | 162,942 | 196,359    |
| Loans from a related party | 25,374             | 72,226  | –       | 7,458      |
|                            | 179,178            | 233,357 | 162,942 | 203,817    |

The fair value of bank borrowings and loans from a related party are based on cash flows discounted using the annual interest rate published by the People’s Bank of China for long-term bank loans prevailing at each balance sheet date and are within level 2 of the fair value hierarchy.

The Group had the following undrawn bank borrowing facilities:

|                | As at December 31, |         |         | As at      |
|----------------|--------------------|---------|---------|------------|
|                | 2015               | 2016    | 2017    | August 31, |
|                | RMB'000            | RMB'000 | RMB'000 | 2018       |
|                |                    |         |         | RMB'000    |
| RMB Facilities | –                  | –       | 274,000 | 215,000    |

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(a) Bank borrowings – secured and guaranteed

The details of bank borrowings that were secured and guaranteed are as follows:

|                                                                                  | As at December 31, |                |                | As at         |
|----------------------------------------------------------------------------------|--------------------|----------------|----------------|---------------|
|                                                                                  | 2015               | 2016           | 2017           | August 31,    |
|                                                                                  | RMB'000            | RMB'000        | RMB'000        | 2018          |
|                                                                                  |                    |                |                | RMB'000       |
| Guaranteed by related parties<br>(Note 35(b))                                    | 249,000            | 249,000        | 100,000        | –             |
| Secured by bank deposit<br>(Note 23)                                             | 36,000             | 36,000         | –              | –             |
| Secured by property,<br>plant and equipment and land<br>use rights (Note 16, 17) | –                  | –              | 65,000         | 90,500        |
|                                                                                  | <u>285,000</u>     | <u>285,000</u> | <u>165,000</u> | <u>90,500</u> |

(b) Loans from a related party

As at December 31, 2015, 2016 and August 31, 2018, loans from a related party comprised RMB25,000,000, RMB69,000,000 and RMB6,700,000 provided by New Century Tourism Group Co., Ltd., with an interest rate of 5.1% – 8.5% per annum. The balances as at December 31, 2015 and 2016 were fully repaid in 2017 and the balance as at August 31, 2018 were fully repaid in October 2018.

## 29 DEFERRED INCOME

### The Group

|                                          | As at December 31, |               |               | As at         |
|------------------------------------------|--------------------|---------------|---------------|---------------|
|                                          | 2015               | 2016          | 2017          | August 31,    |
|                                          | RMB'000            | RMB'000       | RMB'000       | 2018          |
|                                          |                    |               |               | RMB'000       |
| Non-current deferred income              |                    |               |               |               |
| Assets related government grants (a)     | <u>6,000</u>       | <u>12,823</u> | <u>21,714</u> | <u>20,444</u> |
| Current portion of long-term liabilities |                    |               |               |               |
| Assets related government grants (a)     | <u>–</u>           | <u>706</u>    | <u>706</u>    | <u>1,186</u>  |
| Total deferred income                    | <u>6,000</u>       | <u>13,529</u> | <u>22,420</u> | <u>21,630</u> |

(a) Assets related government grants

It represents government grants relating to certain assets, which is deferred and recognized in profit or loss on a straight-line basis over the expected useful lives of the related assets. The movements of deferred income are as below:

|                                 | For the years ended December 31, |               |               | For the eight months ended |               |
|---------------------------------|----------------------------------|---------------|---------------|----------------------------|---------------|
|                                 | 2015                             | 2016          | 2017          | August 31,                 | 2018          |
|                                 | RMB'000                          | RMB'000       | RMB'000       | 2017                       | 2018          |
|                                 |                                  |               |               | RMB'000                    | RMB'000       |
|                                 |                                  |               |               | (unaudited)                |               |
| Beginning of the<br>year/period | –                                | 6,000         | 13,529        | 13,529                     | 22,420        |
| Additions                       | 6,000                            | 8,000         | 9,597         | –                          | –             |
| Credited to profit or<br>loss   | <u>–</u>                         | <u>(471)</u>  | <u>(706)</u>  | <u>(469)</u>               | <u>(790)</u>  |
| End of the year/period          | <u>6,000</u>                     | <u>13,529</u> | <u>22,420</u> | <u>13,060</u>              | <u>21,630</u> |



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### 30 DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITIES

#### The Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes related to the same tax authority. The net deferred income tax balance after offsetting are as follows:

|                                           | As at December 31, |               |               | As at         |
|-------------------------------------------|--------------------|---------------|---------------|---------------|
|                                           | 2015               | 2016          | 2017          | August 31,    |
|                                           | RMB'000            | RMB'000       | RMB'000       | 2018          |
|                                           |                    |               |               | RMB'000       |
| Deferred income tax assets                |                    |               |               |               |
| To be recovered after more than 12 months | 3,188              | 4,829         | 3,214         | 1,097         |
| To be recovered within 12 months          | 21,551             | 20,331        | 16,346        | 24,248        |
|                                           | <u>24,739</u>      | <u>25,160</u> | <u>19,560</u> | <u>25,345</u> |
| Deferred income tax liabilities           |                    |               |               |               |
| To be recovered after more than 12 months | (29)               | (267)         | (137)         | —             |
|                                           | <u>24,710</u>      | <u>24,893</u> | <u>19,423</u> | <u>25,345</u> |

The movement on the net deferred income tax assets is as follows:

|                                                | For the years ended December 31, |               |                | For the eight months ended August 31, |               |
|------------------------------------------------|----------------------------------|---------------|----------------|---------------------------------------|---------------|
|                                                | 2015                             | 2016          | 2017           | 2017                                  | 2018          |
|                                                | RMB'000                          | RMB'000       | RMB'000        | RMB'000                               | RMB'000       |
|                                                |                                  |               |                | (unaudited)                           |               |
| Beginning of the year/period                   | 25,519                           | 24,710        | 24,893         | 24,893                                | 19,423        |
| (Charged)/credited to profit or loss (Note 13) | (809)                            | 183           | (4,290)        | (637)                                 | 5,750         |
| Acquisition of a subsidiary (Note 32)          | —                                | —             | —              | —                                     | 172           |
| Disposal of subsidiaries                       | <u>—</u>                         | <u>—</u>      | <u>(1,180)</u> | <u>—</u>                              | <u>—</u>      |
| End of the year/period                         | <u>24,710</u>                    | <u>24,893</u> | <u>19,423</u>  | <u>24,256</u>                         | <u>25,345</u> |

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Movements in deferred tax assets and deferred tax liabilities during the Track Record Period without taking into consideration of offsetting of balance within the same jurisdiction, are as follows:

| Deferred income tax assets            | Tax losses carried forward<br>RMB'000 | Rental expense recognition difference between tax and accounting<br>RMB'000 | Provisions<br>RMB'000 | Depreciation difference between tax and accounting<br>RMB'000 | Other temporary differences<br>RMB'000 | Total<br>RMB'000 |
|---------------------------------------|---------------------------------------|-----------------------------------------------------------------------------|-----------------------|---------------------------------------------------------------|----------------------------------------|------------------|
| As at January 1, 2015                 | 1,742                                 | 13,418                                                                      | 478                   | 8,708                                                         | 2,005                                  | 26,351           |
| (Charged)/credited to profit or loss  | (1,409)                               | 639                                                                         | 1,131                 | (182)                                                         | (564)                                  | (385)            |
| As at December 31, 2015               | 333                                   | 14,057                                                                      | 1,609                 | 8,526                                                         | 1,441                                  | 25,966           |
| (Charged)/credited to profit or loss  | (302)                                 | 1,396                                                                       | 621                   | (94)                                                          | (900)                                  | 721              |
| As at December 31, 2016               | 31                                    | 15,453                                                                      | 2,230                 | 8,432                                                         | 541                                    | 26,687           |
| Disposal of subsidiaries              | –                                     | (1,203)                                                                     | –                     | –                                                             | –                                      | (1,203)          |
| (Charged)/credited to profit or loss  | (31)                                  | (4,006)                                                                     | 190                   | (797)                                                         | (297)                                  | (4,941)          |
| As at December 31, 2017               | –                                     | 10,244                                                                      | 2,420                 | 7,635                                                         | 244                                    | 20,543           |
| Credited/(charged) to profit or loss  | 6,307                                 | 1,359                                                                       | (237)                 | (116)                                                         | 46                                     | 7,359            |
| Acquisition of a subsidiary (Note 32) | –                                     | –                                                                           | –                     | 172                                                           | –                                      | 172              |
| As at August 31, 2018                 | 6,307                                 | 11,603                                                                      | 2,183                 | 7,691                                                         | 290                                    | 28,074           |

| Deferred income tax liabilities      | Rental revenue recognition difference between tax and accounting<br>RMB'000 | Fair value change of financial assets at fair value through profit or loss<br>RMB'000 | Depreciation difference between tax and accounting<br>RMB'000 | Other temporary difference<br>RMB'000 | Total<br>RMB'000 |
|--------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------------------|---------------------------------------|------------------|
| As at January 1, 2015                | (808)                                                                       | –                                                                                     | –                                                             | (24)                                  | (832)            |
| (Charged)/credited to profit or loss | (429)                                                                       | –                                                                                     | –                                                             | 5                                     | (424)            |
| As at December 31, 2015              | (1,237)                                                                     | –                                                                                     | –                                                             | (19)                                  | (1,256)          |
| Credited/(charged) to profit or loss | 256                                                                         | (149)                                                                                 | –                                                             | (645)                                 | (538)            |
| As at December 31, 2016              | (981)                                                                       | (149)                                                                                 | –                                                             | (664)                                 | (1,794)          |
| Disposal of subsidiaries             | 23                                                                          | –                                                                                     | –                                                             | –                                     | 23               |
| (Charged)/credited to profit or loss | (123)                                                                       | 149                                                                                   | –                                                             | 625                                   | 651              |
| As at December 31, 2017              | (1,081)                                                                     | –                                                                                     | –                                                             | (39)                                  | (1,120)          |
| (Charged)/credited to profit or loss | (130)                                                                       | –                                                                                     | (1,499)                                                       | 20                                    | (1,609)          |
| As at August 31, 2018                | (1,211)                                                                     | –                                                                                     | (1,499)                                                       | (19)                                  | (2,729)          |

Deferred income tax assets are recognized for tax losses carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The Group did not recognize deferred income tax assets for the tax loss of RMB13,064,250, RMB14,242,500, RMB13,781,500 and RMB16,816,000, as at December 31, 2015, 2016, 2017 and August 31, 2018 in respect of losses amounting to RMB52,257,000, RMB56,970,000, RMB55,126,000 and RMB67,265,000 that can be carried forward against future taxable income.

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### The Company

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes related to the same tax authority. The net deferred income tax balance after offsetting are as follows:

|                                             | As at December 31, |               |              | As at<br>August 31, |
|---------------------------------------------|--------------------|---------------|--------------|---------------------|
|                                             | 2015               | 2016          | 2017         | 2018                |
|                                             | RMB'000            | RMB'000       | RMB'000      | RMB'000             |
| Net deferred income tax assets              |                    |               |              |                     |
| – To be recovered after more than 12 months | 2,666              | 2,834         | 2,576        | 276                 |
| – To be recovered within 12 months          | 7,713              | 8,376         | 4,029        | 4,808               |
|                                             | <u>10,379</u>      | <u>11,210</u> | <u>6,605</u> | <u>5,084</u>        |

The movement on the net deferred income tax assets is as follows:

|                                      | For the years ended December 31, |               |              | For the eight months ended August 31, |              |
|--------------------------------------|----------------------------------|---------------|--------------|---------------------------------------|--------------|
|                                      | 2015                             | 2016          | 2017         | 2017                                  | 2018         |
|                                      | RMB'000                          | RMB'000       | RMB'000      | RMB'000                               | RMB'000      |
|                                      |                                  |               |              | (unaudited)                           |              |
| Beginning of the year/period         | 10,341                           | 10,379        | 11,210       | 11,210                                | 6,605        |
| Credited/(charged) to profit or loss | 38                               | 831           | (4,605)      | (1,787)                               | (1,521)      |
| End of the year/period               | <u>10,379</u>                    | <u>11,210</u> | <u>6,605</u> | <u>9,423</u>                          | <u>5,084</u> |

Movements in deferred tax assets and deferred tax liabilities during the Track Record Period without taking into consideration of offsetting of balance within the same jurisdiction, are as follows:

|                                      | Rental expense<br>recognition<br>difference<br>between<br>tax and<br>accounting | Provisions     | Depreciation<br>difference<br>between<br>tax and<br>accounting | Other<br>temporary<br>differences | Total          |
|--------------------------------------|---------------------------------------------------------------------------------|----------------|----------------------------------------------------------------|-----------------------------------|----------------|
|                                      | RMB'000                                                                         | RMB'000        | RMB'000                                                        | RMB'000                           | RMB'000        |
| As at January 1, 2015                | 8,870                                                                           | 464            | 1,497                                                          | –                                 | 10,831         |
| (Charged)/credited to profit or loss | <u>(76)</u>                                                                     | <u>1,066</u>   | <u>(571)</u>                                                   | <u>–</u>                          | <u>419</u>     |
| As at December 31, 2015              | 8,794                                                                           | 1,530          | 926                                                            | –                                 | 11,250         |
| (Charged)/credited to profit or loss | <u>(56)</u>                                                                     | <u>1,910</u>   | <u>(666)</u>                                                   | <u>88</u>                         | <u>1,276</u>   |
| As at December 31, 2016              | 8,738                                                                           | 3,440          | 260                                                            | 88                                | 12,526         |
| (Charged)/credited to profit or loss | <u>(3,540)</u>                                                                  | <u>(1,286)</u> | <u>(260)</u>                                                   | <u>(88)</u>                       | <u>(5,174)</u> |
| As at December 31, 2017              | 5,198                                                                           | 2,154          | –                                                              | –                                 | 7,352          |
| Credited/(charged) to profit or loss | <u>158</u>                                                                      | <u>(266)</u>   | <u>–</u>                                                       | <u>–</u>                          | <u>(108)</u>   |
| As at August 31, 2018                | <u>5,356</u>                                                                    | <u>1,888</u>   | <u>–</u>                                                       | <u>–</u>                          | <u>7,244</u>   |

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| Deferred income tax liabilities      | Rental revenue<br>recognition<br>difference<br>between<br>tax and<br>accounting<br>RMB'000 | Depreciation<br>difference<br>between<br>tax and<br>accounting<br>RMB'000 | Others<br>temporary<br>differences<br>RMB'000 | Total<br>RMB'000 |
|--------------------------------------|--------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|-----------------------------------------------|------------------|
| As at January 1, 2015                | (467)                                                                                      | –                                                                         | (23)                                          | (490)            |
| (Charged)/credited to profit or loss | (385)                                                                                      | –                                                                         | 4                                             | (381)            |
| As at December 31, 2015              | (852)                                                                                      | –                                                                         | (19)                                          | (871)            |
| Credited/(charged) to profit or loss | 187                                                                                        | –                                                                         | (632)                                         | (445)            |
| As at December 31, 2016              | (665)                                                                                      | –                                                                         | (651)                                         | (1,316)          |
| (Charged)/credited to profit or loss | (44)                                                                                       | –                                                                         | 613                                           | 569              |
| As at December 31, 2017              | (709)                                                                                      | –                                                                         | (38)                                          | (747)            |
| (Charged)/credited to profit or loss | 66                                                                                         | (1,499)                                                                   | 20                                            | (1,413)          |
| As at August 31, 2018                | (643)                                                                                      | (1,499)                                                                   | (18)                                          | (2,160)          |

### 31 DISPOSALS OF SUBSIDIARIES AND ASSETS CLASSIFIED AS HELD FOR SALE

During the Track Record Period, the Group disposed the interests in a number of subsidiaries to certain third parties and related party controlled by the controlling shareholders. Details of the disposals are as follows:

#### (a) Disposal of Yuyao Manju

In December 2015, the Group decided to dispose 64.17% interest in its wholly-owned subsidiary – Yuyao Manju and Yuyao Manju has become an associate of the Company since then (Note 12B). The associated assets and liabilities were consequently presented as held for sale as at December 31, 2015.

The following table summarized the assets and liabilities that were reclassified as held for sale in relation to the disposal of Yuyao Manju as at December 31, 2015:

|                                                       | As at<br>December 31,<br>2015<br>RMB'000 |
|-------------------------------------------------------|------------------------------------------|
| Assets classified as held for sale                    |                                          |
| – Property, plant and equipment                       | 16,717                                   |
| – Intangible assets                                   | 38                                       |
| – Cash and cash equivalent                            | 376                                      |
| – Trade, other receivables and prepayments            | 342                                      |
| – Inventories                                         | 130                                      |
| Total assets classified as held for sale              | 17,603                                   |
| Liabilities classified as held for sale               |                                          |
| – Trade, other payables and other current liabilities | 4,701                                    |
| – Other payables due to related parties               | 2,292                                    |
| – Loans from a related party                          | 7,300                                    |
| Total liabilities classified as held for sale         | 14,293                                   |
| Net assets                                            | 3,310                                    |

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The disposal date of Yuyao Manju was January 1, 2016 and the total consideration of the disposal is RMB5,500,000. The difference between the carrying value of net assets disposed and the total consideration in relation to the disposal has been included in "other gains – net" (Note 7) of the consolidated statement of the comprehensive income for the year ended December 31, 2016.

|                                                                   |              |
|-------------------------------------------------------------------|--------------|
| Disposal consideration                                            |              |
| – Cash received                                                   | 5,500        |
| – Fair value of the remaining interests in Yuyao Manju (Note 12B) | 3,071        |
| Less: net assets disposed                                         | (3,310)      |
| <b>Gains on disposal of Yuyao Manju (Note 7)</b>                  | <b>5,261</b> |
| Cash proceeds on the disposal from the third party                | 5,500        |
| – Cash and cash equivalents in Yuyao Manju                        | (376)        |
| <b>Net cash inflow on the disposal</b>                            | <b>5,124</b> |

**(b) Disposal of Shaoxing Dayu and Suzhou Qiju**

On September 15, 2017, The Group disposed all its equity interest in Shaoxing Dayu to New Century Tourism Group Co., Ltd., and on October 31, 2017, the Group disposed all its equity interest in Suzhou Qiju to a third party.

The following table summarized the consideration received and the carrying value of net assets disposed at the disposal date, as well as the net cash flow arising from the disposals. The difference between the carrying value of net assets disposed and the total consideration in relation to the disposal has been included in "other gains – net" (Note 7) of the consolidated statements of the comprehensive income for the year ended December 31, 2017.

|                                                   | <b>Shaoxing Dayu</b><br><i>RMB'000</i> | <b>Suzhou Qiju</b><br><i>RMB'000</i> | <b>Total</b><br><i>RMB'000</i> |
|---------------------------------------------------|----------------------------------------|--------------------------------------|--------------------------------|
| Disposal consideration – cash received            | 11,000                                 | 3,245                                | 14,245                         |
| Less:                                             |                                        |                                      |                                |
| – Current assets                                  | 3,724                                  | 379                                  | 4,103                          |
| – Non-current assets                              | 34,749                                 | 3,307                                | 38,056                         |
| – Current liabilities                             | (29,925)                               | (1,070)                              | (30,995)                       |
| – Non-current liabilities                         | (23)                                   | –                                    | (23)                           |
| Total net assets disposed                         | 8,525                                  | 2,616                                | 11,141                         |
| <b>Gains on disposal of subsidiaries (Note 7)</b> | <b>2,475</b>                           | <b>629</b>                           | <b>3,104</b>                   |
| Cash proceeds from disposal:                      |                                        |                                      |                                |
| – From a related party                            | 11,000                                 | –                                    | 11,000                         |
| – From a third party                              | –                                      | 3,245                                | 3,245                          |
| Cash and cash equivalents in subsidiaries         | (1,292)                                | (332)                                | (1,624)                        |
| <b>Net cash inflow on the disposal</b>            | <b>9,708</b>                           | <b>2,913</b>                         | <b>12,621</b>                  |

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(c) **Disposal of Shanghai Ruiya Hotel Management Co., Ltd. (“Shanghai Ruiya”) and Chongqing Dazu District New Century Grand House Hotel Co., Ltd. (“Chongqing Dazu”)**

On March 31, 2018 and June 30, 2018, The Group disposed all its equity interest in Shanghai Ruiya and Chongqing Dazu to third parties respectively.

The following table summarized the consideration received and the carrying value of net assets disposed at the disposal date, as well as the net cash flow arising from the disposals. The difference between the carrying value of net assets disposed and the total consideration in relation to the disposals has been included in “other gains – net” (Note 7) of the consolidated statements of the comprehensive income for the eight months ended August 31, 2018.

|                                                       | <b>Shanghai<br/>Ruiya<br/>RMB’000</b> | <b>Chongqing<br/>Dazu<br/>RMB’000</b> | <b>Total<br/>RMB’000</b> |
|-------------------------------------------------------|---------------------------------------|---------------------------------------|--------------------------|
| Disposal consideration – cash received                | 1                                     | 10,000                                | 10,001                   |
| Less:                                                 |                                       |                                       |                          |
| – Current assets                                      | 2,012                                 | 6,829                                 | 8,841                    |
| – Non-current assets                                  | –                                     | 33,013                                | 33,013                   |
| – Current liabilities                                 | (2,684)                               | (39,963)                              | (42,647)                 |
| Total net liabilities disposed                        | (672)                                 | (121)                                 | (793)                    |
| <b>Gains on disposal of the subsidiaries (Note 7)</b> | <b>673</b>                            | <b>10,121</b>                         | <b>10,794</b>            |
| Cash proceeds on the disposal from the third parties  | 1                                     | 10,000                                | 10,001                   |
| Less: Cash and cash equivalents in subsidiaries       | –                                     | (540)                                 | (540)                    |
| <b>Net cash inflow on the disposal</b>                | <b>1</b>                              | <b>9,460</b>                          | <b>9,461</b>             |

### 32 BUSINESS COMBINATION

On August 31, 2018 (“Acquisition Date”), the Company completed its acquisition of an additional 19.83% equity interest of Yuyao Manju, which was an associate of the Company before the acquisition. After the acquisition, the Group held 55.66% equity interest of Yuyao Manju and Yuyao Manju changed from an associate to a subsidiary of the Group thereafter.

The purchase consideration for the acquisition of 19.83% equity interest was RMB1,871,000, which was all settled by cash. The acquisition has been accounted for using the acquisition method.

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The following table summarizes the consideration paid, the net assets acquired and goodwill, also the net cash outflow arising on the acquisition:

|                                                     | <b>Fair value</b><br><i>RMB'000</i> |
|-----------------------------------------------------|-------------------------------------|
| Property, plant and equipment ( <i>Note 16</i> )    | 11,664                              |
| Deferred tax assets ( <i>Note 30</i> )              | 172                                 |
| Trade and other receivables and prepayments         | 2,821                               |
| Inventories                                         | 104                                 |
| Cash and cash equivalents                           | 326                                 |
| Borrowings                                          | (6,700)                             |
| Contract liabilities                                | (534)                               |
| Trade and other payables                            | (2,250)                             |
|                                                     | <hr/>                               |
| Net identifiable assets of Yuyao Manju              | 5,603                               |
| Less: non-controlling interest                      | (2,484)                             |
|                                                     | <hr/>                               |
| Add: Goodwill ( <i>Note 18</i> )                    | 2,132                               |
|                                                     | <hr/>                               |
| Net assets acquired                                 | 5,251                               |
|                                                     | <hr/>                               |
| Consideration for additional 19.83% equity interest | 1,871                               |
| The fair value of previously held equity interest   | 3,380                               |
|                                                     | <hr/>                               |
| Total purchase consideration                        | 5,251                               |
|                                                     | <hr/> <hr/>                         |
| Net cash outflow arising on acquisition:            |                                     |
| Cash consideration                                  | 1,871                               |
| Cash and cash equivalent in the subsidiary acquired | (326)                               |
|                                                     | <hr/>                               |
|                                                     | 1,545                               |
|                                                     | <hr/> <hr/>                         |

The goodwill of RMB2,132,000 arising from the acquisition is attributable to the work force of the acquired business. None of the goodwill recognized is expected to be deductible for income tax purposes.

Had the Yuyao Manju been consolidated from January 1, 2018, the consolidated revenue and profit of the Group would be increased by approximately RMB8,169,000 and RMB873,000 respectively.

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## ACCOUNTANT'S REPORT

### 33 CASH FLOW INFORMATION

#### (a) Cash generated from operations

|                                                                                                           | For the years ended December 31, |                |                | For the eight months ended August 31, |               |
|-----------------------------------------------------------------------------------------------------------|----------------------------------|----------------|----------------|---------------------------------------|---------------|
|                                                                                                           | 2015                             | 2016           | 2017           | 2017                                  | 2018          |
|                                                                                                           | RMB'000                          | RMB'000        | RMB'000        | RMB'000                               | RMB'000       |
|                                                                                                           |                                  |                |                | (unaudited)                           |               |
| Profit before income tax                                                                                  | 58,294                           | 117,230        | 223,022        | 123,922                               | 142,196       |
| Adjustments for:                                                                                          |                                  |                |                |                                       |               |
| – Depreciation of property, plant and equipment ( <i>Note 8</i> )                                         | 46,036                           | 49,084         | 53,949         | 35,867                                | 33,300        |
| – Depreciation of investment properties ( <i>Note 8</i> )                                                 | 15                               | 15             | 15             | 10                                    | 10            |
| – Amortization of land use rights ( <i>Note 8</i> )                                                       | 586                              | 852            | 1,188          | 765                                   | 820           |
| – Amortization of intangible assets ( <i>Note 8</i> )                                                     | 6,483                            | 6,985          | 4,727          | 3,257                                 | 3,960         |
| – Allowance for impairment of trade receivables and other receivables ( <i>Note 8</i> )                   | 4,951                            | 5,267          | 958            | (129)                                 | 1,579         |
| – Income from financial assets at fair value through profit or loss ( <i>Note 6</i> )                     | –                                | (7,877)        | (8,164)        | (6,159)                               | (4,483)       |
| – Share of net profits of associates and joint ventures accounted for using the equity method             | (1,732)                          | (1,435)        | (3,005)        | (1,529)                               | (4,327)       |
| – Net gains on disposal of subsidiaries ( <i>Note 7</i> )                                                 | –                                | (5,261)        | (3,104)        | –                                     | (10,794)      |
| – Net losses/(gains) on disposal of property, plant and equipment and intangible assets ( <i>Note 7</i> ) | 53                               | 106            | (1,094)        | (1,798)                               | 54            |
| – Non-cash share-based payments ( <i>Note 9</i> )                                                         | 19,950                           | –              | 3,510          | 3,510                                 | –             |
| – Net finance expenses ( <i>Note 11</i> )                                                                 | 4,546                            | 8,250          | 9,499          | 8,233                                 | 6,769         |
| – Deferred income ( <i>Note 29(a)</i> )                                                                   | 6,000                            | 7,529          | 8,891          | (469)                                 | (790)         |
| – Other non-current assets ( <i>Note 19</i> )                                                             | (11,190)                         | 1,992          | 7,571          | 1,821                                 | (10,863)      |
| Change in working capitals:                                                                               |                                  |                |                |                                       |               |
| – Restricted cash ( <i>Note 23</i> )                                                                      | –                                | –              | 32,400         | 32,400                                | (66,000)      |
| – Trade and other debtors                                                                                 | (20,465)                         | (14,465)       | (13,231)       | (46,734)                              | (32,727)      |
| – Inventories ( <i>Note 20</i> )                                                                          | (3,240)                          | 2,120          | (4,707)        | (2,810)                               | (1,198)       |
| – Trade and other creditors                                                                               | 31,515                           | 38,996         | 11,406         | (12,664)                              | 30,760        |
| Cash generated from operations                                                                            | <u>141,802</u>                   | <u>209,388</u> | <u>323,831</u> | <u>137,493</u>                        | <u>88,266</u> |



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### (b) Proceeds from disposal of property, plant and equipment

In the consolidated cash flow statements, proceeds from disposal of property, plant and equipment comprise:

|                                                                                   | For the years ended December 31, |            |              | For the eight months ended August 31, |              |
|-----------------------------------------------------------------------------------|----------------------------------|------------|--------------|---------------------------------------|--------------|
|                                                                                   | 2015                             | 2016       | 2017         | 2017                                  | 2018         |
|                                                                                   | RMB'000                          | RMB'000    | RMB'000      | RMB'000                               | RMB'000      |
|                                                                                   |                                  |            |              | (unaudited)                           |              |
| Net book amount ( <i>Note 16</i> )                                                | 687                              | 755        | 2,375        | 1,756                                 | 1,691        |
| Net (losses)/gains on disposal of property, plant and equipment ( <i>Note 7</i> ) | (53)                             | (106)      | 1,094        | 1,798                                 | (54)         |
| Proceeds from disposal of property, plant and equipment                           | <u>634</u>                       | <u>649</u> | <u>3,469</u> | <u>3,554</u>                          | <u>1,637</u> |

### (c) Net debt reconciliation

|                                              | As at December 31, |                  |                | As at August 31, |
|----------------------------------------------|--------------------|------------------|----------------|------------------|
|                                              | 2015               | 2016             | 2017           | 2018             |
|                                              | RMB'000            | RMB'000          | RMB'000        | RMB'000          |
| Cash and cash equivalents                    | 126,385            | 176,164          | 424,109        | 288,242          |
| Restricted cash                              | 72,400             | 72,400           | –              | 72,100           |
| Borrowings – repayable within one year       | (135,000)          | (135,000)        | (5,000)        | (3,000)          |
| Borrowings – repayable after one year        | (150,000)          | (150,000)        | (160,000)      | (187,500)        |
| Loan due to a related party                  | (25,000)           | (69,000)         | –              | (6,700)          |
| Dividend payable                             | (295)              | –                | –              | –                |
| Net debt                                     | <u>(111,510)</u>   | <u>(105,436)</u> | <u>259,109</u> | <u>163,142</u>   |
| Cash, restricted cash and liquid investments | 198,785            | 248,564          | 424,109        | 360,342          |
| Gross debt – fixed interest rates            | (160,000)          | (135,000)        | (5,000)        | (6,700)          |
| Gross debt – variable interest rates         | (150,000)          | (219,000)        | (160,000)      | (190,500)        |
| Dividend payable                             | (295)              | –                | –              | –                |
| Net debt                                     | <u>(111,510)</u>   | <u>(105,436)</u> | <u>259,109</u> | <u>163,142</u>   |

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|                                              | Assets                         |                    | Liabilities                        |                                   |                                   |                     | Total<br>RMB'000 |
|----------------------------------------------|--------------------------------|--------------------|------------------------------------|-----------------------------------|-----------------------------------|---------------------|------------------|
|                                              | Cash<br>and cash<br>equivalent | Restricted<br>cash | Borrowings<br>due within<br>1 year | Borrowings<br>due after<br>1 year | Loan due<br>to a related<br>party | Dividend<br>payable |                  |
|                                              | RMB'000                        | RMB'000            | RMB'000                            | RMB'000                           | RMB'000                           | RMB'000             |                  |
| <b>As at January 1, 2015</b>                 | 154,665                        | 92,400             | (274,000)                          | –                                 | –                                 | –                   | (26,935)         |
| <b>Cash flows</b>                            | (28,280)                       | (20,000)           | 139,000                            | (150,000)                         | (25,000)                          | 1,400               | (82,880)         |
| <b>Non-cash change</b>                       |                                |                    |                                    |                                   |                                   |                     |                  |
| – Dividend declared                          | –                              | –                  | –                                  | –                                 | –                                 | (1,695)             | (1,695)          |
| <b>As at December 31, 2015</b>               | <u>126,385</u>                 | <u>72,400</u>      | <u>(135,000)</u>                   | <u>(150,000)</u>                  | <u>(25,000)</u>                   | <u>(295)</u>        | <u>(111,510)</u> |
| <b>Cash flows</b>                            | <u>49,779</u>                  | <u>–</u>           | <u>–</u>                           | <u>–</u>                          | <u>(44,000)</u>                   | <u>295</u>          | <u>6,074</u>     |
| <b>As at December 31, 2016</b>               | <u>176,164</u>                 | <u>72,400</u>      | <u>(135,000)</u>                   | <u>(150,000)</u>                  | <u>(69,000)</u>                   | <u>–</u>            | <u>(105,436)</u> |
| <b>Cash flows</b>                            | <u>247,945</u>                 | <u>(72,400)</u>    | <u>130,000</u>                     | <u>(10,000)</u>                   | <u>69,000</u>                     | <u>61,123</u>       | <u>425,668</u>   |
| <b>Non-cash change</b>                       |                                |                    |                                    |                                   |                                   |                     |                  |
| – Dividend declared                          | –                              | –                  | –                                  | –                                 | –                                 | (61,123)            | (61,123)         |
| <b>As at December 31, 2017</b>               | <u>424,109</u>                 | <u>–</u>           | <u>(5,000)</u>                     | <u>(160,000)</u>                  | <u>–</u>                          | <u>–</u>            | <u>259,109</u>   |
| <b>As at January 1, 2017</b>                 | 176,164                        | 72,400             | (135,000)                          | (150,000)                         | (69,000)                          | –                   | (105,436)        |
| <b>Cash flows</b>                            | 18,213                         | (67,200)           | 94,000                             | 50,000                            | 69,000                            | 61,123              | 225,136          |
| <b>Non-cash change</b>                       |                                |                    |                                    |                                   |                                   |                     |                  |
| – Dividend declared                          | –                              | –                  | –                                  | –                                 | –                                 | (61,123)            | (61,123)         |
| – Reclassification                           | –                              | –                  | (40,000)                           | 40,000                            | –                                 | –                   | –                |
| <b>As at August 31, 2017<br/>(unaudited)</b> | <u>194,377</u>                 | <u>5,200</u>       | <u>(81,000)</u>                    | <u>(60,000)</u>                   | <u>–</u>                          | <u>–</u>            | <u>58,577</u>    |
| <b>As at January 1, 2018</b>                 | 424,109                        | –                  | (5,000)                            | (160,000)                         | –                                 | –                   | 259,109          |
| <b>Cash flows</b>                            | (135,867)                      | 72,100             | 4,500                              | (30,000)                          | –                                 | 42,897              | (46,370)         |
| <b>Non-cash change</b>                       |                                |                    |                                    |                                   |                                   |                     |                  |
| – Dividend declared                          | –                              | –                  | –                                  | –                                 | –                                 | (42,897)            | (42,897)         |
| – Reclassification                           | –                              | –                  | (2,500)                            | 2,500                             | –                                 | –                   | –                |
| – Acquisition of a subsidiary                | –                              | –                  | –                                  | –                                 | (6,700)                           | –                   | (6,700)          |
| <b>As at August 31, 2018</b>                 | <u>288,242</u>                 | <u>72,100</u>      | <u>(3,000)</u>                     | <u>(187,500)</u>                  | <u>(6,700)</u>                    | <u>–</u>            | <u>163,142</u>   |

**(d) Non-cash transaction**

The Group had no significant non-cash transactions during the Track Record Period.

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### 34 COMMITMENTS AND CONTINGENT LIABILITIES

#### (a) Capital commitments

Capital expenditure contracted for at the end of year/period, but not yet incurred was as follows:

|                               | As at December 31, |         |         | As at      |
|-------------------------------|--------------------|---------|---------|------------|
|                               | 2015               | 2016    | 2017    | August 31, |
|                               | RMB'000            | RMB'000 | RMB'000 | 2018       |
|                               |                    |         |         | RMB'000    |
| Property, plant and equipment | 200                | –       | 6,464   | 9,324      |

#### (b) Operating lease commitments

|                                                   | As at December 31, |           |           | As at      |
|---------------------------------------------------|--------------------|-----------|-----------|------------|
|                                                   | 2015               | 2016      | 2017      | August 31, |
|                                                   | RMB'000            | RMB'000   | RMB'000   | 2018       |
|                                                   |                    |           |           | RMB'000    |
| Within one year                                   | 156,927            | 148,723   | 269,609   | 169,868    |
| Later than one year but not later than five years | 523,468            | 596,161   | 739,613   | 708,896    |
| Later than five years                             | 760,791            | 828,684   | 839,653   | 807,053    |
|                                                   | 1,441,186          | 1,573,568 | 1,848,875 | 1,685,817  |

#### (c) Contingent liabilities

As at December 31, 2015, 2016, 2017 and August 31, 2018, the Group did not have any significant contingent liabilities.

### 35 RELATED PARTY TRANSACTIONS

#### (a) Name and relationship with related parties

##### *Controlling Shareholders*

Mr. Chen Miaolin, Mr. Chen Canrong and Mr. Zhang Guanming

##### *Controlled by the Controlling Shareholders*

|                                                                      | Chinese name     |
|----------------------------------------------------------------------|------------------|
| New Century Tourism Group Co., Ltd.                                  | 開元旅業集團有限公司       |
| New Century Holdings Group Co., Ltd.                                 | 開元控股集團有限公司       |
| Zhejiang New Century Hotel Investment and Management Group Co., Ltd. | 浙江開元酒店投資管理集團有限公司 |
| Kaifeng New Century Grand Hotel Co., Ltd.                            | 開封開元名都大酒店有限公司    |
| Zhejiang Spearhead Investment Co., Ltd.                              | 浙江銳至投資股份有限公司     |
| Ningbo New Century Spearhead Investment Co., Ltd.                    | 寧波開元銳至投資有限公司     |
| Changchun New Century Spearhead Investment and Management Co., Ltd.  | 長春開元銳至投資管理有限公司   |
| Chun'an Qiandao Lake New Century Spearhead Investment Co., Ltd.      | 淳安千島湖開元銳至投資有限公司  |
| Hangzhou New Century Decorating Co., Ltd.                            | 杭州開元裝飾工程有限公司     |
| New Century Biroty Winery                                            | Not applicable   |
| Hangzhou New Century Zhijiang Cleaning Chain Co., Ltd.               | 杭州開元之江清洗連鎖有限公司   |

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|                                                                                                        | Chinese name        |
|--------------------------------------------------------------------------------------------------------|---------------------|
| Taizhou New Century Hotel Co., Ltd.                                                                    | 台州開元大酒店有限公司         |
| Chun'an Qiandao Lake New Century Property Management Co., Ltd.                                         | 淳安千島湖開元物業管理有限公司     |
| Hainan Hengshengyuan Qiziwan New Century Resort Co., Ltd.                                              | 海南恒盛元棋子灣開元度假村有限公司   |
| Hangzhou New Century Real Estate Group Co., Ltd.                                                       | 杭州開元房地產集團有限公司       |
| Taizhou New Century Grand Real Estate Co., Ltd.                                                        | 台州開元名都置業有限公司        |
| Zhejiang New Century Equity Investment Co., Ltd.                                                       | 浙江開元股權投資有限公司        |
| Zhejiang New Century Property Management Co., Ltd.                                                     | 浙江開元物業管理股份有限公司      |
| Hangzhou New Century International Tourism Co., Ltd.<br>(Till September 2017)                          | 杭州開元國際旅行社有限公司       |
| Changjiang Hengshengyuan Qiziwan Tourism Real Estate Co., Ltd.                                         | 昌江恒盛元棋子灣旅遊置業有限公司    |
| Xuzhou New Century Grand Hotel Co., Ltd.                                                               | 徐州開元名都大酒店有限公司       |
| New Century Grand Hotel Kaifeng Business Company Co., Ltd.                                             | 開封開元名都商務酒店有限公司      |
| Shaoxing Yuzhuang New Century Hotel Management Co., Ltd.                                               | 紹興禹莊開元酒店管理有限公司      |
| Hangzhou Jinjian Intelligent Technology Co., Ltd.                                                      | 杭州金鍵智慧科技有限公司        |
| Hangzhou New Century Tourism Development Co., Ltd.                                                     | 杭州開元旅遊開發有限公司        |
| New Century East Nursing Home, Jinnan District, Tianjin                                                | 天津市津南區開元東方養老院       |
| Ningbo Jiulong Lake New Century Resort Co., Ltd.                                                       | 寧波九龍湖開元華城度假村有限公司    |
| Beijing New Century Deming Hotel Management Co., Ltd.                                                  | 北京開元德明酒店管理有限公司      |
| Ningbo Seventeen House New Century Resort Co., Ltd.                                                    | 寧波十七房開元度假村有限公司      |
| Hangzhou Qiandao Lake Resort Yacht Club Co., Ltd.<br>(Till February 2018)                              | 杭州千島湖開元度假村遊艇俱樂部有限公司 |
| Hangzhou Ledu Property Services Co., Ltd.                                                              | 杭州樂都物業服務有限公司        |
| Beijing New Century Grand Hotel Management Co., Ltd.<br>(Till August 2016)                             | 北京開元名都大酒店管理有限公司     |
| New Century Hotel Management (Germany) GmbH                                                            | Not applicable      |
| Shanghai New Century Enterprise Operation Management Co., Ltd.                                         | 上海開元企業經營管理有限公司      |
| Haining New Century Grand Real Estate Co., Ltd.                                                        | 海寧開元名都置業有限公司        |
| Hangzhou New Century Senbo Tourism Investment Co., Ltd.                                                | 杭州開元森泊旅遊投資有限公司      |
| Xuzhou New Century Grand Real Estate Co., Ltd.                                                         | 徐州開元名都置業有限公司        |
| Henan New Century Grand Real Estate Co., Ltd.                                                          | 河南開元名都置業有限公司        |
| Hangzhou New Century Real Estate Co., Ltd.                                                             | 杭州開元世紀置業有限公司        |
| Hangzhou New Century Yuege Restaurant Management Co., Ltd.                                             | 杭州開元悅閣餐飲管理有限公司      |
| Ningbo Zhenhai New Century Heya Real Estate Co., Ltd.                                                  | 寧波鎮海開元和雅置業有限公司      |
| Deqing New Century Senbo Holiday Development Co., Ltd.                                                 | 德清開元森泊度假開發有限公司      |
| Deqing Yixin Investment and Management Co., Ltd.                                                       | 德清益新投資管理有限公司        |
| Deqing New Century Investment and Management Co., Ltd. New Century Business Hotel (Till December 2017) | 德清開元投資管理有限公司開元商務酒店  |
| Ningbo New Century Hotel Co., Ltd.                                                                     | 寧波開元大酒店有限公司         |

### *Controlled by close family member of the Controlling Shareholders*

|                                                                              | Chinese name    |
|------------------------------------------------------------------------------|-----------------|
| Hangzhou Xiaoshan Chaoyi Carpet Co., Ltd.                                    | 杭州蕭山超藝地毯有限公司    |
| Hangzhou Huang Chaoyi Printing Co., Ltd. (Till 30 July 2018)                 | 杭州黃氏超藝印刷有限公司    |
| Shanghai Songjiang New Century Grand Hotel Co., Ltd.<br>(Till December 2017) | 上海松江開元名都大酒店有限公司 |

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### *Joint ventures of the Group*

#### Chinese name

Beijing Gehua

北京歌華開元大酒店有限公司

### *Associates of the Group*

#### Chinese name

Yuyao Manju (from 1 January 2016 to 31 August 2018)

余姚開元曼居酒店管理有限公司

### (b) Transactions with related parties

#### *Hotel management revenue*

|                                                                                   | For the years ended<br>December 31, |                 |                 | For the eight months<br>ended August 31, |                 |
|-----------------------------------------------------------------------------------|-------------------------------------|-----------------|-----------------|------------------------------------------|-----------------|
|                                                                                   | 2015<br>RMB'000                     | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000<br>(unaudited)           | 2018<br>RMB'000 |
| Beijing Gehua                                                                     | 2,376                               | 5,299           | 8,260           | 5,398                                    | 5,962           |
| Xuzhou New Century Grand Hotel Co., Ltd.                                          | 5,455                               | 5,666           | 6,006           | 3,788                                    | 3,734           |
| Taizhou New Century Hotel Co., Ltd.                                               | 3,120                               | 3,471           | 3,960           | 2,429                                    | 2,496           |
| Shanghai Songjiang New Century Grand Hotel Co., Ltd.                              | 7,043                               | 5,720           | 3,631           | 3,214                                    | —               |
| Ningbo Jiulong Lake New Century Resort Co., Ltd.                                  | 3,122                               | 2,117           | 3,396           | 2,378                                    | 2,492           |
| New Century Grand Hotel Kaifeng Business Company Co., Ltd.                        | 3,425                               | 3,096           | 3,320           | 2,028                                    | 2,142           |
| Hainan Hengshengyuan Qiziwan New Century Resort Co., Ltd.                         | —                                   | 576             | 1,440           | 948                                      | 979             |
| Hangzhou New Century Tourism Development Co., Ltd.                                | —                                   | 26              | 1,137           | 763                                      | 997             |
| Ningbo Seventeen House New Century Resort Co., Ltd.                               | 920                                 | 844             | 965             | 645                                      | 561             |
| Ningbo New Century Hotel Co., Ltd.                                                | 4,207                               | 852             | 859             | 471                                      | 483             |
| Yuyao Manju                                                                       | —                                   | 678             | 700             | 452                                      | 442             |
| Changjiang Hengshengyuan Qiziwan Tourism Real Estate Co., Ltd.                    | 4,100                               | 472             | 637             | 637                                      | 2,453           |
| Deqing Yixin Investment and Management Co., Ltd.                                  | —                                   | 141             | 588             | 397                                      | 273             |
| Shaoxing Yuzhuang New Century Hotel Management Co., Ltd.                          | —                                   | —               | 375             | —                                        | 1,758           |
| Hangzhou New Century Yuege Restaurant Management Co., Ltd.                        | 50                                  | 130             | 143             | 103                                      | 82              |
| Haining New Century Grand Real Estate Co., Ltd.                                   | —                                   | 808             | 113             | 113                                      | —               |
| Beijing New Century Grand Hotel Management Co., Ltd.                              | 5,001                               | 2,921           | —               | —                                        | —               |
| Beijing New Century Deming Hotel Management Co., Ltd.                             | —                                   | 988             | —               | —                                        | —               |
| Deqing New Century Investment and Management Co., Ltd. New Century Business Hotel | 549                                 | 575             | —               | —                                        | —               |
| New Century Tourism Group Co., Ltd.                                               | 15,055                              | —               | —               | —                                        | —               |
| Deqing New Century Senbo Holiday Development Co., Ltd.                            | 5,000                               | —               | —               | —                                        | —               |
|                                                                                   | <u>59,423</u>                       | <u>34,380</u>   | <u>35,530</u>   | <u>23,764</u>                            | <u>24,854</u>   |

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### *Hotel operation revenue*

|                                                         | For the years ended<br>December 31, |                 |                 | For the eight months<br>ended August 31, |                 |
|---------------------------------------------------------|-------------------------------------|-----------------|-----------------|------------------------------------------|-----------------|
|                                                         | 2015<br>RMB'000                     | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000<br>(unaudited)           | 2018<br>RMB'000 |
| New Century Tourism Group Co., Ltd.                     | 689                                 | 876             | 1,295           | 813                                      | 947             |
| Hangzhou New Century Real Estate<br>Group Co., Ltd.     | 131                                 | 299             | 636             | 430                                      | 592             |
| Zhejiang New Century Property<br>Management Co., Ltd.   | 157                                 | 651             | 568             | 118                                      | 157             |
| Hangzhou New Century International<br>Tourism Co., Ltd. | 85                                  | 311             | 128             | 4                                        | –               |
| Shanghai Songjiang New Century Grand<br>Hotel Co., Ltd. | 130                                 | 28              | 18              | 18                                       | –               |
|                                                         | <u>1,192</u>                        | <u>2,165</u>    | <u>2,645</u>    | <u>1,383</u>                             | <u>1,696</u>    |

### *Rental income*

|                                                            | For the years ended<br>December 31, |                 |                 | For the eight months<br>ended August 31, |                 |
|------------------------------------------------------------|-------------------------------------|-----------------|-----------------|------------------------------------------|-----------------|
|                                                            | 2015<br>RMB'000                     | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000<br>(unaudited)           | 2018<br>RMB'000 |
| New Century East Nursing Home,<br>Jinnan District, Tianjin | 1,000                               | 974             | 962             | 721                                      | 166             |
| Hangzhou Qiandao Lake Resort<br>Yacht Club Co., Ltd.       | 600                                 | 581             | 566             | 377                                      | –               |
|                                                            | <u>1,600</u>                        | <u>1,555</u>    | <u>1,528</u>    | <u>1,098</u>                             | <u>166</u>      |

### *Sales of goods*

|                                                               | For the years ended<br>December 31, |                 |                 | For the eight months<br>ended August 31, |                 |
|---------------------------------------------------------------|-------------------------------------|-----------------|-----------------|------------------------------------------|-----------------|
|                                                               | 2015<br>RMB'000                     | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000<br>(unaudited)           | 2018<br>RMB'000 |
| Taizhou New Century Hotel Co., Ltd.                           | 768                                 | 2,213           | 3,872           | 1,916                                    | 1,508           |
| Ningbo New Century Hotel Co., Ltd.                            | 1,492                               | 2,594           | 2,216           | 809                                      | 650             |
| Zhejiang New Century Property<br>Management Co., Ltd.         | 954                                 | 465             | 1,761           | 1,073                                    | 1,190           |
| Shanghai Songjiang New Century Grand<br>Hotel Co., Ltd.       | 822                                 | 2,450           | 1,698           | 925                                      | –               |
| Beijing Gehua                                                 | 1,079                               | 1,396           | 1,670           | 661                                      | 1,099           |
| Xuzhou New Century Grand Hotel Co.,<br>Ltd.                   | 479                                 | 1,438           | 1,472           | 790                                      | 1,376           |
| Ningbo Jiulong Lake New Century<br>Resort Co., Ltd.           | 1,233                               | 1,567           | 1,262           | 678                                      | 563             |
| New Century Grand Hotel Kaifeng<br>Business Company Co., Ltd. | 703                                 | 975             | 840             | 243                                      | 377             |
| New Century Tourism Group Co., Ltd.                           | 298                                 | 202             | 660             | 461                                      | 193             |

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## ACCOUNTANT'S REPORT

|                                                                | For the years ended<br>December 31, |                 |                 | For the eight months<br>ended August 31, |                 |
|----------------------------------------------------------------|-------------------------------------|-----------------|-----------------|------------------------------------------|-----------------|
|                                                                | 2015<br>RMB'000                     | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000                          | 2018<br>RMB'000 |
|                                                                |                                     |                 |                 | (unaudited)                              |                 |
| Ningbo Seventeen House New Century Resort Co., Ltd.            | 416                                 | 364             | 481             | 233                                      | 161             |
| Shaoxing Yuzhuang New Century Hotel Management Co., Ltd.       | 52                                  | 17              | 260             | –                                        | 1,496           |
| Changjiang Hengshengyuan Qiziwan Tourism Real Estate Co., Ltd. | 25                                  | 114             | 194             | 37                                       | 99              |
| Hangzhou New Century Real Estate Group Co., Ltd.               | 74                                  | 55              | 168             | 137                                      | 93              |
| Hangzhou New Century Yuege Restaurant Management Co., Ltd.     | 83                                  | 156             | 131             | 94                                       | 90              |
| Haining New Century Grand Real Estate Co., Ltd.                | 231                                 | 171             | 58              | 37                                       | 72              |
| Hangzhou New Century Real Estate Co., Ltd.                     | 133                                 | 109             | 45              | 32                                       | 32              |
| Hainan Hengshengyuan Qiziwan New Century Resort Co., Ltd.      | 413                                 | 680             | 27              | 15                                       | 76              |
| Hangzhou New Century Tourism Development Co., Ltd.             | 413                                 | 1,125           | 57              | 34                                       | 18              |
| Henan New Century Grand Real Estate Co., Ltd.                  | 260                                 | 156             | 13              | 13                                       | 66              |
| New Century Hotel Management (Germany) GmbH                    | –                                   | 1,835           | –               | –                                        | –               |
| Beijing New Century Deming Hotel Management Co., Ltd.          | –                                   | 931             | –               | –                                        | –               |
| Beijing New Century Grand Hotel Management Co., Ltd.           | 428                                 | 667             | –               | –                                        | –               |
| Yuyao Manju                                                    | –                                   | 82              | 58              | –                                        | –               |
| Others                                                         | 399                                 | 604             | 664             | 259                                      | 628             |
|                                                                | <u>10,755</u>                       | <u>20,366</u>   | <u>17,607</u>   | <u>8,447</u>                             | <u>9,787</u>    |

*Interest charged to related parties:*

|                                                      | For the years ended<br>December 31, |                 |                 | For the eight months<br>ended August 31, |                 |
|------------------------------------------------------|-------------------------------------|-----------------|-----------------|------------------------------------------|-----------------|
|                                                      | 2015<br>RMB'000                     | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000                          | 2018<br>RMB'000 |
|                                                      |                                     |                 |                 | (unaudited)                              |                 |
| Zhejiang New Century Equity Investment Co., Ltd.     | 3,976                               | 3,912           | 629             | 629                                      | –               |
| Shanghai Songjiang New Century Grand Hotel Co., Ltd. | 999                                 | 894             | 278             | 278                                      | –               |
| Taizhou New Century Grand Real Estate Co., Ltd.      | 20,683                              | 2,515           | –               | –                                        | –               |
| New Century Tourism Group Co., Ltd.                  | 16                                  | 478             | –               | –                                        | –               |
|                                                      | <u>25,674</u>                       | <u>7,799</u>    | <u>907</u>      | <u>907</u>                               | <u>–</u>        |

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### *Other service income:*

|                                                                | For the years ended<br>December 31, |              |              | For the eight months<br>ended August 31, |              |
|----------------------------------------------------------------|-------------------------------------|--------------|--------------|------------------------------------------|--------------|
|                                                                | 2015                                | 2016         | 2017         | 2017                                     | 2018         |
|                                                                | RMB'000                             | RMB'000      | RMB'000      | RMB'000                                  | RMB'000      |
|                                                                |                                     |              |              | (unaudited)                              |              |
| Beijing Gehua                                                  | 650                                 | 809          | 1,137        | 780                                      | 822          |
| Zhejiang New Century Property Management Co., Ltd.             | 442                                 | 805          | 738          | 143                                      | 701          |
| Shanghai Songjiang New Century Grand Hotel Co., Ltd.           | 520                                 | 630          | 661          | 447                                      | –            |
| Ningbo Jiulong Lake New Century Resort Co., Ltd.               | 332                                 | 612          | 646          | 471                                      | 553          |
| Ningbo New Century Hotel Co., Ltd.                             | 444                                 | 494          | 588          | 387                                      | 596          |
| Xuzhou New Century Grand Hotel Co., Ltd.                       | 226                                 | 477          | 553          | 441                                      | 540          |
| Hangzhou New Century Tourism Development Co., Ltd.             | 45                                  | 243          | 537          | 401                                      | 380          |
| Ningbo Seventeen House New Century Resort Co., Ltd.            | 292                                 | 326          | 506          | 372                                      | 290          |
| Taizhou New Century Hotel Co., Ltd.                            | 154                                 | 259          | 325          | 298                                      | 371          |
| New Century Grand Hotel Kaifeng Business Company Co., Ltd.     | 122                                 | 239          | 286          | 152                                      | 242          |
| Haining New Century Grand Real Estate Co., Ltd.                | 153                                 | 187          | 238          | 159                                      | 287          |
| Xuzhou New Century Grand Real Estate Co., Ltd.                 | 153                                 | 195          | 229          | 153                                      | 221          |
| Shanghai New Century Enterprise Operation Management Co., Ltd. | 170                                 | 170          | 221          | 147                                      | 272          |
| Ningbo Zhenhai New Century Heya Real Estate Co., Ltd.          | –                                   | –            | 170          | 113                                      | 170          |
| Hainan Hengshengyuan Qiziwan New Century Resort Co., Ltd.      | –                                   | 63           | 168          | 113                                      | 147          |
| Henan New Century Grand Real Estate Co., Ltd.                  | 187                                 | 195          | 136          | 91                                       | –            |
| Beijing New Century Grand Hotel Management Co., Ltd.           | 991                                 | 795          | –            | –                                        | –            |
| Shaoxing Yuzhuang New Century Hotel Management Co., Ltd.       | –                                   | –            | 423          | 371                                      | 680          |
| Yuyao Manju                                                    | –                                   | 61           | 94           | 63                                       | 98           |
| Others                                                         | 547                                 | 472          | 483          | 175                                      | 500          |
|                                                                | <u>5,428</u>                        | <u>7,032</u> | <u>8,139</u> | <u>5,277</u>                             | <u>6,870</u> |

### *Purchase of goods:*

|                                          | For the years ended<br>December 31, |              |              | For the eight months<br>ended August 31, |              |
|------------------------------------------|-------------------------------------|--------------|--------------|------------------------------------------|--------------|
|                                          | 2015                                | 2016         | 2017         | 2017                                     | 2018         |
|                                          | RMB'000                             | RMB'000      | RMB'000      | RMB'000                                  | RMB'000      |
|                                          |                                     |              |              | (unaudited)                              |              |
| New Century Birotby Winery               | 6,150                               | 5,159        | 7,238        | 5,817                                    | 3,501        |
| Hangzhou Huang Chaoyi Printing Co., Ltd. | 605                                 | 437          | 444          | 271                                      | 153          |
| New Century Tourism Group Co., Ltd.      | 338                                 | 26           | 23           | 23                                       | 24           |
|                                          | <u>7,093</u>                        | <u>5,622</u> | <u>7,705</u> | <u>6,111</u>                             | <u>3,678</u> |



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### *Purchase of Services:*

|                                                             | For the years ended<br>December 31, |                 |                 | For the eight months<br>ended August 31, |                 |
|-------------------------------------------------------------|-------------------------------------|-----------------|-----------------|------------------------------------------|-----------------|
|                                                             | 2015<br>RMB'000                     | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000<br>(unaudited)           | 2018<br>RMB'000 |
| Hangzhou New Century Zhijiang<br>Cleaning Chain Co., Ltd.   | 8,680                               | 9,189           | 9,157           | 4,856                                    | 5,699           |
| Ningbo New Century Hotel Co., Ltd.                          | 1,819                               | 1,948           | 1,955           | 1,319                                    | 1,182           |
| Hangzhou Ledu Property Services<br>Co., Ltd.                | 57                                  | 93              | 330             | 262                                      | 284             |
| Beijing Gehua                                               | 145                                 | 20              | 24              | 15                                       | 37              |
| Shanghai Songjiang New Century Grand<br>Hotel Co., Ltd.     | 112                                 | 24              | 11              | 5                                        | –               |
| Shaoxing Yuzhuang New Century Hotel<br>Management Co., Ltd. | –                                   | –               | –               | –                                        | 167             |
| Beijing New Century Grand Hotel<br>Management Co., Ltd.     | 105                                 | 18              | –               | –                                        | –               |
|                                                             | <u>10,918</u>                       | <u>11,292</u>   | <u>11,477</u>   | <u>6,457</u>                             | <u>7,369</u>    |

### *Purchase of non-current assets:*

|                                                      | For the years ended<br>December 31, |                 |                 | For the eight months<br>ended August 31, |                 |
|------------------------------------------------------|-------------------------------------|-----------------|-----------------|------------------------------------------|-----------------|
|                                                      | 2015<br>RMB'000                     | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000<br>(unaudited)           | 2018<br>RMB'000 |
| Hangzhou Xiaoshan Chaoyi Carpet<br>Co., Ltd.         | 38                                  | 1,581           | 1,544           | 811                                      | –               |
| Hangzhou New Century Decorating<br>Co., Ltd.         | 5,225                               | 22,835          | 355             | –                                        | –               |
| Hangzhou Jinjian Intelligent Technology<br>Co., Ltd. | –                                   | 466             | 533             | –                                        | 927             |
|                                                      | <u>5,263</u>                        | <u>24,882</u>   | <u>2,432</u>    | <u>811</u>                               | <u>927</u>      |

### *Interest paid to related parties:*

|                                     | For the years ended<br>December 31, |                 |                 | For the eight months<br>ended August 31, |                 |
|-------------------------------------|-------------------------------------|-----------------|-----------------|------------------------------------------|-----------------|
|                                     | 2015<br>RMB'000                     | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000<br>(unaudited)           | 2018<br>RMB'000 |
| New Century Tourism Group Co., Ltd. | 890                                 | 2,124           | 1,520           | 1,520                                    | –               |

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## ACCOUNTANT'S REPORT

### *Rental expenses payable/paid to related parties:*

|                                                                                     | For the years ended<br>December 31, |                 |                 | For the eight months<br>ended August 31, |                 |
|-------------------------------------------------------------------------------------|-------------------------------------|-----------------|-----------------|------------------------------------------|-----------------|
|                                                                                     | 2015<br>RMB'000                     | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000<br>(unaudited)           | 2018<br>RMB'000 |
| Zhejiang New Century Hotel Investment and Management Group Co., Ltd. <sup>(i)</sup> | 88,599                              | 88,582          | 86,440          | 54,015                                   | 59,516          |
| Zhejiang Spearhead Investment Co., Ltd. <sup>(i)</sup>                              | 34,081                              | 35,579          | 36,022          | 22,939                                   | 23,278          |
| Ningbo New Century Spearhead Investment Co., Ltd. <sup>(i)</sup>                    | 44,695                              | 43,272          | 42,894          | 26,844                                   | 26,188          |
| Chun'an Qiandao Lake New Century Spearhead Investment Co., Ltd. <sup>(i)</sup>      | 20,799                              | 20,510          | 23,047          | 17,239                                   | 17,154          |
| Changchun New Century Spearhead Investment and Management Co., Ltd. <sup>(i)</sup>  | 26,896                              | 23,240          | 22,447          | 14,559                                   | 12,530          |
| Zhejiang New Century Property Management Co., Ltd.                                  | 1,494                               | 1,694           | 2,393           | 1,476                                    | 833             |
| New Century Tourism Group Co., Ltd.                                                 | 619                                 | 619             | 619             | 433                                      | 454             |
| New Century Holdings Group Co., Ltd.                                                | 161                                 | 160             | 158             | 94                                       | 55              |
| Hangzhou New Century Senbo Tourism Investment Co.,Ltd.                              | —                                   | —               | —               | —                                        | 65              |
|                                                                                     | <u>217,344</u>                      | <u>213,656</u>  | <u>214,020</u>  | <u>137,599</u>                           | <u>140,073</u>  |

- (i) The lease agreements signed by the Group and above related parties, subsidiaries of New Century Real Estate Investment Trust ("New Century REIT"), were guaranteed by New Century Tourism Group Co., Ltd.

### *Borrowings guaranteed by related parties*

|                                                  | For the years ended<br>December 31, |                 |                 | For the eight months<br>ended August 31, |                 |
|--------------------------------------------------|-------------------------------------|-----------------|-----------------|------------------------------------------|-----------------|
|                                                  | 2015<br>RMB'000                     | 2016<br>RMB'000 | 2017<br>RMB'000 | 2017<br>RMB'000<br>(unaudited)           | 2018<br>RMB'000 |
| New Century Tourism Group Co., Ltd.              | 150,000                             | 150,000         | 100,000         | 100,000                                  | —               |
| Hangzhou New Century Real Estate Group Co., Ltd. | 99,000                              | 99,000          | —               | —                                        | —               |
|                                                  | <u>249,000</u>                      | <u>249,000</u>  | <u>100,000</u>  | <u>100,000</u>                           | <u>—</u>        |

The above bank borrowings guaranteed by related parties were all released in July 2018.

The above related party transactions were carried out in accordance with the term of the underlying agreements.

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## ACCOUNTANT'S REPORT

### (c) Balances with related parties

In addition to the loans from a related party disclosed in Note 28, other significant related party balances are disclosed as below:

*Trade receivables due from – trade in nature:*

|                                                                   | As at December 31, |              |              | As at        |
|-------------------------------------------------------------------|--------------------|--------------|--------------|--------------|
|                                                                   | 2015               | 2016         | 2017         | August 31,   |
|                                                                   | RMB'000            | RMB'000      | RMB'000      | 2018         |
|                                                                   |                    |              |              | RMB'000      |
| Ningbo New Century Hotel Co., Ltd.                                | 3,782              | 203          | 207          | 65           |
| Changjiang Hengshengyuan Qiziwan<br>Tourism Real Estate Co., Ltd. | 1,285              | 1,282        | –            | 2,600        |
| Hangzhou New Century Tourism<br>Development Co., Ltd.             | 627                | 618          | 64           | 231          |
| Taizhou New Century Hotel Co., Ltd.                               | 459                | 536          | 725          | 414          |
| Shanghai Songjiang New Century Grand<br>Hotel Co., Ltd.           | 451                | 657          | –            | –            |
| Xuzhou New Century Grand Hotel Co.,<br>Ltd.                       | 428                | 503          | 419          | 576          |
| Zhejiang New Century Property<br>Management Co., Ltd.             | 420                | 194          | 92           | 247          |
| Beijing Gehua                                                     | 342                | 1,149        | 720          | 1,015        |
| Hangzhou Qiandao Lake Resort Yacht<br>Club Co., Ltd.              | 341                | 46           | 300          | –            |
| Kaifeng New Century Grand Hotel Co.,<br>Ltd.                      | 290                | 31           | –            | –            |
| New Century Tourism Group Co., Ltd.                               | 90                 | 295          | 320          | 139          |
| Ningbo Jiulong Lake New Century<br>Resort Co., Ltd.               | 81                 | 298          | 164          | 695          |
| Ningbo Seventeen House New Century<br>Resort Co., Ltd.            | 56                 | 123          | 63           | 104          |
| Hangzhou New Century Real Estate<br>Group Co., Ltd.               | 38                 | 113          | 139          | 48           |
| New Century Grand Hotel Kaifeng<br>Business Company Co., Ltd.     | –                  | 257          | 207          | 274          |
| Hainan Hengshengyuan Qiziwan New<br>Century Resort Co., Ltd.      | –                  | 112          | 120          | 116          |
| Shaoxing Yuzhuang New Century Hotel<br>Management Co., Ltd.       | –                  | –            | 139          | 362          |
| Hangzhou New Century International<br>Tourism Co., Ltd.           | –                  | 131          | –            | 9            |
| Henan New Century Grand Real Estate<br>Co., Ltd.                  | 2                  | 1            | –            | 110          |
| Others                                                            | 341                | 273          | 556          | 296          |
|                                                                   | <u>9,033</u>       | <u>6,822</u> | <u>4,235</u> | <u>7,301</u> |

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### *Loan receivables and other receivables due from:*

|                                                                           | As at December 31, |               |               | As at         |
|---------------------------------------------------------------------------|--------------------|---------------|---------------|---------------|
|                                                                           | 2015               | 2016          | 2017          | August 31,    |
|                                                                           | RMB'000            | RMB'000       | RMB'000       | 2018          |
|                                                                           |                    |               |               | RMB'000       |
| Taizhou New Century Grand Real Estate Co., Ltd. (i)                       | 170,001            | –             | –             | –             |
| Zhejiang New Century Equity Investment Co., Ltd. (ii)                     | 40,000             | 40,000        | –             | –             |
| Zhejiang New Century Hotel Investment and Management Group Co., Ltd. (iv) | 20,447             | 20,447        | 20,447        | 20,436        |
| Shanghai Songjiang New Century Grand Hotel Co., Ltd. (iii)                | 16,030             | 16,051        | –             | –             |
| Ningbo New Century Hotel Co., Ltd.                                        | 3,612              | 378           | 2             | 52            |
| Chun'an Qiandao Lake New Century Property Management Co., Ltd.            | 985                | 953           | –             | 78            |
| New Century Tourism Group Co., Ltd. (v)                                   | 7                  | 9,214         | –             | 9             |
| Others                                                                    | 246                | 375           | 69            | 262           |
|                                                                           | <u>251,328</u>     | <u>87,418</u> | <u>20,518</u> | <u>20,837</u> |

- (i) The balance represented unsecured loan of RMB170,000,000 as at December 31, 2015, provided to Taizhou New Century Grand Real Estate Co., Ltd., through China CITIC Bank, an independent third party, at an interest of 12% per annum, which was received in March 2016;
- (ii) The balance represented unsecured loan of RMB40,000,000 as at December 31, 2015 and 2016, provided to Zhejiang New Century Equity Investment Co., Ltd., through a subsidiary of the Group, at an interest of 10% per annum, which was received in March 2017;
- (iii) The balance represented unsecured loan of RMB16,000,000 as at December 31, 2015 and 2016, provided to Shanghai Songjiang New Century Grand Hotel Co., Ltd. at an interest of 10% per annum, which was received in May 2017;
- (iv) The balance mainly represented the rental deposit of RMB20,000,000 to Zhejiang New Century Hotel Investment and Management Group Co., Ltd.;
- (v) The balance represented interest-free receivables of RMB9,000,000 as at December 31, 2016 provided to New Century Tourism Group Co., Ltd., which was received in May 2017.

Except for (i), (ii), (iii), and (v) which are non-trade in nature, all are trade in nature.

### *Prepayment due from – trade in nature:*

|                                                                      | As at December 31, |            |              | As at      |
|----------------------------------------------------------------------|--------------------|------------|--------------|------------|
|                                                                      | 2015               | 2016       | 2017         | August 31, |
|                                                                      | RMB'000            | RMB'000    | RMB'000      | 2018       |
|                                                                      |                    |            |              | RMB'000    |
| New Century Birotby Winery                                           | 713                | 807        | 887          | –          |
| Zhejiang New Century Hotel Investment and Management Group Co., Ltd. | 151                | 45         | 185          | 212        |
| Changchun New Century Spearhead Investment and Management Co., Ltd.  | –                  | 107        | –            | –          |
| Hangzhou Ledu Property Services Co., Ltd.                            | –                  | –          | 2            | –          |
| New Century Tourism Group Co., Ltd.                                  | –                  | –          | –            | 61         |
| Hangzhou Xiaoshan Chaoyi Carpet Co., Ltd.                            | 68                 | –          | –            | –          |
| Others                                                               | –                  | 1          | 70           | 28         |
|                                                                      | <u>932</u>         | <u>960</u> | <u>1,144</u> | <u>301</u> |

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*Interest receivables due from – non-trade in nature:*

|                                                      | As at December 31, |         |         | As at      |
|------------------------------------------------------|--------------------|---------|---------|------------|
|                                                      | 2015               | 2016    | 2017    | August 31, |
|                                                      | RMB'000            | RMB'000 | RMB'000 | 2018       |
|                                                      |                    |         |         | RMB'000    |
| Shanghai Songjiang New Century Grand Hotel Co., Ltd. | 70                 | 85      | –       | –          |

*Trade payables due to – trade in nature:*

|                                                                      | As at December 31, |         |         | As at      |
|----------------------------------------------------------------------|--------------------|---------|---------|------------|
|                                                                      | 2015               | 2016    | 2017    | August 31, |
|                                                                      | RMB'000            | RMB'000 | RMB'000 | 2018       |
|                                                                      |                    |         |         | RMB'000    |
| Zhejiang New Century Hotel Investment and Management Group Co., Ltd. | 21,928             | 15,384  | 9,552   | 5,025      |
| Ningbo New Century Spearhead Investment Co., Ltd.                    | 9,869              | 5,821   | 4,636   | 3,385      |
| Zhejiang Spearhead Investment Co., Ltd.                              | 8,269              | 5,226   | 4,205   | 2,190      |
| Changchun New Century Spearhead Investment and Management Co., Ltd.  | 5,219              | 53      | 1,612   | 2,381      |
| Chun'an Qiandao Lake New Century Spearhead Investment Co., Ltd.      | 3,328              | 1,700   | 841     | 5,040      |
| Hangzhou New Century Zhijiang Cleaning Chain Co., Ltd.               | 459                | 910     | 488     | 796        |
| Hangzhou New Century Decorating Co., Ltd.                            | 844                | 542     | 434     | –          |
| Chun'an Qiandao Lake New Century Property Management Co., Ltd.       | –                  | –       | 268     | –          |
| Ningbo New Century Hotel Co., Ltd.                                   | 183                | 152     | 160     | 227        |
| Zhejiang Haogu Internet Technology Co., Ltd.                         | –                  | –       | –       | 89         |
| Beijing Gehua                                                        | 7                  | 44      | 1       | 24         |
| Ningbo Jiulong Lake New Century Resort Co., Ltd.                     | –                  | 1       | 2       | 24         |
| Hangzhou Huang Chaoyi Printing Co., Ltd.                             | 70                 | 99      | 90      | 74         |
| New Century Tourism Group Co., Ltd.                                  | 1                  | 4       | 12      | 117        |
| Xuzhou New Century Hotel Co., Ltd.                                   | –                  | –       | 2       | 74         |
| Others                                                               | 16                 | 100     | 20      | 167        |
|                                                                      | 50,193             | 30,036  | 22,323  | 19,613     |

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*Other payables due to – trade in nature:*

|                                                                      | As at December 31, |               |               | As at         |
|----------------------------------------------------------------------|--------------------|---------------|---------------|---------------|
|                                                                      | 2015               | 2016          | 2017          | August 31,    |
|                                                                      | RMB'000            | RMB'000       | RMB'000       | 2018          |
|                                                                      |                    |               |               | RMB'000       |
| Ningbo New Century Hotel Co., Ltd.                                   | 11,126             | 4,239         | 308           | 184           |
| Hangzhou New Century Decorating Co., Ltd.                            | 5,944              | 8,937         | 5,394         | 5,824         |
| Beijing Gehua                                                        | 1,090              | 1,686         | 1,330         | 1,216         |
| Beijing New Century Deming Hotel Management Co., Ltd.                | 978                | 14            | –             | –             |
| Shanghai Songjiang New Century Grand Hotel Co., Ltd.                 | 788                | 1,220         | –             | –             |
| Shaoxing Yuzhuang New Century Hotel Management Co., Ltd.             | –                  | –             | 667           | 1,101         |
| Zhejiang New Century Hotel Investment and Management Group Co., Ltd. | 376                | –             | –             | –             |
| Hangzhou New Century Zhijiang Cleaning Chain Co., Ltd.               | 354                | 152           | –             | –             |
| Zhejiang New Century Property Management Co., Ltd.                   | 333                | –             | –             | –             |
| Kaifeng New Century Grand Hotel Co., Ltd.                            | 332                | 302           | 4             | –             |
| Xuzhou New Century Grand Hotel Co., Ltd.                             | 237                | 377           | 498           | 354           |
| Taizhou New Century Hotel Co., Ltd.                                  | 170                | 289           | 319           | 297           |
| New Century Holdings Group Co., Ltd.                                 | 166                | –             | –             | –             |
| Ningbo Jiulong Lake New Century Resort Co., Ltd.                     | 98                 | 407           | 343           | 980           |
| Ningbo Seventeen House New Century Resort Co., Ltd.                  | 70                 | 367           | 253           | 317           |
| Hainan Hengshengyuan Qiziwan New Century Resort Co., Ltd.            | –                  | 106           | 142           | 450           |
| Hangzhou New Century Tourism Development Co., Ltd.                   | 29                 | 143           | 289           | 372           |
| Hangzhou Jinjian Intelligent Technology Co., Ltd.                    | –                  | 10            | 514           | 1,185         |
| Yuyao Manju                                                          | –                  | 26            | 65            | –             |
| Hangzhou Xiaoshan Chaoyi Carpet Co., Ltd.                            | –                  | –             | 16            | 51            |
| Others                                                               | 296                | 174           | 255           | 468           |
|                                                                      | <u>22,387</u>      | <u>18,449</u> | <u>10,397</u> | <u>12,799</u> |

## APPENDIX I

## ACCOUNTANT’S REPORT

### *Advances due from – trade in nature:*

|                                                          | As at December 31, |            |            | As at      |
|----------------------------------------------------------|--------------------|------------|------------|------------|
|                                                          | 2015               | 2016       | 2017       | August 31, |
|                                                          | RMB'000            | RMB'000    | RMB'000    | 2018       |
|                                                          |                    |            |            | RMB'000    |
| Hangzhou New Century International Tourism Co., Ltd.     | 1,320              | –          | –          | –          |
| New Century East Nursing Home, Jinnan District, Tianjin  | 250                | –          | –          | –          |
| Beijing Gehua                                            | 147                | 2          | –          | –          |
| Ningbo Jiulong Lake New Century Resort Co., Ltd.         | –                  | 600        | 103        | –          |
| Ningbo New Century Hotel Co., Ltd.                       | –                  | 172        | –          | –          |
| Shanghai Songjiang New Century Grand Hotel Co., Ltd.     | –                  | 150        | –          | –          |
| Xuzhou New Century Grand Hotel Co., Ltd.                 | 38                 | –          | 257        | –          |
| Shaoxing Yuzhuang New Century Hotel Management Co., Ltd. | –                  | –          | –          | 201        |
| Haining New Century Grand Real Estate Co., Ltd.          | –                  | –          | –          | 303        |
| New Century Tourism Group Co., Ltd.                      | –                  | –          | –          | 78         |
| Others                                                   | 1                  | 62         | 141        | 24         |
|                                                          | <u>1,756</u>       | <u>986</u> | <u>501</u> | <u>606</u> |

### (d) Key management compensation

|                                                                                        | For the years ended December 31, |              |              | For the eight months ended August 31, |              |
|----------------------------------------------------------------------------------------|----------------------------------|--------------|--------------|---------------------------------------|--------------|
|                                                                                        | 2015                             | 2016         | 2017         | 2017                                  | 2018         |
|                                                                                        | RMB'000                          | RMB'000      | RMB'000      | RMB'000                               | RMB'000      |
|                                                                                        |                                  |              |              | (unaudited)                           |              |
| Wages, salaries and bonuses                                                            | 3,748                            | 3,809        | 4,251        | 2,834                                 | 3,616        |
| Pension costs – defined contribution plan                                              | 21                               | 22           | 25           | 17                                    | 22           |
| Housing fund, medical insurance and other social insurance and other employee benefits | 92                               | 102          | 128          | 85                                    | 114          |
| Share-based compensation expenses                                                      | <u>2,839</u>                     | <u>–</u>     | <u>2,632</u> | <u>2,632</u>                          | <u>–</u>     |
|                                                                                        | <u>6,700</u>                     | <u>3,933</u> | <u>7,036</u> | <u>5,568</u>                          | <u>3,752</u> |

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## ACCOUNTANT'S REPORT

### 36 STATUTORY AUDITORS OF PRINCIPAL SUBSIDIARIES

The companies that have audited statutory financial statements during the Track Record Periods and the name of the auditors are as follows:

| Company name                                                           | 2015                                                                                           | Name of statutory auditors                                                                     |                                                                                                |
|------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
|                                                                        |                                                                                                | 2016                                                                                           | 2017                                                                                           |
| Ninghai Jinhai Grand New Century Hotel Co., Ltd. (寧海金海開元名都大酒店有限公司)     | 寧波安全三江會計師事務所有限公司 (Ningbo An Quan San Jiang Union Alpha Certified Public Accountants Co., Ltd.) | 寧波安全三江會計師事務所有限公司 (Ningbo An Quan San Jiang Union Alpha Certified Public Accountants Co., Ltd.) | 寧波安全三江會計師事務所有限公司 (Ningbo An Quan San Jiang Union Alpha Certified Public Accountants Co., Ltd.) |
| Zhejiang New Century Manju Hotel Management Co., Ltd. (浙江開元曼居酒店管理有限公司) | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)                       | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)                       | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)                       |
| Shanghai Yuege Hotel Operation Co., Ltd. (上海悅閣酒店經營有限公司)                | 上海宏華會計師事務所有限公司 (Shanghai Honghua Certified Public Accountants Co., Ltd.)                       | 上海宏華會計師事務所有限公司 (Shanghai Honghua Certified Public Accountants Co., Ltd.)                       | 上海宏華會計師事務所有限公司 (Shanghai Honghua Certified Public Accountants Co., Ltd.)                       |
| Shanghai Ruiya Hotel Management Co., Ltd. (上海瑞亞酒店管理有限公司)               | 上海宏華會計師事務所有限公司 (Shanghai Honghua Certified Public Accountants Co., Ltd.)                       | 上海宏華會計師事務所有限公司 (Shanghai Honghua Certified Public Accountants Co., Ltd.)                       | 上海宏華會計師事務所有限公司 (Shanghai Honghua Certified Public Accountants Co., Ltd.)                       |
| Shanghai Ruiyue Hotel Co., Ltd. (上海瑞悅酒店有限公司)                           | 上海宏華會計師事務所有限公司 (Shanghai Honghua Certified Public Accountants Co., Ltd.)                       | 上海宏華會計師事務所有限公司 (Shanghai Honghua Certified Public Accountants Co., Ltd.)                       | 上海宏華會計師事務所有限公司 (Shanghai Honghua Certified Public Accountants Co., Ltd.)                       |
| Hangzhou New Century Hotel Supplies Co., Ltd. (杭州開元酒店用品有限公司)           | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)                       | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)                       | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)                       |
| Hangzhou Biluo Wine Co., Ltd. (杭州璧蘿酒業有限公司)                             | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)                       | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)                       | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)                       |
| Hangzhou New Century Information System Co., Ltd. (杭州開元信息系統有限公司)       | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)                       | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)                       | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)                       |
| Zhejiang Jinshanzi Network Technology Co., Ltd. (浙江金扇子網絡科技有限公司)        | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)                       | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)                       | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)                       |



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## ACCOUNTANT'S REPORT

| Company name                                                                       | 2015                                                                              | Name of statutory auditors                                                       |                                                                                  |
|------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
|                                                                                    |                                                                                   | 2016                                                                             | 2017                                                                             |
| Tianjin Ruiwan New Century Hotel Management Co., Ltd. (天津瑞灣開元酒店管理有限公司)             | 天津濱海火炬會計師事務所有限公司 (TianJin Binhai Torch Certified Accountants Institute Co., Ltd.) | 天津市希地有限責任會計師事務所 (TianJinShi XiDi Limited Liability Certified Public Accountants) | 天津市希地有限責任會計師事務所 (TianJinShi XiDi Limited Liability Certified Public Accountants) |
| Hangzhou New Century Chuanqi Property Leasing Co., Ltd. (杭州開元傳祺房屋租賃有限公司)           | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)          | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)         | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)         |
| Haining Yanguan Ancient City New Century Resort Hotel Co., Ltd. (海寧鹽官古城開元度假酒店有限公司) | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)          | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)         | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)         |
| Jiande New Century Wonderland Resort Co., Ltd. (建德開元芳草地酒店有限公司)                     | Not applicable                                                                    | Not applicable                                                                   | 建德信安會計師事務所 (Jiande XinAn Leatiled Public Accountants)                            |
| Changxing New Century Wonderland Resort Co., Ltd. (長興開元芳草地酒店有限公司)                  | 湖州金陵永達會計師事務所 (Huzhou JinLing Yongda Certified Public Accountants)                 | 湖州天衡聯合會計師事務所 (United Certified Public Accountants Firms of Huzhou Tianheng)      | 湖州天衡聯合會計師事務所 (United Certified Public Accountants Firms of Huzhou Tianheng)      |
| Suzhou Qiju Hotel Management Co., Ltd. (蘇州祺聚酒店管理有限公司)                              | 嘉泰聯合會計師事務所 (Justice United Certified Public Accountants)                          | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)         | Not applicable                                                                   |
| Shaoxing Dayu New Century Resort Co., Ltd. (紹興大禹開元度假村有限公司)                         | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)          | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)         | Not applicable                                                                   |
| Hangzhou Kaiyuan Life Hotel Management Co., Ltd. (杭州開元頤居酒店管理有限公司)                  | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)          | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)         | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)         |
| Yuyao New Century Manju Hotel Management Co., Ltd. (余姚開元曼居酒店管理有限公司)                | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)          | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)         | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)         |
| Ningbo New Century Manju Hotel Management Co., Ltd. (寧波開元曼居酒店管理有限公司)               | Not applicable                                                                    | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)         | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)         |

## APPENDIX I

## ACCOUNTANT'S REPORT

| Company name                                                                          | 2015           | Name of statutory auditors |                                                                                  |
|---------------------------------------------------------------------------------------|----------------|----------------------------|----------------------------------------------------------------------------------|
|                                                                                       |                | 2016                       | 2017                                                                             |
| Tianjin Manju Hotel Management Co., Ltd.<br>(天津曼居酒店管理有限公司)                            | Not applicable | Not applicable             | 天津市希地有限責任會計師事務所 (TianJinShi XiDi Limited Liability Certified Public Accountants) |
| Zhoushan New Century Manju Hotel Management Co., Ltd.<br>(舟山開元曼居酒店管理有限公司)             | Not applicable | Not applicable             | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)         |
| Shanghai New Century Manju Hotel Management Co., Ltd.<br>(上海開元曼居酒店管理有限公司)             | Not applicable | Not applicable             | 上海宏華會計師事務所 (Shanghai Honghua Certified Public Accountants)                       |
| Beijing New Century Manju Hotel Management Co., Ltd.<br>(北京開元曼居酒店管理有限公司)              | Not applicable | Not applicable             | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)         |
| Chongqing New Century Manju Hotel Management Co., Ltd.<br>(重慶開元曼居酒店管理有限公司)            | Not applicable | Not applicable             | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)         |
| Dalian New Century Manju Hotel Management Co., Ltd.<br>(大連開元曼居酒店管理有限公司)               | Not applicable | Not applicable             | 杭州蕭然會計師事務所有限公司 (Hangzhou Xiaoran Certified Public Accountants Co., Ltd.)         |
| Chongqing Dazu District New Century Grand House Hotel Co., Ltd.<br>(重慶市大足區開元觀堂酒店有限公司) | Not applicable | Not applicable             | 重慶索原會計師事務所 (普通合夥) (ChongQing SuoYuan Certified Public Accountants LLP)           |
| Zhejiang New Century Catering Management Co., Ltd. (浙江開元餐飲管理有限公司)                     | Not applicable | Not applicable             | Not applicable                                                                   |
| Zhejiang Meizhen Hotel Management Co., Ltd.<br>(浙江美鎮酒店管理有限公司)                         | Not applicable | Not applicable             | Not applicable                                                                   |
| Shanghai Yueshang Hotel Management Co., Ltd.<br>(上海閱尚酒店管理有限公司)                        | Not applicable | Not applicable             | Not applicable                                                                   |

## APPENDIX I

## ACCOUNTANT'S REPORT

| Company name                                                                 | 2015           | Name of statutory auditors |                |
|------------------------------------------------------------------------------|----------------|----------------------------|----------------|
|                                                                              |                | 2016                       | 2017           |
| Hunan Manju Hotel Management Co., Ltd.<br>(湖南曼居酒店管理有<br>限責任公司)               | Not applicable | Not applicable             | Not applicable |
| Chengdu Liju Hotel Management Co., Ltd.<br>(成都麗居酒店管理有<br>限公司)                | Not applicable | Not applicable             | Not applicable |
| Ningbo New Century Manfei Hotel Management Co., Ltd.<br>(寧波開元曼菲酒店管<br>理有限公司) | Not applicable | Not applicable             | Not applicable |
| Changxing Grand New Century Hotel Co., Ltd. (長興開元名都大酒店有限公司)                  | Not applicable | Not applicable             | Not applicable |
| Changxing New Century Mayart Hotel Co., Ltd.<br>(長興開元美途酒店有<br>限公司)           | Not applicable | Not applicable             | Not applicable |

### III SUBSEQUENT FINANCIAL STATEMENTS

[No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to August 31, 2018 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or its subsidiaries in respect of any period subsequent to August 31, 2018.]

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**APPENDIX IIA      UNAUDITED [REDACTED] FINANCIAL INFORMATION**

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**[REDACTED]**

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**APPENDIX IIA      UNAUDITED [REDACTED] FINANCIAL INFORMATION**

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**[REDACTED]**

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**APPENDIX IIA      UNAUDITED [REDACTED] FINANCIAL INFORMATION**

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[REDACTED]

*The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.*

[REDACTED]

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**APPENDIX IIA      UNAUDITED [REDACTED] FINANCIAL INFORMATION**

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**[REDACTED]**

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**APPENDIX IIA      UNAUDITED [REDACTED] FINANCIAL INFORMATION**

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**[REDACTED]**



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**APPENDIX IIB**

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**PROFIT ESTIMATE**

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*The estimated consolidated profit of the Company for the year ended December 31, 2018 is set out in the section headed "Financial Information – Profit Estimate for the Year Ended December 31, 2018" in this document.*

**A. BASES**

We have prepared our estimate of the consolidated profit attributable to the owners of the Company for the year ended December 31, 2018 based on (i) the audited consolidated results of the Group for the eight months ended August 31, 2018; (ii) the unaudited consolidated results of the Group based on the management accounts for the three months ended November 30, 2018 and (iii) an estimate of the consolidated results of the Group for the remaining one month ended December 31, 2018. Our profit estimate has been prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our Accountant's Report, the text of which is set out in Appendix I to this document.

## APPENDIX IIB

## PROFIT ESTIMATE

### B. LETTER FROM THE REPORTING ACCOUNTANT

*The following is the text of a letter received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.*

*[Letterhead to be inserted]*

*[Draft]*

The Board of Directors  
Zhejiang New Century Hotel Management Co., Ltd.  
China Galaxy International Securities (Hong Kong) Co., Limited  
Bocom International (Asia) Limited

Dear Sirs,

Zhejiang New Century Hotel Management Co., Ltd. (the "Company")

#### **Profit Estimate for Year Ended December 31, 2018**

We refer to the estimate of the consolidated profit attributable to owners of the Company for the year ended December 31, 2018 (the "Profit Estimate") set forth in the section headed Financial Information in the document of the Company dated [date] (the "Document").

#### **Directors' Responsibilities**

The Profit Estimate has been prepared by the directors of the Company based on the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the eight months ended August 31, 2018, the unaudited consolidated results based on the management accounts of the Group for the three months ended November 30, 2018 and an estimate of the consolidated results of the Group for the remaining one month ended December 31, 2018.

The Company's directors are solely responsible for the Profit Estimate.

#### **Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## APPENDIX IIB

## PROFIT ESTIMATE

### Reporting Accountant's Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500, *Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness* and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

### Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in Appendix [IIB] of the Document and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountant's report dated [date], the text of which is set out in Appendix I of the Document.

Yours faithfully,

**[PricewaterhouseCoopers]**

*Certified Public Accountants*

Hong Kong, [date]

## APPENDIX IIB

## PROFIT ESTIMATE

### C. LETTER FROM THE JOINT SPONSORS

*The following is the text of a letter, prepared for inclusion in this document by the Joint Sponsors, in connection with the estimate of the consolidated profit attributable to the owners of the Company for the year ended December 31, 2018.*

**China Galaxy International  
Securities (Hong Kong) Co., Limited**  
20th Floor, Wing On Centre  
111 Connaught Road Central  
Sheung Wan  
Hong Kong

**BOCOM International (Asia)  
Limited**  
9/F, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

The Directors  
**Zhejiang New Century Hotel Management Co., Ltd.**

[REDACTED]

Dear Sirs,

We refer to the estimate of the consolidated profit attributable to the owners of Zhejiang New Century Hotel Management Co., Ltd. (the “**Company**”, together with its subsidiaries, collectively referred to as the “**Group**”) for the year ended December 31, 2018 (the “**Profit Estimate**”), for which the directors of the Company (the “**Directors**”) are solely responsible, as set out in the section headed “Financial Information” in the document of the Company dated [REDACTED] (the “**Document**”).

The Profit Estimate has been prepared by the Directors based on (i) the audited consolidated results of the Group for the eight months ended August 31, 2018 as set out in the Accountants’ Report in Appendix I to the Document; (ii) the unaudited consolidated results based on the management accounts of the Group for the three months ended November 30, 2018 and (iii) an estimate of the consolidated results of the Group for the remaining one month ended December 31, 2018.

We have discussed with you the bases made by the Directors as set out in Appendix IIB to the Document, upon which the Profit Estimate has been made. We have also considered the letter dated [REDACTED] addressed to yourselves and ourselves from the Company’s reporting accountant, PricewaterhouseCoopers regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by PricewaterhouseCoopers, we are of the opinion that the Profit Estimate, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

For and on behalf of  
**China Galaxy International  
Securities (Hong Kong) Co., Limited**  
**Tan Soon Hoe**  
*Executive Director*

For and on behalf of  
**BOCOM International (Asia) Limited**  
**Conrad Cheng**  
*Managing Director*

## APPENDIX III

## PROPERTY VALUATION REPORT

*The following is the text of a letter, summary of valuations and valuation report prepared for the purpose of incorporation in this Document received from Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of value of the property interests of the Group as at November 30, 2018.*



[REDACTED]

The Directors  
Zhejiang New Century Hotel Management Co., Ltd.  
54/F, Hopewell Centre  
183 Queen's Road East  
Wan Chai  
Hong Kong

Dear Sirs,

**Re: Portfolio Valuation**

### INSTRUCTIONS, PURPOSE & VALUATION DATE

In accordance with the instructions from Zhejiang New Century Hotel Management Co., Limited (the "Company") for us to value the properties in which the Company or its subsidiaries (collectively the "Group") has interests in the People's Republic of China (the "PRC") (as more particularly described in the attached valuation report), we confirm that we have inspected the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of such properties as at November 30, 2018.

### VALUATION BASIS

Our valuation of each of the properties represents its market value which in accordance with the HKIS Valuation Standards 2017 Edition issued by The Hong Kong Institute of Surveyors is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

We confirm that the valuations are undertaken in accordance with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of the Hong Kong Limited and the HKIS Valuation Standards 2017 Edition issued by the Hong Kong Institute of Surveyors.

Our valuation of each of the properties is on an entirety interest basis.

## **APPENDIX III**

## **PROPERTY VALUATION REPORT**

### **VALUATION ASSUMPTIONS**

Our valuation of each of the properties exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

In the course of our valuation of the properties, we have relied on the information and advice given by the Company's legal adviser, King & Wood Mallesons, regarding the titles to the properties and the interests of the Company in the properties in the PRC. Unless otherwise stated in the respective legal opinion, in valuing the properties, we have assumed that the Group has an enforceable title to the properties and has free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired land use term as granted and that any premium payable has already been fully paid.

In respect of the properties situated in the PRC, the status of titles and grant of major certificates, approvals and licences, in accordance with the information provided by the Company are set out in the notes of the respective valuation report. We have assumed that all consents, approvals and licences from relevant government authorities for the developments have been obtained without onerous conditions or delays. We have also assumed that the design and construction of the properties are in compliance with the local planning regulations and have been approved by the relevant authorities.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

### **METHOD OF VALUATION**

In valuing the properties in Group I which are hotels operated by the Group in the PRC, we have used Discounted Cash Flow ("DCF") Method. DCF Method involves discounting future net cash flow after operation-related and property-related taxes (i.e. net operating income) of each hotel portion by reference to the current and anticipated market conditions until the end of the respective unexpired land use term to its present value by using an appropriate discount rate that reflects the rate of return required by a third party investor for an investment of this type.

The discount rates adopted in DCF Method reflect the rates of return required by a third party investor for an investment of similar use type. In determining the discount rates which reflect the inherent risks associated with investment in the property, we take into consideration compensation for risks inherent in future cash flows, inflation, revenue growth, our understanding of the return expected by investors for similar properties as well as the level of discount rates used in valuations of similar types of properties. The discount rates adopted are reasonable and in line with the market norm having regard to the relevant analyzes.

## **APPENDIX III**

## **PROPERTY VALUATION REPORT**

In valuing the properties in Group II which are held by the Group for own use in the PRC, we have used Market Comparison Method by reference to comparable sales evidence as available in the relevant market subject to appropriate adjustments including but not limited to location, accessibility, age, quality, size, time and other relevant factors. Given that the properties are mostly strata residential units, comparable sales transactions are frequent and information about such sales is readily available, we have therefore used Market Comparison Method which is in line with the market practice.

The properties in Group III which are leased to the Group in the PRC are considered to have no commercial value due to the prohibitions against assignment of the property interests or otherwise due to the lack of substantial profit rents.

### **SOURCE OF INFORMATION**

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenures, identification of land and buildings, completion date of buildings, particulars of occupancy, site and floor areas, site and floor plans, number of parking spaces, trading information, interests attributable to the Group and all other relevant matters.

Dimensions, measurements and areas included in the valuation report are based on the copies of documents or other information provided to us by the Company and are therefore only approximations. No on-site measurement has been carried out. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information provided.

We would point out that the copies of documents of the properties in the PRC provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise you to make reference to the original Chinese editions of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

### **TITLE INVESTIGATION**

We have been provided by the Company with extracts of documents in relation to the titles to the properties in the PRC but have not carried out any title searches. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us for all properties. We are also unable to ascertain the title of the properties in the PRC and we have therefore relied on the advice given by the Company or its legal adviser regarding the Company's interests in the PRC properties.

## APPENDIX III

## PROPERTY VALUATION REPORT

### SITE INSPECTION

We have inspected the exterior and, whenever possible, the interior of each of the properties. However, no structural survey has been made, but in the course of our inspections, we did not note any serious defects. We are, however, not able to report that the properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services. Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

The site inspections of valued properties were carried out by 15 valuers of 7 offices, ranking from Assistant Valuer to Associate Director with experience of 2 to 16 years, in the period from May and November 2018.

### CURRENCY

Unless otherwise stated, all monetary sums stated in our valuations are in Renminbi ("RMB") for the PRC properties, the official currency of the PRC.

### OTHER DISCLOSURE

We hereby confirm that Cushman & Wakefield Limited and the valuers conducting the valuations have no pecuniary or other interests that could conflict with the proper valuations of the properties or could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion. We confirm that we are an independent qualified valuer, as referred to Rule 5.08 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

### INTENDED USE OF REPORT

This valuation report is issued for the use of the Company for its [REDACTED] purpose only.

We enclose herewith a summary of valuations and valuation report for your attention.

Yours faithfully,  
For and on behalf of  
**Cushman & Wakefield Limited**  
**Andrew K.F. Chan**  
*MSc, MRICS, MHKIS, MCIREA, RPS (GP)*  
*Regional Director*  
*Valuation & Advisory Services, Greater China*

*Note:* Mr. Andrew K.F. Chan is a Member of the Royal Institution of Chartered Surveyors, a Member of the Hong Kong Institute of Surveyors and Registered Professional Surveyor (General Practice). Mr. Chan has over 30 years of experience in the professional property valuation and advisory services in the Greater China region and various overseas countries. Mr. Chan has sufficient current national knowledge of the market, and the skills and understanding to undertake the valuations competently.



## APPENDIX III

## PROPERTY VALUATION REPORT

### SUMMARY OF VALUATIONS

| Property                                                                                                                                           | Market value<br>in existing<br>state as at<br>November 30,<br>2018<br>(RMB) | Interest<br>attributable<br>to the Group<br>(%) | Market value<br>in existing state<br>attributable to<br>the Group as at<br>November 30,<br>2018<br>(RMB) |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|-------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| <b>Group I – Properties held by the Group for operation in the PRC</b>                                                                             |                                                                             |                                                 |                                                                                                          |
| 1. Changxing New Century<br>Wonderland Resorts,<br>Huizhouzhuang Village,<br>Shuikou,<br>Changxing,<br>Zhejiang Province,<br>the PRC               | 176,000,000                                                                 | 100%                                            | 176,000,000                                                                                              |
| 2. Hangzhou Fuchun New<br>Century Wonderland<br>Resorts, Meicheng Town<br>Wushitan,<br>Jiande,<br>Zhejiang Province,<br>the PRC                    | 266,000,000                                                                 | 100%                                            | 266,000,000                                                                                              |
| Sub-total of Group I:                                                                                                                              |                                                                             |                                                 | 442,000,000                                                                                              |
| <b>Group II – Properties held by the Group for own use in the PRC</b>                                                                              |                                                                             |                                                 |                                                                                                          |
| 3. 2 units in Jinjiang Park,<br>Junction of Chuncheng<br>Street and Jingyang Road,<br>Lvyuan District,<br>Changchun,<br>Jilin Province,<br>the PRC | 1,400,000                                                                   | 100%                                            | 1,400,000                                                                                                |
| 4. A unit in Wanxin<br>Community,<br>Jingan Road,<br>Lvyuan District,<br>Changchun,<br>Jilin Province,<br>the PRC                                  | 980,000                                                                     | 100%                                            | 980,000                                                                                                  |

## APPENDIX III

## PROPERTY VALUATION REPORT

|    |                                                                                                                                                                           | Market value<br>in existing<br>state as at<br>November 30,<br>2018<br>(RMB) | Interest<br>attributable<br>to the Group<br>(%) | Market value<br>in existing state<br>attributable to<br>the Group as at<br>November 30,<br>2018<br>(RMB) |
|----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|-------------------------------------------------|----------------------------------------------------------------------------------------------------------|
|    | Property                                                                                                                                                                  |                                                                             |                                                 |                                                                                                          |
| 5. | Room 2,<br>No. 118 Xin'an Road,<br>Qiandao Lake Town,<br>Chun'an,<br>Zhejiang Province,<br>the PRC                                                                        | 4,110,000                                                                   | 100%                                            | 4,110,000                                                                                                |
| 6. | No. 111 Xin'an Road,<br>Qiandao Lake Town,<br>Chun'an,<br>Zhejiang Province,<br>the PRC                                                                                   | 13,360,000                                                                  | 100%                                            | 13,360,000                                                                                               |
| 7. | 31 units of Block 3,<br>Jiuqu residential areas,<br>Shounan Street,<br>Yinzhou District, Ningbo,<br>Zhejiang Province,<br>the PRC                                         | 64,670,000                                                                  | 100%                                            | 64,670,000                                                                                               |
| 8. | Room 2415,<br>Building 14,<br>North Area of<br>Shaoxing Guomao Center,<br>No. 1277<br>Jinkeqiao Avenue,<br>Keqiao District,<br>Shaoxing,<br>Zhejiang Province,<br>the PRC | 350,000                                                                     | 100%                                            | 350,000                                                                                                  |
| 9. | Room 1001,<br>Unit 1, Building 1,<br>Ruixiang Guoji Mingdu,<br>South Rulin Road,<br>Xianghe Town,<br>Quanjiao,<br>Anhui Province,<br>the PRC                              | 900,000                                                                     | 100%                                            | 900,000                                                                                                  |

Sub-total of Group II:

85,770,000

## APPENDIX III

## PROPERTY VALUATION REPORT

| Property                                                                                                                                      | Market value<br>in existing<br>state as at<br>November 30,<br>2018<br>(RMB) | Interest<br>attributable<br>to the Group<br>(%) | Market value<br>in existing state<br>attributable to<br>the Group as at<br>November 30,<br>2018<br>(RMB) |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|-------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| <b>Group III – Properties leased to the Group in the PRC</b>                                                                                  |                                                                             |                                                 |                                                                                                          |
| 10. Grand New Century Hotel<br>Hangzhou, No. 818<br>Shixin Road,<br>Xiaoshan District,<br>Hangzhou,<br>Zhejiang Province,<br>the PRC          | No commercial<br>value                                                      | –                                               | No commercial<br>value                                                                                   |
| 11. Grand New Century Hotel<br>Ningbo, No. 666<br>Shounanzhong Road,<br>Yinzhou District,<br>Ningbo,<br>Zhejiang Province,<br>the PRC         | No commercial<br>value                                                      | –                                               | No commercial<br>value                                                                                   |
| 12. Zhejiang New Century<br>Xiaoshan Guesthouse,<br>No. 77 Renming Road,<br>Xiaoshan District,<br>Hangzhou,<br>Zhejiang Province,<br>the PRC  | No commercial<br>value                                                      | –                                               | No commercial<br>value                                                                                   |
| 13. Grand New Century Hotel<br>Changchun Jinjiang Hotel,<br>Chuncheng Street,<br>Lvyuan District,<br>Changchun,<br>Jilin Province,<br>the PRC | No commercial<br>value                                                      | –                                               | No commercial<br>value                                                                                   |
| 14. New Century Resort<br>Hangzhou Qiandao Lake,<br>Chun'an Town,<br>Hangzhou,<br>Zhejiang Province,<br>the PRC                               | No commercial<br>value                                                      | –                                               | No commercial<br>value                                                                                   |

### APPENDIX III

### PROPERTY VALUATION REPORT

|     |                                                                                                                                                                     | <b>Market value<br/>in existing<br/>state as at<br/>November 30,<br/>2018<br/>(RMB)</b> | <b>Interest<br/>attributable<br/>to the Group<br/>(%)</b> | <b>Market value<br/>in existing state<br/>attributable to<br/>the Group as at<br/>November 30,<br/>2018<br/>(RMB)</b> |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
|     | <b>Property</b>                                                                                                                                                     |                                                                                         |                                                           |                                                                                                                       |
| 15. | Grand New Century Hotel<br>Shaoxing, No. 278<br>Renmindong Road,<br>Yuecheng District,<br>Shaoxing,<br>Zhejiang Province,<br>the PRC                                | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |
| 16. | Grand New Century Hotel<br>Zhuji Yaojiang,<br>No. 207 Huancheng<br>East Road,<br>Zhuji,<br>Zhejiang Province,<br>the PRC                                            | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |
| 17. | New Century Hotel Jurong,<br>North of Chongming Road,<br>Economic Development<br>Zone, Jurong,<br>Jiangsu Province,<br>the PRC                                      | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |
| 18. | New Century Maison<br>Changzhou Taihu Bay,<br>Taihu Lake Bay Tourist<br>Resort,<br>Zhushan Street,<br>Wujin District,<br>Changzhou,<br>Jiangsu Province,<br>the PRC | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |
| 19. | Grand New Century Hotel<br>Zhejiang Sanli,<br>No. 538 Shaoxing Road,<br>Hangzhou,<br>Zhejiang Province,<br>the PRC                                                  | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |

### APPENDIX III

### PROPERTY VALUATION REPORT

|                 |                                                                                                                                            | <b>Market value<br/>in existing<br/>state as at<br/>November 30,<br/>2018<br/>(RMB)</b> | <b>Interest<br/>attributable<br/>to the Group<br/>(%)</b> | <b>Market value<br/>in existing state<br/>attributable to<br/>the Group as at<br/>November 30,<br/>2018<br/>(RMB)</b> |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| <b>Property</b> |                                                                                                                                            |                                                                                         |                                                           |                                                                                                                       |
| 20.             | New Century Hotel<br>Nanjing,<br>No. 35 Wende East Road,<br>Jiangpu Street,<br>Pukou District,<br>Nanjing,<br>Jiangsu Province,<br>the PRC | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |
| 21.             | New Century Hotel<br>Shaoxing Jinchang,<br>No. 1277 Jinkeqiao<br>Avenue,<br>Keqiao District,<br>Shaoxing,<br>Zhejiang Province,<br>the PRC | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |
| 22.             | New Century Hotel<br>Xiangshan Shipu,<br>No. 1 Huangcheng Avenue,<br>Shipu Xiangshan,<br>Ningbo,<br>Zhejiang Province,<br>the PRC          | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |
| 23.             | Manju Shaoxing (Keqiao)<br>Inn, No. 999 Yumin Road,<br>Keqiao District,<br>Shaoxing,<br>Zhejiang Province,<br>the PRC                      | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |
| 24.             | New Century Grandhouse<br>Yanguan,<br>Yanguan Town,<br>Haining,<br>Zhejiang Province,<br>the PRC                                           | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |

### APPENDIX III

### PROPERTY VALUATION REPORT

|     |                                                                                                                           | <b>Market value<br/>in existing<br/>state as at<br/>November 30,<br/>2018<br/>(RMB)</b> | <b>Interest<br/>attributable<br/>to the Group<br/>(%)</b> | <b>Market value<br/>in existing state<br/>attributable to<br/>the Group as at<br/>November 30,<br/>2018<br/>(RMB)</b> |
|-----|---------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
|     | <b>Property</b>                                                                                                           |                                                                                         |                                                           |                                                                                                                       |
| 25. | New Century Hotel<br>Tianjin Ruiwan,<br>No. 2527 Xingang<br>No. 1 Road,<br>Binhai New Area,<br>Tianjin,<br>the PRC        | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |
| 26. | Grand New Century Hotel<br>Ninghai Jinhai,<br>No. 399 Jinshui Road,<br>Ninghai,<br>Zhejiang Province,<br>the PRC          | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |
| 27. | New Century Hotel<br>Ninghai New Century,<br>No. 159 Taoyuan<br>Middle Road,<br>Ninghai,<br>Zhejiang Province,<br>the PRC | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |
| 28. | Manju Shanghai Yuege,<br>No. 1609 Luoshan Road,<br>Pudong New Area,<br>Shanghai,<br>the PRC                               | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |
| 29. | Manju Shanghai Ruiyue,<br>No. 35 Meiyuan Road,<br>Jingan District,<br>Shanghai,<br>the PRC                                | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |

**APPENDIX III**

**PROPERTY VALUATION REPORT**

|                 |                                                                                                                                            | <b>Market value<br/>in existing<br/>state as at<br/>November 30,<br/>2018<br/>(RMB)</b> | <b>Interest<br/>attributable<br/>to the Group<br/>(%)</b> | <b>Market value<br/>in existing state<br/>attributable to<br/>the Group as at<br/>November 30,<br/>2018<br/>(RMB)</b> |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| <b>Property</b> |                                                                                                                                            |                                                                                         |                                                           |                                                                                                                       |
| 30.             | Manju Hotel Minhang Inn,<br>No. 1280<br>Zhuanxing Road,<br>Minhang District,<br>Shanghai,<br>the PRC                                       | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |
| 31.             | Manju Hotel Wuxi Inn,<br>Guangyi Road,<br>Liangxi District,<br>Wuxi,<br>Jiangsu Province,<br>the PRC                                       | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |
| 32.             | Manju Hotel<br>Ningbo<br>(Eastern New City),<br>No. 369 Heqingbei Road,<br>Jiangdong District,<br>Ningbo,<br>Zhejiang Province,<br>the PRC | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |
| 33.             | Manju Hotel<br>Zhoushan,<br>No. 127 Shatian Street,<br>Donggang Subdistrict,<br>Zhoushan,<br>Zhejiang Province,<br>the PRC                 | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |
| 34.             | Wonderland RV Camp<br>Yanguan,<br>Yanguan Town,<br>Haining,<br>Zhejiang Province,<br>the PRC                                               | No commercial<br>value                                                                  | –                                                         | No commercial<br>value                                                                                                |

## APPENDIX III

## PROPERTY VALUATION REPORT

|     |                                                                                                                  | <b>Market value<br/>in existing<br/>state as at<br/>November 30,<br/>2018<br/>(RMB)</b> | <b>Interest<br/>attributable<br/>to the Group<br/>(%)</b> | <b>Market value<br/>in existing state<br/>attributable to<br/>the Group as at<br/>November 30,<br/>2018<br/>(RMB)</b> |
|-----|------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
|     | <b>Property</b>                                                                                                  |                                                                                         |                                                           |                                                                                                                       |
| 35. | Changxing New Century, Wonderland Resorts, Huizhouzhuang Village, Shuikou, Changxing, Zhejiang Province, the PRC | No commercial value                                                                     | –                                                         | No commercial value                                                                                                   |
| 36. | Manju Hotel Dalian, Municipality Inn, No. 78 Xinkai Road, Xigang District, Dalian, Liaoning Province, the PRC    | No commercial value                                                                     | –                                                         | No commercial value                                                                                                   |
| 37. | Manju Hotel Chengdu Inn, No. 986 Julong Road, Wuhou District, Chengdu, Sichuan Province, the PRC                 | No commercial value                                                                     | –                                                         | No commercial value                                                                                                   |
| 38. | Manju Hotel Yuyao South Nanlei Road Inn, No. 398, South Nanlei Road, Yuyao, Zhejiang Province, the PRC           | No commercial value                                                                     | –                                                         | No commercial value                                                                                                   |



## APPENDIX III

## PROPERTY VALUATION REPORT

|                                |                                                                                                                                                            | Market value<br>in existing<br>state as at<br>November 30,<br>2018<br>(RMB) | Interest<br>attributable<br>to the Group<br>(%) | Market value<br>in existing state<br>attributable to<br>the Group as at<br>November 30,<br>2018<br>(RMB) |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|-------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| Property                       |                                                                                                                                                            |                                                                             |                                                 |                                                                                                          |
| 39.                            | Manju Hotel<br>Ningbo Waitan Inn,<br>No. 85 Renming Road,<br>Jiangbei District,<br>Ningbo,<br>Zhejiang Province,<br>the PRC                                | No commercial<br>value                                                      | –                                               | No commercial<br>value                                                                                   |
| 40.                            | Manju Hotel Zhuzhou Inn,<br>Building 19,<br>Henghao Cuigu City,<br>No. 299 Jiangshan Road,<br>Tianyuan District,<br>Zhuzhou,<br>Hunan Province,<br>the PRC | No commercial<br>value                                                      | –                                               | No commercial<br>value                                                                                   |
| <b>Sub-total of Group III:</b> |                                                                                                                                                            |                                                                             |                                                 | No commercial<br>value                                                                                   |
| <b>Grand-total:</b>            |                                                                                                                                                            |                                                                             |                                                 | 527,770,000                                                                                              |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

#### Group I – Properties held by the Group for operation in the PRC

| Property                                                                                                                   | Description and tenure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Particulars of occupancy                                                                                                                   | Market value in existing state as at November 30, 2018                                                                                       |
|----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Changxing New Century Wonderland Resorts, Huizhouzhuang Village, Shuikou Country, Changxing, Zhejiang Province, the PRC | <p>The property was completed in 2015 and is erected upon 2 parcels of land with a total site area of 49,995.00 sq m.</p> <p>The property is the guest room portion of Changxing Wonderland Resort Hotel which comprises 50 individual log cabins having a total gross floor area with title of 8,473.22 sq m.</p> <p>The complex building portion is leased to the Group from an independent third party. Details are set out in the valuation report of Property No. 35.</p> <p>The property is located in the suburbs area of Changxing County, Huzhou City, about 6 km from the downtown of Changxing County.</p> <p>The land use rights of the property have been granted for terms due to expire on April 27, 2055 for commercial use.</p> | <p>As at the valuation date, the property was operated as a upscale hotel.</p> <p>The occupancy rate of the hotel for 2017 was 48.61%.</p> | <p>RMB176,000,000</p> <p>(Renminbi One Hundred And Seventy Six Million)</p> <p>(100% interest attributable to the Group: RMB176,000,000)</p> |

#### Notes:

- (1) Details of the room configuration are summarized as follows:–

| Room Type                       | Number of Rooms<br>(Typical Floors) |
|---------------------------------|-------------------------------------|
| Superior Garden-view Twin Room  | 14                                  |
| Superior Garden-view Queen Room | 13                                  |
| Bamboo-view Twin Room           | 64                                  |
| Log Cabin Suite                 | 6                                   |
| Deluxe Log Cabin Suite          | 4                                   |
| Deluxe Villa                    | 12                                  |
| Family Suite                    | 2                                   |
| Log Cabin Villa                 | 7                                   |
| Deluxe Log Cabin Villa          | 11                                  |
| Family Theme Room               | 2                                   |
| Double Bedroom Suite            | 27                                  |
| Double Bedroom Villa            | 16                                  |
| <b>Total</b>                    | <b>178</b>                          |

## APPENDIX III

## PROPERTY VALUATION REPORT

- (2) According to 2 Real Estate Title Certificates, the real estate title of the property having a total gross floor area with title of 8,473.22 sq m has been vested in Changxing New Century Wonderland Resort Co., Ltd with details as follows:

| Certificate No.         | Portion    | Use          | Gross floor area<br>(sq m) | Site area<br>(sq m) |
|-------------------------|------------|--------------|----------------------------|---------------------|
| 浙(2017)長興縣不動產權第0001181號 | Guesthouse | Commercial   | 4,880.42                   | 24,355.00           |
| 浙(2017)長興縣不動產權第0005286號 | Guesthouse | Commercial   | 3,592.80                   | 25,640.00           |
|                         |            | <b>Total</b> | <b>8,473.22</b>            | <b>49,995.00</b>    |

- (3) According to Business Licence No. 91330522329965510Y dated July 27, 2017, Changxing New Century Wonderland Resort Co., Ltd has been established with a registered capital of RMB30,000,000 for an operation period from December 24, 2014 to December 23, 2064.

- (4) We have been provided with a legal opinion issued by the Company's legal adviser, which contains, inter alia, the following information:

- (a) Changxing New Century Wonderland Resort Co., Ltd. is the legal owner of the property;
- (b) Changxing New Century Wonderland Resort Co., Ltd. is in possession of a proper legal title to the property and is entitled to occupy, use, lease, transfer, mortgage and dispose of the property together with the residual term of its land use rights according to the PRC laws;
- (c) The property is subject to mortgages, with Industrial and Commercial Bank of China, Xiaoshan Branch being the mortgagee.

- (5) The status of title and grant of major approvals and licences in accordance the information provided by the Group are as follows:

|                                |     |
|--------------------------------|-----|
| Real Estate Title Certificates | Yes |
| Business Licence               | Yes |

- (6) Our key assumptions used in the DCF valuation are summarized as follows:–

- (a) Average daily room rate ("ADR") : 2018 – RMB780
- (b) Annual growth in ADR : 5%; Stabilized at 3%
- (c) Occupancy rate on available room basis : 2018 – 55%; Stabilized at 65%
- (d) Discount rate : 9%
- (e) Terminal growth rate : 3%

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

| Property                                                                                                           | Description and tenure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Particulars of occupancy                                                | Market value in existing state as at November 30, 2018                                                                                     |
|--------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| 2. Hangzhou Fuchun New Century Wonderland Resorts, Meicheng Town Wushitan, Jiande City, Zhejiang Province, the PRC | <p>The hotel consists of 58 villas standing on a parcel of land with site area of 37,318.15 sq m.</p> <p>The hotel was completed in December 2017 and has been operated since April 2018.</p> <p>The hotel currently provides 204 guest rooms and a restaurant.</p> <p>Pursuant to the Planning Permit for Construction Works, the hotel has a total gross floor area of 18,726.45 sq m.</p> <p>Pursuant to the survey report, the hotel has a total operating area of approximately 18,518.76 sq m.</p> <p>The land use rights of the property have been granted for terms of 40 years due to expire on November 23, 2056 for accommodation and catering use.</p> | As at the valuation date, the property was operated as a upscale hotel. | <p>RMB266,000,000</p> <p>(Renminbi Two Hundred And Sixty Six Million)</p> <p>(100% interest attributable to the Group: RMB266,000,000)</p> |

*Notes:*

- (1) Details of the room configuration are summarized as follows:–

| Room Type               | Size<br>(sq m) | Number of Rooms<br>(Typical Floors) |
|-------------------------|----------------|-------------------------------------|
| Townhouse Standard Room | 36             | 100                                 |
| Town house King Room    | 36             | 18                                  |
| Town house Single Room  | 50             | 42                                  |
| Town house Two Bedroom  | 83             | 18                                  |
| Boat house              | 53             | 5                                   |
| Villa single Room       | 65             | 15                                  |
| Villa two Bedroom       | 110            | 4                                   |
| Tree house King room    | 29             | 1                                   |
| Tree house suite        | 49             | 1                                   |
| <b>Total</b>            |                | <b>204</b>                          |

- (2) Details of the facilities and amenities are summarized as follows:–

| Food and Beverage Outlet | Size | Numbers  |
|--------------------------|------|----------|
| Front Office             | 820  | 1        |
| Public Area              | 35   | 5        |
| <b>Total</b>             |      | <b>6</b> |

## APPENDIX III

## PROPERTY VALUATION REPORT

- (3) Pursuant to 13 State-owned Land Use Rights Certificates dated November 29, 2016 issued by the Jiande Real Estate Administration Bureau, the land use rights of the property having a site area of 37,318.15 sq m have been vested in Jiande New Century Wonderland Resort Co., Ltd. for accommodation and catering use with details as follows:–

| Certificate No. | Site Area<br>(sq m) |
|-----------------|---------------------|
| 0003601         | 10,669.24           |
| 0003588         | 4,203.52            |
| 0003589         | 1,246.35            |
| 0003591         | 4,000.73            |
| 0003594         | 570.06              |
| 0003590         | 1,529.13            |
| 0003602         | 2,833.03            |
| 0003592         | 1,457.8             |
| 0003593         | 987.19              |
| 0003604         | 1,614.01            |
| 0003603         | 1,647.04            |
| 0003621         | 3,167.81            |
| 0003571         | 3,392.24            |
|                 | <hr/>               |
|                 | 37,318.15           |
|                 | <hr/> <hr/>         |

- (4) Pursuant to Grant Contract of Land Use Rights No. 3301822016A21008 dated June 24, 2016, the Jiande Land Resources Administration Bureau has agreed to transfer the land use rights of the land lot (2016)03 situated in Jiande City, Zhejiang Province, with a total site area of approximately 37,318.15 sq m, to Jiande New Century Wonderland Resort Co., Ltd. The land grant fee is RMB16,990,000.
- (5) Pursuant to Planning Permit for Construction Works No. (2017) 016005 issued by the Jiande Planning and Construction Bureau on January 25, 2017, the construction works of the property, comprising a total gross floor area of 18,726.45 sq m, are in compliance with the urban planning requirements and are approved.
- (6) We have been provided with a legal opinion issued by the Company's legal adviser, which contains, inter alia, the following information:
- (a) Jiande New Century Wonderland Resort Co., Ltd owns the property and has no property rights dispute or potential dispute. There is no legal obstacle for the property to obtain the Real Estate Title Certificates.
- (b) The property is subject to mortgages in favour of Industrial and Commercial Bank of China, Jiande Branch).
- (7) The status of title and grant of major approvals and licences in accordance the information provided by the Group are as follows:

|                                          |     |
|------------------------------------------|-----|
| State-owned Land Use Rights Certificates | Yes |
| Grant Contract of Land Use Rights        | Yes |
| Planning Permit for Construction Works   | Yes |
| Business Licence                         | Yes |

- (8) Our key assumptions used in the DCF valuation are summarized as follows:–

|                                            |   |                               |
|--------------------------------------------|---|-------------------------------|
| (a) Average daily room rate ("ADR")        | : | 2018 – RMB800                 |
| (b) Annual growth in ADR                   | : | 5%; Stabilized at 3%          |
| (c) Occupancy rate on available room basis | : | 2018 – 60%; Stabilized at 65% |
| (d) Discount rate                          | : | 8%                            |
| (e) Terminal growth rate                   | : | 3%                            |

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## PROPERTY VALUATION REPORT

### VALUATION REPORT

#### Group II – Properties held by the Group for own use in the PRC

|    | Property                                                                                                                      | Description and tenure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Particulars of occupancy                                            | Market value in existing state as at November 30, 2018                                                                                     |
|----|-------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| 3. | 2 units in Jinjiang Park, Junction of Chuncheng Street and Jingyang Road, Lvyuan District, Changchun, Jilin Province, the PRC | <p>The property comprises 2 residential units of a 17-storey residential building completed in 2006.</p> <p>The property has a total gross floor area of 201.19 sq m for residential use.</p> <p>The property is in the urban area of Changchun. The surrounding area comprises residential developments such as zhongxin Park, Xicheng International Mansion and Crystal City etc.</p> <p>The land use rights of the property have been granted for term due to expire on December 31, 2039 for residential use.</p> | <p>The property is occupied by the Group for staff quarter use.</p> | <p>RMB1,400,000</p> <p>(Renminbi One Million And Four Hundred Thousand)</p> <p>(100% interest attributable to the Group: RMB1,400,000)</p> |

*Notes:*

- (1) According to 2 State-owned Land Use Rights Certificates, the land use rights of the property comprising a total site area of 56.00 sq m have been vested in Hangzhou Kaiyuan Chuanqi House Renting Co., Ltd. with details as follows:–

| Certificate No. | Issue date     | Use         | Land use term expiry | Site area (sq m) |
|-----------------|----------------|-------------|----------------------|------------------|
| (2015)060003806 | March 30, 2015 | Residential | December 31, 2039    | 27.00            |
| (2015)060003807 | March 30, 2015 | Residential | December 31, 2039    | 29.00            |

- (2) According to 2 Real Estate Title Certificates, the building ownership of the property having a total gross floor area with title of 201.19 sq m have been vested in Hangzhou Kaiyuan Chuanqi House Renting Co., Ltd. with details as follows:–

| Certificate No. | Issue date     | Use         | Gross floor area (sq m) |
|-----------------|----------------|-------------|-------------------------|
| 201503240816    | March 24, 2015 | Residential | 97.88                   |
| 201503240813    | March 24, 2015 | Residential | 103.31                  |

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## PROPERTY VALUATION REPORT

- (3) According to Business Licence No. 913301090639998358 dated July 23, 2018, Hangzhou Kaiyuan Chuanqi House Renting Co., Ltd. has been established with a registered capital of RMB26,800,000 for an operation period from April 24, 2013 to November 17, 2024.
- (4) We have been provided with a legal opinion issued by the Company's legal adviser, which contains, inter alia, the following information:
- (a) Hangzhou Kaiyuan Chuanqi House Renting Co., Ltd. is the legal owner of the property;
  - (b) Hangzhou Kaiyuan Chuanqi House Renting Co., Ltd. is in possession of a proper legal title to the property and is entitled to occupy, use, lease, transfer, mortgage and dispose of the property together with the residual term of its land use rights according to the PRC laws;
  - (c) The property is not subject to any mortgage.
- (5) The status of title and grant of major approvals and licences in accordance the information provided by the Group are as follows:
- |                                         |     |
|-----------------------------------------|-----|
| State-owned Land Use Rights Certificate | Yes |
| Real Estate Title Certificate           | Yes |
| Business Licence                        | Yes |
- (6) In valuing the property, we have assumed about RMB7,000 per sq m.

In undertaking our valuation, we have made reference to sales prices of similar properties in the neighbourhood which have characteristics comparable to the property. The prices of residential premises range from about RMB7,200 to RMB8,100 per sq m. The unit rate assumed by us is consistent with the relevant comparables after due adjustments including locality, accessibility, transportation, size, floor and other relevant factors.

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## PROPERTY VALUATION REPORT

### VALUATION REPORT

|    | Property                                                                                     | Description and tenure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Particulars of occupancy                                          | Market value in existing state as at November 30, 2018                                                                            |
|----|----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| 4. | A unit in Wanxin Community, Jingan Road, Lvyuan District, Changchun, Jilin Province, the PRC | <p>The property comprises a residential unit of a 7-storey residential building completed in 2004.</p> <p>The property has a gross floor area of 143.49 sq m for residential use.</p> <p>The property is located in the urban area of Changchun. The surrounding area comprises residential developments such as zhongxin Park, Xicheng International Mansion and Crystal City etc.</p> <p>The land use rights of the property have been granted for term due to expire on December 31, 2039 for residential use.</p> | <p>The property is occupied by the Group for residential use.</p> | <p>RMB980,000</p> <p>(Renminbi Nine Hundred And Eighty Thousand)</p> <p>(100% interest attributable to the Group: RMB980,000)</p> |

*Notes:*

- (1) According to a State-owned Land Use Rights Certificate, the land use rights of the property comprising a site area of 58.00 sq m have been vested in Hangzhou Kaiyuan Chuanqi House Renting Co., Ltd. with details as follows:—

| Certificate No. | Issue date     | Use         | Land use term expiry | Site area (sq m) |
|-----------------|----------------|-------------|----------------------|------------------|
| (2015)060003805 | March 30, 2015 | Residential | December 31, 2039    | 58.00            |

- (2) According to a Real Estate Title Certificate, the building ownership of the property having a total gross floor area with title of 143.49 sq m has been vested in Hangzhou Kaiyuan Chuanqi House Renting Co., Ltd. with details as follows:—

| Certificate No. | Issue date     | Use         | Gross floor area (sq m) |
|-----------------|----------------|-------------|-------------------------|
| 201503240814    | March 24, 2015 | Residential | 143.49                  |

- (3) According to Business Licence No. 913301090639998358 dated July 23, 2018, Hangzhou Kaiyuan Chuanqi House Renting Co., Ltd. has been established with a registered capital of RMB26,800,000 for an operation period from April 24, 2013 to November 17, 2024.



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- (4) We have been provided with a legal opinion issued by the Company's legal adviser, which contains, inter alia, the following information:

- (a) Hangzhou Kaiyuan Chuanqi House Renting Co., Ltd. is the legal owner of the property;
- (b) Hangzhou Kaiyuan Chuanqi House Renting Co., Ltd. is in possession of a proper legal title to the property and is entitled to occupy, use, lease, transfer, mortgage and dispose of the property together with the residual term of its land use rights according to the PRC laws;
- (c) The property is not subject to any mortgage.

- (5) The status of title and grant of major approvals and licences in accordance the information provided by the Group are as follows:

|                                         |     |
|-----------------------------------------|-----|
| State-owned Land Use Rights Certificate | Yes |
| Real Estate Title Certificate           | Yes |
| Business Licence                        | Yes |

- (6) In valuing the property, we have assumed about RMB6,800 per sq m.

In undertaking our valuation, we have made reference to sales prices of similar properties in the neighbourhood which have characteristics comparable to the property. The prices of residential premises range from about RMB7,500 to RMB7,700 per sq m. The unit rate assumed by us is consistent with the relevant comparables after due adjustments including locality, accessibility, size, floor and other relevant factors.

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## PROPERTY VALUATION REPORT

### VALUATION REPORT

| Property                                                                               | Description and tenure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Particulars of occupancy                                                                                                                 | Market value in existing state as at November 30, 2018                                                                                         |
|----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| 5. Room 2, No. 118 Xin'an Road, Qiandao Lake Town, Chun'an, Zhejiang Province, the PRC | <p>The property comprises a 1st-floor commercial unit of 6-storey complex building completed in 1989.</p> <p>The property has a total gross floor area of 122.81 sq m for non-residential use.</p> <p>The property is situated in Qiandao Lake Town, Chun'an. It is located at No. 118 Xin'an Road (新安大街). Developments in the vicinity comprise mainly residential and commercial buildings such as Qiandao Lake Square (千島湖廣場), Qingcheng Shanju (青城山居), Jingxiu Huayuan (景秀花園) etc. The property is served by public bus routes.</p> <p>The land use rights of the property have been granted for a term of 40 years due to expire on November 25, 2042 for accommodation and catering uses.</p> | <p>As at the valuation date the property was subject to a tenancy due to expire on October 31, 2019 at an annual rent of RMB480,000.</p> | <p>RMB4,110,000</p> <p>(Renminbi Four Million One Hundred And Ten Thousand)</p> <p>(100% interest attributable to the Group: RMB4,110,000)</p> |

*Notes:*

- (1) Pursuant to Certificate for the Use of State-owned Land No. (2014) 004910 issued by the Chun'an Provincial Department of Land Resources on October 28, 2014, the land use rights of the property having a site area of 20.47 sq m have been vested in Hangzhou New Century Chuanqi Property Management Limited for a term of 40 years until November 25, 2042 for accommodation and catering uses.
- (2) Pursuant to Building Ownership Certificate No. 243162 issued by the Chun'an Real Estate Administration Bureau on September 17, 2014, the building ownership of the property having a gross floor area of 122.81 sq m has been vested in Hangzhou New Century Chuanqi Property Management Limited for non-residential use.
- (3) We have been provided with a legal opinion issued by the Company's legal adviser, which contains, inter alia, the following information:
  - (a) Hangzhou Kaiyuan Chuanqi House Renting Co., Ltd. is the legal owner of the property;
  - (b) Hangzhou Kaiyuan Chuanqi House Renting Co., Ltd. is in possession of a proper legal title to the property and is entitled to occupy, use, lease, transfer, mortgage and dispose of the property together with the residual term of its land use rights according to the PRC laws;
  - (c) The property is not subject to any mortgage.

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## **PROPERTY VALUATION REPORT**

- (4) The status of title and grant of major approvals and licences in accordance the information provided by the Group are as follows:

|                                             |     |
|---------------------------------------------|-----|
| Certificate for the Use of State-owned Land | Yes |
| Building Ownership Certificate              | Yes |

- (5) In valuing the property, we have assumed about RMB33,500 per sq m.

In undertaking our valuation, we have made reference to sales prices of similar properties in the neighbourhood which have characteristics comparable to the property. The prices of residential premises range from about RMB28,000 to RMB38,000 per sq m. The unit rate assumed by us is consistent with the relevant comparables after due adjustments including locality, accessibility, size, floor and other relevant factors.

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## PROPERTY VALUATION REPORT

### VALUATION REPORT

| Property                                                                                         | Description and tenure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Particulars of occupancy                                                                                                                  | Market value in existing state as at November 30, 2018                                                                                                   |
|--------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6. No. 111<br>Xin'an Road,<br>Qiandao Lake<br>Town,<br>Chun'an,<br>Zhejiang Province,<br>the PRC | <p>The property comprises a non-residential unit of a 6-storey complex building completed in 1994.</p> <p>The property has a total gross floor area of 3,002.70 sq m for non-residential use.</p> <p>The property is situated in Qiandao Lake Town, Chun'an. It is located at No. 111 Xin'an Road (新安大街). Developments in the vicinity comprise mainly residential and commercial buildings such as Qiandao Lake Square (千島湖廣場), Qingcheng Shanju (青城山居), Jingxiu Garden (景秀花園) etc. The property is served by public bus routes.</p> <p>The land use rights of the property have been granted for a term of 40 years due to expire on November 25, 2042 for accommodation and catering uses.</p> | <p>As at the valuation date the property was subject to a tenancy due to expire on December 31, 2020 at an annual rent of RMB300,000.</p> | <p>RMB13,360,000</p> <p>(Renminbi Thirteen Million Three Hundred And Sixty Thousand)</p> <p>(100% interest attributable to the Group: RMB13,360,000)</p> |

*Notes:*

- (1) Pursuant to Certificate for the Use of State-owned Land No. (2014) 004914 issued by the Chun'an Provincial Department of Land Resources on October 28, 2014, the land use rights of the property having a site area of 519.84 sq m have been vested in Hangzhou New Century Chuanqi Property Management Limited for a term of 40 years until November 25, 2042 for accommodation and catering uses.
- (2) Pursuant to Building Ownership Certificate No. 243163 issued by Chun'an Real Estate Administration Bureau on September 17, 2014, the building ownership of the property having a gross floor area of 3,002.70 sq m has been vested in Hangzhou New Century Chuanqi Property Management Limited for non-residential use.
- (3) We have been provided with a legal opinion issued by the Company's legal adviser, which contains, inter alia, the following information:
  - (a) Hangzhou Kaiyuan Chuanqi House Renting Co., Ltd. is the legal owner of the property;
  - (b) Hangzhou Kaiyuan Chuanqi House Renting Co., Ltd. is in possession of a proper legal title to the property and is entitled to occupy, use, lease, transfer, mortgage and dispose of the property together with the residual term of its land use rights according to the PRC laws;
  - (c) The property is not subject to any mortgage.

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## **PROPERTY VALUATION REPORT**

- (4) The status of title and grant of major approvals and licences in accordance the information provided by the Group are as follows:

|                                             |     |
|---------------------------------------------|-----|
| Certificate for the Use of State-owned Land | Yes |
| Building Ownership Certificate              | Yes |

- (5) In valuing the property, we have assumed about RMB4,400 per sq m.

In undertaking our valuation, we have made reference to sales prices of similar properties in the neighbourhood which have characteristics comparable to the property. The prices of office premises range from about RMB6,600 to RMB8,000 per sq m. The unit rate assumed by us is consistent with the relevant comparables after due adjustments including locality, accessibility, size, floor and other relevant factors.

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## PROPERTY VALUATION REPORT

### VALUATION REPORT

| Property                                                                                                              | Description and tenure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Particulars of occupancy                                         | Market value in existing state as at November 30, 2018                                                                                                     |
|-----------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7. 31 units of Block 3, Jiuqu residential areas, Shounan Street, Yinzhou District, Ningbo, Zhejiang Province, the PRC | <p>The property comprises 31 units of a 9-storey residential building completed in 2005.</p> <p>The property has a total gross floor area of 4,121.37 sq m for residential use.</p> <p>The property is situated in Yinzhou District, Ningbo. Developments in the vicinity comprise mainly residential and commercial buildings such as Milky Way Bay (銀河灣), Xiangdi Shuian (香堤水岸), Ningbo Universal City (羅蒙環球城) etc. The property is served by public bus routes.</p> <p>The land use rights of the property have been granted for terms of 70 years due to expire on July 9, 2078 for residential use.</p> | As at November 30, 2018, the property was used as staff quarter. | <p>RMB64,670,000</p> <p>(Renminbi Sixty Four Million Six Hundred And Seventy Thousand)</p> <p>(100% interest attributable to the Group: RMB64,670,000)</p> |

*Notes:*

- (1) Pursuant to 31 Certificates for the Use of State-owned Land issued by the Ningbo Provincial Department of Land Resources on September 17, 2015, the land use rights of the property having a total site area of 406.81 sq m have been vested in Hangzhou New Century Chuanqi Property Management Limited for terms of 40 years until July 9, 2078 for residential use. Details are as follows:

| Location                                           | Certificate No.   | Site area (sq m) |
|----------------------------------------------------|-------------------|------------------|
| Room 101, Unit 6, Block 3, Jiuqu residential areas | 2015 No. 99-17683 | 12.45            |
| Room 301, Unit 6, Block 3, Jiuqu residential areas | 2015 No. 99-17669 | 12.45            |
| Room 401, Unit 6, Block 3, Jiuqu residential areas | 2015 No. 99-17684 | 12.45            |
| Room 501, Unit 6, Block 3, Jiuqu residential areas | 2015 No. 99-17691 | 12.45            |
| Room 601, Unit 6, Block 3, Jiuqu residential areas | 2015 No. 99-17689 | 12.45            |
| Room 701, Unit 6, Block 3, Jiuqu residential areas | 2015 No. 99-17680 | 12.45            |
| Room 801, Unit 6, Block 3, Jiuqu residential areas | 2015 No. 99-17664 | 12.45            |
| Room 901, Unit 6, Block 3, Jiuqu residential areas | 2015 No. 99-17676 | 19.15            |
| Room 102, Unit 6, Block 3, Jiuqu residential areas | 2015 No. 99-17663 | 12.90            |
| Room 202, Unit 6, Block 3, Jiuqu residential areas | 2015 No. 99-17666 | 12.90            |
| Room 302, Unit 6, Block 3, Jiuqu residential areas | 2015 No. 99-17679 | 12.90            |
| Room 402, Unit 6, Block 3, Jiuqu residential areas | 2015 No. 99-17667 | 12.90            |
| Room 502, Unit 6, Block 3, Jiuqu residential areas | 2015 No. 99-17686 | 12.90            |
| Room 602, Unit 6, Block 3, Jiuqu residential areas | 2015 No. 99-17665 | 12.90            |
| Room 702, Unit 6, Block 3, Jiuqu residential areas | 2015 No. 99-17668 | 12.90            |
| Room 103, Unit 5, Block 3, Jiuqu residential areas | 2015 No. 99-17677 | 12.90            |
| Room 203, Unit 5, Block 3, Jiuqu residential areas | 2015 No. 99-17688 | 12.90            |
| Room 303, Unit 5, Block 3, Jiuqu residential areas | 2015 No. 99-17675 | 12.90            |
| Room 504, Unit 5, Block 3, Jiuqu residential areas | 2015 No. 99-17681 | 12.45            |

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| Location                                           | Certificate No.   | Site area<br>(sq m) |
|----------------------------------------------------|-------------------|---------------------|
| Room 403, Unit 5, Block 3, Jiuqu residential areas | 2015 No. 99-17678 | 12.90               |
| Room 503, Unit 5, Block 3, Jiuqu residential areas | 2015 No. 99-17670 | 12.90               |
| Room 603, Unit 5, Block 3, Jiuqu residential areas | 2015 No. 99-17672 | 12.90               |
| Room 803, Unit 5, Block 3, Jiuqu residential areas | 2015 No. 99-17673 | 12.90               |
| Room 903, Unit 5, Block 3, Jiuqu residential areas | 2015 No. 99-17674 | 20.31               |
| Room 104, Unit 5, Block 3, Jiuqu residential areas | 2015 No. 99-17682 | 12.45               |
| Room 204, Unit 5, Block 3, Jiuqu residential areas | 2015 No. 99-17661 | 12.45               |
| Room 304, Unit 5, Block 3, Jiuqu residential areas | 2015 No. 99-17671 | 12.45               |
| Room 404, Unit 5, Block 3, Jiuqu residential areas | 2015 No. 99-17693 | 12.45               |
| Room 604, Unit 5, Block 3, Jiuqu residential areas | 2015 No. 99-17692 | 12.45               |
| Room 704, Unit 5, Block 3, Jiuqu residential areas | 2015 No. 99-17685 | 12.45               |
| Room 201, Unit 6, Block 3, Jiuqu residential areas | 2015 No. 99-17687 | 12.45               |

- (2) Pursuant to 31 Building Ownership Certificates issued by the Ningbo Real Estate Administration Bureau on September 10, 2015, the building ownership of the property having a total gross floor area of 4,121.37 sq m has been vested in Hangzhou New Century Chuanqi Property Management Limited for residential use. Details are as follows:

| Location                                           | Certificate No. | Gross floor area<br>(sq m) |
|----------------------------------------------------|-----------------|----------------------------|
| Room 101, Unit 6, Block 3, Jiuqu residential areas | No. 201556156   | 126.1                      |
| Room 301, Unit 6, Block 3, Jiuqu residential areas | No. 201556153   | 126.1                      |
| Room 401, Unit 6, Block 3, Jiuqu residential areas | No. 201556166   | 126.1                      |
| Room 501, Unit 6, Block 3, Jiuqu residential areas | No. 201556165   | 126.1                      |
| Room 601, Unit 6, Block 3, Jiuqu residential areas | No. 201555929   | 126.1                      |
| Room 701, Unit 6, Block 3, Jiuqu residential areas | No. 201556493   | 126.1                      |
| Room 801, Unit 6, Block 3, Jiuqu residential areas | No. 201556492   | 126.1                      |
| Room 901, Unit 6, Block 3, Jiuqu residential areas | No. 201556502   | 193.99                     |
| Room 102, Unit 6, Block 3, Jiuqu residential areas | No. 201556241   | 130.72                     |
| Room 202, Unit 6, Block 3, Jiuqu residential areas | No. 201555776   | 130.72                     |
| Room 302, Unit 6, Block 3, Jiuqu residential areas | No. 201556240   | 130.72                     |
| Room 402, Unit 6, Block 3, Jiuqu residential areas | No. 201556238   | 130.72                     |
| Room 502, Unit 6, Block 3, Jiuqu residential areas | No. 201556237   | 130.72                     |
| Room 602, Unit 6, Block 3, Jiuqu residential areas | No. 201556408   | 130.72                     |
| Room 702, Unit 6, Block 3, Jiuqu residential areas | No. 201556152   | 130.72                     |
| Room 103, Unit 5, Block 3, Jiuqu residential areas | No. 201556149   | 130.72                     |
| Room 203, Unit 5, Block 3, Jiuqu residential areas | No. 201556148   | 130.72                     |
| Room 303, Unit 5, Block 3, Jiuqu residential areas | No. 201556147   | 130.72                     |
| Room 504, Unit 5, Block 3, Jiuqu residential areas | No. 201556145   | 126.1                      |
| Room 403, Unit 5, Block 3, Jiuqu residential areas | No. 201556143   | 130.72                     |
| Room 503, Unit 5, Block 3, Jiuqu residential areas | No. 201556142   | 130.72                     |
| Room 603, Unit 5, Block 3, Jiuqu residential areas | No. 201556141   | 130.72                     |
| Room 803, Unit 5, Block 3, Jiuqu residential areas | No. 201556407   | 130.72                     |
| Room 903, Unit 5, Block 3, Jiuqu residential areas | No. 201556409   | 205.8                      |
| Room 104, Unit 5, Block 3, Jiuqu residential areas | No. 201555767   | 126.1                      |
| Room 204, Unit 5, Block 3, Jiuqu residential areas | No. 201555765   | 126.1                      |
| Room 304, Unit 5, Block 3, Jiuqu residential areas | No. 201555625   | 126.1                      |
| Room 404, Unit 5, Block 3, Jiuqu residential areas | No. 201556164   | 126.1                      |
| Room 604, Unit 5, Block 3, Jiuqu residential areas | No. 201556161   | 126.1                      |
| Room 704, Unit 5, Block 3, Jiuqu residential areas | No. 201555626   | 126.1                      |
| Room 201, Unit 6, Block 3, Jiuqu residential areas | No. 201556139   | 126.1                      |

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- (3) We have been provided with a legal opinion issued by the Company's legal adviser, which contains, inter alia, the following information:

- (a) Hangzhou Kaiyuan Chuanqi House Renting Co., Ltd. is the legal owner of the property;
- (b) Hangzhou Kaiyuan Chuanqi House Renting Co., Ltd. is in possession of a proper legal title to the property and is entitled to occupy, use, lease, transfer, mortgage and dispose of the property together with the residual term of its land use rights according to the PRC laws;
- (c) The property is not subject to any mortgage.

- (4) The status of title and grant of major approvals and licences in accordance the information provided by the Group are as follows:

|                                             |     |
|---------------------------------------------|-----|
| Certificate for the Use of State-owned Land | Yes |
| Building Ownership Certificate              | Yes |

- (5) In valuing the property, we have assumed about RMB15,700 per sq m.

In undertaking our valuation, we have made reference to sales prices of similar properties in the neighbourhood which have characteristics comparable to the property. The prices of residential premises range from about RMB16,000 to RMB17,800 per sq m. The unit rate assumed by us is consistent with the relevant comparables after due adjustments including locality, accessibility, size, floor and other relevant factors.



## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

| Property                                                                                                                                          | Description and tenure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Particulars of occupancy                                                                                                                 | Market value in existing state as at November 30, 2018                                                                            |
|---------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| 8. Room 2415, Building 14, North Area of Shaoxing Guomao Center, No. 1277 Jinkeqiao Avenue, Keqiao District, Shaoxing, Zhejiang Province, the PRC | <p>The property comprises an office unit of a 29-storey office building completed in 2007.</p> <p>The property has a total gross floor area of 47.11 sq m for commercial and office uses.</p> <p>The property is situated in Keqiao District, Shaoxing. It is located at No. 1277 Jinkeqiao Avenue (金柯橋大道). Developments in the vicinity comprise mainly commercial and office buildings such as Fortune Building (財富大廈), The Oriental Tower (東方大廈), Modern Building (現代大廈) etc. The property is served by public bus routes.</p> <p>The land use rights of the property have been granted for a term of 40 years due to expire on May 9, 2045 for office and commercial uses.</p> | <p>As at the valuation date, the property was subject to a tenancy due to expire on 18 February 2019 at an annual rent of RMB18,000.</p> | <p>RMB350,000</p> <p>(Renminbi Three Hundred And Fifty Thousand)</p> <p>(100% interest attributable to the Group: RMB350,000)</p> |

*Notes:*

- (1) Pursuant to Certificate for the Use of State-owned Land No. (12-33-0-333) 99958 issued by the Shaoxing County Land and Resources Bureau on October 23, 2012, the land use rights of the property having a site area of 18.98 sq m have been vested in Zhejiang New Century Hotel Management Co., Limited Shaoxing Jinchang New Century Hotel for a term of 40 years until May 9, 2045 for office and commercial uses.
- (2) Pursuant to Building Ownership Certificate No. 44911 issued by the Shaoxing County Real Estate Management Office on August 27, 2009, the building ownership of the property having a gross floor area of 47.11 sq m has been vested in Zhejiang New Century Hotel Management Co., Limited Shaoxing Jinchang New Century Hotel for commercial and office uses.
- (3) We have been provided with a legal opinion issued by the Company's legal adviser, which contains, inter alia, the following information:
  - (a) Zhejiang New Century Hotel Management Co., Limited Shaoxing Jinchang New Century Hotel is the legal owner of the property;
  - (b) Zhejiang New Century Hotel Management Co., Limited Shaoxing Jinchang New Century Hotel is in possession of a proper legal title to the property and is entitled to occupy, use, lease, transfer, mortgage and dispose of the property together with the residual term of its land use rights according to the PRC laws;
  - (c) The property is not subject to any mortgage.

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## **PROPERTY VALUATION REPORT**

- (4) The status of title and grant of major approvals and licences in accordance the information provided by the Group are as follows:

|                                             |     |
|---------------------------------------------|-----|
| Certificate for the Use of State-owned Land | Yes |
| Building Ownership Certificate              | Yes |

- (5) In valuing the property, we have assumed about RMB7,400 per sq m.

In undertaking our valuation, we have made reference to sales prices of similar properties in the neighbourhood which have characteristics comparable to the property. The prices of office premises range from about RMB7,300 to RMB8,300 per sq m. The unit rate assumed by us is consistent with the relevant comparables after due adjustments including locality, accessibility, size, floor and other relevant factors.

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

| Property                                                                                                                   | Description and tenure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Particulars of occupancy                                  | Market value in existing state as at November 30, 2018                                                                 |
|----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| 9. Room 1001, Unit 1, Building 1, Ruixiang Guoji Mingdu, South Rulin Road, Xianghe Town, Quanjiao, Anhui Province, the PRC | <p>The property comprises a residential unit of an 11-storey residential building completed in 2014.</p> <p>The property has a total gross floor area of 225.96 sq m for residential use.</p> <p>The property is situated in Xianghe Town, Quanjiao County. It is located at Room 1001, Unit 1, Building 1, Ruixiang Guoji Mingdu (瑞祥國際名都), South Rulin Road (儒林南路). Developments in the vicinity comprise mainly residential buildings such as Shengshi Haoting (盛世豪庭), Quanjiao Shidaicheng (全椒時代城), Quanjiao Biguiyuan (全椒碧桂園) etc. The property is served by public bus routes.</p> <p>The land use rights of the property have been granted for a term of 70 years due to expire on December 25, 2077 for urban residential use.</p> | <p>As at the valuation date, the property was vacant.</p> | <p>RMB900,000</p> <p>(Renminbi Nine Hundred Thousand)</p> <p>(100% interest attributable to the Group: RMB900,000)</p> |

*Notes:*

- (1) Pursuant to Real Estate Certificate No. (2015) 0000992 issued by the Quanjiao County Land Resources and Housing Administration on November 3, 2015, the land use rights of the property having a site area of 98.7 sq m and the building ownership of the property having a gross floor area of 225.96 sq m have been vested in Zhejiang New Century Hotel Management Co., Ltd for a term of 70 years until December 25, 2077 for urban residential use. The transaction price is RMB1,000,000.
- (2) We have been provided with a legal opinion issued by the Company's legal adviser, which contains, inter alia, the following information:
  - (a) Zhejiang New Century Hotel Management Co., Ltd. is the legal owner of the property;
  - (b) Zhejiang New Century Hotel Management Co., Ltd. is in possession of a proper legal title to the property and is entitled to occupy, use, lease, transfer, mortgage and dispose of the property together with the residual term of its land use rights according to the PRC laws;
  - (c) The property is not subject to any mortgage.

## **APPENDIX III**

## **PROPERTY VALUATION REPORT**

- (3) The status of title and grant of major approvals and licences in accordance the information provided by the Group are as follows:

Real Estate Certificate

Yes

- (4) In valuing the property, we have assumed about RMB4,000 per sq m.

In undertaking our valuation, we have made reference to sales prices of similar properties in the neighbourhood which have characteristics comparable to the property. The prices of residential premises range from about RMB3,600 to RMB4,800 per sq m. The unit rate assumed by us is consistent with the relevant comparables after due adjustments including locality, accessibility, size, floor and other relevant factors.

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

#### Group III – Properties leased to the Group in the PRC

|     | Property                                                                                                              | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Market value in existing state as at November 30, 2018 |
|-----|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|
| 10. | Grand New Century Hotel Hangzhou, No. 818 Shixin Middle Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC | <p>The property comprises a 45-storey hotel building erected upon 2-level basement. The total leased area is 102,408.36 sq m.</p> <p>Grand New Century Hotel Hangzhou was completed in 2005 and has been operated since January 2005. Grand New Century Hotel Hangzhou currently provides 699 guest rooms, 555 car parking spaces (including loading/unloading spaces), food and beverage outlets, a bar, one café, three Chinese restaurants, one Japanese restaurant, a fitness center with indoor swimming pool, a spa, banquet and function rooms and a business center.</p> <p>The property is leased to the Group from a connected party (Zhejiang New Century Hotel Investment Management Group Co., Ltd.) under a tenancy agreement for a term of 10 years commencing on July 10, 2013 and expiring on July 9, 2023 with rent payable monthly based on 20% of Monthly Operating Revenue plus 34% of Monthly Gross Operating Profit.</p> | No commercial value                                    |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|     | Property                                                                                                         | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Market value in existing state as at November 30, 2018 |
|-----|------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|
| 11. | Grand New Century Hotel Ningbo, No. 666, Shounanzhong Road, Yinzhou District, Ningbo, Zhejiang Province, the PRC | <p>The property comprises a 24-storey hotel building erected upon 2-level basement. The total leased area is 66,107.27 sq m.</p> <p>Grand New Century Hotel Ningbo was completed in 2007 and has been operated since December 2007. The hotel currently provides 396 guest rooms, 231 car parking spaces (including loading/unloading spaces), food and beverage outlets, a bar, one café, two Chinese restaurants, a fitness center with indoor swimming pool, a spa, banquet and function rooms and a business center.</p> <p>The property is leased to the Group from a connected party (Ninbo New Century Spearhead Investment Co., Ltd. (formerly known as Ningbo New Century Hotel Co., Ltd)) under a tenancy agreement for a term of 10 years commencing on July 10, 2013 and expiring on July 9, 2023 with rent payable monthly based on 20% of Monthly Operating Revenue plus 34% of Monthly Gross Operating Profit.</p> | No commercial value                                    |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|     | Property                                                                                                               | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Market value in existing state as at November 30, 2018 |
|-----|------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|
| 12. | Zhejiang New Century Xiaoshan Guesthouse, No. 77 Renming Road, Xiaoshan district, Hangzhou, Zhejiang Province, the PRC | <p>The property comprises an 18-storey hotel building. The total leased area is 35,009.69 sq m.</p> <p>Zhejiang New Century Xiaoshan Guesthouse was completed and opened in 1988. Zhejiang New Century Xiaoshan Guesthouse currently provides 375 guest rooms, food and beverage outlets, a bar, one café, one Western restaurant, two Chinese restaurants, a fitness center, a spa, banquet and function rooms and a business center.</p> <p>The property is leased to the Group from a connected party (Zhejiang Spearhead Investment Co., Ltd (formerly known as Zhejing Xiaoshan Guesthouse Co., Ltd)) under a tenancy agreement for a term of 10 years commencing on July 10, 2013 and expiring on July 9, 2023 with rent payable monthly based on 20% of Monthly Operating Revenue plus 34% of Monthly Gross Operating Profit.</p> | No commercial value                                    |

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## PROPERTY VALUATION REPORT

### VALUATION REPORT

|     | Property                                                                                                                | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Market value in existing state as at November 30, 2018 |
|-----|-------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|
| 13. | Grand New Century Hotel Changchun Jinjiang Hotel, Chuncheng street, Lvyuan District, Changchun, Jilin Province, the PRC | <p>The property comprises a 17-storey hotel building erected upon 1-level basement. The total leased area is 45,624.74 sq m.</p> <p>Grand New Century Hotel Changchun was completed and opened in 2008. New Century Grand Hotel Changchun currently provides 328 guest rooms, food and beverage outlets, a wine bar, a fitness center with indoor swimming pool, a show bar, a spa, banquet and function rooms and a business center.</p> <p>The property is leased to the Group from a connected party (Changchun New Century Spearhead Investment and Management Co., Ltd (formerly known as Changchun New Century Grand Hotel Limited)) under a tenancy agreement for a term of 10 years commencing on July 10, 2013 and expiring on July 9, 2023 with rent payable monthly based on 20% of Monthly Operating Revenue plus 34% of Monthly Gross Operating Profit.</p> | No commercial value                                    |



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## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |  | <b>Market value in<br/>existing state as at<br/>November 30, 2018</b> |
|--------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-----------------------------------------------------------------------|
| <b>Property</b>                                                                                                    | <b>Description and tenancy particulars</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |  |                                                                       |
| 14. New Century<br>Resort Hangzhou<br>Qiandao Lake,<br>Chun'an Town,<br>Hangzhou,<br>Zhejiang Province,<br>the PRC | <p>The property comprises a 6-storey hotel building. The total leased area is 35,744.90 sq m.</p> <p>New Century Resort Hangzhou Qiandao Lake was completed and opened in 2004. The hotel currently provides 227 guest rooms, 120 car parking spaces, food and beverage outlets, an outdoor swimming pool, a fitness center with indoor swimming pool, a show bar, a spa, chess rooms and banquet and function rooms.</p> <p>The property is leased to the Group from a connected party (Chun'an Qiandao Lake New Century Spearhead Investment Co., Ltd) under a tenancy agreement for a term of 10 years commencing on July 10, 2013 and expiring on July 9, 2023 with rent payable monthly based on 20% of Monthly Operating Revenue plus 34% of Monthly Gross Operating Profit.</p> |  | No commercial value                                                   |

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## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Market value in<br>existing state as at<br>November 30, 2018 |                      |                       |            |                       |            |                       |            |                       |            |                       |            |                       |            |                     |
|------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|----------------------|-----------------------|------------|-----------------------|------------|-----------------------|------------|-----------------------|------------|-----------------------|------------|-----------------------|------------|---------------------|
| Property                                                                                                               | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                              |                      |                       |            |                       |            |                       |            |                       |            |                       |            |                       |            |                     |
| 15. Grand New Century Hotel Shaoxing, No. 278 Renmindong Road, Yuecheng District, Shaoxing, Zhejiang Province, the PRC | <p>The property comprises a 30-storey hotel building erected upon 1-level basement. The total leased area is 60,142.61 sq m.</p> <p>Grand New Century Hotel Shaoxing was completed in 2005 and has been operated since November 2007. The hotel currently provides 371 guest rooms, 270 car parking spaces, food and beverage outlets, a fitness center with indoor swimming pool, restaurant, entertainment center, office rooms, staff areas, banquet and function rooms and a business center.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 15 years. The details of lease terms and annual rents are set out below:</p> <table><tr><th>Lease term</th><th>Annual rent<br/>(RMB)</th></tr><tr><td>2007/2/20 – 2017/2/19</td><td>14,840,000</td></tr><tr><td>2017/2/20 – 2018/2/19</td><td>15,260,000</td></tr><tr><td>2018/2/20 – 2019/2/19</td><td>15,690,000</td></tr><tr><td>2019/2/20 – 2020/2/19</td><td>16,140,000</td></tr><tr><td>2020/2/20 – 2021/2/19</td><td>16,600,000</td></tr><tr><td>2021/2/20 – 2022/2/19</td><td>17,070,000</td></tr></table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                                   | Annual rent<br>(RMB) | 2007/2/20 – 2017/2/19 | 14,840,000 | 2017/2/20 – 2018/2/19 | 15,260,000 | 2018/2/20 – 2019/2/19 | 15,690,000 | 2019/2/20 – 2020/2/19 | 16,140,000 | 2020/2/20 – 2021/2/19 | 16,600,000 | 2021/2/20 – 2022/2/19 | 17,070,000 | No commercial value |
| Lease term                                                                                                             | Annual rent<br>(RMB)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                              |                      |                       |            |                       |            |                       |            |                       |            |                       |            |                       |            |                     |
| 2007/2/20 – 2017/2/19                                                                                                  | 14,840,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                              |                      |                       |            |                       |            |                       |            |                       |            |                       |            |                       |            |                     |
| 2017/2/20 – 2018/2/19                                                                                                  | 15,260,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                              |                      |                       |            |                       |            |                       |            |                       |            |                       |            |                       |            |                     |
| 2018/2/20 – 2019/2/19                                                                                                  | 15,690,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                              |                      |                       |            |                       |            |                       |            |                       |            |                       |            |                       |            |                     |
| 2019/2/20 – 2020/2/19                                                                                                  | 16,140,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                              |                      |                       |            |                       |            |                       |            |                       |            |                       |            |                       |            |                     |
| 2020/2/20 – 2021/2/19                                                                                                  | 16,600,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                              |                      |                       |            |                       |            |                       |            |                       |            |                       |            |                       |            |                     |
| 2021/2/20 – 2022/2/19                                                                                                  | 17,070,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                              |                      |                       |            |                       |            |                       |            |                       |            |                       |            |                       |            |                     |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                      | Property                                                                                                                 | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Market value in existing state as at November 30, 2018 |                      |                      |            |                      |            |                     |
|----------------------|--------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|----------------------|----------------------|------------|----------------------|------------|---------------------|
| 16.                  | Grand New Century Hotel<br>Zhuji Yaojiang,<br>No. 207<br>Huancheng<br>East Road, Zhuji,<br>Zhejiang Province,<br>the PRC | <p>The property comprises a 27-storey hotel building erected upon 1-level basement. The total leased area is 58,551.48 sq m.</p> <p>Grand New Century Hotel Zhuji Yaojiang was completed in 2007 and has been operated since June 2008. The hotel currently provides 360 guest rooms, 401 car parking spaces (including loading/unloading spaces), food and beverage outlets, a wine bar, a fitness center, a show bar, a spa, banquet and function rooms and a business center.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 10 years. The details of lease terms and annual rents are set out below:</p> <table><tr><th>Lease term</th><th>Annual rent<br/>(RMB)</th></tr><tr><td>2018/6/1 – 2023/5/31</td><td>20,000,000</td></tr><tr><td>2023/6/1 – 2028/5/31</td><td>21,000,000</td></tr></table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                             | Annual rent<br>(RMB) | 2018/6/1 – 2023/5/31 | 20,000,000 | 2023/6/1 – 2028/5/31 | 21,000,000 | No commercial value |
| Lease term           | Annual rent<br>(RMB)                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                        |                      |                      |            |                      |            |                     |
| 2018/6/1 – 2023/5/31 | 20,000,000                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                        |                      |                      |            |                      |            |                     |
| 2023/6/1 – 2028/5/31 | 21,000,000                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                        |                      |                      |            |                      |            |                     |

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|     | Property                                                                                                        | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Market value in existing state as at November 30, 2018 |
|-----|-----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|
| 17. | New Century Hotel Jurong, North of Chongming Road, Economic Development Zone, Jurong, Jiangsu Province, the PRC | <p>The property comprises a 26-storey hotel building erected upon 1-level basement. The total leased area is 52,821.53 sq m.</p> <p>New Century Hotel Jurong was completed and opened in 2012. The hotel currently provides 342 guest rooms, 553 car parking spaces (including loading/unloading spaces), food and beverage outlets, a wine bar, a fitness center with indoor swimming pool, a show bar, a spa, banquet and function rooms and a business center.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 15 years commencing on December 28, 2011 and expiring on December 31, 2021 at a yearly rent of RMB10,500,000. The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | No commercial value                                    |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                         | Property                                                                                                                    | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Market value in existing state as at November 30, 2018 |                   |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                     |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------|-------------------------|-----------|-------------------------|-----------|-------------------------|-----------|-------------------------|-----------|-------------------------|-----------|-------------------------|-----------|-------------------------|-----------|-------------------------|-----------|-------------------------|-----------|-------------------------|-----------|-------------------------|-----------|-------------------------|-----------|-------------------------|-----------|---------------------|
| 18.                     | New Century Maison Changzhou Taihu Bay, Taihu Lake Bay Tourist Resort, Wujin District, Changzhou, Jiangsu Province, the PRC | <p>The property comprises a 4-storey hotel building erected upon 1-level basement. The total leased area is 23,492.20 sq m.</p> <p>New Century Maison Changzhou Taihu Bay was completed and opened in 2008. The hotel currently provides 193 guest rooms, 26 car parking spaces (including loading/unloading spaces), food and beverage outlets, a bar, a fitness center with indoor swimming pool, a show bar, a spa, banquet and function rooms and a business center.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 20 years. The details of lease terms and annual rents are set out below:</p> <table> <tr> <th>Lease term</th> <th>Annual rent (RMB)</th> </tr> <tr><td>2010/11/25 – 2011/11/24</td><td>4,000,000</td></tr> <tr><td>2011/11/25 – 2012/11/24</td><td>4,500,000</td></tr> <tr><td>2012/11/25 – 2013/11/24</td><td>5,000,000</td></tr> <tr><td>2013/11/25 – 2014/11/24</td><td>5,500,000</td></tr> <tr><td>2014/11/25 – 2015/11/24</td><td>6,000,000</td></tr> <tr><td>2015/11/25 – 2016/11/24</td><td>6,300,000</td></tr> <tr><td>2016/11/25 – 2018/11/24</td><td>6,600,000</td></tr> <tr><td>2018/11/25 – 2020/11/24</td><td>6,900,000</td></tr> <tr><td>2020/11/25 – 2022/11/24</td><td>7,200,000</td></tr> <tr><td>2022/11/25 – 2024/11/24</td><td>7,500,000</td></tr> <tr><td>2024/11/25 – 2026/11/24</td><td>7,800,000</td></tr> <tr><td>2026/11/25 – 2028/11/24</td><td>8,100,000</td></tr> <tr><td>2028/11/25 – 2030/11/24</td><td>8,400,000</td></tr> </table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                             | Annual rent (RMB) | 2010/11/25 – 2011/11/24 | 4,000,000 | 2011/11/25 – 2012/11/24 | 4,500,000 | 2012/11/25 – 2013/11/24 | 5,000,000 | 2013/11/25 – 2014/11/24 | 5,500,000 | 2014/11/25 – 2015/11/24 | 6,000,000 | 2015/11/25 – 2016/11/24 | 6,300,000 | 2016/11/25 – 2018/11/24 | 6,600,000 | 2018/11/25 – 2020/11/24 | 6,900,000 | 2020/11/25 – 2022/11/24 | 7,200,000 | 2022/11/25 – 2024/11/24 | 7,500,000 | 2024/11/25 – 2026/11/24 | 7,800,000 | 2026/11/25 – 2028/11/24 | 8,100,000 | 2028/11/25 – 2030/11/24 | 8,400,000 | No commercial value |
| Lease term              | Annual rent (RMB)                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                        |                   |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                     |
| 2010/11/25 – 2011/11/24 | 4,000,000                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                        |                   |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                     |
| 2011/11/25 – 2012/11/24 | 4,500,000                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                        |                   |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                     |
| 2012/11/25 – 2013/11/24 | 5,000,000                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                        |                   |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                     |
| 2013/11/25 – 2014/11/24 | 5,500,000                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                        |                   |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                     |
| 2014/11/25 – 2015/11/24 | 6,000,000                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                        |                   |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                     |
| 2015/11/25 – 2016/11/24 | 6,300,000                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                        |                   |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                     |
| 2016/11/25 – 2018/11/24 | 6,600,000                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                        |                   |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                     |
| 2018/11/25 – 2020/11/24 | 6,900,000                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                        |                   |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                     |
| 2020/11/25 – 2022/11/24 | 7,200,000                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                        |                   |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                     |
| 2022/11/25 – 2024/11/24 | 7,500,000                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                        |                   |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                     |
| 2024/11/25 – 2026/11/24 | 7,800,000                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                        |                   |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                     |
| 2026/11/25 – 2028/11/24 | 8,100,000                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                        |                   |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                     |
| 2028/11/25 – 2030/11/24 | 8,400,000                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                        |                   |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                         |           |                     |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                       | Property                                                                                             | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Market value in existing state as at November 30, 2018 |                      |                       |            |                       |            |                       |            |                       |            |                       |            |                     |
|-----------------------|------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|----------------------|-----------------------|------------|-----------------------|------------|-----------------------|------------|-----------------------|------------|-----------------------|------------|---------------------|
| 19.                   | Grand New Century Hotel Zhejiang Sanli, No. 538, Shaoxing Road, Hangzhou, Zhejiang Province, the PRC | <p>The property comprises a 28-storey hotel building erected upon 2-level basement. The total leased area is 48,000.00 sq m.</p> <p>Grand New Century Hotel Zhejiang Sanli was completed in 2013 and has been operated since January 2014. The hotel currently provides 418 guest rooms, 525 car parking spaces (including loading/unloading spaces), food and beverage outlets, a wine bar, a fitness center, a show bar, a spa, banquet and function rooms and a business center.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 14 years. The details of lease terms and annual rents are set out below:</p> <table> <tr> <th>Lease term</th> <th>Annual rent<br/>(RMB)</th> </tr> <tr> <td>2014/1/1 – 2015/12/31</td> <td>32,500,000</td> </tr> <tr> <td>2016/1/1 – 2020/12/31</td> <td>33,250,000</td> </tr> <tr> <td>2021/1/1 – 2023/12/31</td> <td>33,500,000</td> </tr> <tr> <td>2024/1/1 – 2025/12/31</td> <td>34,100,000</td> </tr> <tr> <td>2026/1/1 – 2027/12/31</td> <td>34,255,000</td> </tr> </table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                             | Annual rent<br>(RMB) | 2014/1/1 – 2015/12/31 | 32,500,000 | 2016/1/1 – 2020/12/31 | 33,250,000 | 2021/1/1 – 2023/12/31 | 33,500,000 | 2024/1/1 – 2025/12/31 | 34,100,000 | 2026/1/1 – 2027/12/31 | 34,255,000 | No commercial value |
| Lease term            | Annual rent<br>(RMB)                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                        |                      |                       |            |                       |            |                       |            |                       |            |                       |            |                     |
| 2014/1/1 – 2015/12/31 | 32,500,000                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                        |                      |                       |            |                       |            |                       |            |                       |            |                       |            |                     |
| 2016/1/1 – 2020/12/31 | 33,250,000                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                        |                      |                       |            |                       |            |                       |            |                       |            |                       |            |                     |
| 2021/1/1 – 2023/12/31 | 33,500,000                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                        |                      |                       |            |                       |            |                       |            |                       |            |                       |            |                     |
| 2024/1/1 – 2025/12/31 | 34,100,000                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                        |                      |                       |            |                       |            |                       |            |                       |            |                       |            |                     |
| 2026/1/1 – 2027/12/31 | 34,255,000                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                        |                      |                       |            |                       |            |                       |            |                       |            |                       |            |                     |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                        | Property                                                                                                              | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Market value in existing state as at November 30, 2018 |                   |                        |           |                        |           |                        |           |                        |           |                        |           |                        |            |                        |            |                     |
|------------------------|-----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------|------------------------|-----------|------------------------|-----------|------------------------|-----------|------------------------|-----------|------------------------|-----------|------------------------|------------|------------------------|------------|---------------------|
| 20.                    | New Century Hotel Nanjing, No. 35 Wende East Road, Jiangpu Street, Pukou District, Nanjing, Jiangsu Province, the PRC | <p>The property comprises a 26-storey hotel building erected upon 1-level basement. The total leased area is 29,994.46 sq m.</p> <p>New Century Hotel Nanjing was completed and opened in 2010. The hotel currently provides 246 guest rooms, 94 car parking spaces (including loading/unloading spaces), food and beverage outlets, a wine bar, a fitness center with indoor swimming pool, a show bar, a spa, banquet and function rooms and a business center.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 20 years. The details of lease terms and annual rents are set out below:</p> <table> <tr> <th>Lease term</th> <th>Annual rent (RMB)</th> </tr> <tr> <td>2010/12/1 – 2013/11/30</td> <td>6,000,000</td> </tr> <tr> <td>2014/12/1 – 2016/11/30</td> <td>6,500,000</td> </tr> <tr> <td>2017/12/1 – 2019/11/30</td> <td>7,000,000</td> </tr> <tr> <td>2020/12/1 – 2022/11/30</td> <td>8,000,000</td> </tr> <tr> <td>2023/12/1 – 2025/11/30</td> <td>9,000,000</td> </tr> <tr> <td>2026/12/1 – 2028/11/30</td> <td>10,000,000</td> </tr> <tr> <td>2029/12/1 – 2030/11/30</td> <td>11,000,000</td> </tr> </table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                             | Annual rent (RMB) | 2010/12/1 – 2013/11/30 | 6,000,000 | 2014/12/1 – 2016/11/30 | 6,500,000 | 2017/12/1 – 2019/11/30 | 7,000,000 | 2020/12/1 – 2022/11/30 | 8,000,000 | 2023/12/1 – 2025/11/30 | 9,000,000 | 2026/12/1 – 2028/11/30 | 10,000,000 | 2029/12/1 – 2030/11/30 | 11,000,000 | No commercial value |
| Lease term             | Annual rent (RMB)                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                        |           |                        |           |                        |           |                        |           |                        |           |                        |            |                        |            |                     |
| 2010/12/1 – 2013/11/30 | 6,000,000                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                        |           |                        |           |                        |           |                        |           |                        |           |                        |            |                        |            |                     |
| 2014/12/1 – 2016/11/30 | 6,500,000                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                        |           |                        |           |                        |           |                        |           |                        |           |                        |            |                        |            |                     |
| 2017/12/1 – 2019/11/30 | 7,000,000                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                        |           |                        |           |                        |           |                        |           |                        |           |                        |            |                        |            |                     |
| 2020/12/1 – 2022/11/30 | 8,000,000                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                        |           |                        |           |                        |           |                        |           |                        |           |                        |            |                        |            |                     |
| 2023/12/1 – 2025/11/30 | 9,000,000                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                        |           |                        |           |                        |           |                        |           |                        |           |                        |            |                        |            |                     |
| 2026/12/1 – 2028/11/30 | 10,000,000                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                        |           |                        |           |                        |           |                        |           |                        |           |                        |            |                        |            |                     |
| 2029/12/1 – 2030/11/30 | 11,000,000                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                        |           |                        |           |                        |           |                        |           |                        |           |                        |            |                        |            |                     |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                         | Property                                                                                                              | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Market value in existing state as at November 30, 2018 |                   |                         |           |                         |           |                     |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------|-------------------------|-----------|-------------------------|-----------|---------------------|
| 21.                     | New Century Hotel Shaoxing Jinchang, No. 1277 Jinkeqiao Avenue, Keqiao District, Shaoxing, Zhejiang Province, the PRC | <p>The property comprises a 29-storey hotel building erected upon 1-level basement. The total leased area is 22,295.13 sq m.</p> <p>New Century Hotel Shaoxing Jinchang was completed and opened in 2007. The hotel currently provides 295 guest rooms, 132 car parking spaces, food and beverage outlets, a fitness center, entertainment center, office rooms, staff areas, banquet and function rooms and a business center.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 10 years. The details of lease terms and annual rents are set out below:</p> <table> <tr> <th>Lease term</th> <th>Annual rent (RMB)</th> </tr> <tr> <td>2017/12/22 – 2022/12/21</td> <td>6,100,000</td> </tr> <tr> <td>2022/12/22 – 2027/12/21</td> <td>8,500,000</td> </tr> </table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                             | Annual rent (RMB) | 2017/12/22 – 2022/12/21 | 6,100,000 | 2022/12/22 – 2027/12/21 | 8,500,000 | No commercial value |
| Lease term              | Annual rent (RMB)                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                        |                   |                         |           |                         |           |                     |
| 2017/12/22 – 2022/12/21 | 6,100,000                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                        |                   |                         |           |                         |           |                     |
| 2022/12/22 – 2027/12/21 | 8,500,000                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                        |                   |                         |           |                         |           |                     |



## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                       | Property                                                                                                        | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Market value in existing state as at November 30, 2018 |                   |                       |           |                       |           |                     |
|-----------------------|-----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------|-----------------------|-----------|-----------------------|-----------|---------------------|
| 22.                   | New Century Hotel Xiangshan Shipu, No. 1 Huangcheng Avenue, Shipu Xiangshan, Ningbo, Zhejiang Province, the PRC | <p>The property comprises a 16-storey hotel building erected upon 1-level basement. The total leased area is 24,981.59 sq m.</p> <p>New Century Hotel Xiangshan Shipu was completed and opened in 2009. The hotel currently provides 199 guest rooms, on the grand parking spaces, food and beverage outlets, one Chinese restaurant, a fitness center with indoor swimming pool, entertainment center, office rooms, staff areas, banquet and function rooms and a business center.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 10 years. The details of lease terms and annual rents are set out below:</p> <table> <tr> <th>Lease term</th> <th>Annual rent (RMB)</th> </tr> <tr> <td>2009/9/28 – 2014/9/27</td> <td>5,000,000</td> </tr> <tr> <td>2014/9/28 – 2019/9/27</td> <td>8,000,000</td> </tr> </table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                             | Annual rent (RMB) | 2009/9/28 – 2014/9/27 | 5,000,000 | 2014/9/28 – 2019/9/27 | 8,000,000 | No commercial value |
| Lease term            | Annual rent (RMB)                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                        |                   |                       |           |                       |           |                     |
| 2009/9/28 – 2014/9/27 | 5,000,000                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                        |                   |                       |           |                       |           |                     |
| 2014/9/28 – 2019/9/27 | 8,000,000                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                        |                   |                       |           |                       |           |                     |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                      | Property                                                                                               | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Market value in existing state as at November 30, 2018 |                   |                      |           |                      |           |                      |           |                     |
|----------------------|--------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------|----------------------|-----------|----------------------|-----------|----------------------|-----------|---------------------|
| 23.                  | Manju Shaoxing (Keqiao) Inn, No. 999 Yumin Road, Keqiao District, Shaoxing, Zhejiang Province, the PRC | <p>The property comprises a 15-storey hotel building erected upon 1-level basement. The total leased area is 8,831.67 sq m.</p> <p>Manju Shaoxing (Keqiao) Inn was completed and opened in 2012. The hotel currently provides 140 guest rooms, 61 car parking spaces, food and beverage outlets, office rooms and staff areas.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 10 years. The details of lease terms and annual rents are set out below:</p> <table> <tr> <th>Lease term</th> <th>Annual rent (RMB)</th> </tr> <tr> <td>2012/4/1 – 2013/3/31</td> <td>2,250,000</td> </tr> <tr> <td>2013/4/1 – 2017/3/31</td> <td>4,000,000</td> </tr> <tr> <td>2017/4/1 – 2022/3/31</td> <td>4,680,000</td> </tr> </table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                             | Annual rent (RMB) | 2012/4/1 – 2013/3/31 | 2,250,000 | 2013/4/1 – 2017/3/31 | 4,000,000 | 2017/4/1 – 2022/3/31 | 4,680,000 | No commercial value |
| Lease term           | Annual rent (RMB)                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                        |                   |                      |           |                      |           |                      |           |                     |
| 2012/4/1 – 2013/3/31 | 2,250,000                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                        |                   |                      |           |                      |           |                      |           |                     |
| 2013/4/1 – 2017/3/31 | 4,000,000                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                        |                   |                      |           |                      |           |                      |           |                     |
| 2017/4/1 – 2022/3/31 | 4,680,000                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                        |                   |                      |           |                      |           |                      |           |                     |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                        |                                                                                   | Market value in existing state as at November 30, 2018                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |            |                   |                        |         |                        |           |                        |           |                        |           |                        |           |                        |           |                        |           |                     |
|------------------------|-----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-------------------|------------------------|---------|------------------------|-----------|------------------------|-----------|------------------------|-----------|------------------------|-----------|------------------------|-----------|------------------------|-----------|---------------------|
| Property               | Description and tenancy particulars                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |                   |                        |         |                        |           |                        |           |                        |           |                        |           |                        |           |                        |           |                     |
| 24.                    | New Century Grandhouse Yanguan, Yanguan Town, Haining, Zhejiang Province, the PRC | <p>The property comprises a 2-storey hotel building. The total leased area is 20,540 sq m.</p> <p>New Century Grandhouse Yanguan was completed in 2010 and has been operated since March 2014. It currently provides 221 guest rooms, 154 car parking spaces, food and beverage outlets, a fitness center, chess rooms and banquet and function rooms.</p> <p>The property is leased to the Group from an independent third-party under a tenancy agreement for a term of 20 years. The details of lease terms and annual rents are set out below:</p> <table><tr><th>Lease term</th><th>Annual rent (RMB)</th></tr><tr><td>2017/12/1 – 2020/11/30</td><td>200,000</td></tr><tr><td>2020/12/1 – 2023/11/30</td><td>1,200,000</td></tr><tr><td>2023/12/1 – 2026/11/30</td><td>1,284,000</td></tr><tr><td>2026/12/1 – 2029/11/30</td><td>1,373,800</td></tr><tr><td>2029/12/1 – 2032/11/30</td><td>1,470,000</td></tr><tr><td>2032/12/1 – 2035/11/30</td><td>1,572,900</td></tr><tr><td>2035/12/1 – 2037/11/30</td><td>1,683,000</td></tr></table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term | Annual rent (RMB) | 2017/12/1 – 2020/11/30 | 200,000 | 2020/12/1 – 2023/11/30 | 1,200,000 | 2023/12/1 – 2026/11/30 | 1,284,000 | 2026/12/1 – 2029/11/30 | 1,373,800 | 2029/12/1 – 2032/11/30 | 1,470,000 | 2032/12/1 – 2035/11/30 | 1,572,900 | 2035/12/1 – 2037/11/30 | 1,683,000 | No commercial value |
| Lease term             | Annual rent (RMB)                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |                   |                        |         |                        |           |                        |           |                        |           |                        |           |                        |           |                        |           |                     |
| 2017/12/1 – 2020/11/30 | 200,000                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |                   |                        |         |                        |           |                        |           |                        |           |                        |           |                        |           |                        |           |                     |
| 2020/12/1 – 2023/11/30 | 1,200,000                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |                   |                        |         |                        |           |                        |           |                        |           |                        |           |                        |           |                        |           |                     |
| 2023/12/1 – 2026/11/30 | 1,284,000                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |                   |                        |         |                        |           |                        |           |                        |           |                        |           |                        |           |                        |           |                     |
| 2026/12/1 – 2029/11/30 | 1,373,800                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |                   |                        |         |                        |           |                        |           |                        |           |                        |           |                        |           |                        |           |                     |
| 2029/12/1 – 2032/11/30 | 1,470,000                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |                   |                        |         |                        |           |                        |           |                        |           |                        |           |                        |           |                        |           |                     |
| 2032/12/1 – 2035/11/30 | 1,572,900                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |                   |                        |         |                        |           |                        |           |                        |           |                        |           |                        |           |                        |           |                     |
| 2035/12/1 – 2037/11/30 | 1,683,000                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |                   |                        |         |                        |           |                        |           |                        |           |                        |           |                        |           |                        |           |                     |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|     | Property                                                                                        | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Market value in existing state as at November 30, 2018 |
|-----|-------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|
| 25. | New Century Hotel Tianjin Ruiwan, No. 2527 Xingang No. 1 Road, Binhai New Area, Tianjin the PRC | <p>The property comprises a 27-storey hotel building erected upon 1-level basement. The total leased area is 37,581.11 sq m.</p> <p>New Century Hotel Tianjin Ruiwan was completed in 2006 and has been operated since January 2013. The hotel currently provides 302 guest rooms, a cafe, a lobby bar, a Chinese restaurant, a Japanese restaurant, a fitness center with indoor swimming pool, a show bar, a spa, banquet and function rooms and a business center.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 15 years commencing on January 1, 2013 and expiring on December 31, 2027 at an annul rent of RMB12,000,000. The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | No commercial value                                    |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |  | Market value in<br>existing state as at<br>November 30, 2018 |                      |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                     |
|-------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--------------------------------------------------------------|----------------------|----------------------|------------|----------------------|------------|----------------------|------------|----------------------|------------|----------------------|------------|----------------------|------------|----------------------|------------|----------------------|------------|---------------------|
| Property                                                                                              | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |                                                              |                      |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                     |
| 26. Grand New Century Hotel Ninghai Jinhai, No. 399 Jinshui Road, Ninghai, Zhejiang Province, the PRC | <p>The property comprises a 26-storey hotel building erected upon 1-level basement. The total leased area is 44,187.93 sq m.</p> <p>Grand New Century Hotel Ninghai Jinhai was completed in 2011 and has been operated since March 2012. The hotel currently provides 268 guest rooms, 250 car parking spaces (including 80 underground and 170 above ground), food and beverage outlets, a wine bar, a fitness center with indoor swimming pool, a show bar, a spa, banquet and function rooms and a business center.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 10 years. The details of lease terms and annual rents are set out below:</p> <table><tr><th>Lease term</th><th>Annual rent<br/>(RMB)</th></tr><tr><td>2012/3/1 – 2015/2/28</td><td>17,100,000</td></tr><tr><td>2015/3/1 – 2016/2/28</td><td>17,710,000</td></tr><tr><td>2016/3/1 – 2017/2/28</td><td>18,350,000</td></tr><tr><td>2017/3/1 – 2018/2/28</td><td>19,000,000</td></tr><tr><td>2018/3/1 – 2019/2/28</td><td>19,680,000</td></tr><tr><td>2019/3/1 – 2020/2/28</td><td>20,380,000</td></tr><tr><td>2020/3/1 – 2021/2/28</td><td>21,120,000</td></tr><tr><td>2021/3/1 – 2022/2/29</td><td>21,870,000</td></tr></table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> |  | Lease term                                                   | Annual rent<br>(RMB) | 2012/3/1 – 2015/2/28 | 17,100,000 | 2015/3/1 – 2016/2/28 | 17,710,000 | 2016/3/1 – 2017/2/28 | 18,350,000 | 2017/3/1 – 2018/2/28 | 19,000,000 | 2018/3/1 – 2019/2/28 | 19,680,000 | 2019/3/1 – 2020/2/28 | 20,380,000 | 2020/3/1 – 2021/2/28 | 21,120,000 | 2021/3/1 – 2022/2/29 | 21,870,000 | No commercial value |
| Lease term                                                                                            | Annual rent<br>(RMB)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |  |                                                              |                      |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                     |
| 2012/3/1 – 2015/2/28                                                                                  | 17,100,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |  |                                                              |                      |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                     |
| 2015/3/1 – 2016/2/28                                                                                  | 17,710,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |  |                                                              |                      |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                     |
| 2016/3/1 – 2017/2/28                                                                                  | 18,350,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |  |                                                              |                      |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                     |
| 2017/3/1 – 2018/2/28                                                                                  | 19,000,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |  |                                                              |                      |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                     |
| 2018/3/1 – 2019/2/28                                                                                  | 19,680,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |  |                                                              |                      |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                     |
| 2019/3/1 – 2020/2/28                                                                                  | 20,380,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |  |                                                              |                      |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                     |
| 2020/3/1 – 2021/2/28                                                                                  | 21,120,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |  |                                                              |                      |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                     |
| 2021/3/1 – 2022/2/29                                                                                  | 21,870,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |  |                                                              |                      |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                      |            |                     |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                      | Property                                                                                                            | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Market value in existing state as at November 30, 2018 |                      |                      |            |                      |            |                     |
|----------------------|---------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|----------------------|----------------------|------------|----------------------|------------|---------------------|
| 27.                  | New Century Hotel Ninghai<br>New Century,<br>No. 159 Taoyuan Middle Road,<br>Ninghai,<br>Zhejiang Province, the PRC | <p>The property comprises an 18-storey hotel building erected upon 1-level basement. The total leased area is 27,928.51 sq m.</p> <p>New Century Hotel Ninghai New Century was completed in 2001 and has been operated since April 2003. The hotel currently provides 245 guest rooms, 250 car parking spaces, food and beverage outlets, a fitness center, a outdoor swimming pool, a spa, banquet and function rooms and 2 conference halls.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 10 years. The details of lease terms and annual rents are set out below:</p> <table><tr><th>Lease term</th><th>Annual rent<br/>(RMB)</th></tr><tr><td>2013/4/1 – 2018/3/31</td><td>10,000,000</td></tr><tr><td>2018/4/1 – 2023/3/31</td><td>12,000,000</td></tr></table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                             | Annual rent<br>(RMB) | 2013/4/1 – 2018/3/31 | 10,000,000 | 2018/4/1 – 2023/3/31 | 12,000,000 | No commercial value |
| Lease term           | Annual rent<br>(RMB)                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                        |                      |                      |            |                      |            |                     |
| 2013/4/1 – 2018/3/31 | 10,000,000                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                        |                      |                      |            |                      |            |                     |
| 2018/4/1 – 2023/3/31 | 12,000,000                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                        |                      |                      |            |                      |            |                     |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Market value in<br>existing state as at<br>November 30, 2018 |                      |                        |           |                        |           |                        |           |                        |           |                        |
|----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|----------------------|------------------------|-----------|------------------------|-----------|------------------------|-----------|------------------------|-----------|------------------------|
| Property                                                                                     | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                              |                      |                        |           |                        |           |                        |           |                        |           |                        |
| 28. Manju Shanghai Yuege,<br>No. 1609 Luoshan Road,<br>Pudong New Area, Shanghai,<br>the PRC | <p>The property comprises a 4-storey hotel building. The total leased area is 8,987.22 sq m.</p> <p>Manju Shanghai Yuege was completed in 2005 and has been operated since January 2011. The hotel currently provides 165 guest rooms, food and beverage outlets, and other function rooms.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 20 years. The details of lease terms and annual rents are set out below:</p> <table><tr><th>Lease term</th><th>Annual rent<br/>(RMB)</th></tr><tr><td>2004/11/1 – 2009/10/31</td><td>1,900,000</td></tr><tr><td>2009/11/1 – 2014/10/31</td><td>2,050,000</td></tr><tr><td>2014/11/1 – 2019/10/31</td><td>2,200,000</td></tr><tr><td>2019/11/1 – 2024/10/31</td><td>2,350,000</td></tr></table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                                   | Annual rent<br>(RMB) | 2004/11/1 – 2009/10/31 | 1,900,000 | 2009/11/1 – 2014/10/31 | 2,050,000 | 2014/11/1 – 2019/10/31 | 2,200,000 | 2019/11/1 – 2024/10/31 | 2,350,000 | No commercial<br>value |
| Lease term                                                                                   | Annual rent<br>(RMB)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                              |                      |                        |           |                        |           |                        |           |                        |           |                        |
| 2004/11/1 – 2009/10/31                                                                       | 1,900,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                              |                      |                        |           |                        |           |                        |           |                        |           |                        |
| 2009/11/1 – 2014/10/31                                                                       | 2,050,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                              |                      |                        |           |                        |           |                        |           |                        |           |                        |
| 2014/11/1 – 2019/10/31                                                                       | 2,200,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                              |                      |                        |           |                        |           |                        |           |                        |           |                        |
| 2019/11/1 – 2024/10/31                                                                       | 2,350,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                              |                      |                        |           |                        |           |                        |           |                        |           |                        |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Market value in<br>existing state as at<br>November 30, 2018 |                      |                       |           |                       |           |                       |           |                       |           |                       |           |                        |
|------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|----------------------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|------------------------|
| Property                                                                                             | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                              |                      |                       |           |                       |           |                       |           |                       |           |                       |           |                        |
| 29. Manju Shanghai<br>Ruiyue,<br>No. 35 Meiyuan<br>Road,<br>Jingan District,<br>Shanghai,<br>the PRC | <p>The property comprises a 7-storey hotel building. The total leased area is 4,085.00 sq m.</p> <p>Manju Shanghai Ruiyue was completed and opened in 2008. The hotel currently provides 88 guest rooms, food and beverage outlets, and other function rooms.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 15 years. The details of lease terms and annual rents are set out below:</p> <table><tr><th>Lease term</th><th>Annual rent<br/>(RMB)</th></tr><tr><td>2008/1/1 – 2010/12/31</td><td>1,800,000</td></tr><tr><td>2011/1/1 – 2013/12/31</td><td>1,890,000</td></tr><tr><td>2014/1/1 – 2016/12/31</td><td>1,984,500</td></tr><tr><td>2017/1/1 – 2019/12/31</td><td>2,083,725</td></tr><tr><td>2020/1/1 – 2022/12/31</td><td>2,187,911</td></tr></table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                                   | Annual rent<br>(RMB) | 2008/1/1 – 2010/12/31 | 1,800,000 | 2011/1/1 – 2013/12/31 | 1,890,000 | 2014/1/1 – 2016/12/31 | 1,984,500 | 2017/1/1 – 2019/12/31 | 2,083,725 | 2020/1/1 – 2022/12/31 | 2,187,911 | No commercial<br>value |
| Lease term                                                                                           | Annual rent<br>(RMB)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                              |                      |                       |           |                       |           |                       |           |                       |           |                       |           |                        |
| 2008/1/1 – 2010/12/31                                                                                | 1,800,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                              |                      |                       |           |                       |           |                       |           |                       |           |                       |           |                        |
| 2011/1/1 – 2013/12/31                                                                                | 1,890,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                              |                      |                       |           |                       |           |                       |           |                       |           |                       |           |                        |
| 2014/1/1 – 2016/12/31                                                                                | 1,984,500                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                              |                      |                       |           |                       |           |                       |           |                       |           |                       |           |                        |
| 2017/1/1 – 2019/12/31                                                                                | 2,083,725                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                              |                      |                       |           |                       |           |                       |           |                       |           |                       |           |                        |
| 2020/1/1 – 2022/12/31                                                                                | 2,187,911                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                              |                      |                       |           |                       |           |                       |           |                       |           |                       |           |                        |



## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                       |                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Market value in<br>existing state as at<br>November 30, 2018 |                      |                       |         |                       |         |                       |         |                        |
|-----------------------|---------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|----------------------|-----------------------|---------|-----------------------|---------|-----------------------|---------|------------------------|
|                       | Property                                                                                                | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                              |                      |                       |         |                       |         |                       |         |                        |
| 30.                   | Manju Hotel<br>Minhang Inn,<br>No. 1280<br>Zhuanxing Road,<br>Minhang District,<br>Shanghai,<br>the PRC | <p>The property comprises a 4-storey hotel building. The total leased area is 9,082.00 sq m.</p> <p>Manju Hotel Minhang inn was completed in 2015 and has been operated since June 2018. The hotel currently provides 168 guest rooms, 30 car park spaces, food and beverage outlets, and other function rooms.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 13 years. The details of lease terms and annual rents are set out below:</p> <table><tr><th>Lease term</th><th>Annual rent<br/>(RMB)</th></tr><tr><td>2018/5/12 – 2023/5/11</td><td>225,000</td></tr><tr><td>2023/5/12 – 2028/5/11</td><td>245,000</td></tr><tr><td>2028/5/12 – 2031/5/11</td><td>265,000</td></tr></table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                                   | Annual rent<br>(RMB) | 2018/5/12 – 2023/5/11 | 225,000 | 2023/5/12 – 2028/5/11 | 245,000 | 2028/5/12 – 2031/5/11 | 265,000 | No commercial<br>value |
| Lease term            | Annual rent<br>(RMB)                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                              |                      |                       |         |                       |         |                       |         |                        |
| 2018/5/12 – 2023/5/11 | 225,000                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                              |                      |                       |         |                       |         |                       |         |                        |
| 2023/5/12 – 2028/5/11 | 245,000                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                              |                      |                       |         |                       |         |                       |         |                        |
| 2028/5/12 – 2031/5/11 | 265,000                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                              |                      |                       |         |                       |         |                       |         |                        |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Market value in<br>existing state as at<br>November 30, 2018 |                      |                      |           |                      |           |                      |           |                      |           |                      |           |                     |
|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|----------------------|----------------------|-----------|----------------------|-----------|----------------------|-----------|----------------------|-----------|----------------------|-----------|---------------------|
| Property                                                                                                    | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                              |                      |                      |           |                      |           |                      |           |                      |           |                      |           |                     |
| 31. Manju Hotel<br>Wuxi Inn,<br>Guangyi Road,<br>Liangxi District,<br>Wuxi,<br>Jiangsu Province,<br>the PRC | <p>The property comprises a 6-storey hotel building erected upon 2-level basement. The total leased area is 7,800.00 sq m.</p> <p>Manju Hotel Wuxi inn was completed and opened in 2013. The hotel currently provides 137 guest rooms, 40 car parking spaces (including loading/unloading spaces), food and beverage outlets, function rooms and a business center.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 15 years. The details of lease terms and annual rents are set out below:</p> <table> <tr> <th>Lease term</th> <th>Annual rent<br/>(RMB)</th> </tr> <tr> <td>2013/6/1 – 2016/5/31</td> <td>3,131,700</td> </tr> <tr> <td>2016/6/1 – 2019/5/31</td> <td>3,274,050</td> </tr> <tr> <td>2019/6/1 – 2022/5/31</td> <td>3,444,870</td> </tr> <tr> <td>2022/6/1 – 2025/5/31</td> <td>3,615,690</td> </tr> <tr> <td>2025/6/1 – 2028/5/31</td> <td>3,786,510</td> </tr> </table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                                   | Annual rent<br>(RMB) | 2013/6/1 – 2016/5/31 | 3,131,700 | 2016/6/1 – 2019/5/31 | 3,274,050 | 2019/6/1 – 2022/5/31 | 3,444,870 | 2022/6/1 – 2025/5/31 | 3,615,690 | 2025/6/1 – 2028/5/31 | 3,786,510 | No commercial value |
| Lease term                                                                                                  | Annual rent<br>(RMB)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                              |                      |                      |           |                      |           |                      |           |                      |           |                      |           |                     |
| 2013/6/1 – 2016/5/31                                                                                        | 3,131,700                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                              |                      |                      |           |                      |           |                      |           |                      |           |                      |           |                     |
| 2016/6/1 – 2019/5/31                                                                                        | 3,274,050                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                              |                      |                      |           |                      |           |                      |           |                      |           |                      |           |                     |
| 2019/6/1 – 2022/5/31                                                                                        | 3,444,870                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                              |                      |                      |           |                      |           |                      |           |                      |           |                      |           |                     |
| 2022/6/1 – 2025/5/31                                                                                        | 3,615,690                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                              |                      |                      |           |                      |           |                      |           |                      |           |                      |           |                     |
| 2025/6/1 – 2028/5/31                                                                                        | 3,786,510                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                              |                      |                      |           |                      |           |                      |           |                      |           |                      |           |                     |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                        | Property                                                                                                              | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Market value in existing state as at November 30, 2018 |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                        |           |                     |
|------------------------|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|------------------------|-----------|---------------------|
| 32.                    | Manju Hotel Ningbo (Eastern New City), No. 369 Heqingbei Road, Jiangdong District, Ningbo, Zhejiang Province, the PRC | <p>The property comprises a 15-storey hotel building erected upon 2-level basement. The total leased area is 11,172.81 sq m.</p> <p>Manju Hotel Ningbo (Eastern New City) was completed and opened in 2016. The hotel currently provides 157 guest rooms, 48 car parking spaces (including loading/unloading spaces), food and beverage outlets, a fitness center, function rooms and a business center.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of about 16.7 years. The details of lease terms and annual rents are set out below:</p> <table> <tr> <th>Lease term</th> <th>Annual rent (RMB)</th> </tr> <tr> <td>2016/2/15 – 2017/2/14</td> <td>2,039,038</td> </tr> <tr> <td>2017/2/15 – 2019/2/14</td> <td>4,893,691</td> </tr> <tr> <td>2019/2/15 – 2022/2/14</td> <td>5,138,375</td> </tr> <tr> <td>2022/2/14 – 2025/2/14</td> <td>5,395,294</td> </tr> <tr> <td>2025/2/15 – 2028/2/14</td> <td>5,665,059</td> </tr> <tr> <td>2028/2/15 – 2031/2/14</td> <td>5,948,312</td> </tr> <tr> <td>2031/2/15 – 2032/10/27</td> <td>6,245,727</td> </tr> </table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                             | Annual rent (RMB) | 2016/2/15 – 2017/2/14 | 2,039,038 | 2017/2/15 – 2019/2/14 | 4,893,691 | 2019/2/15 – 2022/2/14 | 5,138,375 | 2022/2/14 – 2025/2/14 | 5,395,294 | 2025/2/15 – 2028/2/14 | 5,665,059 | 2028/2/15 – 2031/2/14 | 5,948,312 | 2031/2/15 – 2032/10/27 | 6,245,727 | No commercial value |
| Lease term             | Annual rent (RMB)                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                        |           |                     |
| 2016/2/15 – 2017/2/14  | 2,039,038                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                        |           |                     |
| 2017/2/15 – 2019/2/14  | 4,893,691                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                        |           |                     |
| 2019/2/15 – 2022/2/14  | 5,138,375                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                        |           |                     |
| 2022/2/14 – 2025/2/14  | 5,395,294                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                        |           |                     |
| 2025/2/15 – 2028/2/14  | 5,665,059                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                        |           |                     |
| 2028/2/15 – 2031/2/14  | 5,948,312                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                        |           |                     |
| 2031/2/15 – 2032/10/27 | 6,245,727                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                        |           |                     |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                       | Property                                                                                                 | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Market value in existing state as at November 30, 2018 |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
|-----------------------|----------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|---------------------|
| 33.                   | Manju Hotel, Zhoushan, No. 850 Haiyin Street, Donggang Subdistrict, Zhoushan, Zhejiang Province, the PRC | <p>The property comprises a 4-storey hotel building erected upon 1-level basement. The total leased area is 7,562.57 sq m.</p> <p>Manju Hotel Zhoushan was completed and opened in 2017. The hotel currently provides 121 guest rooms, 50 car parking spaces (including loading/unloading spaces), food and beverage outlets and a meeting room.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 15 years. The details of lease terms and annual rents below:</p> <table> <tr> <th>Lease term</th> <th>Annual rent (RMB)</th> </tr> <tr> <td>2017/11/9 – 2020/11/8</td> <td>3,020,000</td> </tr> <tr> <td>2020/11/9 – 2023/11/8</td> <td>3,171,000</td> </tr> <tr> <td>2023/11/9 – 2026/11/8</td> <td>3,329,550</td> </tr> <tr> <td>2026/11/9 – 2029/11/8</td> <td>3,496,028</td> </tr> <tr> <td>2029/11/9 – 2032/11/8</td> <td>3,670,829</td> </tr> </table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                             | Annual rent (RMB) | 2017/11/9 – 2020/11/8 | 3,020,000 | 2020/11/9 – 2023/11/8 | 3,171,000 | 2023/11/9 – 2026/11/8 | 3,329,550 | 2026/11/9 – 2029/11/8 | 3,496,028 | 2029/11/9 – 2032/11/8 | 3,670,829 | No commercial value |
| Lease term            | Annual rent (RMB)                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2017/11/9 – 2020/11/8 | 3,020,000                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2020/11/9 – 2023/11/8 | 3,171,000                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2023/11/9 – 2026/11/8 | 3,329,550                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2026/11/9 – 2029/11/8 | 3,496,028                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2029/11/9 – 2032/11/8 | 3,670,829                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                     |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Market value in<br>existing state as at<br>November 30, 2018 |                      |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                     |
|-------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|----------------------|------------------------|---------|------------------------|---------|------------------------|---------|------------------------|---------|------------------------|---------|------------------------|---------|------------------------|---------|------------------------|---------|------------------------|---------|------------------------|---------|---------------------|
| Property                                                                                        | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                              |                      |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                     |
| 34. Wonderland RV<br>Camp Yanguan,<br>Yanguan Town<br>Haining,<br>Zhejiang Province,<br>the PRC | <p>The property comprises a 2-storey building with gross floor area of 1,187.22 sq m and a parcel of land with site area of 25,137 sq m.</p> <p>Wonderland RV Camp Yanguan has been operated since May 2017. The hotel currently provides 57 guest rooms, 48 car parking spaces, food and beverage outlets, chess rooms and a banquet and function room.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 20 years. The details of lease terms and annual rents are set out below:</p> <table><tr><th>Lease term</th><th>Annual rent<br/>(RMB)</th></tr><tr><td>2017/12/1 – 2019/11/30</td><td>300,000</td></tr><tr><td>2019/12/1 – 2021/11/30</td><td>350,000</td></tr><tr><td>2021/12/1 – 2023/11/30</td><td>400,000</td></tr><tr><td>2023/12/1 – 2025/11/30</td><td>450,000</td></tr><tr><td>2025/12/1 – 2027/11/30</td><td>500,000</td></tr><tr><td>2027/12/1 – 2029/11/30</td><td>600,000</td></tr><tr><td>2029/12/1 – 2031/11/30</td><td>600,000</td></tr><tr><td>2031/12/1 – 2033/11/30</td><td>600,000</td></tr><tr><td>2033/12/1 – 2035/11/30</td><td>600,000</td></tr><tr><td>2035/12/1 – 2037/11/30</td><td>600,000</td></tr></table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                                   | Annual rent<br>(RMB) | 2017/12/1 – 2019/11/30 | 300,000 | 2019/12/1 – 2021/11/30 | 350,000 | 2021/12/1 – 2023/11/30 | 400,000 | 2023/12/1 – 2025/11/30 | 450,000 | 2025/12/1 – 2027/11/30 | 500,000 | 2027/12/1 – 2029/11/30 | 600,000 | 2029/12/1 – 2031/11/30 | 600,000 | 2031/12/1 – 2033/11/30 | 600,000 | 2033/12/1 – 2035/11/30 | 600,000 | 2035/12/1 – 2037/11/30 | 600,000 | No commercial value |
| Lease term                                                                                      | Annual rent<br>(RMB)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                              |                      |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                     |
| 2017/12/1 – 2019/11/30                                                                          | 300,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                              |                      |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                     |
| 2019/12/1 – 2021/11/30                                                                          | 350,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                              |                      |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                     |
| 2021/12/1 – 2023/11/30                                                                          | 400,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                              |                      |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                     |
| 2023/12/1 – 2025/11/30                                                                          | 450,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                              |                      |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                     |
| 2025/12/1 – 2027/11/30                                                                          | 500,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                              |                      |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                     |
| 2027/12/1 – 2029/11/30                                                                          | 600,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                              |                      |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                     |
| 2029/12/1 – 2031/11/30                                                                          | 600,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                              |                      |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                     |
| 2031/12/1 – 2033/11/30                                                                          | 600,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                              |                      |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                     |
| 2033/12/1 – 2035/11/30                                                                          | 600,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                              |                      |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                     |
| 2035/12/1 – 2037/11/30                                                                          | 600,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                              |                      |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                        |         |                     |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |  | <b>Market value in<br/>existing state as at<br/>November 30, 2018</b> |
|---------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-----------------------------------------------------------------------|
| <b>Property</b>                                                                                                     | <b>Description and tenancy particulars</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |                                                                       |
| 35. Changxing New Century Wonderland Resorts, Huizhouzhuang Village, Shuikou, Changxing, Zhejiang Province, the PRC | <p>The property comprises a 4-storey building erected upon 1-level basement. The total leased area is 11,866.84 sq m.</p> <p>Changxing New Century Wonderland Resorts was completed and opened in 2015. The property currently provides a gym, a swimming pool, food and beverage outlets, chess rooms, a KTV, and banquet and function rooms.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 20 years commencing on April 28, 2015 and expiring on April 27, 2035 at an annual rent of RMB1,800,000. The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> |  | No commercial value                                                   |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |            | Market value in<br>existing state as at<br>November 30, 2018 |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
|------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------------------------------------------------------------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|---------------------|
| Property                                                                                                                                 | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |                                                              |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 36. Manju Hotel<br>Dalian<br>Municipality Inn,<br>No. 78 Xinkai<br>Road,<br>Xigang District,<br>Dalian,<br>Liaoning Province,<br>the PRC | <p>The property is located on the 4th floor to 11th floor of the building which is a 12-storey reinforced concrete building with 11 floors above the ground and 1 floor underground. The total leased area is 9,500.00 sq m.</p> <p>Manju Hotel Dalian Municipality was completed and opened in 2018. The hotel provides 166 guest rooms.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 14.35 years. The details of lease terms and annual rents are below:</p> <table> <tr> <th>Lease term</th> <th>Annual rent<br/>(RMB)</th> </tr> <tr> <td>2018/5/15 – 2020/9/14</td> <td>5,548,000</td> </tr> <tr> <td>2020/9/15 – 2023/9/14</td> <td>5,825,400</td> </tr> <tr> <td>2023/9/15 – 2026/9/14</td> <td>6,116,600</td> </tr> <tr> <td>2026/9/15 – 2029/9/14</td> <td>6,422,400</td> </tr> <tr> <td>2029/9/15 – 2032/9/14</td> <td>6,743,500</td> </tr> </table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term | Annual rent<br>(RMB)                                         | 2018/5/15 – 2020/9/14 | 5,548,000 | 2020/9/15 – 2023/9/14 | 5,825,400 | 2023/9/15 – 2026/9/14 | 6,116,600 | 2026/9/15 – 2029/9/14 | 6,422,400 | 2029/9/15 – 2032/9/14 | 6,743,500 | No commercial value |
| Lease term                                                                                                                               | Annual rent<br>(RMB)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |            |                                                              |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2018/5/15 – 2020/9/14                                                                                                                    | 5,548,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |            |                                                              |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2020/9/15 – 2023/9/14                                                                                                                    | 5,825,400                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |            |                                                              |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2023/9/15 – 2026/9/14                                                                                                                    | 6,116,600                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |            |                                                              |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2026/9/15 – 2029/9/14                                                                                                                    | 6,422,400                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |            |                                                              |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2029/9/15 – 2032/9/14                                                                                                                    | 6,743,500                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |            |                                                              |                       |           |                       |           |                       |           |                       |           |                       |           |                     |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

| Property                                                                                                                                                                                             | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Market value in existing state as at November 30, 2018 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|
| 37. Manju Hotel<br>Chengdu Inn,<br>Group 3 of Gao<br>Bei Village,<br>group 6 of<br>Shunjiang Village,<br>Tujin subdistrict<br>office,<br>Wuhou District,<br>Chengdu,<br>Sichuan Province,<br>the PRC | <p>The property is located on the 1st floor and 5th to 12th floors of the building which is a 16-storey reinforced concrete building with 14 floors above ground and 2 floors underground. The total leased area is 14,538.82 sq m.</p> <p>Manju Hotel Chengdu Inn will be completed in 2019. Upon completion, the hotel will provide 202 guest rooms and 60 car parking spaces.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 20 years. The details of lease terms and annual rents are set out below:</p> | No commercial value                                    |
|                                                                                                                                                                                                      | Lease term                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Annual rent<br>(RMB)                                   |
|                                                                                                                                                                                                      | 2018/3/1 – 2019/2/28                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | –                                                      |
|                                                                                                                                                                                                      | 2019/3/1 – 2022/2/28                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 7,092,149                                              |
|                                                                                                                                                                                                      | 2022/3/1 – 2025/2/28                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 7,446,757                                              |
|                                                                                                                                                                                                      | 2025/3/1 – 2028/2/29                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 7,818,701                                              |
|                                                                                                                                                                                                      | 2028/3/1 – 2031/2/28                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 8,209,557                                              |
|                                                                                                                                                                                                      | 2031/3/1 – 2034/2/28                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 8,620,902                                              |
|                                                                                                                                                                                                      | 2034/3/1 – 2037/2/28                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 9,051,159                                              |
|                                                                                                                                                                                                      | 2037/3/1 – 2038/2/28                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 9,503,480                                              |
|                                                                                                                                                                                                      | The Group is entitled to an option to renew a tenancy agreement through negotiation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                        |



## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

| Property                                                                                                                        | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Market value in existing state as at November 30, 2018 |
|---------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|
| 38. Manju Hotel<br>Yuyao South<br>Nanlei Road Inn,<br>No. 398, South<br>Nanlei Road,<br>Yuyao,<br>Zhejiang Province,<br>the PRC | <p>The property is located on the 4th to 10th floors of the building which is a 31-storey reinforced concrete building with 29 floors above ground and 2 floors underground. The total leased area is 9,118.90 sq m.</p> <p>Manju Hotel Yuyao South Nanlei Road Inn was completed and opened in 2014. The hotel currently provides 147 guest rooms, 50 car parking spaces, coffee bar, a conference room, and a Cafeteria.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 18 years. The details of lease terms and annual rents are set out below:</p> | No commercial value                                    |
|                                                                                                                                 | Lease term                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Annual rent<br>(RMB)                                   |
|                                                                                                                                 | 2014/3/11 – 2015/3/10                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 776,626                                                |
|                                                                                                                                 | 2015/3/11 – 2016/3/10                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 2,135,722                                              |
|                                                                                                                                 | 2016/3/11 – 2018/3/10                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 2,242,508                                              |
|                                                                                                                                 | 2018/3/11 – 2020/3/10                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 2,568,858                                              |
|                                                                                                                                 | 2020/3/11 – 2022/3/10                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 2,697,001                                              |
|                                                                                                                                 | 2022/3/11 – 2024/3/10                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 2,832,134                                              |
|                                                                                                                                 | 2024/3/11 – 2026/3/10                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 2,973,591                                              |
|                                                                                                                                 | 2026/3/11 – 2028/3/10                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 3,122,371                                              |
|                                                                                                                                 | 2028/3/11 – 2030/3/10                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 3,278,473                                              |
|                                                                                                                                 | 2030/3/11 – 2032/3/10                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 3,442,230                                              |
|                                                                                                                                 | The Group is entitled to an option to renew a tenancy agreement through negotiation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                        |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                      | Property                                                                                                  | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Market value in existing state as at November 30, 2018 |                   |                      |           |                      |           |                      |           |                      |           |                      |           |                     |
|----------------------|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------|----------------------|-----------|----------------------|-----------|----------------------|-----------|----------------------|-----------|----------------------|-----------|---------------------|
| 39.                  | Manju Hotel Ningbo Waitan Inn, No. 85 Renming Road, Jiangbei District, Ningbo, Zhejiang Province, the PRC | <p>The property comprises a 10-storey building erected upon 1-level basement. The total leased area is 9,544.18 sq m.</p> <p>Manju Hotel Ningbo Waitan Inn was re-opened in 2018. Formerly known as Jianghua hotel. The hotel currently provides 133 guest rooms, 22 car parking spaces, coffee bar, and a conference room.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 15.25 years. The details of lease terms and annual rents are set out below:</p> <table> <tr> <th>Lease term</th> <th>Annual rent (RMB)</th> </tr> <tr> <td>2018/5/1 – 2021/7/31</td> <td>5,900,000</td> </tr> <tr> <td>2021/8/1 – 2024/7/31</td> <td>6,180,000</td> </tr> <tr> <td>2024/8/1 – 2027/7/31</td> <td>6,474,000</td> </tr> <tr> <td>2027/8/1 – 2030/7/31</td> <td>6,782,600</td> </tr> <tr> <td>2030/8/1 – 2033/7/31</td> <td>7,106,900</td> </tr> </table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                             | Annual rent (RMB) | 2018/5/1 – 2021/7/31 | 5,900,000 | 2021/8/1 – 2024/7/31 | 6,180,000 | 2024/8/1 – 2027/7/31 | 6,474,000 | 2027/8/1 – 2030/7/31 | 6,782,600 | 2030/8/1 – 2033/7/31 | 7,106,900 | No commercial value |
| Lease term           | Annual rent (RMB)                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                        |                   |                      |           |                      |           |                      |           |                      |           |                      |           |                     |
| 2018/5/1 – 2021/7/31 | 5,900,000                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                        |                   |                      |           |                      |           |                      |           |                      |           |                      |           |                     |
| 2021/8/1 – 2024/7/31 | 6,180,000                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                        |                   |                      |           |                      |           |                      |           |                      |           |                      |           |                     |
| 2024/8/1 – 2027/7/31 | 6,474,000                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                        |                   |                      |           |                      |           |                      |           |                      |           |                      |           |                     |
| 2027/8/1 – 2030/7/31 | 6,782,600                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                        |                   |                      |           |                      |           |                      |           |                      |           |                      |           |                     |
| 2030/8/1 – 2033/7/31 | 7,106,900                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                        |                   |                      |           |                      |           |                      |           |                      |           |                      |           |                     |

## APPENDIX III

## PROPERTY VALUATION REPORT

### VALUATION REPORT

|                       | Property                                                                                                                              | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Market value in existing state as at November 30, 2018 |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|---------------------|
| 40.                   | Manju Hotel Zhuzhou Inn, Building 19, Henghao Cuigu City, No. 299 Jiangshan Road, Tianyuan District, Zhuzhou, Hunan Province, the PRC | <p>The property is located on the 1st floor to 16th floors of the building which is a 25-storey reinforced concrete building. The total leased area is 13,476.85 sq m.</p> <p>Manju Hotel Zhuzhou Inn was completed and opened in 2018. The hotel currently provides 153 guest rooms, 84 car parking spaces, food and beverage outlets, a fitness center, book center, coffee bar, office rooms, conference rooms, Cafeteria and a business center.</p> <p>The property is leased to the Group from an independent third party under a tenancy agreement for a term of 20 years. The details of lease terms and annual rents are set out below:</p> <table> <tr> <th>Lease term</th> <th>Annual rent (RMB)</th> </tr> <tr> <td>2018/1/1 – 2019/12/31</td> <td>1,930,266</td> </tr> <tr> <td>2020/1/1 – 2021/12/31</td> <td>2,713,812</td> </tr> <tr> <td>2022/1/1 – 2023/12/31</td> <td>2,975,006</td> </tr> <tr> <td>2024/1/1 – 2025/12/31</td> <td>3,236,200</td> </tr> <tr> <td>2026/1/1 – 2027/12/31</td> <td>3,497,394</td> </tr> <tr> <td>2028/1/1 – 2029/12/31</td> <td>4,542,169</td> </tr> <tr> <td>2030/1/1 – 2031/12/31</td> <td>5,064,594</td> </tr> <tr> <td>2032/1/1 – 2033/12/31</td> <td>5,325,715</td> </tr> <tr> <td>2034/1/1 – 2035/12/31</td> <td>5,586,909</td> </tr> <tr> <td>2036/1/1 – 2037/12/31</td> <td>6,109,334</td> </tr> </table> <p>The Group is entitled to an option to renew a tenancy agreement through negotiation.</p> | Lease term                                             | Annual rent (RMB) | 2018/1/1 – 2019/12/31 | 1,930,266 | 2020/1/1 – 2021/12/31 | 2,713,812 | 2022/1/1 – 2023/12/31 | 2,975,006 | 2024/1/1 – 2025/12/31 | 3,236,200 | 2026/1/1 – 2027/12/31 | 3,497,394 | 2028/1/1 – 2029/12/31 | 4,542,169 | 2030/1/1 – 2031/12/31 | 5,064,594 | 2032/1/1 – 2033/12/31 | 5,325,715 | 2034/1/1 – 2035/12/31 | 5,586,909 | 2036/1/1 – 2037/12/31 | 6,109,334 | No commercial value |
| Lease term            | Annual rent (RMB)                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2018/1/1 – 2019/12/31 | 1,930,266                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2020/1/1 – 2021/12/31 | 2,713,812                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2022/1/1 – 2023/12/31 | 2,975,006                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2024/1/1 – 2025/12/31 | 3,236,200                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2026/1/1 – 2027/12/31 | 3,497,394                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2028/1/1 – 2029/12/31 | 4,542,169                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2030/1/1 – 2031/12/31 | 5,064,594                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2032/1/1 – 2033/12/31 | 5,325,715                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2034/1/1 – 2035/12/31 | 5,586,909                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                     |
| 2036/1/1 – 2037/12/31 | 6,109,334                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                        |                   |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                       |           |                     |

## APPENDIX IV

## TAXATION AND FOREIGN EXCHANGE

### TAXATION OF SECURITY HOLDERS

The taxation of income and capital gains of holders of H Shares is subject to the laws and practices of the PRC and of jurisdictions in which holders of H Shares are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions based on current laws and practices is subject to change and does not constitute legal or tax advice. The discussion has no intention to cover all possible tax consequences resulting from the investment in H Shares, nor does it take into account the specific circumstances of any particular investor, some of which may be subject to special regulations. Accordingly, you should consult your own tax advisor regarding the tax consequences of an investment in H Shares. The discussion is based upon laws and relevant interpretations in effect as of the date of this document, which is subject to change and may have retrospective effect.

No issues on PRC or Hong Kong taxation other than income tax, capital gain and profit tax, business tax/appreciation tax, stamp duty and estate duty was referred in the discussion. Prospective investors are urged to consult their financial advisors regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

### PRC TAXATION

#### Taxation on Dividends

##### *Individual investors*

According to the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) (the "IIT Law"), as amended, and its implementation rules, dividends paid to individuals by PRC companies are generally subject to an individual income tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, his/her receipt of dividends from a PRC company is normally subject to PRC withholding tax of 20% unless specifically exempted by the taxation authority of the State Council or exempted or reduced by an international convention or applicable tax treaty which the PRC Government has signed or acceded to.

Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax Following the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知) promulgated for implementation by the State Administration of Taxation of the PRC (中國國家稅務總局) (the "SAT") on June 28, 2011, foreign resident individual investors are entitled to enjoy the relevant preferential tax treatments in accordance with the taxation arrangements entered into between their respective countries and the PRC for public offer by non-foreign invested PRC enterprises in Hong Kong. Generally, the PRC individual income tax at the rate of 10% is applicable to dividends paid by a non-foreign invested PRC enterprise (the "Relevant Non-foreign Invested PRC Enterprise") to foreign individual investors (the "Relevant Individual Investors") holding shares publicly offered by the Relevant Non-foreign PRC Enterprise in Hong Kong and no application for approval from the taxation authority in the PRC is required. In case the 10% tax rate is not applicable, the Relevant Non-foreign Invested PRC Enterprise shall: (i) apply on

## APPENDIX IV

## TAXATION AND FOREIGN EXCHANGE

behalf of the investors to seek entitlement of the preferential tax treatment for lower tax rates if the countries of the Relevant Individual Investors have entered into income tax treaties with the PRC with tax rates lower than 10%, and arrange for refund of if the countries of the Relevant Individual Investors have entered into income tax treaties with the PRC with tax rates higher than 10% but lower than 20%, and no application is required; (iii) withhold the tax at the rate of 20% if the countries of the Relevant Individual Investors have not entered into any taxation treaties with the PRC or otherwise.

### *Enterprises*

In accordance with Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "EIT Law"), amended on February 24, 2017, and the Implementation Rules of the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例), effective on January 1, 2008, a non-PRC resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income, including dividends received from a PRC resident enterprise whose shares are issued and listed in Hong Kong, if such non-PRC resident enterprise does not have an establishment or premises in the PRC, or has an establishment or premises in the PRC but the PRC-sourced income is not actually connected with such establishment or premises in the PRC. Such withholding tax may be reduced or eliminated under an applicable treaty for the avoidance of double taxation. The aforesaid income tax payable by the non-PRC resident enterprises shall be withheld at source by the company paying the dividend as the withholding agent.

Notice on the Issues Concerning Withholding and Remitting Enterprise Income Tax on the Dividends Payable by PRC Resident Enterprises to Overseas Non-PRC Resident Enterprise Shareholders of H Share (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) (Guo Shui Han [2008] No. 897) issued by the SAT on November 6, 2008, further clarified that a PRC resident enterprise must withhold enterprise income tax at a rate of 10% on dividends paid to non-PRC resident enterprise shareholders of H Shares which are derived out of profit generated since January 1, 2008. A non-PRC resident enterprise which is entitled to a preferential tax rate under an applicable tax treaty or arrangement may, directly or through its agent, apply to the competent tax authorities for a refund of the excess amount of tax withheld.

### *Tax Treaties or Arrangements*

Non-PRC resident investors residing in countries which have entered into treaties with the PRC for the avoidance of double taxation or residing in Hong Kong or Macau may be entitled to preferential treatment of the withholding tax imposed on dividends received by such investors from the PRC company. For example, according to the Agreement of the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Tax on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) signed on August 21, 2006, the PRC Government may impose tax on dividends paid to a Hong Kong resident (including natural person and legal entity) by a PRC company, but such tax shall not

## APPENDIX IV

## TAXATION AND FOREIGN EXCHANGE

exceed 10% of the gross amount of the dividends payable. If a Hong Kong resident directly holds 25% or more of equity interest in a PRC company, such tax shall not exceed 5% of the gross amount of dividends payable by that PRC company.

The PRC has entered into arrangements for the avoidance of double taxation with Hong Kong and Macau, respectively, and has entered into treaties for the avoidance of double taxation with Germany, Japan, Malaysia, Netherlands, Singapore, the United Kingdom and the United States. A non-PRC resident enterprise which is entitled to a preferential tax rate under a relevant income tax treaty or arrangement may apply to the PRC tax authorities for a refund of the difference between the amount of tax withheld and tax computed based on the treaty rate.

### **Taxation on Gains from Share Transfer**

#### ***Individual Investors***

In accordance with the IIT Law and its implementation rules, individuals are subject to individual income tax at the rate of 20% on gains realized on the sale of equity interests in PRC resident enterprises. Under the Circular Declaring that Individual Income Tax Continues to Be Exempted over Individual Income from Transfer of Shares (財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) (Cai Shui Zi [1998] No. 61) issued by the MOF and the SAT on March 30, 1998, gains of individuals from the transfer of shares of listed enterprises continues to be exempted from individual income tax with effect from January 1, 1997. However, on December 31, 2009, the MOF, the SAT and the CSRC jointly issued the Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知) (Cai Shui [2009] No. 167), which provides that individuals' income from transferring listed shares on certain domestic exchanges shall continue to be exempted from the individual income tax, except for certain shares which are subject to sales limitations (as defined in the supplementary notice of such Circular (Cai Shui [2010] No. 70) issued on November 10, 2010).

On December 7, 2014, the SAT promulgated the Administrative Measures for Individual Income Tax on Equity Transfer Incomes (Provisional) (股權轉讓所得個人所得稅管理辦法(試行)), which became effective on January 1, 2015. The foregoing measures provide that the transfer of equity interest in the enterprises or entities incorporated in the PRC by individuals are subject to the individual income tax. These measures are not applicable to transfer of shares of companies listed on the Shanghai Stock Exchange or Shenzhen Stock Exchange which are acquired from public offering or the stock transfer market by individuals, transfer of shares that are subject to sales limitations, and other equity interest transfers that are subject to special provisions.

However, the aforesaid provisions have not expressly provided that individual income tax shall be collected from non-PRC resident individuals on the sale of shares of PRC resident enterprises listed on overseas stock exchanges.

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### *Enterprises*

In accordance with the EIT Law and its implementation rules, a non-PRC resident enterprise is generally subject to enterprise income tax at the rate of 10% with respect to PRC-sourced income, including gains derived from the disposition of shares in a PRC resident enterprise, if it does not have an establishment or premises in the PRC, or has an establishment or premises in the PRC but the PRC-sourced income is not actually connected with such establishment or premises in the PRC. Such tax may be reduced or eliminated under applicable tax treaties or arrangements.

### **PRC stamp duty**

Under the Provisional Regulations of the PRC Concerning Stamp Duty (中華人民共和國印花稅暫行條例) amended on January 8, 2011 and the Implementation Rules of Provisional Regulations of the PRC Concerning Stamp Duty (中華人民共和國印花稅暫行條例施行細則), effective on October 1, 1988 and amended by Notice on Revision of the Administrative Measures on Payment of Stamp Duties on a Regular and Consolidated Basis (財政部、國家稅務總局關於改變印花稅按期匯總繳納管理辦法的通知) on November 5, 2004, PRC stamp duty is imposed on documents that are legally binding in the PRC and governed by the PRC laws. Therefore, PRC stamp duty does not apply to acquisitions or dispositions of H shares outside the PRC.

## **HONG KONG TAXATION**

### **Tax on Dividends**

Under the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by us.

### **Capital Gains and Profit Tax**

No tax is imposed in Hong Kong in respect of capital gains from the sale of H shares. However, trading gains from the sale of the H Shares by persons carrying on a trade, profession or business in Hong Kong, where such gains derived from or arose in Hong Kong from such trade, profession or business will be subject to Hong Kong profits tax, which is currently imposed at the maximum rate of 16.5% on corporations and at the maximum rate of 15% on unincorporated businesses. Certain categories of taxpayers (such as financial institutions, insurance companies and securities dealers) are likely to be regarded as deriving trading gains rather than capital gains, unless these taxpayers can prove that the security investment are held for long-term investment purposes.

Trading gains from sales of the H Shares effected on the Stock Exchange will be considered to be derived from or arose in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sale of H Shares effected on the Stock Exchange by persons carrying on a business of trading or dealing in securities in Hong Kong.

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### Stamp Duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for or the market value of the H Shares, will be payable by the purchaser on every purchase and by the seller on every sale of any Hong Kong securities, including H Shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed stamp duty of HK\$5.00 is currently payable on any instrument of transfer of H Shares. Where one of the parties is a non-Hong Kong resident and does not pay the ad valorem duty due by it, the duty not paid will be assessed pursuant to the instrument of transfer (if any) and will be payable by the transferee. If no stamp duty is paid on or before the due date, a penalty of up to 10 times of the tax payable may be imposed.

### Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 abolished the provisions on estate duty of deaths occurring on or after February 11, 2006.

## MAJOR TAXES ON THE COMPANY IN THE PRC

### Income tax

According to the EIT Law, enterprises and other organizations generating income within the territory of the PRC are subject to enterprise income tax at the rate of 25%.

### Value-added tax

Pursuant to the Interim Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) promulgated on November 10, 2008 and further amended on November 19, 2017, and the Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-Added Tax (中華人民共和國增值稅暫行條例實施細則), entities or individuals engaging in sale of goods, provision of processing services, repairs and replacement services and importation of goods within the territory of the PRC are subject to the payment of value-added tax (the "VAT"). The VAT payable is calculated as "output VAT" minus "input VAT". The VAT rate is 17% for entities that engage in the sales of goods. Domestic entities and individuals who engage in cross-border sales of services or intangible assets that are within the scope prescribed by the State Council shall be subject to zero-rated VAT.

Pursuant to the *Pilot Plan for Levying Value-added Tax in Lieu of Business Tax* (營業稅改徵增值稅試點方案) promulgated by the MOFCOM and SAT, effective on November 16, 2011, starting from January 1, 2012, the State started the pilot taxation reform of collecting VAT in lieu of business tax in certain regions (including Shanghai and Beijing) and in certain pilot industries (including transportation and certain modern service industries).



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Pursuant to the *Notice on Implementing the Pilot Plan for Levying Value-added Tax in lieu of Business Tax Nationwide* (關於全面推開營業稅改徵增值稅試點的通知) issued by the MOFCOM and SAT on March 23, 2016 and effective from May 1, 2016, from May 1, 2016 onwards, the pilot reform for the transition from business tax to VAT ("Business Tax to VAT") is implemented nationwide. Pursuant to the *Implementation Measures for Transition from Business Tax to Value-added Tax* (營業稅改徵增值稅試點實施辦法), unless otherwise provided in the implementation measures, the tax rate is generally 6% for tax payers who conducted taxable behaviors.

### TAXATION OF OUR COMPANY IN HONG KONG

Our Directors do not consider that any of our Company's income is derived from or arose in Hong Kong for the purpose of Hong Kong taxation. Our Company will therefore not be subject to Hong Kong taxation.

### FOREIGN EXCHANGE CONTROLS OF THE PRC

Renminbi is the lawful currency of the PRC, which is subject to foreign exchange controls and is not freely exchangeable. The State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局) (the "SAFE"), under the authorization of the People's Bank of China (中國人民銀行) (the "PBOC"), is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On January 29, 1996, the State Council promulgated the Regulations for the Control of Foreign Exchange of the PRC (中華人民共和國外匯管理條例) ("Foreign Exchange Control Regulations") which became effective from April 1, 1996. The Foreign Exchange Control Regulations classifies all international payments and transfers into current account items and capital account items. Most of the current account items are not subject to SAFE approval while capital account items are. The Foreign Exchange Control Regulations were subsequently amended on January 14, 1997 and August 5, 2008. The latest amended Foreign Exchange Control Regulations clarifies that the State Council does not impose restrictions on international payments and transfers under the current account items (as described below).

On June 20, 1996, the PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) ("Settlement Regulations") which became effective on July 1, 1996. The Settlement Regulations abolished all other restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

On October 25, 1998, the PBOC and the SAFE jointly promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business (關於停辦外匯調劑業務的通知), pursuant to which and with effect from December 1, 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprise shall come under the banking system for the settlement and sale of foreign exchange.

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On July 21, 2005, the PBOC promulgated the Announcement on Improving the Reform of the Renminbi Exchange Rate Formation Mechanism (中國人民銀行關於完善人民幣匯率形成機制改革的公告) (PBOC Announcement [2005] No. 16), which became effective on the same date. The PRC would implement a regulated and managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand and with reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the U.S. dollar. The PBOC shall publish the closing price of a foreign currency such as the U.S. dollar traded against the Renminbi in the inter-bank foreign exchange market on each trading day after the closing of the market, and shall fix the central parity for the transaction of such foreign currency against Renminbi on the following trading day.

Since January 4, 2006, the PBOC improved the quotation of the mid exchange rate of Renminbi by introducing an enquiry system while keeping the match-making system in the inter-bank foreign exchange spot market. In addition, the liquidity of the foreign exchange market was also improved by adopting a market-making system in the inter-bank foreign exchange market.

On August 5, 2008, the State Council promulgated the revised Regulations for the Control of Foreign Exchange of the PRC (中華人民共和國外匯管理條例) ("Revised Foreign Exchange Control Regulations"), which have made substantial changes to the foreign exchange regulatory system of the PRC. First, the Revised Foreign Exchange Control Regulations adopted an approach of balancing the inflow and outflow of foreign exchange fund. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and foreign exchange settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administration authorities. Second, the Revised Foreign Exchange Control Regulations improved the mechanism for determining the Renminbi exchange rate based on market supply and demand. Third, the Revised Foreign Exchange Control Regulations enhanced the monitoring of cross-border foreign exchange fund flows. In the event that revenues and costs in connection with international transactions suffer or may suffer a material misbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard or control measures. Fourth, the Revised Foreign Exchange Control Regulations enhanced the supervision and administration of foreign exchange transactions and granted extensive authority to the SAFE to strengthen its supervisory and administrative ability.

Pursuant to the relevant rules and regulations of the State, all foreign exchange income generated from current account transactions of the PRC enterprises may be either retained or sold to financial institutions engaging in the settlement or sale of foreign exchange. Foreign exchange income from loans issued by organizations or from the issuance of bonds and shares outside the territory of the PRC is not required to be sold to designated foreign exchange banks and can be deposited into foreign exchange accounts at the designated foreign exchange banks.

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The PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of the SAFE, effect payment from their foreign exchange accounts at the designated foreign exchange banks with the support of valid receipts and proof. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and PRC enterprises (like us) which, in accordance with regulations, are required to pay dividends to shareholders in foreign exchange, may on the strength of board resolutions or shareholders' resolutions on the distribution of profits, effect payment from their foreign exchange accounts or convert and pay at the designated foreign exchange banks.

The Decision of the State Council on Cancelling and Adjusting a Group of Administrative Approval Items and Other Matters (國務院關於取消和調整一批行政審批項目等事項的決定) (Guo Fa [2014] No. 50), which was issued and became effective on October 23, 2014, cancelled the administrative approval by the SAFE and its branches over matters concerning the repatriation and settlement of foreign exchange of overseas-raised funds through overseas listing.

According to the Circular on Relevant Issues Concerning the Foreign Exchange Administration of Overseas Listing (關於境外上市外匯管理有關問題的通知) issued by SAFE on December 26, 2014, a domestic issuer shall, within 15 working days after the completion of the offering of shares for its overseas listing, register overseas listing with the local Foreign Exchange Bureau at the place of its incorporation. The proceeds raised from overseas listing of a domestic issuer can be repatriated to PRC or deposited overseas, and the usage of such proceeds shall be consistent with the purpose as specified in the document and other disclosure documents.

On February 13, 2015, the SAFE issued the Circular of the State Administration of Taxation on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (the "SAFE Circular"), which came into effect on June 1, 2015. The SAFE Circular cancels the foreign exchange registration approval under domestic direct investment and foreign exchange registration approval under overseas direct investment, and requires the banks to review and carry out foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment directly. SAFE and its branches shall implement indirect supervision over foreign exchange registration of direct investment via the banks. Furthermore, according to the SAFE Circular, new overseas enterprises established or controlled by overseas enterprises established or controlled by domestic investors through re-investment are not required to go through the foreign exchange filing procedures.

On March 30, 2015, the SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises ("SAFE Circular 19") (《關於改革外商投資企業外匯資本金結匯管理方式的通知》), to expand the reform nationwide. Under SAFE Circular 19, the foreign exchange capital in the capital account of foreign-invested enterprises upon the confirmation of rights and interests of monetary contribution by the local foreign exchange

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bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operation needs of the enterprises. The proportion of discretionary settlement of foreign exchange capital of foreign-invested enterprises is currently 100%. SAFE can adjust such proportion in due time based on the circumstances of international balance of payments.

Pursuant to the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) (the "SAFE Circular 16") issued by SAFE on June 9, 2016, enterprises registered in PRC may also convert their foreign debts from foreign currency into Renminbi on a self-discretionary basis. The SAFE Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on a self-discretionary basis, which applies to all enterprises registered in the PRC. The SAFE Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment with the exception of bank financial products that can guarantee the principal within the PRC unless otherwise specifically provided. Besides, the converted Renminbi shall not be used to make loans for non-related enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise's own use with the exception of the real estate enterprise.

However, SAFE Circular 19 and SAFE Circular 16 continue to, prohibit foreign-invested enterprises from, among other things, using RMB fund converted from its foreign exchange capitals for expenditure beyond its business scope, securities investment (except for security investment or guarantee products issued by bank), providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use.

## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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This Appendix sets out summaries of certain aspects of PRC laws and regulations, which are relevant to the Company's operations and business, as well as certain major differences between PRC Company Law, the Companies Ordinance and the Companies (Winding up and Miscellaneous Provisions) Ordinance. Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix IV – Taxation and Foreign Exchange" to this document. The principal objective of this summary is to provide potential investors with an overview of the principal laws and regulatory provisions applicable to the Company. This summary is not intended to include all the data which may be important to the potential investors. For discussion of laws and regulations which are relevant to our business, see "Supervision and Regulation" in this document.

### **PRC LAWS AND REGULATIONS**

#### **The PRC Legal System**

The PRC legal system is based on the PRC Constitution (the "Constitution") and is made up of written laws, administrative regulations, local regulations, autonomous regulations, separate regulations, rules and regulations of State Council departments, rules and regulations of local governments, laws of special administrative regions and international treaties of which the PRC Government is a signatory and other regulatory documents. Court judgments do not constitute legally binding precedents, although they are used for the purposes of judicial reference and guidance.

The National People's Congress (the "NPC") and its Standing Committee are empowered to exercise the legislative power of the State in accordance with the Constitution and the PRC Legislation Law (the "Legislation Law"). The NPC has the power to formulate and amend basic laws governing State organs, civil, criminal and other matters. The Standing Committee of the NPC formulates and amends laws other than those required to be enacted by the NPC and to supplement and amend parts of the laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws.

The State Council is the highest organ of state administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people's congresses of the provinces, autonomous regions and municipalities and their standing committees may formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations. The people's congresses of cities divided into districts and their respective standing committees may formulate local regulations on aspects such as urban and rural construction and management, environmental protection and historical and cultural protection based on the specific circumstances and actual needs of such cities, provided that such local regulations do not contravene any provision of the Constitution, laws, administrative regulations and local

## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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regulations of their respective provinces or autonomous regions. If the law provides otherwise on the matters concerning formulation of local regulations by cities divided into districts, those provisions shall prevail. Such local regulations will become enforceable after being reported to and approved by the standing committees of the people's congresses of the relevant provinces or autonomous regions. The standing committees of the people's congresses of the provinces or autonomous regions examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the Constitution, laws, administrative regulations and local regulations of such provinces or autonomous regions. Where, during the examination for approval of local regulations of cities divided into districts by the standing committees of the people's congresses of the provinces or autonomous regions, conflicts are identified with the rules and regulations of the people's governments of the provinces or autonomous regions concerned, a decision should be made by the standing committees of the people's congresses of provinces or autonomous regions to resolve the issue. People's congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of the ethnic groups in the areas concerned.

The ministries and commissions of the State Council and the subordinate institutions with administrative functions directly under the State Council may formulate departmental rules within the jurisdiction of their respective departments based on the laws and administrative regulations, and the decisions and orders of the State Council. Provisions of departmental rules should be the matters related to the enforcement of the laws and administrative regulations, and the decisions and orders of the State Council. The people's governments of the provinces, autonomous regions, municipalities and cities or autonomous prefectures divided into districts may formulate rules and regulations based on the laws, administrative regulations and local regulations of such provinces, autonomous regions and municipalities.

According to the Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. Pursuant to the Resolution of the Standing Committee of the NPC Providing an Improved Interpretation of the Law (全國人民代表大會常務委員會關於加強法律解釋工作的決議) passed on June 10, 1981, issues related to the application of laws in a court trial should be interpreted by the Supreme People's Court, issues related to the application of laws in a prosecution process of a procuratorate should be interpreted by the Supreme People's Procuratorate, and the other issues related to laws other than the above-mentioned should be interpreted by the State Council and the competent authorities. The State Council and its ministries and commissions are also vested with the power to give interpretations of the administrative regulations and departmental rules which they have promulgated. At the regional level, the power to interpret regional laws is vested in the regional legislative and administrative authorities which promulgate such laws.

### **The PRC Judicial System**

Under the Constitution and the Law of Organization of the People's Courts of the PRC (中華人民共和國法院組織法), the PRC judicial system is made up of the Supreme People's Court, the local people's courts, the military courts and other special people's courts. The local



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people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts may set up civil, criminal and economic divisions, and certain people's courts based on the facts of the region, population and cases. The intermediate people's courts have divisions similar to those of the basic people's courts and may set up other special divisions, such as the intellectual property division, if needed. These two levels of people's courts are subject to supervision by people's courts at higher levels. The Supreme People's Procuratorate is authorized to supervise the judgment and ruling of the people's courts at all levels which have been legally effective, and the people's procuratorate at a higher level is authorized to supervise the judgment and ruling of a people's court at lower levels which have been legally effective. The Supreme People's Court is the highest judicial authority in the PRC. It supervises the administration of justice by the people's courts at all levels and special people's courts.

A people's court takes the rule of the second instance as the final rule, that is, the judgments or rulings of the second instance at a people's court are final. A party may appeal against the judgment or ruling of the first instance of a local people's court. The people's procuratorate may present a protest to the people's court at the next higher level in accordance with the procedures stipulated by the laws. In the absence of any appeal by the parties and any protest by the people's procuratorate within the stipulated period, the judgments or rulings of the people's court are final. Judgments or rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court, and judgments or rulings of the first instance of the Supreme People's Court are final. However, if the Supreme People's Court finds some definite errors in a legally effective judgment, ruling or conciliation statement of the people's court at any level, or if the people's court at a higher level finds such errors in a legally effective judgment, ruling or conciliation statement of the people's court at a lower level, it has the authority to review the case itself or to direct the lower-level people's court to conduct a retrial. If the chief judge of all levels of people's courts finds some definite errors in a legally effective judgment, ruling or conciliation statement, and considers a retrial is preferred, such case shall be submitted to the judicial committee of the people's court at the same level for discussion and decision.

The Civil Procedure Law of the PRC (中華人民共和國民事訴訟法) (the "PRC Civil Procedure Law") adopted on April 9, 1991 and amended three times on October 28, 2007, August 31, 2012 and June 27, 2017 prescribes the conditions for instituting a civil action, the jurisdiction of the people's courts, the procedures for conducting a civil action, and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must abide by the PRC Civil Procedure Law. A civil case is generally heard by the court located in the defendant's place of domicile. The court of jurisdiction in respect of a civil action may also be chosen by explicit agreement among the parties to a contract, provided that the people's court having jurisdiction should be located at places substantially connected with the disputes, such as the plaintiff's or the defendant's place of domicile, the place where the contract is executed or signed or the place where the object of the action is located. However, such choice shall not in any circumstances contravene the regulations of differential jurisdiction and exclusive jurisdiction.

## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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A foreign individual, a person without nationality, a foreign enterprise or a foreign organization is given the same litigation rights and obligations as a citizen, a legal person or other organizations of the PRC when initiating actions or defending against litigations at a PRC court. Should a foreign court limit the litigation rights of PRC citizens or enterprises, the PRC court may apply the same limitations to the citizens and enterprises of such foreign country. A foreign individual, a person without nationality, a foreign enterprise or a foreign organization must engage a PRC lawyer in case he or it needs to engage a lawyer for the purpose of initiating actions or defending against litigations at a PRC court. In accordance with the international treaties to which the PRC is a signatory or participant or according to the principle of reciprocity, a people's court and a foreign court may request each other to serve documents, conduct investigation and collect evidence and conduct other actions on its behalf. A PRC court shall not accommodate any request made by a foreign court which will result in the violation of sovereignty, security or public interests of the PRC.

All parties to a civil action shall perform the legally effective judgments and rulings. If any party to a civil action refuses to abide by a judgment or ruling made by a people's court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same within two years subject to application for postponed enforcement or revocation. If a party fails to satisfy within the stipulated period a judgment which the court has granted an enforcement approval, the court may, upon the application of the other party, mandatorily enforce the judgment on the party.

In accordance with the international treaties to which the PRC is a signatory or in which the PRC is a participant or the principle of reciprocity, a PRC court and a foreign court may request each other to serve legal documents, conduct investigation and collect evidence and conduct other actions on its behalf. Where a party applies for enforcement of a legally effective judgment or ruling made by a people's court, and the opposite party or his property is not within the territory of the People's Republic of China, the applicant may directly apply to a foreign court with jurisdiction for recognition and enforcement of the judgment or ruling, or the people's court may, in accordance with the provisions of international treaties to which the PRC is a signatory or in which the PRC is a participant or the principle of reciprocity, request recognition and enforcement by a foreign court, unless the people's court considers that the recognition or enforcement of such judgment or ruling would violate the basic legal principles of the PRC, its sovereignty or national security or the public's interests.

Shareholders may experience difficulty in effecting service of PRC legal process. Please refer to section headed "Risk Factors" in this document for further details.

### **The PRC Company Law, the Special Regulations and the Mandatory Provisions**

The PRC Company Law was adopted by the 5th meeting of the Standing Committee of the 8th National People's Congress Session on December 29, 1993 and came into effect on July 1, 1994. It was amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013. The latest revised PRC Company Law was implemented on March 1, 2014.



## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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The Special Regulations of the State Council on the Overseas Offering and the Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定) (the "Special Regulations") were passed at the 22nd Standing Committee Meeting of the State Council on July 4, 1994 and promulgated and implemented on August 4, 1994. The Special Regulations include provisions in respect of the overseas share offering and listing of joint stock limited companies.

The Mandatory Clauses of the Articles of Association of Companies Seeking Overseas Listing (the "Mandatory Provisions") jointly promulgated by the former Securities Commission of the State Council and the former State Commission for Restructuring the Economic System on August 27, 1994 prescribe that the provisions should be incorporated in the articles of association of joint stock limited companies to be listed overseas stock exchanges. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association. References to a "company" made in this Appendix are to a joint stock limited company established under the Company Law with H Shares to be issued.

Set out below is a summary of the major provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions.

### ***General***

A "joint stock limited company" ("company") refers to a corporate legal person incorporated in China under the PRC Company Law with independent legal person properties and entitlements to such legal person properties. The liability of the company for its own debts is limited to all the properties it owns and the liability of its shareholders for the company is limited to the extent of the shares they subscribe for.

### ***Incorporation***

A company may be established by promotion or subscription. A company shall have a minimum of two but no more than 200 people as its promoters, and over half of the promoters must be resident within the PRC. Companies established by promotion are companies of which the registered capital is the total share capital subscribed for by all the promoters registered with the company's registration authorities. No share offering shall be made before the shares subscribed for by the promoters are fully paid up. For companies established by subscription, the registered capital is the total paid-up share capital as registered with the company's registration authorities. If laws, administrative regulations and State Council decisions provide otherwise on paid-in registered capital and the minimum registered capital, the company should follow such provisions.

For companies incorporated by way of promotion, the promoters shall subscribe in writing for the shares required to be subscribed for by them and pay up their capital contributions under the articles of association. Procedures relating to the transfer of titles to non-monetary assets shall be duly completed if such assets are to be contributed as capital.

## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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Promoters who fail to pay up their capital contributions in accordance with the foregoing provisions shall assume default liabilities in accordance with the covenants set out in the promoters' agreement. After the promoters have subscribed for the capital contribution under the articles of association, a board of directors and a supervisory board shall be elected and the board of directors shall apply for registration of establishment by filing the articles of association with relevant administration for industry and commerce, and other documents as required by the law or administrative regulations.

Where companies are incorporated by subscription, not less than 35% of their total number of shares must be subscribed for by the promoters, unless otherwise provided by the laws or administrative regulations. A promoter who offers shares to the public must announce a share offering prospectus and prepare a share subscription form to be completed, signed and sealed by subscribers, specifying the number and amount of shares to be subscribed for and the subscribers' addresses. The subscribers shall pay up monies for the shares they subscribe for. Where a promoter is offering shares to the public, such offer shall be underwritten by security companies established under PRC law, and underwriting agreements shall be entered into. A promoter offering shares to the public shall also enter into agreements with banks in relation to the receipt of subscription monies. The receiving banks shall receive and keep in custody the subscription monies, issue receipts to subscribers who have paid the subscription monies and is obliged to furnish evidence of receipt of those subscription monies to relevant authorities. After the subscription monies for the share issue have been paid in full, a capital verification institution established under PRC law must be engaged to conduct a capital verification and furnish a certificate thereof. The promoters shall preside over and convene an inauguration meeting within 30 days from the date of the full payment of subscription monies. The inauguration meeting shall be formed by the promoters and subscribers. Where the shares issued remain undersubscribed by the cut-off date stipulated in the share offering prospectus, or where the promoter fails to convene an inauguration meeting within 30 days of the subscription monies for the shares issued being fully paid up, the subscribers may demand that the promoters refund the subscription monies so paid together with the interest at bank rates of a deposit for the same period. Within 30 days of the conclusion of the inauguration meeting, the board of directors shall apply to the company registration authority for registration of the establishment of the company. A company is formally established and has the capacity of a legal person after approval of registration has been given by the relevant administration for industry and commerce and a business license has been issued.

A company's promoter shall be liable for the followings:

- the debts and expenses incurred in the establishment process jointly and severally if the company cannot be incorporated;
- the refund of subscription monies paid by the subscribers together with interest at bank rates of deposit for the same period jointly and severally if the company cannot be incorporated; and
- the compensation of any damages suffered by the company as a result of the promoters' fault in the course of its establishment.

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### ***Share Capital***

The promoters may make a capital contribution in currencies, or non-monetary assets such as in kind or intellectual property rights or land use rights which can be appraised with monetary value and transferred lawfully, except for assets which are prohibited from being contributed as capital by the laws or administrative regulations. If a capital contribution is made in non-monetary assets, a valuation of the assets contributed must be carried out pursuant to the provisions of the laws or administrative regulations on valuation without any over-valuation or under-valuation.

The issuance of shares shall be conducted in a fair and equitable manner. The same class of shares must carry equal rights. For shares issued at the same time and within the same class, the conditions and price per share must be the same; for the shares subscribed by an entity or an individual, the price per share paid must be the same. The share offering price may be equal to or greater than the nominal value of the share, but may not be less than the nominal value.

A company must obtain the approval of CSRC to offer its shares to the overseas public. According to the Special Regulations and the Mandatory Provisions, the shares issued to foreign investors and listed overseas by a company shall be in registered form, denominated in Renminbi and subscribed for in foreign currency. Shares issued to foreign investors (including the investors from the territories of Hong Kong, Macau and Taiwan) and listed in Hong Kong are classified as H Shares, and those shares issued to investors within the PRC, except these regions above, are known as domestic shares. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of H Shares, to retain not more than 15% of the aggregate number of such overseas listed foreign shares proposed to be issued in addition to the number of underwritten shares.

Under the PRC Company Law, a company issuing registered share certificates shall maintain a shareholder registry which sets forth the following matters:

- the name and domicile of each shareholder;
- the number of shares held by each shareholder;
- the serial numbers of shares held by each shareholder; and
- the date on which each shareholder acquired the shares.

### ***Increase in Share Capital***

Under the PRC Company Law, where a company is issuing new shares, resolutions shall be passed at general meeting in accordance with the articles of association in respect of the class and amount of the new shares, the issue price of the new shares, the commencement and end dates for the issue of the new shares and the class and amount of the new shares proposed to be issued to existing shareholders.

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When a company launches a public issue of new shares upon the approval by CSRC, a new share offering prospectus and financial accounting report must be published and a subscription form must be prepared. After the issue of new share the company has been paid up, the change must be registered with the relevant administration bureau for industry and commerce and a public announcement must be made accordingly. Where an increase in registered capital of a company is made by means of an issue of new shares, the subscription of new shares by shareholders shall be made in accordance with the relevant provisions on the payment of subscription monies for the establishment of a company.

### ***Reduction of Share Capital***

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- the company shall prepare a balance sheet and an inventory of assets;
- the reduction of registered capital must be approved by shareholders at general meeting;
- the company shall notify its creditors of the reduction in share capital within 10 days and publish the relevant announcement in newspapers within 30 days of the resolution approving the reduction being passed;
- the creditors of the company may require the company to repay its debts or provide guarantees for covering the debts within 30 days of receipt of the notification or within 45 days of the date of the announcement if he/she/it has not received any notification; and
- the company must apply to the relevant administration bureau for industry and commerce for registration of the change on the reduction of registered capital.

### ***Repurchase of Shares***

Under the PRC Company Law, a company may not repurchase its own shares other than for one of the following purposes:

- reducing its registered capital;
- merging with other company which holds its shares;
- granting shares to its employees as incentives; and
- acquiring its own shares at the request of its shareholders who vote in a shareholders' general meeting against a resolution regarding a merger or division.

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The acquisition by a company of its own shares on the grounds set out in the first item to the third item above must be approved by way of a resolution of a shareholders' general meeting. Following the acquisition by a company of its own shares in accordance with these requirements, such shares must be cancelled within 10 days of the date of the acquisition in the case of the first item and transferred or cancelled within six months in the case of the second item or the fourth item.

The acquisition by a company of its own shares in accordance with the third item under the first paragraph of this sub-section shall not exceed 5% of the total number of issued shares of the company. Such acquisition shall be financed by funds allocated from the company's profits after taxation, and the shares so acquired shall be transferred to the employees within one year.

### ***Transfer of Shares***

Shares held by shareholders may be transferred legally. Under the PRC Company Law, a shareholder should effect a transfer of his shares on a stock exchange established in accordance with laws or by any other means as required by the State Council. Registered shares may be transferred after the shareholders endorse the back of the share certificates or in any other manner specified by the laws or administrative regulations. Following the transfer, the company shall enter the names and domiciles of the transferees into its share register. No changes of registration in the share register described above shall be effected during a period of 20 days prior to convening a shareholders' general meeting or 5 days prior to the record date for the purpose of determining entitlements to dividend distributions, unless otherwise stipulated by laws on the registration of changes in the share register of listed companies. The transfer of bearer share certificates shall become effective upon the delivery of the certificates to the transferee by the shareholder. The Mandatory Provision provides that changes due to share transfer should not be made to shareholder registry within 30 days before a shareholders' general meeting or within 5 days before the record date for the purpose of determining entitlements to dividend distributions.

Under the PRC Company Law, shares held by promoters may not be transferred within one year of the establishment of the company. Shares of the company issued prior to the public issuance of shares may not be transferred within one year of the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in it and any changes in such shareholdings. During their terms of office, they may transfer no more than 25% of the total number of shares they hold in the company every year. They shall not transfer the shares they hold within one year of the date of the company's listing on a stock exchange, nor within six months after they leave their positions in the company. The articles of association may set out other restrictive provisions in respect of the transfer of shares in the company held by its directors, supervisors and the senior management.

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### ***Shareholders***

Under the PRC Company Law, the rights of shareholders include the rights:

- to receive a return on assets, participate in significant decision-making and select management personnel;
- to petition the people's court to revoke any resolution passed at a shareholders' general meeting or a meeting of board of directors that has not been convened in compliance with the laws, administrative regulations or the articles of association or whose voting has been conducted in an invalid manner, or any resolution the contents of which is in violation of the articles of association, provided that such petition shall be submitted within 60 days of the passing of such resolution;
- to transfer the shares of the shareholders legally;
- to attend or appoint a proxy to attend shareholders' general meetings and vote at the meetings;
- to inspect the articles of association, share register, counterfoil of company debentures, minutes of shareholders' general meetings, board resolutions, resolutions of the supervisory board and financial and accounting reports and to make suggestions or inquiries in respect of the company's operations;
- to receive dividends in respect of the number of shares held;
- to participate in residual properties of the company in proportion to their shareholdings upon the liquidation of the company; and
- any other shareholders' rights provided for in laws, administrative regulations, other regulatory documents and the articles of association.

The obligations of shareholders include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by them and any other shareholder obligation specified in the articles of association.

## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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### ***Shareholders' General Meetings***

The general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law. The general meeting may exercise its powers:

- to decide on the company's operational objectives and investment plans;
- to elect and dismiss the directors and supervisors (not being representative(s) of employees) and to decide on the matters relating to the remuneration of directors and supervisors;
- to review and approve the reports of the board of directors;
- to review and approve the reports of the supervisory board;
- to review and approve the company's annual financial budgets and final accounts;
- to review and approve the company's profit distribution proposals and loss recovery proposals;
- to decide on any increase or reduction of the company's registered capital;
- to decide on the issue of corporate bonds;
- to decide on merger, division, dissolution and liquidation of the company or change of its corporate form;
- to amend the company's articles of association; and
- to exercise any other authority stipulated in the articles of association.

A shareholders' general meeting is required to be held once every year. An extraordinary general meeting is required to be held within two months of the occurrence of any of the following:

- the number of directors is less than the number stipulated by the PRC Company Law or less than two-thirds of the number specified in the articles of association;
- the outstanding losses of the company amounted to one-third of the company's total paid-in share capital;
- shareholders individually or in aggregate holding 10% or more of the company's shares request that an extraordinary general meeting is convened;



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- the board deems necessary;
- the supervisory board proposes to hold; or
- any other circumstances as provided for in the articles of association.

A shareholders' general meeting shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or is not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or is not performing his duties, a director nominated by half or more of the directors shall preside over the meeting. Where the board of directors is incapable of performing or is not performing its duties to convene the general meeting, the supervisory board shall convene and preside over shareholders' general meeting in a timely manner. If the supervisory board fails to convene and preside over shareholders' general meeting, shareholders individually or in aggregate holding 10% or more of the company's shares for 90 days or more consecutively may unilaterally convene and preside over shareholders' general meeting.

In accordance with the PRC Company Law, a notice of the general meeting stating the date and venue of the meeting and the matters to be considered at the meeting shall be given to all shareholders 20 days before the meeting. A notice of extraordinary general meeting shall be given to all shareholders 15 days prior to the meeting. For the issuance of bearer share certificates, the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting. A single shareholder who holds, or several shareholders who jointly hold, three percent or more of the shares of the company may submit an interim proposal in writing to the board of directors ten days before the general meeting is held. The board of directors shall notify other shareholders within two days upon receipt of the proposal, and submit the said interim proposal to the general meeting for deliberation. The contents of the interim proposal shall fall within the scope of powers of the general meeting, and the proposal shall have a clear agenda and specific matters on which resolutions are to be made. The general meeting shall not make any resolution in respect of any matter not set out in the above-mentioned two types of notices. Holders of bearer share certificates who wish to attend a general meeting shall deposit their share certificates with the company five days before the meeting and till the conclusion of the meeting.

In accordance with the Mandatory Provisions, a written notice of the general meeting stating, among other things, matters to be considered at the meeting and the time and venue of the meeting shall be given to all shareholders 45 days before the meeting. A shareholder who intends to attend the meeting shall deliver his written reply regarding his attendance of the meeting to the company 20 days before the date of the meeting.



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There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' general meeting, although the Special Regulations and the Mandatory Provisions provide that a company's general meeting may be convened when written replies to the notice of that meeting from shareholders holding shares representing no less than 50% of the voting rights in the company have been received 20 days before the proposed date. If that 50% level is not achieved, the company shall within five days notify shareholders again by announcement of the matters to be considered at the meeting and the date and venue of the meeting, and the general meeting may be held by the company thereafter.

Under the PRC Company Law, shareholders present at a shareholders' general meeting have one vote for each share they hold, save that the company's shares held by the company are not entitled to any voting rights.

An accumulative voting system may be adopted for the election of directors and supervisors at the general meeting pursuant to the provisions of the articles of association or a resolution of the general meeting. Under the accumulative voting system, each share shall be entitled to the number of votes equivalent to the number of directors or supervisors to be elected at the general meeting, and shareholders may consolidate their votes for one or more directors or supervisors when casting a vote.

Under the PRC Company Law, resolutions of the general meeting must be passed by more than half of the voting rights held by shareholders present at the meeting, with the exception of matters relating to merger, division or dissolution of the company, increase or reduction of registered share capital, change of corporate form or amendments to the articles of association, which in each case must be passed by at least two-thirds of the voting rights held by the shareholders present at the meeting. Where the PRC Company Law and the articles of association provide that the transfer or acquisition of significant assets or the provision of external guarantees by the company and the other matters must be approved by way of resolution of the general meeting, the directors shall convene a shareholders' general meeting promptly to vote on such matters by shareholders' general meeting.

Minutes shall be prepared in respect of matters considered at the general meeting and the chairperson and directors attending the meeting shall endorse such minutes by signature. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

According to the Mandatory Provisions, the increase or reduction of share capital, the issuance of shares of any class, warrants or other similar securities and bonds, the division, merger, dissolution and liquidation of the company, the amendments to the articles of association and any other matters, which, as resolved by way of an ordinary resolution of the general meeting, may have a material impact on the company and require adoption by way of a special resolution, must be approved through special resolutions by no less than two-thirds of the voting rights held by shareholders (including proxies thereof) present at the meeting.

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The Mandatory Provisions require a special resolution to be passed at the general meeting and a class meeting to be held in the event of a variation or derogation of the class rights of a shareholder class. For this purpose, holders of domestic shares and H shares are deemed to be shareholders of different classes.

### ***Board***

A company shall have a board, which shall consist of 5 to 19 members. Members of the board may include staff representatives, who shall be democratically elected by the company's staff at a staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his/her duties as a director in accordance with the laws, administrative regulations and the articles of association until a duly reelected director takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of directors results in the number of directors being less than the quorum.

Under the PRC Company Law, the board of directors may exercise its powers:

- to convene shareholders' general meetings and report on its work to the shareholders' general meetings;
- to implement the resolutions passed by the shareholders at the shareholders' general meetings;
- to decide on the company's operational plans and investment proposals;
- to formulate proposal for the company's annual financial budgets and final accounts;
- to formulate the company's profit distribution proposals and loss recovery proposals;
- to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- to formulate proposals for the merger, division or dissolution of the company or change of corporate form;
- to decide on the setup of the company's internal management organs;
- to appoint or dismiss the company's manager and decide on his/her remuneration and, based on the manager's recommendation, to appoint or dismiss any deputy general manager and financial officer of the company and to decide on their remunerations;

## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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- to formulate the company's basic management system; and
- to exercise any other authority stipulated in the articles of association.

Meetings of the board of directors shall be convened at least twice each year. Notices of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be proposed to be convened by shareholders representing more than 10% of the voting rights, more than one-third of the directors or the supervisory board. The chairman shall convene the meeting within 10 days of receiving such proposal, and preside over the meeting. The board may otherwise determine the means and the period of notice for convening an interim board meeting. Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board shall be passed by more than half of all directors. Each director shall have one vote for a resolution to be approved by the board. Directors shall attend board meetings in person. If a director is unable to attend for any reason, he/she may appoint another director to attend the meeting on his/her behalf by a written power of attorney specifying the scope of authorization.

If a resolution of the board of directors violates the laws, administrative regulations or the articles of association or resolutions of the general meeting, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director shall be relieved from that liability.

Under the PRC Company Law, the following person may not serve as a director in a company:

- a person who is unable or has limited ability to undertake any civil liabilities;
- a person who has been convicted of an offense of corruption, bribery, embezzlement, misappropriation of property or destruction of the socialist economic order, or who has been deprived of his political rights due to his crimes, in each case where less than five years have elapsed since the date of completion of the sentence;
- a person who has been a former director, factory manager or manager of a company or an enterprise that has entered into insolvent liquidation and who was personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

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- a person who has been a legal representative of a company or an enterprise that has had its business license revoked due to violations of the law or has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation; and
- a person who is liable for a relatively large amount of debts that are overdue.

Where a company elects or appoints a director to which any of the above circumstances applies, such election or appointment shall be null and void. A director to which any of the above circumstances applies during his/her term of office shall be released of his/her duties by the company.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions.

Under the PRC Company Law, the board shall appoint a chairman and may appoint a vice chairman.

The chairman and the vice chairman shall be elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and review the implementation of board resolutions. The vice chairman shall assist the chairman to perform his/her duties. Where the chairman is incapable of performing or is not performing his/her duties, the duties shall be performed by the vice chairman. Where the vice chairman is incapable of performing or is not performing his/her duties, a director nominated by more than half of the directors shall perform his/her duties.

### ***Supervisory Board***

A company shall have a supervisory board composed of not less than three members. The supervisory board shall consist of representatives of the shareholders and an appropriate proportion of representatives of the company's staff, of which the proportion of representatives of the company's staff shall not be less than one-third, and the actual proportion shall be determined in the articles of association. Representatives of the company's staff at the supervisory board shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. Directors and senior management shall not act concurrently as supervisors.

The supervisory board shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory board shall be elected by more than half of the supervisors. According to the Reply of the Overseas Listing Department of the China Securities Regulatory Commission (the "CSRC") and the Production System Department of the State Commission for Restructuring the Economic System on Opinions Concerning the Supplement and Amendment to Articles of Association by Companies to Be Listed in Hong Kong (中國證監會海外上市部、國家體改委生產體制司關於到香港上市公司對公司章程做補充修改的意見的函), the chairman of the supervisory board shall be selected by more than two-thirds of the supervisors.

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The chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the chairman of the supervisory board is incapable of performing or is not performing his/her duties, the vice chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the vice chairman of the supervisory board is incapable of performing or is not performing his/her duties, a supervisor recommended by more than half of the supervisors shall convene and preside over supervisory board meetings.

Each term of office of a supervisor is three years and he/she may serve consecutive terms if reelected. A supervisor shall continue to perform his/her duties as a supervisor in accordance with the laws, administrative regulations and the articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The supervisory board may exercise its powers:

- to review the company's financial position;
- to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or resolutions of the shareholders' general meetings;
- when the acts of a director or senior management personnel are detrimental to the company's interests, to require the director and senior management to correct these acts;
- to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' general meetings when the board fails to perform the duty of convening and presiding over shareholders' general meetings under the PRC Company Law;
- to submit proposals to the shareholders' general meetings;
- to bring actions against directors and senior management personnel pursuant to the relevant provisions of the PRC Company Law; and
- to exercise any other authority stipulated in the articles of association.

Supervisors may be present at board meetings and make inquiries or proposals in respect of the resolutions of the board. The supervisory board may investigate any irregularities identified in the operation of the company and, when necessary, may engage an accounting firm to assist its work at the cost of the company.

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### ***Manager and Senior Management***

Under the PRC Company Law, a company shall have a manager who shall be appointed or removed by the board of directors. The manager, who reports to the board of directors, may exercise his/her powers:

- to manage the production and operation and administration of the company and arrange for the implementation of the resolutions of the board of directors;
- to arrange for the implementation of the company's annual operation plans and investment proposals;
- to formulate proposals for the establishment of the company's internal management organs;
- to formulate the fundamental management system of the company;
- to formulate the company's specific rules and regulations;
- to recommend the appointment or dismissal of any deputy manager and any financial officer of the company;
- to appoint or dismiss management personnel (other than those required to be appointed or dismissed by the board of directors); and
- to exercise any other authority granted by the board of directors.

Other provisions in the articles of association on the manager's powers shall also be complied with. The manager shall be present at meetings of the board of directors. However, the manager shall have no voting rights at meetings of the board of directors unless he/she concurrently serves as a director.

According to the PRC Company Law, senior management refers to the manager, deputy manager, financial officer, secretary to the board of a listed company and other personnel as stipulated in the articles of association.

### ***Duties of Directors, Supervisors, General Managers and Other Senior Management***

Directors, supervisors and senior management are required under the PRC Company Law to comply with the relevant laws, administrative regulations and the articles of association, and carry out their duties of loyalty and diligence.

Directors, supervisors and senior management are prohibited from abusing their authority in accepting bribes or other unlawful income and from misappropriating the company's property.

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Directors and senior management are prohibited from:

- misappropriating company funds;
- depositing company funds into accounts under their own names or the names of other individuals to deposit;
- loaning company funds to others or providing guarantees in favor of others supported by company's property in violation of the articles of association or without approval of the general meeting or the board of directors;
- entering into contracts or transactions with the company in violation of the articles of association or without approval of the general meeting;
- using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating businesses similar to that of the company for their own benefits or on behalf of others without approval of the general meeting;
- accepting commissions paid by a third party for transactions conducted with the company;
- unauthorized divulgence of confidential information of the company; and
- other acts in violation of their duty of loyalty to the company.

Income generated by directors or senior management in violation of aforementioned shall be returned to the company.

A director, supervisor or senior management who contravenes law, administrative regulation or articles of association in the performance of his/her duties resulting in any loss to the company shall be liable to the company for compensation.

Where a director, supervisor or senior management is required to attend a shareholders' general meeting, such director, supervisor or senior management shall attend the meeting and answer the inquiries from shareholders. Directors and senior management shall furnish all true information and data to the supervisory board, without impeding the discharge of duties by the supervisory board or supervisors.

Where a director or senior management contravenes law, administrative regulation or articles of association in the performance of his/her duties resulting in any loss to the company, shareholder(s) holding individually or in aggregate no less than 1% of the company's shares consecutively for at least 180 days may request in writing that the supervisory board institute litigation at a people's court on its behalf. Where the supervisory violates the laws or



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administrative regulations or the articles of association in the discharge of its duties resulting in any loss to the company, such shareholder(s) may request in writing that the board of directors institute litigation at a people's court on its behalf. If the supervisory board or the board of directors refuses to institute litigation after receiving this written request from the shareholder(s), or fails to institute litigation within 30 days of the date of receiving the request, or in case of emergency where failure to institute litigation immediately will result in irrecoverable damage to the company's interests, such shareholder(s) shall have the power to institute litigation directly at a people's court in its own name for the company's benefit. For other parties who infringe the lawful interests of the company resulting in loss to the company, such shareholder(s) may institute litigation at a people's court in accordance with the procedure described above. Where a director or senior management contravenes any laws, administrative regulations or the articles of association in infringement of shareholders' interests, a shareholder may also institute litigation at a people's court.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, manager and other senior management shall have duty of loyalty to the company. They are required to faithfully perform their duties, to protect the interests of the company and not to use their positions in the company for their own benefits. The Mandatory Provisions contain detailed stipulations on these duties.

### ***Finance and Accounting***

A company shall establish its own financial and accounting systems according to the laws, administrative regulations and the regulations of the competent financial departments of the State Council. At the end of each financial year, a company shall prepare a financial report which shall be audited by an accounting firm in accordance with the laws. The financial and accounting reports shall be prepared in accordance with the laws, administrative regulations and the regulations of the financial departments of the State Council.

The company's financial reports shall be made available for shareholders' inspection at the company 20 days before the convening of an annual general meeting. A joint stock limited company that makes public stock offerings shall publish its financial reports.

When distributing each year's profits after taxation, the company shall set aside 10% of its profits after taxation for the company's statutory common reserve fund until the fund has reached 50% or more of the company's registered capital. When the company's statutory common reserve fund is not sufficient to make up for the company's losses for the previous years, the current year's profits shall first be used to make good the losses before any allocation is set aside for the statutory common reserve fund. After the company has made allocations to the statutory common reserve fund from its profits after taxation, it may, upon passing a resolution at a shareholders' general meeting, make further allocations from its profits after taxation to the discretionary common reserve fund. After the company has made good its losses and made allocations to its discretionary common reserve fund, the remaining profits after taxation shall be distributed in proportion to the number of shares held by the shareholders, except for those which are not distributed in a proportionate manner as provided by the articles of association.



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Profits distributed to shareholders by a resolution of a shareholders' general meeting or the board of directors before losses have been made good and allocations have been made to the statutory common reserve fund in violation of the requirements described above must be returned to the company. The company shall not be entitled to any distribution of profits in respect of shares held by it.

The premium over the nominal value of the shares of the company earned from the issue of share and other income as required by CSRC to be treated as the capital reserve fund shall be accounted for as the capital reserve fund. The common reserve fund of a company shall be applied to make good the company's losses, expand its business operations or increase its capital. The capital reserve fund, however, shall not be used to make good the company's losses. Upon the transfer of the statutory common reserve fund into capital, the balance of the fund shall not be less than 25% of the registered capital of the company before such transfer.

The company shall have no accounting books other than the statutory books. The company's assets shall not be deposited in any account opened under the name of an individual.

### ***Appointment and Retirement of Auditors***

Pursuant to the PRC Company Law, the engagement or dismissal of an accounting firm responsible for the company's auditing shall be determined by a shareholders' general meeting or the board of directors in accordance with the articles of association. The accounting firm should be allowed to make representations when the general meeting or the board of directors conduct a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidence, accounting books, financial and accounting reports and other accounting information to the engaged accounting firm without any refusal or withholding or falsification of information.

The Special Regulations require a company to engage an independent qualified accounting firm to audit the company's annual reports and to review and check other financial reports of the company. The accounting firm's term of office shall commence from the end of the shareholders' annual general meeting to the end of the next shareholders' annual general meeting.

### ***Profit Distribution***

According to the PRC Company Law, a company shall not distribute profits before losses are covered and the statutory common reserve fund is provided. The Special Regulations require that any dividend and other distribution to shareholders of H Shares shall be declared and calculated in RMB and paid in foreign currency.

Under the Mandatory Provisions, a company shall make foreign currency payments to shareholders through receiving agents.

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### ***Amendments to the Articles of Association***

Pursuant to PRC Company Law, the resolution of a shareholders' general meeting regarding any amendment to a company's articles of association requires affirmative votes by at least two-thirds of the votes held by shareholders attending the meeting. Pursuant to the Mandatory Provisions, the company may amend its articles of association according to the laws, administrative regulations and the articles of association. The amendment to articles of association involving content of the Mandatory Provisions will only be effective upon approval of the department in charge of company examination and approval and the securities regulatory department of the State Council authorized by the State Council, while the amendment to articles of association involving matters of company registration must be registered with the relevant authority in accordance with applicable laws.

### ***Dissolution and Liquidation***

Under the PRC Company Law, a company shall be dissolved for any of the following reasons:

- the term of its operation set out in the articles of association has expired or other events of dissolution specified in the articles of association have occurred;
- the shareholders have resolved at a shareholders' general meeting to dissolve the company;
- the company is dissolved by reason of its merger or division;
- the business license of the company is revoked or the company is ordered to close down or to be dissolved in accordance with the laws; or
- the company is dissolved by a people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation and management of the company has suffered serious difficulties that cannot be resolved through other means, rendering ongoing existence of the company a cause for significant losses to the shareholders.

In the event of paragraph 1 above, the company may carry on its existence by amending its articles of association. The amendments to the articles of association in accordance with the provisions described above shall require the approval of more than two-thirds of voting rights of shareholders attending a shareholders' general meeting.

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## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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Where the company is dissolved under the circumstances set forth in paragraph 1, 2, 4 or 5 above, it should establish a liquidation committee within 15 days of the date on which the dissolution matter occurs. The liquidation committee shall be composed of directors or any other person determined by a shareholders' general meeting. If a liquidation committee is not established within the prescribed period, the company's creditors may file an application with a people's court to appoint relevant personnel to form a liquidation committee to administer the liquidation. The people's court should accept such application and form a liquidation committee to conduct liquidation in a timely manner.

The sort out committee may exercise following powers during the liquidation:

- to sort out the company's assets and to prepare a balance sheet and an inventory of assets;
- to notify the company's creditors or publish announcements;
- to deal with any outstanding business related to the liquidation;
- to pay any overdue tax together with any tax arising during the liquidation process;
- to settle the company's claims and liabilities;
- to handle the company's remaining assets after its debts have been paid off; and
- to represent the company in any civil procedures.

The liquidation committee shall notify the company's creditors within 10 days of its establishment, and publish an announcement in newspapers within 60 days.

A creditor shall lodge his claim with the liquidation committee within 30 days of receipt of the notification or within 45 days of the date of the announcement if he has not received any notification. A creditor shall report all matters relevant to his claimed creditor's rights and furnish relevant evidence. The liquidation committee shall register such creditor's rights. The liquidation committee shall not make any settlement to creditors during the period of the claim.

Upon disposal of the company's property and preparation of the required balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan and submit this plan to a shareholders' general meeting or a people's court for endorsement. The remaining part of the company's assets, after payment of liquidation expenses, employee wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debts, shall be distributed to shareholders in proportion to shares held by them. The company shall continue to exist during the liquidation period, although it cannot conduct operating activities that are not related to the liquidation. The company's property shall not be distributed to shareholders before repayments are made in accordance with the requirements described above.

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Upon liquidation of the company's property and preparation of the required balance sheet and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to a people's court for a declaration of bankruptcy in accordance with the laws. Following such declaration by the people's court, the liquidation committee shall hand over the administration of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall prepare a liquidation report and submit it to the shareholders' general meeting or a people's court for confirmation of its completion. Following such confirmation, the report shall be submitted to the company registration authority to cancel the company's registration, and an announcement of its termination shall be published. Members of the liquidation committee are required to discharge their duties in good faith and perform their obligation in compliance with laws. Members of the liquidation committee shall be prohibited from abusing their authority in accepting bribes or other unlawful income and from misappropriating the company's properties. Members of the liquidation committee are liable to indemnify the company and its creditors in respect of any loss arising from their willful or material default.

Liquidation of a company declared bankrupt according to laws shall be processed in accordance with the laws on corporate bankruptcy.

### ***Overseas Listing***

The shares of a company shall only be listed overseas after obtaining approval from CSRC, and the listing must be arranged in accordance with procedures specified by the State Council. Pursuant to the Special Regulations, a company may issue shares to overseas investors and list its shares overseas upon approval from CSRC. Subject to approval of the company's plans to issue overseas-listed foreign shares and domestic shares by CSRC, the board of directors of the company may make arrangement to implement such plans for issuance of the foreign shares and domestic shares, respectively, within fifteen months from the date of approval by CSRC.

### ***Loss of Share Certificates***

A shareholder may, in accordance with the public notice procedures set out in the PRC Civil Procedure Law, apply to a people's court if his share certificate(s) in registered form is either stolen, lost or destroyed, for a declaration that such certificate(s) will no longer be valid. After the people's court declares that such certificate(s) will no longer be valid, the shareholder may apply to the company for the issue of a replacement certificate(s).

A separate procedure regarding the loss of share certificates and H Share certificates of the overseas-listed foreign shareholders of the PRC is provided for in the Mandatory Provisions, details of which are set out in the articles of association.

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### ***Merger and Division***

A merger agreement shall be signed by merging companies and the involved companies shall prepare respective balance sheets and inventory of assets. The companies shall within 10 days of the date of passing the resolution approving the merger notify their respective creditors and publicly announce the merger in newspapers within 30 days. A creditor may, within 30 days of receipt of the notification, or within 45 days of the date of the announcement if he has not received the notification, request the company to settle any outstanding debts or provide relevant guarantees. In case of a merger, the credits and debts of the merging parties shall be assumed by the surviving or the new company.

In case of a division, the company's assets shall be divided and a balance sheet and an inventory of assets shall be prepared. When a resolution regarding the company's division is approved, the company should notify all its creditors within 10 days of the date of passing such resolution and publicly announce the division in newspapers within 30 days. Unless an agreement in writing is reached with creditors before the company's division in respect of the settlement of debts, the liabilities of the company which have accrued prior to the division shall be jointly borne by the divided companies.

Changes in the business registration of the companies as a result of the merger or division shall be registered with the relevant administration authority for industry and commerce.

In accordance with the laws, cancelation of a company shall be registered when a company is dissolved and incorporation of a company shall be registered when a new company is incorporated.

### ***The PRC Securities Laws, Regulations and Regulatory Regimes***

The PRC has promulgated a number of regulations that relate to the issue and trading of the Shares and disclosure of information of companies. In October 1992, the State Council established the Securities Committee and CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering CSRC. CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions governing securities markets, supervising securities companies, regulating public offerings of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking relevant research and analysis. In April 1998, the State Council consolidated the Securities Committee and CSRC and reformed CSRC.

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On April 22, 1993, the State Council promulgated the Provisional Regulations Concerning the Issue and Trading of Shares (股票發行與交易管理暫行條例) governing the application and approval procedures for public offerings of shares, issuance of and trading in shares, the acquisition of listed companies, deposit, clearing and transfer of shares, the disclosure of information, investigation, penalties and dispute resolutions with respect to a listed company.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (國務院關於股份有限公司境內上市外資股的規定). These regulations principally govern the issue, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign shares.

The Securities Law of the PRC (中華人民共和國證券法) (the "PRC Securities Law") took effect on July 1, 1999 and was revised as at August 28, 2004, October 27, 2005, June 29, 2013 and August 31, 2014, respectively. It was the first national securities law in the PRC, and is divided into 12 chapters and 240 articles comprehensively regulating activities in the PRC securities market, including the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. Article 238 of the PRC Securities Law provides that domestic enterprises must obtain prior approval from the State Council Securities regulatory authorities to list shares outside the PRC. Currently, the issue and trading of foreign issued securities (including shares) are principally governed by the regulations and rules promulgated by the State Council and CSRC.

### ***Arbitration and Enforcement of Arbitral Awards***

The Arbitration Law of the PRC (中華人民共和國仲裁法) (the "PRC Arbitration Law") was enacted by the Standing Committee of the NPC on August 31, 1994, which became effective on September 1, 1995 and was amended on August 27, 2009. It is applicable to, among other matters, economic disputes involving foreign parties where all parties have entered into a written agreement to resolve disputes by arbitration before an arbitration committee constituted in accordance with the PRC Arbitration Law. The PRC Arbitration Law provides that an arbitration committee may, before the promulgation of arbitration regulations by the PRC Arbitration Association, formulate interim arbitration rules in accordance with the PRC Arbitration Law and the PRC Civil Procedure Law. Where the parties have agreed to settle disputes by means of arbitration, a people's court will refuse to handle a legal proceeding initiated by one of the parties at such people's court, unless the arbitration agreement has lapsed.



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The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the Listing Rules, also in contracts between the company and each director or supervisor. Pursuant to such clause, whenever a dispute or claim arises from any right or obligation provided in the articles of association, the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and a holder of domestic shares; or (iii) a holder of overseas listed foreign shares and the company's directors, supervisors or other management personnel, such parties shall be required to refer such dispute or claim to arbitration at either the China International Economic and Trade Arbitration Commission ("CIETAC") or the Hong Kong International Arbitration Centre ("HKIAC"). Disputes in respect of the definition of shareholder and disputes in relation to the company's shareholder registry need not be resolved by arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen in accordance with the securities arbitration rules of the HKIAC.

Under the PRC Arbitration Law and PRC Civil Procedure Law, an arbitral award shall be final and binding on the parties involved in the arbitration. If any party fails to comply with the arbitral award, the other party to the award may apply to a people's court for its enforcement. The people's court can issue a ruling prohibiting the enforcement of an arbitral award made by an arbitration commission after verification by collegial bench formed by the people's court if there is any procedural irregularity (including but not limited to irregularity in the composition of the arbitration tribunal or arbitration proceedings, the jurisdiction of the arbitration commission, or the making of an award on matters beyond the scope of the arbitration agreement).

Any party seeking to enforce an award of a foreign affairs arbitral body of the PRC against a party who or whose property is not located within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of the award. Likewise, an arbitral award made by a foreign arbitral body may be recognized and enforced by a PRC court in accordance with the principle of reciprocity or any international treaties concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention") adopted on June 10, 1958 pursuant to a resolution passed by the Standing Committee of the NPC on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties thereto subject to their rights to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of that state. At the time of the PRC's accession to the Convention, the Standing Committee of the NPC declared that (i) the PRC will only apply the Convention to the recognition and enforcement of arbitral awards made in the territories of other parties based on the principle of reciprocity; and (ii) the New York Convention will only be applied to disputes deemed under PRC laws to be arising from contractual or non-contractual mercantile legal relations.

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An arrangement for mutual enforcement of arbitral awards between Hong Kong and the Supreme People's Court of China was reached. The Supreme People's Court of China adopted the Arrangements on the Mutual Enforcement of Arbitral Awards between the Mainland and the Hong Kong Special Administrative Region on June 18, 1999, which went into effect on February 1, 2000. The arrangements reflects the spirit of the New York Convention. Under the arrangements, the awards by the Mainland arbitral bodies recognized by Hong Kong may be enforced in Hong Kong and the awards by the Hong Kong arbitral bodies according to the Arbitration Ordinance of Hong Kong SAR may also be enforced in the Mainland China. If the Mainland court finds that the enforcement of awards made by the Hong Kong arbitral bodies in the Mainland will be against public interests of the Mainland, or the court of Hong Kong SAR decides that the enforcement of the arbitral awards in Hong Kong SAR will be against public policies of Hong Kong SAR, the awards may not be enforced.

### **HONG KONG LAWS AND REGULATIONS**

#### **Summary of Material Differences between Hong Kong and PRC Company Law**

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Hong Kong Companies Ordinance and the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and validly existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

#### **Corporate Existence**

Under Hong Kong company law, a company with share capital, is incorporated by the Registrar of Companies in Hong Kong and the company will acquire an independent corporate existence upon its incorporation. A company may be incorporated as a public company or a private company. Pursuant to the Hong Kong Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain provisions with respect to the right of first refusal. A public company's articles of association do not contain such provision.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or public subscription. Unless specially required by any other laws, administrative regulations and the State Council's decisions, there is no minimum capital requirement for a joint stock limited company. Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.



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### **Share Capital**

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, issue new shares of the company. The PRC Company Law does not prescribe any authorized capital requirement (except for registered capital). If a joint stock limited company is incorporated by promotion, its registered capital shall be the total amount of capital subscribed by all promoters as registered with the registration authority to which the company relates. If a joint stock limited company is incorporated by public subscription, its registered capital shall be the total amount of paid-in capital registered with the registration authority to which the company relates. Any increase in our registered capital must be approved by our shareholders at a shareholders' general meeting and the relevant PRC Government and regulatory authorities (if applicable).

Under the PRC Securities Law, a company which is authorized by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets that can be used for monetary valuation and can be transferred according to laws. For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no over-valuation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

### **Restrictions on Shareholding and Transfer of Shares**

Under PRC law, domestic shares of a joint stock limited company (the "Domestic Shares"), which are denominated and subscribed for in Renminbi, may be subscribed for or traded by the PRC domestic investors and qualified foreign institutional investors. Since April 2013, investors from Hong Kong, Macau and Taiwan may also open an A share account. Overseas listed foreign shares of a joint stock limited company, which are denominated in Renminbi and subscribed for in foreign currency, may only be subscribed for, and trade by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, and other qualified domestic institutions.

Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to [REDACTED] shall not be transferred within one year from the [REDACTED] of the shares on the Stock Exchange. Shares in a joint stock limited liability company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company shall not be transferred within one year from the listing date of the shares, and also shall not be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer

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of the company's shares held by its directors, supervisors and senior management. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company's issue of shares and the 12-month lockup on controlling shareholders' disposal of shares.

### **Financial Assistance for Acquisition of Shares**

The PRC Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under the Hong Kong company law.

### **Variation of Class Rights**

The PRC Company Law has no special provision relating to variation of class rights. However, the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix V to this document.

Under the Hong Kong Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders representing at least 75% of the nominal value of shares in the class in question, (iii) with the consent of all shareholders of a Hong Kong company, or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

### **Directors**

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on the rights of directors in making major disposals, restrictions on companies providing certain benefits in respect of the prohibitions against compensation for loss of office without shareholders' approval. The PRC Company Law restricts any interested directors to vote in respect of any board resolutions involving any companies in which such directors have an interest or a connected relationship. The Mandatory Provisions, however, contain certain provisions and restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office. The relevant provisions have been included in the Articles of Association, a summary of which has been included in Appendix V to this document.

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### **Supervisory committee**

Under the PRC Company Law, a joint stock limited company's directors and senior management are subject to the supervision of a supervisory committee. There is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his rights or performance of his obligations, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

### **Derivative Action by Minority Shareholders**

Hong Kong law permits minority shareholders to initiate a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law provides that in the event where the directors and senior management violate their fiduciary obligation to the company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the supervisory committee to initiate proceedings in the people's court. In the event that the supervisory committee violates the fiduciary obligation to the company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court.

Upon receipt of such written request from the shareholders, if the supervisory committee or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under contingent circumstances, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the people's court in their own name.

Moreover, the PRC Company Law provides that to the extent that the directors or senior management of the company violate the laws, administrative regulations or the requirements of the articles of association and cause harm to the interest of shareholders as a result, the shareholders may also initiate proceedings. The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of Overseas Listed Foreign Shares on the Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking for observing the articles of association in favor of the company. This allows minority shareholders to take action against directors and supervisors in default.

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### **Protection of Minorities**

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to either liquidate such company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC Company Law provides that any shareholders holding 10% or above of voting rights of all issued shares of a company may request a people's court to dissolve the company to the extent that the operation or management of the company experiences any serious difficulties and its continuous existence would cause serious losses to them, and no other alternatives can resolve such difficulties. The Mandatory Provisions, however, contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

### **Notice of Shareholders' General Meetings**

Under the PRC Company Law, notice of a shareholders' annual general meeting must be given not less than 20 days before the meeting, whereas notice of a shareholders' special general meeting must be given not less than 15 days before the meeting. If a company issues bearer shares, notice of a shareholders' general meeting must be given at least 30 days prior to the meeting. Under the Special Regulations and the Mandatory Provisions, at least 45 days' written notice must be given to all shareholders, and shareholders who wish to attend the general meeting must return the written reply slip for attending the meeting to the company at least 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum periods of notice are 14 days and 21 days in the case of a general meeting to be convened for the adoption of an ordinary resolution and a special resolution. The notice period is 21 days in the case of an annual general meeting.

### **Quorum for Shareholders' General Meetings**

Under Hong Kong company law, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member.

The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that a company shall calculate the total number of voting shares represented by shareholders who intend to attend a shareholders' general meeting based on the written replies to the notice of that meeting received at least 20 days prior to the meeting. When the number of voting shares

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represented by shareholders who intend to attend the meeting is more than 50% of the total number of voting rights of the company, the company may convene the shareholders' general meeting. Otherwise, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter.

### **Voting**

Under Hong Kong company law, an ordinary resolution is passed by a simple majority of votes cast by the shareholders attending a shareholders' general meeting in person or by proxy, and a special resolution is passed by a majority of at least 75% of votes cast by shareholders attending a the shareholders' general meeting in person or by proxy. Under the PRC Company Law, the passing of any resolution at a shareholders' general meeting requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting in person or by proxy, except in cases of proposed amendments to a company's articles of association, increase or reduction of registered capital, merger, division or dissolution of a joint stock limited company, or change of company form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting in person.

### **Financial Disclosure**

Under the PRC Company Law, a company is required to make available at the company for inspection by shareholders its financial report 20 days before its shareholders' annual general meeting. In addition, a company of which the shares are publicly offered must publish its financial condition in accordance with the PRC Company Law. The annual balance sheet shall be verified by its certified accountant. The Companies Ordinance of Hong Kong requires a company incorporated in Hong Kong to send every shareholder a copy of its financial statements, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before the annual general meeting. A company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

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### **Information on Directors and Shareholders**

The PRC Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings, and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the information provided to shareholders of Hong Kong companies under Hong Kong law.

### **Receiving Agent**

Under the PRC Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The Mandatory Provisions require the relevant company to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of shares dividends declared and all other monies owed by the company in respect of its overseas shares.

### **Corporate Reorganization**

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members under Division 2 of Part 13 of the Hong Kong Companies Ordinance, which requires the sanction of the court. Under PRC Company Law, merger, division, dissolution or change of company form of a company has to be approved by shareholders in general meeting.

### **Dispute Arbitration**

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through legal proceedings in the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

### **Mandatory Deductions**

Under the PRC Company Law, a company, in distributing profits after tax to the shareholders, is required to make transfers equivalent to 10% of its after tax profit to the statutory common reserve fund. When the accumulated amount of the statutory common reserve fund of the company reaches 50% of the registered capital of the company, it may cease to transfer any amount to the statutory common reserve fund. Following the transfer to the statutory common reserve fund from its after tax profit, the company may transfer applicable amount to the discretionary common reserved fund from its after tax profit. There are no corresponding provisions under Hong Kong law.



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### **Remedies of the Company**

Under the PRC Company Law, if a director, supervisor or senior management officer in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or senior management officer shall be liable to the company for such damages. In addition, the Listing Rules require listed companies' articles to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management officer).

### **Dividends**

Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of Overseas Listed Foreign Shares until after the expiry of the applicable limitation period.

### **Fiduciary Duties**

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors and senior management of a company shall undertake a fiduciary obligation to the company and are not allowed to conduct any activities that are in competition with or detrimental to the interest of the company.

### **Closure of Register of Shareholders**

The Hong Kong Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas, as required by the Mandatory Provisions and the Special Regulations, share transfers shall not be registered within 30 days before the date of a shareholders' general meeting or within five days before the benchmark date set for the purpose of distribution of dividends.

### **Listing Rules**

The Listing Rules provide additional requirements which apply to an issuer incorporated in the PRC as a joint stock limited company and seeking a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to the Company.

## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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### ***Compliance Advisor***

A company seeking listing on the Stock Exchange is required to appoint a compliance advisor acceptable to the Stock Exchange for the period from its listing date up to the date of the publication of its financial results for the first full financial year commencing after the listing date so as to provide professional advice on continuous compliance with the Listing Rules and all other applicable laws and regulations, rules, codes and guidelines, and to act at all times, in addition to its two authorized representatives, as the principal channel of communication with the Stock Exchange. The appointment of the compliance advisor may not be terminated until a replacement acceptable to the Stock Exchange has been appointed.

If the Stock Exchange is not satisfied that the compliance advisor in fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor's appointment and appoint a replacement. The compliance advisor must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. He/she must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

### ***Accountant's Report***

Unless the accounts relating to the accountant's report have been audited pursuant to the standards similar to the requirements of Hong Kong, international audit standards or PRC audit standards, the Stock Exchange will generally not accept an accountant's report of a PRC issuer. The relevant report must normally be drawn up in conformity with HKFRS or IFRS or China Accounting Standards for Business Enterprises ("CASBE") in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

### ***Process Agent***

The Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Stock Exchange and must notify the Stock Exchange of his, her or its appointment, the termination or his, her or its appointment and his, her or its contact particulars.

### ***Public Shareholding***

If at any time there are issued securities of a PRC issuer other than foreign invested shares which are listed on the Stock Exchange (the "Foreign Invested Shares"), the Listing Rules require that the aggregate amount of such Foreign Invested Shares held by the public must constitute not less than 25% of the PRC issuer's issued share capital and that the Foreign Invested Shares for which listing is sought must not be less than 15% of the issuer's total issued share capital, having an expected market capitalization at the time of listing of not less than



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HK\$50 million. The Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the Company is expected to have a market capitalization at the time of listing of more than HK\$10 billion.

### ***Independent Non-Executive Directors and Supervisors***

Independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of its shareholders as a whole can be adequately represented. Supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate the standard of competence commensurate with their position as supervisors.

### ***Mandatory Provisions***

In order strengthen the protection of investors, the Stock Exchange provides that a PRC company whose primary listing place is on the Stock Exchange shall incorporate the Mandatory Provisions, as well as the provisions with respect to the change, removal and resignation of an auditor, shareholders' general meetings of class of securities and acts of the supervisory committee of the company into its articles of association. Such provisions have been included into the Articles of Association, a summary of which is set out in Appendix V to this document.

### ***Redeemable Shares***

The Company shall not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of its holders of Foreign Invested Shares are adequately protected.

### ***Pre-emptive Rights***

Except in the circumstances mentioned below, directors of the Company are required to obtain approval by way of a special resolution of shareholders at general meeting, and the approvals by way of special resolutions of the holders of Domestic Shares and Foreign Invested Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with and as required by its articles of association, prior to the following: (1) authorizing, allotting, issuing or granting shares or convertible securities, or share options, warrants or similar rights to subscribe for any shares or such convertible securities; or (2) any such authorization, allotment, issuance or grant given by any major subsidiaries of the Company, which would materially dilute the percentage of shareholdings owned by the Company and its shareholders in the relevant subsidiaries.

## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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No such approval (subject to the extent of such approval) will be required to the extent that the existing shareholders of a company have by special resolution in general meeting given a mandate to the board of directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every twelve months, not more than 20% of each of the existing issued Domestic Shares and Foreign Invested Shares as at the date of the passing of the relevant special resolution, or such shares are issued as part of the company's plan at the time of its establishment to issue Domestic Shares and Foreign Invested Shares and which plan is implemented within fifteen months from the date of approval by the CSRC; or after the approval by the securities regulatory and management authority of the State Council.

### ***Supervisors***

The Company shall adopt rules governing dealings by the Supervisors in securities of the Company on terms no less exacting than those of the Model Code (as set out in Appendix 10 to the Listing Rules) issued by the Stock Exchange.

To the Company shall obtain the approval of its shareholders at a general meeting (at which the relevant supervisor and his associates must abstain from voting on the matter) prior to the company or any of its subsidiaries entering into a service contract of the following nature with a supervisor or proposed supervisor of the Company or any of its subsidiaries: (1) the term of the contract exceeds three years; or (2) the contract expressly requires the Company to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration more than one year in order for it to terminate the contract.

The remuneration committee of the Company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the Company and its shareholders as a whole and advise shareholders on how to vote.

### ***Amendment to Articles of Association***

The Company shall not permit or cause any amendment to the made to its articles of association which would contravene the Listing Rules and the Mandatory Provisions or the PRC Company Law.

## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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### ***Documents for Inspection***

The Company shall make available at a place in Hong Kong for inspection by the public and shareholders of the Company free of charge, and for copying by its shareholders at reasonable charges of the following:

- a complete duplicate register of shareholders;
- a report showing the status of its issued share capital;
- its latest audited financial statements and the reports of the directors, auditors and supervisors, if any, thereon;
- its special resolutions;
- reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- copy of the latest annual report filed with the SAIC or other competent PRC authorities; and
- for shareholders only, copies of minutes of shareholders' general meetings.

### ***Receiving Agents***

The Company shall appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owed in respect of the H shares to be held, pending payment, in trust for the holders of such H shares.

### ***Statements in Share Certificates***

The Company shall ensure that all of its listing documents and share certificates of H shares include the statements stipulated below and instruct and cause each of its share registrars to register the subscription, purchase or transfer of any of its shares in the name of any particular holder after such holder delivers to the share registrar a signed form in respect of such shares bearing statements to the following effect, that the acquirer of shares:

- agrees with the Company and each of its shareholder, and it agrees with each of its shareholder, to observe and comply with the PRC Company Law, the Special Regulations, its articles of association, and other relevant laws and administrative regulations;

## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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- agrees with the Company, each shareholder, Director, Supervisor, manager and other senior management officer, and the Company (acting both for itself and for each Director, Supervisor, manager and other senior management officer), agree with each Shareholder to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the Company's affairs to arbitration in accordance with the Articles of Association. Any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with the Company and each Shareholder that Shares are freely transferable by the holder thereof; and
- authorizes the Company to enter into a contract on his behalf with each Director, Supervisor and senior management officer whereby such Directors, Supervisors and senior management undertake to observe and comply with their obligations to Shareholder as stipulated in the Articles of Association.

### **Compliance with the PRC Company Law, the Special Regulations and Articles of Association**

The Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

### **Contract between the Company and its Directors, Senior Management and Supervisors**

The Company is required to enter into a contract in writing with every Director and senior management containing at least the following provisions:

- an undertaking by the Director or senior management to itself to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association, the Takeovers Code and an agreement that it must have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Director or senior management to the Company acting as agent for each Shareholder to observe and comply with his obligations to our Shareholders as stipulated in the Articles of Association;

## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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- an arbitration clause which provides that whenever any disputes or claims arise from the contract, its Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning affairs between the Company and its Directors or senior management and between a holder of H shares and a Director or senior management, such disputes or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party shall submit to the arbitral tribunal elected by the claimant. Such arbitration will be final and conclusive;
- If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen, according to the Securities Arbitration Rules of the HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- The award of the arbitral tribunal is final and shall be binding on the parties thereto; and
- Disputes over who is a Shareholder and over the share register do not have to be resolved through arbitration.

A PRC issuer is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

### **English Translation**

All notices or other documents required under the Listing Rules to be sent by a PRC issuer to the Stock Exchange or to holders of the H shares are required to be in English, or accompanied by a certified English translation.

### **General**

If any change in the PRC law or market practices materially alters the validity or accuracy of any basis upon which the additional requirements have been prepared, the Stock Exchange may impose additional requirements or make listing of H shares by a PRC issuer subject to special conditions as the Stock Exchange may consider appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of the [REDACTED].

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## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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### **OTHER LEGAL AND REGULATORY PROVISIONS**

Upon the [REDACTED], the provisions of the SFO, the Takeovers Code and such other relevant ordinances and regulations will apply to the Company.

### **SECURITIES ARBITRATION RULES**

Pursuant to the Articles of Association, any claims arising from the Articles of Association, the PRC Company Law and any other applicable laws shall be submitted to CIETAC or HKIAC for arbitration in accordance with the respective arbitration rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party, or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

## **APPENDIX VI      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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Set out herein is a summary of the Articles of Association, the principal objective of which is to provide potential investors with an overview of the Articles of Association. As the information contained herein is in summary form, it may not contain all the information that is important to potential investors.

### **1      DIRECTORS AND BOARD OF DIRECTORS**

#### **(1)    Power to allocate and issue shares**

The Articles of Association does not contain clauses that authorize the Board of Directors to allocate or issue shares. The Board of Directors shall prepare suggestions for share allotment or issue, which are subject to approval by the shareholders at the shareholders' general meeting in the form of a special resolution. Any such allotment or issue shall be in accordance with the procedures stipulated in appropriate laws, administrative regulations and supervision rules of shares listed region.

#### **(2)    Power to dispose assets of our Company or our subsidiaries**

In any case that the Board of Directors intends to dispose assets, if the sum of the expected value of the fixed assets to be disposed of, and the amount or value of the cost received from the fixed assets of our Company disposed of within the four months immediately preceding this suggestion for disposal exceeds 33% of the value of fixed assets of our Company indicated on the latest audited balance sheet submitted at the shareholders' meeting, the Board of Directors shall not dispose of or agree to dispose of such fixed assets without the prior approval of shareholders at the shareholders' general meeting.

The above disposal refers to the transfer of rights and interests in certain assets, but does not include the provision of guarantees with fixed assets.

The validity of the transactions with respect to the disposal of fixed assets of our Company shall not be affected by the violation of the above restrictions contained in the Articles of Association.

#### **(3)    Indemnification or compensation for loss of office**

As provided in the written contract entered into between our Company and the Directors or Supervisors in connection with their emoluments, they are entitled to compensation or other payments for loss of office or retirement as a result of the acquisition of our Company, subject to the approval of the shareholders at the general shareholders' meeting in advance.

Acquisition of our Company refers to any of the following circumstances:

- i.    An offer made by any person made to all the shareholders; or
- ii.   An offer is made by any person such that the offeror will become the Controlling shareholder of our Company. The definition of controlling shareholder is the same as defined in the Articles of Association).

## **APPENDIX VI      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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If the relevant Director or Supervisor fails to comply with the above requirements, any payment received shall belong to the person who sells the shares for accepting the aforesaid offer. The Director or Supervisor shall bear all expenses arising from the distribution of such payments to the person in a proportional manner and all related expenses shall not be deducted from these payments distributed.

### **(4) Loans to Directors, Supervisors or other management personnel**

Our Company shall neither provide the Directors, Supervisors or senior management of our Company or our parent company with loans or loan guarantees either directly or indirectly nor provide persons related to the above personnel with loans or loan guarantees. In the event that our Company provides loans in violation of this restriction, the person who receives the loan(s) must payoff the loan(s) immediately, regardless of the conditions of loans. Any loan provided by our Company in violation of the above requirements shall not be mandatorily enforced against us, unless under the following circumstances:

- i. The loan provider unknowingly provides loans to personnel related to the Directors, Supervisors or senior management of our Company or its parent company; or
- ii. The collateral provided by our Company is sold lawfully by the lender to the buyer in good faith.

The following transactions are exempted from the above clauses:

- i. Our Company provides our subsidiaries with loans or loan guarantees;
- ii. Our Company provides any of the Directors, Supervisors or senior management with loans, loan guarantees or any other fund pursuant to the employment contracts approved at the shareholders' meeting to pay all expenses incurred for the purpose of our Company or performing his duties owed to our Company; and
- iii. In case that the normal scope of business of our Company covers the provision of loans or loan guarantees, our Company may provide any of the Directors, Supervisors or senior management or other related personnel with loans or loan guarantees, provided that the conditions governing the above loans or loan guarantees shall be normal commercial conditions.

For the purpose of the above provisions, "guarantee" includes the acts of the guarantor bearing the liabilities or providing properties to ensure that the obligor performs the obligations.



## **APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION**

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### **(5) Provide financial aid for acquiring the shares or shares of any of our subsidiaries**

Pursuant to the Articles of Association:

- i. Our Company or our subsidiaries (including our affiliated enterprises) shall not provide any financial assistance at any time or in any manner to personnel that acquires or plans to acquire our shares. Such personnel include any who undertake obligations, directly or indirectly, from acquiring the shares; and
- ii. Our Company or any of our subsidiaries (including our affiliated enterprises) shall not provide personnel mentioned in the preceding paragraph with financial aid at any time or in any manner, to mitigate or exempt the obligations of the above personnel.

“Assuming obligations” includes obligator undertaking obligations by signing agreements or making arrangements (no matter whether the agreements or arrangements are enforceable on demand or bearing the obligations by itself or jointly with any other person) or changing its financial status in any other manner.

For the purpose of the above provisions, “Financial aid” includes, but is not limited to:

- i. Gifts;
- ii. Guarantees (including acts of the guarantor assuming liabilities or providing properties to ensure that the obligor performs the obligations), compensation (excluding compensation arising from mistakes of our Company), release or waiver of rights;
- iii. Provision of loans or signing of contracts whereby our Company performs some obligations before others, change of the parties to the loans/contracts as well as the assignment of the rights in the loans/contracts; and
- iv. Financial aid provided by our Company in any other manner when it is insolvent, has no net assets, or will suffer significant decreases in net assets.

The following transactions are not prohibited:

- i. Related financial aid provided by our Company which is in good faith in our interest and the main purpose of the financial aid is not to acquire our shares or is an incidental part of a master plan of our Company;
- ii. The lawful distribution of our properties by way of dividend;
- iii. Distribution of dividends in the form of shares;
- iv. Reducing the registered capital, redeeming the shares or adjusting the equity structure pursuant to the Articles of Association;

## **APPENDIX VI      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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- v. Our Company granting loans within our scope of business and in the ordinary course of our business, provided that such loans shall not result in reduction in the net assets of our Company or even if the net assets are reduced, such financial aid is paid from the profit available for distribution; and
- vi. Our Company providing the employee stock ownership plan with fund, provided that such loans shall not result in reduction in the net assets of our Company or, even if the net assets are reduced, such financial aid is paid from the profit available for distribution.

### **(6) Disclose matters relating to the contract rights of our Company and voting on the contracts**

When any of the Directors, Supervisors and senior management has material interests in the contracts, transactions or arrangements that our Company has entered into or plans to enter into in any manner directly or indirectly (except for employment contracts that our Company has entered into with the Directors, Supervisors and senior management), the above personnel shall disclose the nature and degree of their interests to the Board of Directors as soon as possible no matter whether the above contracts, transactions, arrangements or suggestions are subject to the approval of the Board of Directors in normal circumstances.

With respect to any contract, transaction or arrangement in which a Director or his associates have a material interest, the Director shall not vote and shall not be included in the quorum. Unless the Directors, Supervisors and senior management who have interests have made disclosure to the Board of Directors in accordance with the above requirements and the Board of Directors approves the matters at the meeting in which they are not included in the quorum nor participate in voting, our Company shall have the right to cancel the contracts, transactions or arrangements, except where the opposite party is a party in good faith without knowledge of the acts of related Directors, Supervisors and senior management violating their obligations. Where related personnel of the Directors, Supervisors and senior management have interests in certain contracts, transactions and arrangements, the relevant Directors, Supervisors and senior management shall be deemed to have interests.

Prior to our company's first considering of the relevant contracts, transactions or arrangements, if the Directors, Supervisors and senior management have notified the Board of Directors in written and state that with regard to the content of such notice, they have interest in certain contracts, transactions and arrangements thereafter. And within the scope specified by such notice, the relevant Directors, Supervisors and senior management have made disclosures which are in according with this Article of Association.

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## **APPENDIX VI      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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### **(7) Remuneration**

Our Company shall sign written agreements with the Directors, Supervisors and senior management regarding remuneration, which shall be subject to prior approval of the general shareholders' or Board of Directors' meeting, including:

- i. Remuneration for providing services as the Directors, Supervisors or senior management of our Company;
- ii. Remuneration for providing services as the Directors, Supervisors or senior management of our subsidiaries;
- iii. Remuneration for providing other services for management of our Company and our subsidiaries; and
- iv. Compensation received by the Directors or Supervisors as a result of loss of position or retirement.

No Director or Supervisor shall institute any litigation against our Company over any interests payable relative to the above unless provided for in the above contracts.

### **(8) Resignation, Appointment and Dismissal**

None of the following persons shall serve as our Director, Supervisor or senior management:

- i. Anyone who has no civil capacity or has limited civil capacity;
- ii. Anyone who has been convicted of the offense of corruption, bribery, embezzlement, larceny, or disrupting the social economic order and is within five years of the expiry date of punishment or has been deprived of political rights because of this conviction and is within five years of the expiry date of the sentence;
- iii. Anyone who has served as director, factory manager or manager of a company or enterprise that is bankrupt and liquidated as a result of improper management, was personally liable for the bankruptcy of our Company or enterprise, and is within three years of the date of completion of bankruptcy and liquidation of our Company or enterprise;
- iv. Anyone who has served as the legal representative of a company or enterprise whose business license was revoked or was ordered to close due to violation of laws, was personally liable, and is within three years of the date on which the business license of such company or enterprise was revoked;
- v. Anyone who has a large sum of debt, which was not paid at maturity;

## **APPENDIX VI      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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- vi. Anyone who is investigated by the judicial agencies for violation of criminal law and whose case is pending;
- vii. Persons who are subject to the competent authority of securities of the State Council's punishment which prohibit them from entering into the securities market for a period which has not yet expired;
- viii. Anyone who may not serve as a head of the company pursuant to the provisions of the laws and administrative regulations, or regulations of the competent authorities;
- ix. Anyone judged by the competent agencies to have violated the provisions of relevant securities laws, has been involved in deceptive or dishonest acts and is within five years of the date on which the judgment was made;
- x. Anyone who is not a natural person;
- xi. Other circumstances which are applicable pursuant to the provisions of the laws and administrative regulations, regulations of the competent authorities or the securities regulators or stock exchanges where our Company's shares are listed.

The validity of the acts of the Directors or senior management on behalf of our Company to bona fide third parties shall not be affected by any irregularities in their appointment, election or qualifications.

The Board of Directors consists of nine Directors, three of which are Independent Non-executive Directors. The Board of the Director has one chairman of the Board. The shareholders' meeting can decide whether a vice chairman of the Board shall be elected and the way of election via ordinary resolution. Directors are elected at the general shareholders' meeting. The Directors need not hold any of our shares. It shall be at least 7 days in advance for issuance written notice to our company regarding nomination of Director candidate and regarding the candidate's acceptance of such nomination. Nomination of each candidate for the Director shall be made in a single proposal.

The chairman and vice chairman of the Board shall be elected and dismissed by a vote of more than one half of the Directors. The general shareholders' meeting may remove any Director whose term has not expired by an ordinary resolution without affecting any claim for damages that may be made pursuant to any contract.

The chairman, vice chairman of the Board and other Directors serve three-year terms. Upon expiration of the term, the Director may be re-elected. Director can be the general manager or other senior management personnel at the same time. However, the amount of the Directors who are also general manager or other senior management personnel and the Director who represents employees can not be less half of the amount of the Directors.

## **APPENDIX VI      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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### **(9) Responsibilities**

The Directors, Supervisors and senior management shall bear the obligations of good faith and diligence towards our Company. In the event of violation of obligations owed to our Company by the Directors, Supervisors and senior management, we shall have the right to take the following measures in addition to various rights and remedial measures stipulated in legal and administrative regulations:

- i. Require related Directors, Supervisors or senior management to compensate our Company for losses sustained as a result of their neglect of duty;
- ii. Cancel any contract or transaction entered into between our Company and related Directors, Supervisors or senior management as well as any contract or transaction entered into between our Company and any third person when the third person knew or should have known that the Directors, Supervisors or senior management acting on behalf of our Company violated their obligations owed to our Company;
- iii. Require the relevant Directors, Supervisors or senior management to turn over the proceeds obtained from the violation of their obligations;
- iv. Recover funds collected by the relevant Directors, Supervisors or senior management that should have been collected for our Company, including but not limited to commissions;
- v. Require the relevant Directors, Supervisors or senior management to return the interest earned or that may be earned from funds that should have been paid to our Company;
- vi. Require the Directors, Supervisors or senior management to return properties obtained from violation of their obligations through legal procedure and verdicts.

When performing their responsibilities, the Directors, Supervisors and senior management must comply with the principle of integrity and shall not put themselves in situations where their own interests may conflict with the obligations they have undertaken. This principle includes, but is not limited to, performing the following obligations:

- i. Sincerely taking the best interests of our Company as the starting point of any action;
- ii. Exercising one's rights within but not exceeding the scope of authority;
- iii. Exercising conferred discretionary powers personally without being manipulated by others; not transferring discretionary powers to other persons unless permitted by laws and administrative regulations or with the informed consent of shareholders given in a general meeting;

## **APPENDIX VI      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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- iv. Treating shareholders of the same class equally and shareholders of different classes fairly;
- v. Entering into any contract, transaction or arrangement with our Company is not allowed, unless in line with the Articles of Association or otherwise by the approval of the general shareholders' meeting with its full knowledge;
- vi. Seeking private gain using the properties of our Company in any manner is not allowed, unless agreed by the general shareholders' meeting with its full knowledge;
- vii. Using one's position to take bribes or other illegal gains is not allowed, nor is any form of embezzlement of our property, including, but not limited to, opportunities beneficial to our Company;
- viii. Accepting commissions associated with transactions of our Company is not allowed unless agreed by the general shareholders' meeting with its full knowledge;
- ix. Compliance with the Articles of Association, discharging duties in a faithful manner, safeguarding the interests of our Company rather than seeking private gain by taking advantage of one's position and authority in our Company;
- x. Unless agreed by the shareholders at the general shareholders' meeting with its full knowledge, competing with our Company in any manner is not allowed; take advantage of position, take business opportunity which should have belonged to our Company for themselves or others, or conduct business that is similar with our company by themselves or cooperating with others is not allowed, either;
- xi. Misappropriation of our funds or lending these funds to others is not allowed, nor is depositing the assets of our Company in an account opened in one's own name or other names;
- xii. Not to, in violation of the provisions of this Articles of Association, lend our Company's funds to any other person or provide security for our Company's shareholders or other persons with any properties of our Company, without the consent of the general meeting or Board of Directors;
- xiii. Not to harm the interests of our Company through use of his/her connected relationship; and
- xiv. Disclosure of any confidential information relating to our Company obtained during employment without the consent of the general shareholders' meeting with its full knowledge; unless in the interest of our Company, using such information is also not allowed; however, under the following circumstances the information may be disclosed to a court or other competent government agencies as required by (1) the provisions of the law; (2) the public interest; (3) the interest of the Directors, Supervisors or senior management.

## APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

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- xv. Other behaviors violating the principle of loyalty to the Company.

The relevant personnel shall return the income obtained from violation of the above provisions to our Company and shall bear the liability of compensation if our Company suffers damage.

The Directors, Supervisors and senior management may not direct the following personnel or institutions ("**related personnel**") to do acts that the Directors, Supervisors and senior management is prohibited from doing:

- i. Spouses or minor children of the Directors, Supervisors and senior management;
- ii. Trustors of the Directors, Supervisors and senior management or the persons mentioned in (i);
- iii. Partners of the Directors, Supervisors and senior management or persons mentioned in (i) and (ii);
- iv. Companies under de facto control by the Directors, Supervisors and senior management individually or jointly with the persons or other directors, supervisors and senior management of companies mentioned in (i), (ii) and (iii);
- v. Directors, Supervisors or senior management of the controlled companies mentioned in (iv).

The good faith obligation owed by the Directors, Supervisors and senior management may not necessarily terminate with the expiration of their terms; their obligation to keep the trade secrets of our Company in confidence shall survive the expiration of their terms, until such secrets become public available. The duration of other obligations shall be determined in accordance with the principle of fairness, depending on the length of time from the occurrence of the events to the time of resignation, as well as the circumstances and conditions under which the relationship with our Company is terminated.

Except as otherwise provided in the Articles of Association, liabilities of Directors, Supervisors and senior management arising from the violation of specific duties may be released by informed shareholders in general meetings.

Apart from the obligations set forth in related laws, administrative regulations or the listing rules of the stock exchange where the shares are listed, the Directors, Supervisors or senior management shall assume the following obligations for each of the shareholders when exercising their rights and performing their responsibilities:

- i. They shall sincerely take the best interests of our Company as the starting point of any action;
- ii. They may not deprive our Company of our properties in any manner, including, but not limited to, opportunities beneficial to our Company; and



## **APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION**

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- iii. They shall not deprive the shareholders of personal rights and interests, including, but not limited to, the right to receive dividends distributed and to vote, except for restructuring of our Company approved at the shareholders' meeting pursuant to the provisions of the Articles of Association.

The Directors, Supervisors and senior management have the responsibility when exercising their rights or carrying out their obligations to act with the care, diligence and skill due from a reasonably prudent person under similar circumstances.

Where Directors and senior management violate laws, regulations or the Articles of Association in their duty performance and cause loss to our Company, the shareholders holding 10% or more shares separately or jointly for consecutive 180 days may submit a written request to the Board of Supervisors to file an action with the competent people's court. Where supervisors violate laws, regulations or the Articles of Association in their duty performance and cause loss to our Company, the shareholders may submit a written request to the Board of Directors to file an action with the competent people's court.

Where the Board of Supervisors or if the Board of Directors refuse to file an action upon receipt of the shareholders' written request specified in the preceding paragraph, or fail to file an action within 30 days upon receipt thereof, or where the failure to immediately file an action in an emergency case will cause irreparable damage to the interests of our Company, the shareholder(s) specified in the preceding paragraph may, in their own name, directly file an action to the competent people's court for the interest of our Company.

Where any other person infringes upon the legitimate rights and interests of our Company and causes losses thereto, the shareholder(s) specified in this Articles of Association may file an action with the competent people's court pursuant to the provisions of the preceding two paragraphs.

### **2 MODIFICATION OF THE ARTICLES OF ASSOCIATION**

We may amend the Articles of Association based on the provisions of the relevant laws, administrative regulations and Articles of Association. Where the amendments to the Articles of Association passed by the general meetings need the examination and approval of the competent authorities, these amendments shall be submitted hereto for approval. Where the amendment of the Articles of Association involves our registration, it shall be necessary to carry out the lawfully prescribed procedures for registration change.

### **3 RIGHTS CHANGES OF CURRENT SHARES AND CLASSIFIED SHARES**

Any plan of our Company to change or abolish the rights of a classified shareholder is subject to the approval of the general shareholders' meeting in the form of a special resolution and the approval of the affected classified shareholders at a separately convened shareholders' meeting in accordance with the Articles of Association before it can be implemented, except when provided in the Articles of Association that the unlisted shares held by our shareholders become listed for trading on an overseas stock exchange.



## **APPENDIX VI      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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Where the change or abolishment of the right of a classified shareholder is due to the change of laws, administrative regulations or listing rules of the stock exchange where the shares are listed, whether within or without the border, the approval of the general shareholders' meeting in the form of a special resolution or the approval of the affected classified shareholders at a separately convened shareholders' meeting is not needed.

The rights of a classified shareholder shall be viewed as changed or abolished under any of the following circumstances:

- i. Increase or reduce the number of the classified shares, or increase or reduce the number of classified shares with equal or more voting rights, distribution rights or other privileges than this type of classified shares;
- ii. Convert all or part of the classified shares into other types or convert another type of shares, partly or wholly, into this type of classified shares or grant such conversion right;
- iii. Cancel or reduce the right of the classified shares to obtain dividends generated or cumulative dividends;
- iv. Reduce or cancel the right of the classified shares to receive dividends on a priority basis or the priority right to receive property distribution in the liquidation of our Company;
- v. Increase or cancel or reduce the right of the classified shares to convert share rights, options rights, voting rights, transfer rights, and pre-emptive rights, or the right to obtain the securities of our Company;
- vi. Cancel or reduce the right of the classified shares to receive funds payable of our Company in specified currencies;
- vii. Create new classified shares entitled to equal or more voting rights, distribution rights, or other privileges than the classified shares;
- viii. Impose restrictions on the transfer or ownership of the classified shares or increase such restrictions;
- ix. Issue subscription or conversion rights for this or other classified shares;
- x. Increase the rights and privileges of other types of shares;
- xi. The restructuring plan of our Company may constitute different types of shareholders to assume responsibilities disproportionately; and
- xii. Amend or abolish clauses stipulated in our Articles of Association.

## **APPENDIX VI      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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Whether or not the affected classified shareholders have voting rights at the shareholders' meeting, in the event of matters described above from (ii) through (viii), (xi) and (xii), they have voting rights at the classified shareholders' meeting, but the shareholders that have interests at stake shall have no voting rights at the classified shareholders' meeting.

Shareholders that have interests at stake include:

- i. In the event that a shareholder makes an offer to all the shareholders at the same ratio according to this Articles of Association or purchase their own shares through public transaction in a Stock Exchange, shareholders that have interests at stake shall have the same meaning with Controlling shareholders as defined in this Articles of Association;
- ii. Where our Company purchase its own shares through reaching an agreement outside the Stock Exchange and in accordance with this Articles of Association, shareholders that have interests at stake shall mean the shareholders who are relevant to such agreement;
- iii. In our Company's re-organization plan, shareholders that have interests at stake shall mean shareholder who bear liability at a rate that is lower than other shareholders in the same class or who hold different interests with other shareholders in the same class.

The resolution of the classified shareholders' meeting shall be passed by votes representing more than two thirds of shareholders with voting rights attending the classified shareholders' meeting.

When convening a classified shareholders' meeting, 45 days before the meeting is convened, our Company shall send a written notice to inform all registered holders of the classified shares on matters to be deliberated at the meeting, as well as the date and venue of the meeting. Shareholders planning to attend the meeting shall send our Company a written reply concerning attendance at the meeting 20 days before the meeting.

In the event that the number of shares with voting power represented by shareholders planning to attend the meeting accounts for more than one half of the total number of said classified shares with voting power at the meeting, our Company may convene a classified shareholders' meeting. If this number is not reached, our Company shall again inform the shareholders of the matters to be deliberated as well as the date and venue of the meeting within five days in the form of an announcement and our Company may convene a classified shareholders' meeting once the announcement is delivered. Where there are special rules in the listing rules of the stock exchange where the shares are listed, the special rules prevails. The notice of the classified meeting needs only to be sent to the shareholders who have the right to vote at the meeting.

## **APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION**

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Insofar as possible, any classified meeting shall be held in accordance with the same procedures as those of the shareholders' meeting, and unless otherwise provided in the Articles of Association, any clause that relates to the procedures for convening the shareholders' meeting in the Articles of Association shall apply to any classified shareholders' meeting.

Apart from the holders of other classified shares, the holders of domestic shares, holders of unlisted foreign shares and the holders of overseas listed foreign shares are considered as different classified shareholders.

The special procedures for voting by the classified shareholders shall not apply under the following circumstances:

- i. Upon the approval by a special resolution at the general shareholders' meeting, our Company either separately or concurrently issues domestic shares, unlisted foreign shares and overseas listed foreign shares once every 12 months, and the number of those shares to be issued shall not account for more than 20% of each of its outstanding shares;
- ii. The plan to issue domestic shares, unlisted foreign shares and overseas listed foreign shares upon the establishment of our Company is completed within 15 months of the date of approval by the securities regulatory authorities of the State Council; and
- iii. Upon the approval by the securities regulatory authorities of the State Council, the unlisted shares held by our shareholders become listed or traded on an overseas stock exchange.

### **4 SPECIAL RESOLUTIONS NEEDED TO BE ADOPTED BY MAJORITY VOTE**

The resolutions of the shareholders' meeting are categorized as ordinary resolutions and special resolutions.

An ordinary resolution can be adopted by a simple majority of the votes held by the shareholders (including proxies) attending the general shareholders' meeting.

A special resolution can be adopted by a two-thirds majority of the votes held by the shareholders (including proxies) attending the general shareholders' meeting.

### **5 VOTING RIGHTS (GENERALLY ON A POLL AND RIGHT TO DEMAND A POLL)**

The ordinary shareholders have the right to attend or appoint a proxy to attend and vote at the general shareholders' meeting. When voting at the general shareholders' meeting, the shareholder (including proxy) may exercise his or her voting rights in accordance with the number of shares with voting power held with each share representing one vote.

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General meeting adopt open ballot. When voting at a general meeting, shareholders (including their proxies) who are entitled to two or more votes are not required to vote against or in favor with their total number of votes.

When the number of dissenting votes equals the number of supporting votes, the chairman of the meeting is entitled to one additional vote.

### **6 RULES ON GENERAL SHAREHOLDERS' MEETINGS**

The general shareholders' meetings are divided into annual general shareholders' meetings and extraordinary general meetings. The annual general shareholders' meeting shall be convened once a year and be held within six months of the end of the previous fiscal year.

### **7 ACCOUNTING AND AUDITS**

#### **(1) Financial and accounting policies**

Our Company shall develop its financial accounting policies pursuant to laws, administrative regulations, as well as accounting standards developed by the competent department in charge of finance under the State Council.

The Board of Directors shall submit the financial reports of our Company, as required by the laws, administrative regulations or directives promulgated by local governments and competent authorities to be prepared by our Company, at every annual shareholders' meetings.

Apart from the China Accounting Standards For Business Enterprises and regulations, the financial reports of our Company shall also conform to international accounting standards or the accounting standards of overseas areas where the shares are listed. In the event of any major discrepancy between the financial reports prepared in accordance with the two accounting standards, such difference must be provided in the notes to the financial reports. As to the distribution of after-tax profits of our Company in a fiscal year, the after-tax profits indicated on the two financial reports, whichever is lower, shall prevail.

Our Company shall make its financial reports available for inspection by the shareholders 20 days before the annual general shareholders' meeting is convened. Each shareholder is entitled to obtain one copy of the financial report.

Our Company shall send the aforesaid reports to each of the holders of overseas listed foreign shares by postage-paid mail or by the manner as allowed in laws and regulation of the region where our Company lists shares and listing rule of the Stock Exchange at least 21 days before the annual general shareholders' meeting is convened (in any event no more than four months from the end of the relevant financial year).

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Our Company's interim results or financial information published or disclosed by our Company shall at the same time be prepared in accordance with PRC accounting standards, regulations as well as international accounting standards or the accounting standards of the overseas area in which the shares are listed.

Our Company must publish the financial reports twice in each fiscal year. Interim financial reports shall be published within 60 days of the end of the first six months of a fiscal year, while the annual financial report shall be published within 120 days of the end of each fiscal year.

Our Company shall not keep any accounting books other than those specified by law.

### **(2) Appointment and Dismissal of Accountants**

Our Company shall appoint an accounting firm with independent qualifications that meets appropriate requirements of the PRC to be responsible for auditing its annual report and reviewing and checking its other financial reports.

The first accounting firm of our Company can be appointed by the founding meeting before the first annual general shareholders' meeting and the term of the appointment will expire at the close of the first annual general shareholders' meeting. In event that the founding meeting does not exercise such power, the Board of Directors shall take it.

The term of the accounting firm appointed by our Company shall start at the close of the annual general shareholders' meeting and continue until the close of the next annual shareholders' meeting.

If the position of an appointed accounting firm is vacant, the Board of Directors may appoint an accounting firm before the start of annual general shareholders' meeting. However, if during the vacant period, our Company has other incumbent accounting firm, such accounting firm may take the vacant.

Except the circumstances as above said, our Company shall appoint an accounting firm by the decision of the shareholders' meeting. The Board of Directors shall not appoint accounting firm before shareholders' meeting. Without prejudice to the right of the accounting firm to claim for compensation (if any) for being dismissed and replaced, the shareholders may replace the accounting firm through an ordinary resolution at the general shareholders' meeting prior to the expiration of the term of any accounting firm notwithstanding the terms and conditions of the contract howsoever entered into between our Company and the accounting firm.

In the event that the accounting firm requests to resign, it shall declare to the general shareholders' meeting whether our Company is affected by any improprieties.

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The accounting firm shall resign by sending a written resignation notice to our Company's legal address. The notice shall take effect on the date of delivery to that address or on the date specified in the notice, whichever is later. The notice shall include the following statements:

- i. Its resignation does not include any statement that should be disclosed to the shareholders or creditors of our Company; or
- ii. Any statement that should be disclosed.

Within 14 days of receipt of the notice mentioned above, our Company shall send the copy of the notice to related competent authorities. If the notice includes statements mentioned in (ii) of the preceding paragraph, our Company shall retain a copy thereof for perusal by the shareholders and send a copy of the above-mentioned statements to all shareholders who are entitled to receive our Company's financial reports in accordance with the addresses registered on the register of shareholders by postage-prepaid mail or subject to applicable laws, regulations and listing rules, post such information at our Company website or a site specified by the stock exchange of the place in which our Company's shares are listed.

In the event that the resignation notice of the accounting firm includes any statement that should be disclosed to the shareholders or creditors, the accounting firm may request the Board of Directors to convene an extraordinary general meeting to hear its explanations regarding the resignation.

### **8 NOTICE AND AGENDA OF GENERAL SHAREHOLDERS' MEETINGS**

The general shareholders' meeting is the authorized organ of our Company that can perform duties and exercise powers in accordance with the law.

Apart from special circumstances such as where our Company is in crisis, without the approval of a special resolution of the general shareholders' meeting, our Company shall not enter into a contract with any person other than the Directors, Supervisors and senior management that would make a person responsible for the management of all or part of the main business of our Company.

General shareholders' meetings include annual general shareholders' meeting and extraordinary general meeting. Under any of the following circumstances, the Board of Directors shall convene an extraordinary general meeting within two months:

- i. The number of Directors is less than the number specified in our Company Law or less than two thirds of the number required in the Articles of Association;
- ii. The uncovered losses of our Company reach one-third of its total paid-in share capital;
- iii. The shareholders holding 10% or more shares separately or jointly request to convene an extraordinary general meeting in writing;

## **APPENDIX VI      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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- iv. The Board of Directors considers it necessary or the Board of Supervisors proposes convening an extraordinary general meeting;
- v. Suggested by the Board of Supervisors; or
- vi. Any other circumstances stipulated in laws, administrative regulations, regulations of the competent authorities, the Articles of Association and the listing rules of the place in which our Company's shares are listed.

Independent Non-executive Directors and the Board of Supervisors may make a proposal about convening an extraordinary general meeting. The Board of Directors shall issue a written feedback about whether it agrees with such proposal or not within 10 days after receiving such proposal in accordance with laws, administrative regulations and the Articles of Association. In the event that the Board of Director agree to convene an extraordinary general meeting, the notice of convening extraordinary general meeting shall be issued within 5 days after the Board of Directors made a relevant resolution. With regard to the proposal of convening an extraordinary general meeting made by the Independent Non-executive Director, the Board of Directors shall explain the reasons and make a publication if rejection was made. With regard to the proposal of convening an extraordinary general meeting made by the Board of Supervisors, if the Board of Directors made a rejection or does not respond within 10 days after it receiving the proposal, it shall be view as the Board of Directors is unable to or fails to perform its duty of convening the general meeting and the Board of Supervisors may convene and preside over the meeting by it own.

Shareholders who separately or jointly hold 10% or more of the shares may request the Board of Supervisors to convene an extraordinary general meeting in accordance with the following procedures:

- i. Signing a written requirement or several copies with the same format to request an extraordinary general meeting or classified shareholders' meeting and to illustrate the subject of the meetings. The Board of Directors shall issue a written feedback about whether it agrees with such proposal or not within 10 days after receiving such proposal in accordance with laws, administrative regulations and the Articles of Association. The aforesaid number of shareholdings is calculated as at the date of the submission of the written requirement by the shareholders;
- ii. In the event that the Board of Directors agree to convene an extraordinary general meeting, the notice of convening extraordinary general meeting shall be issued within 5 days after the Board of Directors made a relevant resolution. Any revise made to the origin request shall get the approval of the relevant shareholders;



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- iii. If the Board of Directors made a rejection or does not respond within 10 days after it receiving the proposal, shareholders who separately or jointly hold 10% or more of the shares may request the Board of Supervisors in written to convene an extraordinary general meeting;
- iv. In the event that the Board of Supervisors agree to convene an extraordinary general meeting, the notice of convening extraordinary general meeting shall be issued within 5 days after the Board of Supervisors made a relevant resolution. Any revision made to the origin request shall get the approval of the relevant shareholders;
- v. If the Board of Supervisors fails to issue a meeting notice in the required period, it is deemed that the Board of Supervisors will not convene nor preside over the general shareholders' meeting and the shareholders holding 10% or more shares separately or jointly for consecutive 90 days may convene and preside over the meeting by themselves. The number of shares holdings by the convening shareholder before the date of the publication of meeting resolutions shall not be less than 10%. The convening shareholder shall submit relevant proofs materials to securities administrative authorities of region where our Company registers and the Stock Exchange at the same time with the issuance of notice of the shareholders' meeting and publication of meeting resolutions.

In the event that the general shareholders' meeting is on schedule, the Board of Directors, the Board of Supervisors and shareholders who separately or jointly hold more than 3% of the shares of our Company may submit a proposal.

When convening a general shareholders' meeting, our Company shall send a written notice to inform all registered shareholders of the matters to be deliberated at the meeting as well as the date and venue of the meeting 45 days before it is convened. Shareholders planning to attend shall send to our Company a written reply 20 days before the meeting is held.

Our Company shall calculate the number of shares with voting power represented by the shareholders planning to attend the general shareholders' meeting in accordance with the written replies received 20 days before the meeting is convened. In the event that the number of shares with voting power represented by the shareholders planning to attend reaches more than one half of our total number of shares with voting power, our Company may convene the general shareholders' meeting. If this number is not reached, our Company shall again inform the shareholders of the matters to be deliberated and the date and venue of the meeting within five days in the form of an announcement before the general shareholders' meeting may be convened. The extraordinary general meeting shall not decide on issues which are not listed in the notice.



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The notice of the general shareholders' meeting shall include the following contents:

- i. Specified venue, date and duration of the meeting;
- ii. Specified matters and resolutions to be deliberated at the meeting;
- iii. Provision to the shareholders of the materials and explanations necessary for the shareholders to make sound decisions about the matters to be deliberated. This principle includes, but is not limited to, the provision of the detailed terms and contract, if any, of the proposed transactions and proper explanations about related causes and effects when our Company proposes merger/s, redemption of shares, restructuring of stock capital or other restructuring;
- iv. In the event that any of the Directors, Supervisors, managers or other senior management has material interests at stake in matters to be deliberated, the nature and extent of the interests at stake shall be disclosed. If the matters to be deliberated affect any Director, Supervisor, managers or other senior management as a shareholder in a manner different from how they affect other shareholders of the same type, the difference shall be explained;
- v. Inclusion of the full text of any special resolution to be proposed for adoption at the meeting;
- vi. A clear explanation that all shareholder is entitled to attend and vote at the general shareholders' meeting, or to appoint one or more entrusted representative to attend and vote at the meeting on his or her behalf and that such may not necessarily be shareholders;
- vii. Record date for shareholders who are entitled to attend the meeting;
- viii. Name and telephone number of the contact person;
- ix. Specified delivery time and place of the power of attorney for proxy voting of the meeting.

The notice of the general shareholders' meeting shall be sent in person or by postage-paid mail to the shareholders (regardless of whether such shareholders have the right to vote at the general shareholders' meeting). Each recipient's address shall be according to the address indicated on the register of shareholders or subject to applicable laws, regulations and listing rules, post such information at our Company website or a site specified by the stock exchange of the place in which our Company's shares are listed. For holders of domestic shares and holders of unlisted foreign shares, the notice of our general shareholders' meeting may be given in the form of an announcement.

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This announcement shall be published in one or more newspapers designated by the securities governing authority of the State Council within a period of 45 to 50 days before the meeting is convened. Once the announcement is made, all holders of domestic shares and unlisted foreign shares shall be deemed to have received the notice of our general shareholders' meeting. In the event that the notice of the meeting is not sent to persons entitled to receive it due to accident or oversight, or such persons fail to receive notice of the meeting, the meeting and resolutions made at the meeting shall not be thereby affected.

The general shareholders' meeting shall not be postponed or canceled and the proposals listed in the notice shall not be canceled without just cause after the notice of general shareholders' meeting was made. If any circumstance that may result in delay or cancellation occur, convener shall make publication and explain the reasons at least 2 working days before the original convening day.

The resolution of the general shareholders' meeting includes ordinary resolution and special resolution. The following matters shall be approved by the general shareholders' meeting through ordinary resolutions:

- i. Work report of the Board of Directors and the Board of Supervisors;
- ii. Plans of earnings distribution and loss make-up schemes drafted by the Board of Directors;
- iii. Appointment or dismissal of the members of the Board of Directors and the Board of Supervisors who are not assumed by staff representatives;
- iv. Remuneration and payment methods of the members of the Board of Directors and the Board of Supervisors;
- v. Annual budget and final account report;
- vi. Annual report of our Company; and
- vii. Other matters in addition to those approved by special resolution stipulated in the laws, administrative regulations, listing rules of the Stock Exchange where the shares are listed or the Articles of Association.

The following matters shall be approved by special resolution at the general shareholders' meeting:

- i. Our Company's capital stock increases or decreases and issues of any type of shares, warrants and other similar securities;
- ii. Issues our Company's bond;
- iii. Division, merger, dissolution and liquidation of our Company and the change of form of our Company;

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- iv. Amendment of the Articles of Association;
- v. Substantial assets acquired or disposed of or guarantee granted for an amount exceeding 30% of the latest audited total assets of our Company within one year;
- vi. Share equity incentive plan;
- vii. Other matters as required by the laws, administrative regulations, listing rules of the stock exchange where the shares are listed or the Articles of Association, and as approved by ordinary resolution of the general shareholders' meeting which are believed could materially affect our Company and need to be approved by special resolution.

Pursuant to the laws, administrative regulations, listing rules of the stock exchange where the shares are listed, with regard to any resolution, if any shareholder shall be abstained from voting or required to vote for or against the resolution only, any voting violation conducted by the shareholder (or its representative) shall not be credited to the vote.

In the event that our Company's shareholders' meeting or resolution of the Board of Directors violates laws or administrative regulations, any shareholder is entitled to request the court to deem it as invalid.

In the event that the convening procedure or voting formula of our Company's shareholders meeting or meeting of the Board of Directors is in violation of laws, administrative regulations or the Articles of Association, or resolution of which violates the Articles of Association, any shareholder is entitled to ask the court to overturn within 60 days after the resolution was made.

### **9      SHARE TRANSFERS**

The shares of our Company holding by the promoters thereof shall not be transferred within one year of the date of establishment of our Company. The shares issued before the public issuance of shares by our Company shall not be transferred within one year of the date on which the stocks of our Company are listed and traded on a securities exchange.

The directors, supervisors, and senior management personnel of our Company shall declare, to our Company, information on their holdings of the shares of our Company and the changes thereto. The shares transferrable by them during each year of their term of office shall not exceed 25 percent of their total holdings of the shares of our Company. The shares that they held in our Company shall not be transferred within one year of the date on which the stocks of our Company are listed and traded. The aforesaid persons shall not transfer their shares of our Company within six months of their departure from our Company.

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Where a director, supervisor or senior manager of our Company, or a shareholder who holds 5% or more of the shares of our Company sells the shares of our Company within six months of purchasing such shares, or repurchases the shares within six months of selling such shares, the gains therefrom, if any, shall belong to our Company, and the Board of Directors of our Company shall recover such gains.

Where the Board of Directors of our Company fails to take action in accordance with the provisions of the preceding paragraph, the shareholders shall have the right to demand it to act within 30 days. Where the Board of directors of our Company fails to take action within the said time limit, the shareholders shall have the right to initiate, in their own name, a lawsuit directly in a people's court for the benefit of our Company.

Where the Board of Directors of our Company fails to take action in accordance with the above paragraph, the Directors who are accountable thereto shall be held jointly and severally liable pursuant to law.

With regard to the H shares that capital of which has been full-paid, transfer without any limitation is allowed in accordance with the Articles of Association. However, unless such shares meet the following conditions, the Board of Directors may refuse to recognize any transfer document without giving any reason:

- i. Any document that related to share ownership or transfer documents that are related to or may affect the ownership of the shares shall be registered and shall pay to our Company of certain fee per item of transfer document or a higher fee required by the Board of Director, but such payment shall not exceed the maximum fee provided by the Stock Exchange of Hong Kong in its Listing Rules from time to time;
- ii. The transfer documents only involve shares listed in Hong Kong;
- iii. The stamp duty chargeable on the transfer documents has been paid;
- iv. The relevant share certificate, and upon the reasonable request of the Board of Directors, any evidence in relation to the right of the transferor to transfer the shares has been submitted;
- v. If the shares are to be transferred to joint holders, the number of the joint holders shall not exceed four; and
- vi. Our Company does not have any lien on the relevant shares.

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### **10 RIGHTS OF OUR COMPANY TO BUY BACK OUR OUTSTANDING ISSUED SHARES**

Under any of the following circumstances, our Company may buy back our outstanding issued shares pursuant to the Articles of Association:

- i. Cancellation of the shares to reduce our Company's share capital;
- ii. Merger with other companies which hold our shares;
- iii. Granting shares to the staff of our Company as incentives;
- iv. Buying back the shares from shareholders who vote against any resolutions adopted at the general shareholders' meeting concerning the merger and division of our Company; or
- v. Other circumstances as required by the laws, administrative regulations.

In the event our Company buys back the shares for reasons stated in (i), (ii), (iv) of the preceding paragraph, our Company shall cancel or transfer such shares in the required period pursuant to laws, administrative regulations and listing rules. In the event our Company buys back the shares for reasons stated in (iii) of the preceding paragraph, the ratio shall not exceed the 5% provided by the laws and administrative regulations. The fund used for such buyback must be allocated from the after-tax net profit of our Company and shall transfer to employees in the required period.

After approved by the State relevant administrative authorities, Our Company may buy back shares in any of the following ways:

- i. Making a comprehensive buyback offer in the same proportion to all shareholders;
- ii. Buying back shares through public trading on the securities exchange;
- iii. Buying back shares by an agreement outside a stock exchange;
- iv. In other ways approved by the competent authorities.

Where our Company buys back the shares by an agreement outside a stock exchange, it shall obtain prior approval at the general shareholders' meeting pursuant to the Articles of Association. Likewise, subject to the prior approval of the general shareholders' meeting, our Company may cancel or amend the contract signed in the aforesaid manner or waive any of its rights in the contract. The contract that buys back the shares includes, but is not limited to, an agreement that consents to undertake the obligation to buy back the shares and obtain the rights to buy them back.

Our Company shall not transfer any contract that buys back the shares or any rights conferred under the contract.

## **APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION**

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Unless our Company has entered into the liquidation process, we must observe the following provisions for the buyback of issued shares:

- i. Where our Company buys back shares at book value, the funds shall be deducted from the book balance of our distributable earnings and the proceeds obtained from the issue of new shares to buy back the old shares;
- ii. Where our Company buys back the shares at a premium to the book value, the portion of funds equivalent to book value shall be deducted from the book balance of our distributable earnings and the proceeds obtained from the issue of new shares made for the purpose of buying back of shares, while the portion of funds higher than book value shall be dealt with in the following manner:
  - (1) Where the shares bought back were issued at book value, the funds shall be deducted from the book balance of our distributable earnings;
  - (2) Where the shares bought back were issued at a premium to the book value, the funds shall be deducted from the book balance of our distributable earnings and the proceeds obtained from the issue of new shares made for the purpose of buying back of shares. However, the amount deducted from the proceeds obtained from the issue of new shares shall not exceed the total premium amount obtained when the shares bought back were issued or the amount in our premium account (including capital reserve account) when the shares are bought back (including the premium amount of the issue of new shares).
- iii. The funds paid by our Company for the following purposes shall be allocated from our distributable earnings:
  - (1) To obtain the right to buy back the shares;
  - (2) To modify any contract to buy back the shares;
  - (3) To release any obligation of our Company under the share buyback contract.
- iv. After the total book value of the cancelled shares is deducted from our registered capital pursuant to the relevant provisions, the amount deducted from the distributable earnings for paying up the book value portion of the shares bought back shall be credited to our premium account (or capital reserve account).

## **11 DIVIDEND AND DISTRIBUTION METHODS**

Our Company may distribute dividends by way of cash or shares or such other manner permitted by laws, administrative regulations, departmental rules and regulations and the regulatory rules of the locality where the listing is made (or adopt both ways simultaneously).

Shareholder is entitled to receive interest with regard to payment of the shares which was paid before reminder notice. However, advance payment of the shares is not subject to any dividend thereof.

## **APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION**

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Our Company shall appoint receiving agents on behalf of shareholders of overseas listed foreign shares. Receiving agents shall receive dividends and other payable funds that are distributed with respect to our overseas listed foreign shares for the shareholders of overseas listed foreign shares.

### **12 SHAREHOLDER PROXIES**

Any shareholder who is entitled to attend and vote at our general shareholders' meeting has the right to appoint one or more persons (who may not necessarily be shareholders) as his or her shareholder proxy to attend and vote at the meeting in his or her place. Pursuant to the authorization of the shareholder, the proxy may exercise the following rights:

- i. Speak for the shareholder at the general shareholders' meeting;
- ii. Demand a poll individually or with others;
- iii. Except otherwise provided by the applicable listing rules or other securities laws and regulations, exercise the right to vote by a show of hands or a poll, but the shareholder proxy may only exercise the right to vote by a poll when more than one proxy is appointed.

The shareholder proxy appointment shall be in writing and shall be signed by the appointor or a person duly authorized in writing. Where the appointor is a legal person, the stamp of the legal person shall be affixed, or signed by the Director or a duly authorized agent.

The power of attorney must be kept at the residential address or other location designated in the notice convening the meeting no later than 24 hours before the meeting at which the power of attorney is put to vote is convened or 24 hours before the designated time at which the resolution is adopted. If the power of attorney is signed by another person authorized by the appointor by means of power of attorney or other instrument of authorization, the power of attorney or other instrument must be verified by a notary. The power of attorney or other instrument verified by the notary must be kept together with the power of attorney appointing the entrusted representative at our residential address or other location designated at the notice convening the meeting.

A legal person shareholder should attend the meeting by its legal representatives or the proxy appointed by the legal representative.

Any form sent by the Directors to the shareholder for appointing a shareholder proxy shall allow the shareholder, according to his or her free will, to instruct the proxy to vote and provide instructions separately for matters to be put to vote on each item on the meeting agenda. The power of attorney shall specify that the shareholder proxy may vote at his or her own discretion if the shareholder does not provide instructions.

## **APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION**

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The votes of the shareholder proxy given pursuant to the terms of an instrument of proxy shall remain valid notwithstanding the previous death, loss of capacity of the appointor or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that our Company does not receive written notice concerning such matters before the related meeting is convened.

### **13 REVIEW THE REGISTER OF SHAREHOLDERS AND OTHER RIGHTS OF SHAREHOLDERS**

Our Company shall make a register of shareholders in accordance with evidentiary documents provided by the securities registration authorities.

Pursuant to the understanding reached and agreement entered into between the competent agency in charge of securities under the State and the overseas securities regulatory authorities, our Company may keep the original register of the shareholders of the overseas listed foreign shares overseas and entrust an overseas entity to manage it. The original register of the shareholders of the overseas listed foreign shares listed in Hong Kong shall be kept in Hong Kong.

Our Company shall keep a copy of the register of the holders of the overseas listed foreign shares at our residential address. The overseas entrusted entity shall at all times maintain consistency between the original and copy of the register of the holders of the overseas listed foreign shares. In case of inconsistency between the original and copy of the register of the holders of the overseas listed foreign shares, the original shall prevail.

Our Company must keep a complete register of shareholders. The register of Shareholders shall include the following:

- i. Register of shareholders kept at our residential address other than those specified in (ii) and (iii);
- ii. Register of the holders of our overseas listed foreign shares kept at the location of the stock exchange where such shares are listed; and
- iii. Register of shareholders kept in other locations according to the decision of the Board of Directors as required for the listing of the shares.

Different parts of the shareholders' register shall not overlap. The transfer of shares registered in a certain part of the register of shareholders shall not be registered elsewhere in the register of shareholders as long as the shares remain registered.

Any alteration or rectification to any part of the register of shareholders shall be made in accordance with the laws in the place where such part of the register of shareholders is maintained.

No change of the register of shareholders as a result of share transfer shall be made within 30 days before the general shareholders' meeting is convened or within five days prior to the record date on which our Company decides to pay dividends.



## **APPENDIX VI      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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When our Company convenes the general shareholders' meeting, pays dividends, goes into liquidation or is involved in other actions that require the confirmation of equities, the Board of Directors or the convenor of the general shareholders' meeting shall fix a date as the equity registration date, upon expiration of which the shareholders whose names appear on the register of shareholders shall be the shareholders.

Any person who objects to the register of shareholders and requests to register his or her name (title) in the register of shareholders or to remove his or her name (title) from the register of shareholders may apply to the court with jurisdiction to amend the register of shareholders.

The shareholders are entitled to obtain the following information, including but not limited to:

- i. The Articles of Association after paying the cost;
- ii. The right to inspect and copy the following after paying a reasonable fee:
  - (1) All parts of the register of shareholders;
  - (2) Personal data of the Directors, Supervisors and senior management;
  - (3) Status of the issued share capital of our Company;
  - (4) Report on the total book value, quantity, maximum and minimum prices of each class of own shares repurchased by our Company since the previous accounting year and all expenses paid by our Company for this purpose;
  - (5) Bond counterfoil of our Company, minutes of the general meeting, special resolutions, resolutions of the Board of Directors' meeting, resolutions of the Board of Supervisors' meeting, financial accounting report;
  - (6) The latest audited financial statements, and reports of the Board of Directors, the auditors and the Board of Supervisors;
  - (7) Copy of the latest annual inspection report submitted to the competent administration for industry and commerce or other competent authorities for filing (if applicable).

Whenever a shareholder proposes to inspect the relevant information as described above or requests materials, he or she shall provide our Company with written documents certifying the type and number of the shares held. Our Company shall provide the relevant information and materials in accordance with the requirements of the shareholder after verifying his or her identity and may charge a reasonable fee for providing such copies of the materials.

## **APPENDIX VI      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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### **14    QUORUM OF GENERAL SHAREHOLDERS' MEETINGS**

In the event that the number of shares with voting power represented by the shareholders planning to attend reaches more than one half of our total number of shares with voting power, our Company may convene the general shareholders' meeting. If this number is not reached, our Company shall again inform the shareholders of the matters to be deliberated and the date and venue of the meeting within five days in the form of an announcement. Our Company may convene a general shareholders' meeting once the announcement is delivered.

In the event that the number of shares with voting power represented by the shareholders planning to attend reaches more than one half of our total number of classified shares with voting power, our Company may convene the classified shareholders' meeting. If this number is not reached, our Company shall again inform the shareholders of the matters to be deliberated and the date and venue of the meeting within five days in the form of an announcement. Our Company may convene a classified shareholders' meeting once the announcement is delivered.

### **15    RESTRICTIONS ON RIGHTS OF THE CONTROLLING SHAREHOLDERS**

Apart from the obligations required in laws, administrative regulations, or the listing rules of the stock exchange on which our shares are listed, the Controlling shareholder shall not make any decision that is detrimental to the interest of all or part of the shareholders on the following issues by exercising his or her shareholder voting rights:

- i.    Releasing the Directors and Supervisors from the responsibility of acting honestly in the best interest of our Company;
- ii.   Permitting the Directors and Supervisors (for their own or others' interests) to deprive our Company of assets in any form, including, but not limited to, any opportunity that is beneficial to our Company; and
- iii.   Permitting the Directors and Supervisors (for their own or others' interests) to deprive other shareholders of their personal rights and interests, including, but not limited to, any dividend distribution or voting right, but excluding the restructuring of our Company approved at the general shareholders' meeting pursuant to the Articles of Association.

### **16    COMPANY LIQUIDATION**

Under any of the following circumstances, our Company shall be lawfully dissolved and liquidated:

- i.    Cause of dissolution stipulated in the Articles of Association occur;
- ii.   The general shareholders' meeting adopts a resolution to dissolve our Company;

## **APPENDIX VI      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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- iii. Our Company needs to be dissolved for the purpose of merger or division;
- iv. Our Company is declared legally bankrupt as a result of failure to pay debts as they fall due;
- v. The business license is revoked, or our Company is ordered to close or be eliminated according to applicable law;
- vi. Where our Company encounters significant difficulties in business and management, continuous survival may be significantly detrimental to the interests of the shareholders, and the difficulties may not be overcome through other means, shareholders who hold more than 10% of the shares carrying voting rights may request the court to dissolve our Company.

Where our Company is dissolved due to the provisions set forth in (i), (ii), (v) and above, the liquidation team shall be established within 15 days and the personnel of the liquidation team shall consist of the persons determined by the Directors or the general shareholders' meeting. In the event the liquidation team is not established during such period, the creditors can request the people's court to appoint relevant personnel to establish the liquidation team for liquidation. In the event that our Company is dissolved in accordance with the provisions set forth in (v) above, the people's court shall organize the shareholders, related agencies and professionals to form the liquidation team pursuant to relevant provisions of the law.

If the Board of Directors decides to liquidate our Company (except where our Company is liquidated after declaring bankruptcy), the Board of Directors shall state in the notice of the general shareholders' meeting convened for this purpose that the Board of Directors has performed a comprehensive investigation of the status of our Company and believes that our Company is able to pay off all of our debts within 12 months of the start of liquidation.

After the resolution to liquidate our Company is adopted by the general shareholders' meeting, the powers and duties of the Board of Directors shall terminate immediately.

In accordance with the instructions of the general shareholders' meeting, the liquidation team shall at least once a year report at the general shareholders' meeting on the income and expenditure of the liquidation team, progress of the business and liquidation of our Company, and submit a final report at the general shareholders' meeting upon completion of liquidation.

Within 10 days of the establishment of the liquidation team, the creditors shall be notified and an announcement shall be published in newspaper recognized the stock exchange where our Company listed within 60 days. The creditors shall declare their claims to the liquidation team within 30 days of the date on which the notice is received or 45 days of the date of announcement if the notice is not received.

Creditors who declare claims shall state relevant issues related to the claims and provide proofs. The liquidation team shall carry out registration of the creditors' claims. During the period for declaration of claims, the liquidation group shall not make any repayment to any of the creditors.

## **APPENDIX VI      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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The liquidation team shall exercise the following powers during the liquidation period:

- i. Take stock of our Company's assets and prepare a balance sheet and a list of assets respectively;
- ii. Notify or publish an announcement to creditors;
- iii. Deal with and liquidate any pending business associated with our Company;
- iv. Pay off all outstanding taxes and taxes in connection with liquidation;
- v. Settle claims and debts;
- vi. Dispose of the remaining assets of our Company after paying up all the debts; and
- vii. Represent our Company in any civil litigation proceedings.

After taking stock of the assets of our Company and preparing the balance sheet and list of properties, the liquidation team shall draw up a liquidation scheme and submit it to the shareholders' meeting or the people's court for recognition.

After paying off the liquidation expenses, the salaries, social insurance premiums and the statutory compensations of the staff members, the due and payable taxes and the debts of our Company, the liquidation group shall distribute the remaining property in proportion to the shares held by each shareholder.

During the liquidation, our Company shall continue to exist, but shall not carry out business activities irrelevant to the liquidation. The property of our Company shall not be distributed to any shareholder before full payments have been made out of the property.

In the event of liquidation in connection with dissolution of our Company and the liquidation team finds that, after taking stock of our Company's assets and preparing the balance sheet and list of assets, that the assets are insufficient to pay the debts, it shall immediately apply to the people's court to declare bankruptcy.

After our Company is declared insolvent by ruling of the people's court, the liquidation team shall turn over matters regarding the liquidation to the people's court.

Upon completion of liquidation of our Company, the liquidation team shall prepare a liquidation report, income and expenditure report and financial record during the liquidation period, which, after being verified by a China-registered accountant, shall be submitted to our general meeting or the people's court for recognition. Within 30 days of the date of approval by the shareholders' meeting or people's court, the liquidation team shall submit the above-mentioned documents to our Company registration authority and apply for cancellation of our registration and publish an announcement on our termination.

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### **17 OTHER IMPORTANT PROVISIONS FOR OUR COMPANY OR THE SHAREHOLDERS**

#### **(1) General Provisions**

Our Company is a permanently existing joint stock limited company.

Our Company may invest in other limited liability companies or joint stock limited company, provided that except as otherwise provided by law, the liabilities of our Company to be invested in are limited to the amount of its capital contribution.

The Articles of Association stipulate our Company's organization and conduct guidance and is binding on our Company, the shareholders, Directors, Supervisors and senior management. Subject to no violation of the relevant provisions of the Articles of Association, shareholders may sue shareholders; shareholders may sue the Directors, Supervisors and senior management; shareholders may sue our Company, and our Company may sue shareholders, Directors, Supervisors and senior management.

The above said suing includes filing an action or applying for an arbitration with an arbitral institution.

#### **(2) Share and Transfer**

Our Company may increase stock capital by the following means:

- i. Issuing new shares to unspecified investors;
- ii. Placing new shares with existing shareholders;
- iii. Giving new shares to existing shareholders;
- iv. Converting the reserve funds into share capital;
- v. Other means approved by the laws, administrative regulations, regulations of the authorities.

Upon approval to increase our Company's capital via an issue of new shares according to the provisions of the Articles of Association, the matter shall be dealt with in accordance with the procedures of related laws, administrative regulations of the State and supervision rules of the region where our share listed.

Our Company may decrease our registered share capital and shall comply with the procedures stipulated in Company Law of the PRC, other related regulations and the Articles of Association.

If our Company decreases our registered capital, we must prepare a balance sheet and a list of properties.

## **APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION**

Our company shall notify creditors, publish an announcement, repay the debts or provide the corresponding guaranty when required by the creditors in accordance with *Company Law of the PRC* when undertaking reduction of the registered capital.

After our Company's reduction in capital, our registered capital may not be less than the statutory minimum amount.

Upon approval by the competent securities department of the State Council, our Company may issue shares to domestic and overseas investors.

For the purpose of the preceding paragraph, overseas investors shall refer to investors from foreign countries, Hong Kong, Macao or Taiwan region who subscribe for shares issued by our Company; domestic investors shall refer to investors within the territory of the PRC (excluding investors from Hong Kong, Macau or Taiwan region) who subscribe for shares issued by our Company.

Upon approval by the competent securities department of the State Council, the domestic shares and unlisted foreign shares of the Company can be listed and traded on an overseas stock exchange and can be converted into foreign shares which are listed overseas. After such domestic shares and unlisted foreign shares have been converted into foreign shares which are listed overseas, they can be listed and traded on an overseas stock exchange, in compliance with the regulatory procedures, provisions and requirements of overseas stock exchanges.

### **(3) Shareholders**

The shareholders are persons lawfully holding the shares and whose names (titles) are already listed in the register of shareholders. Shareholder is entitled to rights and assumes obligations pursuant to the classification and ratio of his or her shares. Shareholder holding the same classified share has the same rights and assumes the same obligations.

The rights of our ordinary shareholders are as follows:

- i. To receive distribution of dividends and other forms of benefits according to the number of shares held;
- ii. To legally require, convene, preside over, participate in or appoint a shareholder proxy to participate in and exercise voting rights at the shareholders' meeting;
- iii. To supervise and manage our business and operational activities, provide suggestions or submit queries;
- iv. To transfer, grant and pledge the shares held according to the provisions of the laws, administrative regulations, listing rule of the stock exchange where our stocks are listed and the Articles of Association;
- v. To obtain relevant information according to the provisions of the Articles of Association;

## APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

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- vi. To participate in the distribution of the remaining assets of our Company according to the number of shares held upon our termination or liquidation;
- vii. To ask our Company to buy back the shares from shareholders voting against any resolutions adopted at the general shareholders' meeting concerning the merger and division of our Company; and
- viii. Other rights conferred by laws, administrative regulations, department rules and the Articles of Association.

When any person is interested directly or indirectly in the shares of our Company, our Company shall not freeze or otherwise impair any of the rights attaching to any share by reason only that the person has not disclosed his interests to our Company.

The share certificates are signed by the chairman of the Board of Directors. Where the stock exchange on which the shares are listed requires our other senior management to sign the share certificates, they shall also be signed by other such personnel. The share certificates shall become effective after being affixed with the stamp of our Company or print-stamped. Affixing our Company stamp to the share certificates is subject to the authorization of the Board of Directors. The signature of the chairman of the Board of Directors or other related senior management may also be printed on the share certificates. Under conditions of paperless issuance and trading, the provisions of securities administrative authorities of the region where our shares listed shall apply.

If any person whose name appears in the register of shareholders or requests to register his or her name (title) in the register of shareholders loses his or her share certificates (that is, "**original share certificates**"), he or she may apply to our Company to reissue new share certificates for those shares.

In the event holder of domestic shares and unlisted foreign shares applies to our Company for a reissue after losing the share certificates, the matter shall be dealt with pursuant to related provisions of *the Company Law*.

In the event a holder of overseas listed foreign shares applies to our Company for reissue after losing the share certificates, the matter shall be dealt with pursuant to the laws and rules of the stock exchange where the original register of holders of the overseas listed foreign shares is kept, or other related provisions.

If a holder of H shares loses share certificates and applies for a replacement issue, the share certificates shall be issued in compliance with the following requirements:

- i. The applicant shall submit the application in the standard format designated by our Company and attach a notary certificate or legal declaration. The contents of the notary certificate or legal declaration shall include the reason for the applicant's request, circumstances and evidence of loss of share certificates, as well as a statement that nobody else may request to be registered as a shareholder with respect to the pertinent shares;



## **APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION**

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- ii. Before deciding to issue new share certificates, our Company does not receive any statement in which any person other than the applicant requests to be registered as the shareholder with respect to the shares;
- iii. If our Company decides to issue new share certificates to the applicant, we shall publish an announcement in newspapers designated by the Board of Directors indicating that we plan to reissue new share certificates. The announcement period shall be 90 days and the announcement shall be published at least once every 30 days;
- iv. Before publishing the announcement indicating that we plan to re-issue new share certificates, our Company shall submit a copy of the announcement to be published to the stock exchange on which the shares are listed and may publish the announcement after receiving a reply from the stock exchange confirming that the announcement has been displayed at the stock exchange. The period of displaying the announcement at the stock exchange is 90 days. If the registered shareholders of the related shares do not approve the application for reissue of new share certificates, our Company shall mail the copy of the announcement to be published to the shareholders;
- v. In the event that nobody raises any objection to the reissue of new share certificates to our Company, upon expiration of the 90-day display period of the announcement specified in (iii) and (iv) above, the new share certificates may be reissued according to the application;
- vi. When re-issuing new share certificates, our Company shall immediately cancel the original share certificates and register the cancellation and replacement issue on the register of shareholders;
- vii. All expenses incurred by our Company from the cancellation of the original share certificates and replacement issue of the new share certificates shall be borne by the applicant. Before the applicant has provided reasonable security, our Company shall have the right to refuse to take any action.

### **(4) Shareholders Failing to be Contacted**

In compliance with the provisions of related laws and regulations of the PRC and rules of Stock Exchange, our Company may expropriate unclaimed dividend. However, our Company can only exercise such expropriate right after the expiration of the applicable period which started after the distribution of dividend was declared.

Our Company may terminate sending dividend coupons by mail to any holder of the overseas listed shares. However, the said termination can only be made after the holder fails to withdraw from the dividend coupons for consecutive two times or the dividend coupons can not be delivered to the receiver and returned thereof.



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Our Company is entitled to reclaim without payment the shares of a Shareholder of H shares failing to be contacted under the circumstances indicated below and sell them to any other persons:

- i. Our Company has paid dividends at least three times on these shares within 12 years, but no one has claimed the dividends during that period;
- ii. Upon expiration of the 12-year period, our Company publishes an announcement in a newspaper, indicating our intention to sell the shares and notifies the stock exchange where such shares are listed of such intention.

### **(5) The Board of Directors**

The Board of Directors is responsible to the general shareholders' meeting and exercises the following powers:

- i. To convene the general shareholders' meeting and report on work to the general shareholders' meeting;
- ii. Implement the resolutions of the general shareholders' meeting;
- iii. Determine our business and investment plans;
- iv. Devise our annual financial budget and closing account plans;
- v. Devise our earnings distribution and loss offset plans;
- vi. Formulate the plans for increasing or decreasing our registered capital, the issuance of corporate bonds or other securities, as well as the listing of the stock of our Company;
- vii. Formulate plans for corporate merger, separation, changing the form and dissolution of our Company;
- viii. Formulate plans for major acquisitions, the acquisition of shares of our Company;
- ix. Determine such matters as our external investment, purchase or sale of assets, asset pledge, external guarantee, entrusting wealth management and connected transaction within the scope authorized by the general shareholders' meeting;
- x. Decide on the setup of our Company's internal management organization;
- xi. Decide on the composition of special committees under the Board of Directors and appoint or dismiss the chairmen (convener) of the special committees under the Board of Directors;

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## **APPENDIX VI      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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- xii. Appoint or dismiss the president of our Company, the secretary of the Board of Directors and the Secretary of the Company; based on the nomination of the president, appoint or dismiss our managing president, vice president, the chief financial officer; appoint or dismiss the secretary of the Board of Directors, and determine their remuneration;
- xiii. Set our basic management systems;
- xiv. Make the modification plan to this Articles of Association;
- xv. Decide on the equity incentive plan;
- xvi. Manage the disclosure of company information;
- xvii. Propose the appointment or replacement of the accounting firm that performs audits for our Company at the general Shareholders' meeting;
- xviii. Attend to the work report of our president and review the work of the president;
- xix. Review and decide on external guarantees excluding those shall be approved by the general shareholders' meeting pursuant to the Articles of Association;
- xx. Review and supervise our Company's policies and rules with regard to compliance with laws and supervising regulations;
- xxi. Review and supervise the training and continuous expertise development of Directors, Supervisors and senior management;
- xxii. Review company's compliance with the enterprise management rules stipulated in the listing rules and the disclosure of enterprise management rules;
- xxiii. Decide on other major matters and administrative affairs other than those specified in the laws, administrative regulations, regulations of the competent authorities and the Articles of Association to be decided by the general shareholders' meeting and sign other important agreements;
- xxiv. Other powers and duties authorized by the laws, administrative regulations, regulations of the competent authorities, listing rules of the place where the shares of our Company are listed and this Articles of Association as well as the general shareholders' meeting.

The aforesaid matters that can be exercised by the Board of Directors, or other transactions or arrangements, if according to the listing rules of the stock exchange where the shares of our Company are listed, shall be reviewed and approved by the general shareholders' meeting.

## **APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION**

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All of the above resolutions adopted by the Board of Directors, except those in (vi), (vii) and (xiv) must be approved by more than a two-thirds vote of the Directors, may be approved by a simple majority of votes by the Directors.

Meetings of the Board of Directors shall be convened at least four times a year and be called by the chairman of the Board of Directors. Meetings of the Board of Directors shall be attended by more than one-half of the Directors (including Directors that appoint in writing other Directors to attend the Board of Directors in their place pursuant to the provisions of the Articles of Association) before the Board of Directors meeting can be convened.

Where Directors have associated relationship with the enterprises mentioned in any resolution made by the Board of Directors, such directors shall neither vote on the said resolutions nor act as proxies for other directors to exercise their voting right upon the said resolutions. Such meetings of the Board of Directors may not be held unless attended by more than half of all the non-associated Directors, and resolutions adopted at such meeting shall be passed by more than half of all the non-associated Directors. Where the number of the non-associated Directors attending the meeting of the Board of Directors is less than three, the matters shall be submitted to the general shareholders' meeting for examination and deliberation.

The meeting of the Board of Directors shall require the attendance of the Directors in person. Where the Directors are with good reason unable to attend the meeting, they may in writing entrust other Directors to do so. The written power of attorney shall indicate the name of each proxy, entrusted matters, scope of authorization and validity, and shall be signed by or marked with the seal of each principal. Directors who attend the meeting of the Board of Directors as proxies shall exercise their rights in capacity of Director within the scope of authorization. Where the Directors fail to attend the meeting of the Board of Directors and further fail to entrust representatives to do so on their behalf, it shall be deemed that they have waived their voting rights at such meeting.

Where the Directors fail to attend in person two consecutive meetings of the Board of Directors and further fail to entrust other Directors to attend the meeting, they shall be deemed incapable of performing their duties and the Board of Directors shall propose a general shareholders' meeting to replace such Directors.

Each Director has one vote. When the number of affirmative votes equals the number of dissenting votes, the chairman of the Board of Directors is entitled to one additional vote.

### **(6) Independent Non-executive Director**

At least one-third of member of the Board of Directors shall be the independent non-executive Directors and the amount shall not be less than three. At least one independent non-executive Director shall have applicable professional qualification or are equipped with applicable accounting or relevant financial management expertise. At least one independent non-executive Director resides in Hong Kong.

## **APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION**

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### **(7) Secretary of the Board of Directors**

Our Company shall have one secretary of the Board of Directors. The secretary of the Board of Directors must be a natural person with the requisite expertise and experience and be appointed by the Board of Directors.

### **(8) Secretary of the Company**

Our Company shall have one Secretary of the Company to make sure that the Directors achieve good communication and have complied with the policies and procedures of the Board of Directors. The Board of Directors is responsible for selection, appoint or dismissal of the Secretary of the Company and shall approval the relevant decision through meetings of the Board of Directors rather than through written resolution.

The Secretary of the Company shall be the one that equipped with applicable education and academic background, expertise and qualification or experience that in view of the HKEx, can make it qualified as the Secretary of the Company. Our Company can select the Secretary of the Company from employees who are familiar with the daily business of the Company or hire a service agency as the Secretary of the Company.

### **(9) Board of Supervisors**

Our Company shall set up a Board of Supervisors.

The Board of Supervisors consists of three Supervisors and includes one chairman. The chairman of the Board of Supervisors shall be elected and dismissed by more than a two-thirds vote of the members of the Board of Supervisors.

The Board of Supervisors shall consist of shareholder representative Supervisors and employee representative Supervisors which account for no less than one-third of the Board of Supervisors of our Company. The Supervisors assumed by the employee representatives shall be elected and dismissed democratically by the employees.

Meetings of the Board of Supervisors shall be attended by more than half of the Supervisors before it may be convened. Resolutions of the Board of Supervisors shall require approval from two-third of all the Supervisors.

The Supervisors serve three-year terms. The Supervisors may, after the expiration of the term of office, be re-elected and re-appointed.

The Directors and senior management shall not also serve as Supervisors.

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The Board of Supervisors is responsible to the general Shareholders' meeting and lawfully exercises the following powers:

- i. Examine the financial standing of our Company;
- ii. Supervise the duties performing of Directors and senior management so as to ensure that said Directors and senior management shall not be in violation of any laws, administrative regulations or the Articles of Association of the Company when performing their duties, and put forward suggestions for dismissing any Directors or senior management who are in breach of the laws, administrative regulations, the Articles of Association or resolutions of the general Shareholders' meetings;
- iii. Require the Directors and senior management to take corrective measures when their actions are detrimental to our interests;
- iv. Verify the financial information such as the financial reports, business reports and profit distribution plans to be submitted by the Board to the general shareholders' meetings and, should any queries arise, to authorize, in the name of our Company, a re-examination by the certified public accountants and practicing auditors;
- v. Propose to convene an extraordinary general meeting, where the Board of Directors fails to perform the duties in relation to convening or presiding over the general shareholders' meeting, to convene and preside over the general Shareholders' meeting;
- vi. Submit proposals at the general shareholders' meetings;
- vii. Propose to convene extraordinary meetings of the Board of Directors;
- viii. Represent our Company in negotiating with or in bringing actions against the Directors and senior management in accordance with *Company Law*;
- ix. Investigate into any abnormalities in operation of our Company; if necessary, to engage accounting firms, law firms and other professional institutions to assist its work, and the expenses shall be borne by our Company;
- x. Other powers and duties stipulated in the Articles of Association.

The Supervisors may attend the meetings of the Board of Directors, query or provide suggestions on the resolutions of the Board meeting.

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## **APPENDIX VI      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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### **(10) President**

Our Company has one president, appointed or dismissed by the Board of Directors.

The president is responsible to the Board of Directors and exercises the following powers:

- i. Be in charge of the producing and operational management of our Company and report to the Board of Directors on work;
- ii. To organize the enforcement of resolutions of the Board of Directors;
- iii. Organize the implementation of the annual operation plans and investment schemes decided by the Board of Directors;
- iv. Formulate the structure scheme of the internal management agency of our Company;
- v. Formulate the structure scheme of the branch of our Company;
- vi. Formulate the substantial management system of our Company;
- vii. Formulate the detailed rules of our Company;
- viii. Propose the appointment or dismissal of the executive vice president, vice president, financial officer to the Board of Directors;
- ix. Appoint or dismiss other management personnel except those who shall be appointed or dismissed by the Board of Directors;
- x. Other responsibilities authorized by the Articles of Association and the Board of Directors.

### **(11) Reserves**

When the annual after-tax earnings of our Company are distributed, our Company must allocate 10% of the earnings to our statutory reserve.

When the total amount of the statutory reserve reaches or exceeds 50% of our Company's registered capital, no more allocations need to be provided.

If our statutory reserve is insufficient to offset our losses incurred during the previous year, the earnings generated during the current year must be used to make up the losses before allocating the statutory reserve in accordance with the requirements set forth in the preceding paragraph.

## APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

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After allocation to the statutory reserve from the after-tax earnings of our Company, we may also allocate to the reserves at will from after-tax earnings in line with the resolution(s) adopted at the general shareholders' meeting.

After our Company has made up its losses and made allocations to its common reserve fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders, unless otherwise specified by these Articles of Association.

If the general shareholders' meeting violates the provisions in the preceding paragraph and profits are distributed to the shareholders before the company makes up for losses or makes allocations to the statutory reserve fund, the profits distributed in violation of the provisions must be returned by such shareholders to the company.

The shares held by our Company itself shall not be subject to profit distribution.

Our reserves must be used only for offsetting our losses, expanding the scale of business and operations or for conversion into capital to increase our capital, but the capital reserve shall not be used to offset our losses.

Where the statutory reserve converses into capital, the remaining statutory reserve shall not be less than 25% of the registered capital of our Company before such conversion.

### **(12) Settlement of Dispute**

Our Company shall comply with the following rules governing the settlement of disputes:

- i. Whenever there occur any dispute or claim between holders of the overseas listed foreign shares and our Company, holders of the overseas listed foreign shares and our Company's Directors, Supervisors, president or other senior management, or holders of the overseas listed foreign shares and holders of domestic shares and unlisted foreign shares regarding the rights or obligations relating to the affairs of our Company conferred or imposed by the Articles of Association, *the Company Law* or any other relevant laws and administrative regulations, such disputes or claims shall be referred by the relevant parties to arbitration.

Where the aforesaid dispute or claim of rights is referred to arbitration, the entire claim or the dispute as a whole must be referred to arbitration, and any parties who have a cause of action based on the same facts giving rise to the dispute or the claim or whose participation is necessary for the settlement of such dispute or claim, are bound by the award of the arbitration provided that such person is our Company or a shareholder of our Company, a Director, a Supervisor, president or other senior management.

Disputes in relation to the definition of shareholders and disputes in relation to the shareholders' register need not be resolved by arbitration;

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**APPENDIX VI      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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- ii. A claimant may elect for arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Centre (“HKIAC”) in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body so elected by the claimant.

If a claimant elects for arbitration at HKIAC, any party to the dispute or claim may request the arbitration to be conducted in Shenzhen in accordance with the Securities Arbitration Rules of the HKIAC;

- iii. The laws of the PRC are applicable to the arbitration for the disputes or claims of rights referred to in paragraph (i), unless otherwise provided in the laws and administrative regulations;
- iv. The award of an arbitration body shall be final and binding on all parties.



## APPENDIX VII

## STATUTORY AND GENERAL INFORMATION

### A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES

#### 1. Incorporation

On December 17, 2008, our Predecessor was established in the PRC with an initial registered capital of RMB5,000,000. It was restructured into a joint stock company with limited liability and our Company was established in the PRC on June 28, 2017. We have a registered place of business in Hong Kong at 54/F, Hopewell Centre, 183 Queen's Road East, Hong Kong and registered as a non-Hong Kong company in Hong Kong on August 14, 2018 under Part 16 of the Companies Ordinance. Ms. Cheung Yuet Fan and Ms. Chan Suet Lam have been appointed as our authorized representatives for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the PRC, it is subject to the relevant PRC laws and regulations and the Articles of Association. Accordingly, our corporate structure and Articles of Association are subject to the PRC Company Law and other relevant laws of the PRC. A summary of our Articles of Association is set out in Appendix VI to this document.

#### 2. Changes in the registered capital of our Company and subsidiaries

The following alterations of the registered capital of our Company and its subsidiaries have taken place within the two years preceding the date of this document:

##### **Our Company (including the Predecessor)**

- (i) On April 24, 2017, the registered capital of the Predecessor increased from RMB173,680,000 to RMB188,780,000.
- (ii) On June 28, 2017, we converted our net asset equivalent to RMB210,000,000 into 210,000,000 Shares, at the price of RMB1.00 per Share.

##### **Zhejiang Jinshanzi Network Technology Co., Ltd.\* (浙江金扇子網絡科技有限公司) ("Zhejiang Jinshanzi")**

On June 19, 2017, the registered capital of Zhejiang Jinshanzi increased from RMB10,000,000 to RMB12,500,000.

##### **Ningbo New Century Manju Hotel Management Co., Ltd.\* (寧波開元曼居酒店管理有限公司) ("Ningbo Manju")**

On June 29, 2017, the registered capital of Ningbo Manju increased from RMB1,000,000 to RMB5,000,000.

## APPENDIX VII

## STATUTORY AND GENERAL INFORMATION

### 3. Shareholders’ resolutions

On June 15, 2018, resolutions were passed by our Shareholders pursuant to which, amongst others:

- (i) the [REDACTED] by our Company of the H Shares of nominal value of RMB1.00 each up to 25% of the total issued share capital after the [REDACTED] of the H Shares and subsequent [REDACTED] of such H Shares on the Stock Exchange;
- (ii) the granting of the [REDACTED] in respect of no more than 15% of the number of H Shares [REDACTED] as above-mentioned;
- (iii) subject to the completion of the [REDACTED], the Articles of Association have been approved and adopted (which shall only become effective from the [REDACTED]) and the Board has been authorized to amend the Articles of Association in accordance with any comments from the Stock Exchange and the PRC Government;
- (iv) approving the Board to handle all matters relating to, among other things, the [REDACTED] of the H Shares and the [REDACTED] of H Shares on the Stock Exchange.

### 4. Reorganization

The companies comprising our Group underwent a reorganization in preparation for the [REDACTED]. Please refer to the section headed “History, Reorganization and Corporate Structure” in this document for further details.

## B. FURTHER INFORMATION ABOUT OUR BUSINESS

### 1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company within the two years preceding the date of this document and are or may be material:

- (i) a share transfer agreement dated March 31, 2017 executed between New Century Hotel Management, New Century Tourism and Hangzhou New Century Senpo Tourism Investment Co., Ltd.\* (杭州開元森泊旅遊投資有限公司) (“**Hangzhou Senpo**”), pursuant to which New Century Tourism and Hangzhou Senpo agreed to transfer their respective 40.0% and 60.0% equity interests in Changxing New Century Wonderland Resort Co., Ltd.\* (長興開元芳草地酒店有限公司) at an aggregate consideration of RMB40.0 million;

## APPENDIX VII

## STATUTORY AND GENERAL INFORMATION

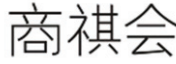
- (ii) a capital increase agreement dated April 24, 2017 executed between New Century Hotel Management, Ningbo Meishan Bonded Area Kairui Shiqi Investment Management Partnership (Limited Partnership)\* (寧波梅山保稅港區開瑞世祺投資管理合夥企業(有限合夥)) (“**Kairui Shiqi**”) and Ningbo Meishan Bonded Area Kaihui Taiheng Investment Management Partnership (Limited Partnership)\* (寧波梅山保稅港區開匯泰亨投資管理合夥企業(有限合夥)) (“**Kaihui Taiheng**”), pursuant to which Kairui Shiqi agreed to subscribe for registered capital in the amount of approximately RMB3.0 million and Kaihui Taiheng agreed to subscribe for registered capital in the amount of approximately RMB12.1 million in New Century Hotel Management;
- (iii) a share transfer agreement dated September 15, 2017 executed between our Company and Shaoxing Yuzhuang New Century Hotel Management Co., Ltd.\* (紹興禹莊開元酒店管理有限公司) (“**Shaoxing Yuzhuang**”), pursuant to which our Company agreed to transfer its 100% equity interests in Shaoxing Dayu New Century Resort Co., Ltd.\* (紹興大禹開元度假村有限公司) to Shaoxing Yuzhuang at a consideration of RMB11.0 million;
- (iv) a share transfer agreement dated October 31, 2017 executed between our Company, Suzhou Olin Chuntian Business Hotel Co., Ltd.\* (蘇州市奧林春天商務酒店有限公司) (“**Suzhou Olin**”), pursuant to which Suzhou Olin agreed to transfer 100% equity interests in Suzhou Qiju Hotel Management Co., Ltd.\* (蘇州祺聚酒店管理有限公司) to Suzhou Olin at a consideration of approximately RMB3.2 million;
- (v) an indemnity undertaking dated July 15, 2018 executed by New Century Tourism in favor of our Company with respect to unpaid social insurance fund and housing provident fund contributions;
- (vi) a deed of Hong Kong trademark license dated August 20, 2018 entered into between Tecway Real Estate Limited and our Company with respect to the grant of the right to use certain trademarks in Hong Kong free of royalty (the “**Deed of Hong Kong Trademark License**”);
- (vii) the Deed of Non-Competition; and
- (viii) [REDACTED].

## APPENDIX VII STATUTORY AND GENERAL INFORMATION

### 2. Intellectual property rights of our Company

#### (i) Trademarks

- (a) As at the Latest Practicable Date, our Company had registered the following trademarks in the PRC which we consider to be material to our business:

| No. | Registration No. | Trademark                                                                           | Registered Owner | Class | Period of Validity                    |
|-----|------------------|-------------------------------------------------------------------------------------|------------------|-------|---------------------------------------|
| 1.  | 1055880          |    | Our Company      | 42    | July 14, 1997 – July 13, 2027         |
| 2.  | 4949494          |    | Our Company      | 43    | October 14, 2009 – October 13, 2019   |
| 3.  | 4834903          |    | Our Company      | 43    | July 21, 2009 – July 20, 2019         |
| 4.  | 9102368          |    | Our Company      | 43    | February 7, 2012 – February 6, 2022   |
| 5.  | 9102389          |   | Our Company      | 44    | February 7, 2012 – February 6, 2022   |
| 6.  | 9102435          |  | Our Company      | 41    | February 21, 2012 – February 20, 2022 |
| 7.  | 9102449          |  | Our Company      | 41    | February 21, 2012 – February 20, 2022 |
| 8.  | 9102458          |  | Our Company      | 41    | June 14, 2016 – June 13, 2022         |
| 9.  | 9095430          |  | Our Company      | 43    | July 14, 2012 – July 13, 2022         |
| 10. | 9095425          |  | Our Company      | 43    | May 21, 2012 – May 22, 2022           |
| 11. | 9095421          |  | Our Company      | 43    | May 21, 2012 – May 20, 2022           |

## APPENDIX VII STATUTORY AND GENERAL INFORMATION

| No. | Registration No. | Trademark                                                                           | Registered Owner | Class | Period of Validity                      |
|-----|------------------|-------------------------------------------------------------------------------------|------------------|-------|-----------------------------------------|
| 12. | 10705970         | 开元臻宝                                                                                | Our Company      | 30    | June 14, 2013 – June 13, 2023           |
| 13. | 9868567          | 开元齐味                                                                                | Our Company      | 43    | October 21, 2012 – October 20, 2022     |
| 14. | 10024899         | 开元玉玺                                                                                | Our Company      | 30    | November 28, 2012 – November 27, 2022   |
| 15. | 10024867         | 开元龙禧                                                                                | Our Company      | 30    | November 28, 2012 – November 27, 2022   |
| 16. | 10024880         | 开元通宝                                                                                | Our Company      | 30    | November 28, 2012 – November 27, 2022   |
| 17. | 14092030         | 开元名庭                                                                                | Our Company      | 43    | November 21, 2015 – November 20, 2025   |
| 18. | 14092050         | 开元名郡                                                                                | Our Company      | 43    | August 28, 2015 – August 27, 2025       |
| 19. | 15036092         | 开元颐居                                                                                | Our Company      | 43    | August 14, 2015 – August 13, 2025       |
| 20. | 14986144         |    | Our Company      | 43    | December 28, 2015 – December 27, 2025   |
| 21. | 821929           |  | Our Company      | 42    | March 7, 1996 – March 6, 2026           |
| 22. | 15963077         | 开元芳草地                                                                               | Our Company      | 43    | February 21, 2016 – February 20, 2026   |
| 23. | 16147305         | 元悦                                                                                  | Our Company      | 30    | March 14, 2016 – March 13, 2026         |
| 24. | 16176557         | 元梦                                                                                  | Our Company      | 20    | March 28, 2016 – March 27, 2026         |
| 25. | 16176591         | 元梦                                                                                  | Our Company      | 35    | March 28, 2016 – March 27, 2026         |
| 26. | 16176663         | 璧萝                                                                                  | Our Company      | 33    | March 21, 2016 – March 20, 2026         |
| 27. | 16176694         | 璧萝酒庄                                                                                | Our Company      | 33    | March 21, 2016 – March 20, 2026         |
| 28. | 16176749         | 萃萝酒庄                                                                                | Our Company      | 33    | March 21, 2016 – March 20, 2026         |
| 29. | 16176751         | 萃萝                                                                                  | Our Company      | 33    | March 21, 2016 – March 20, 2026         |
| 30. | 17612833         | 开元森泊                                                                                | Our Company      | 43    | September 28, 2016 – September 27, 2026 |
| 31. | 9670038          | 开元·曼居酒店                                                                             | Our Company      | 43    | May 14, 2014 – May 13, 2024             |
| 32. | 18475044         | 开元大酒店                                                                               | Our Company      | 43    | March 21, 2017 – March 20, 2027         |

## APPENDIX VII STATUTORY AND GENERAL INFORMATION

| No. | Registration No. | Trademark                                                                                                                                         | Registered Owner                                                                                            | Class | Period of Validity                    |
|-----|------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|-------|---------------------------------------|
| 33. | 18475579         | 开元度假村                                                                                                                                             | Our Company                                                                                                 | 43    | March 21, 2017 – March 20, 2027       |
| 34. | 6939728          |                                                                  | Our Company                                                                                                 | 43    | June 14, 2010 – June 13, 2020         |
| 35. | 9079444          |                                                                  | Our Company                                                                                                 | 33    | May 28, 2012 – May 27, 2022           |
| 36. | 19481510         | 开元传家                                                                                                                                              | Our Company                                                                                                 | 43    | May 14, 2017 – May 13, 2027           |
| 37. | 19876789         | 开元观堂                                                                                                                                              | Our Company                                                                                                 | 43    | June 28, 2017 – June 27, 2027         |
| 38. | 20367600         | <br>开元·颐居<br>KAIYUAN LIFE                                        | Our Company                                                                                                 | 43    | August 7, 2017 – August 6, 2027       |
| 39. | 14189194         | <br>开元酒店<br>NEW CENTURY<br>HOTELS & RESORTS                      | Our Company                                                                                                 | 43    | January 21, 2018 – January 20, 2028   |
| 40. | 14189258         | <br>浙江开元酒店管理有限公司<br>ZHEJIANG KAIYUAN HOTEL MANAGEMENT CO., LTD. | Our Company                                                                                                 | 43    | January 20, 2018 – January 20, 2028   |
| 41. | 24406578         | 开元悦居                                                                                                                                              | Our Company                                                                                                 | 43    | May 28, 2018 – May 27, 2028           |
| 42. | 13758089         | 金扇子科技                                                                                                                                             | Zhejiang Jinshanzi                                                                                          | 42    | February 21, 2015 – February 20, 2025 |
| 43. | 22974468         | 芳草青青房车营地                                                                                                                                          | Our Company                                                                                                 | 43    | February 28, 2018 – February 27, 2028 |
| 44. | 26406849         | 开元美途                                                                                                                                              | Our Company                                                                                                 | 43    | February 14, 2018 – February 13, 2028 |
| 45. | 22665331         | 元梦                                                                                                                                                | Our Company                                                                                                 | 20    | September 7, 2018 – September 6, 2028 |
| 46. | 27809380         | 开元美极                                                                                                                                              | Our Company                                                                                                 | 43    | October 28, 2018 – October 27, 2028   |
| 47. | 27807064         | 开元·阿缇客                                                                                                                                            | Our Company                                                                                                 | 43    | October 28, 2018 – October 27, 2028   |
| 48. | 27801502         | 阿缇客                                                                                                                                               | Our Company                                                                                                 | 43    | October 28, 2018 – October 27, 2028   |
| 49. | 27460424         | 西子灶<br>XIZI WOK                                                                                                                                   | Zhejiang New Century Hotel Management Co., Ltd. Zhuji Yaojiang Grand New Century* (浙江开元酒店管理股份有限公司诸暨耀江名都大酒店) | 43    | October 21, 2018 – October 20, 2028   |
| 50. | 26423742         | 现代派                                                                                                                                               | Our Company                                                                                                 | 43    | November 28, 2018 – November 27, 2028 |

## APPENDIX VII STATUTORY AND GENERAL INFORMATION

| No. | Registration No. | Trademark                                                                                      | Registered Owner   | Class | Period of Validity                    |
|-----|------------------|------------------------------------------------------------------------------------------------|--------------------|-------|---------------------------------------|
| 51. | 28709452         | 欢评                                                                                             | Zhejiang Jinshanzi | 42    | December 7, 2018 – December 6, 2028   |
| 52. | 28693598         | 欢评                                                                                             | Zhejiang Jinshanzi | 35    | December 7, 2018 – December 6, 2028   |
| 53. | 28652723         | 欢修                                                                                             | Zhejiang Jinshanzi | 42    | December 7, 2018 – December 6, 2028   |
| 54. | 28637515         | 欢修                                                                                             | Zhejiang Jinshanzi | 35    | December 7, 2018 – December 6, 2028   |
| 55. | 28654276         | 欢修                                                                                             | Zhejiang Jinshanzi | 37    | December 14, 2018 – December 13, 2028 |
| 56. | 28898686         | MAYART                                                                                         | Our Company        | 43    | December 14, 2018 – December 13, 2028 |
| 57. | 28839438         | <br>开元芳草地乡村酒店 | Our Company        | 43    | December 21, 2018 – December 20, 2028 |
| 58. | 28841786         | <br>开元芳草地乡村酒店 | Our Company        | 43    | December 21, 2018 – December 20, 2028 |

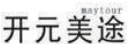
- (b) Pursuant to the Deed of Hong Kong Trademark License, Tecway Real Estate Limited has granted, free of any royalty or other payments, to our Company and other members of our Group, a non-exclusive and non-transferable right and license to use the following trademarks registered in Hong Kong under its name in connection with the business of our Group. For further information, see the section headed "Connected Transactions" in this document.

| No. | Registration No. | Trademark                                                                                                                                                                                                                                                                                                                                                                                                                           | Class                     | Expiry Date      |
|-----|------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|------------------|
| 1.  | 300313244        | 开元                                                                                                                                                                                                                                                                                                                                                                                                                                  | 41, 42, 43                | November 3, 2024 |
| 2.  | 301848439        | KaiYuan/Kaiyuan/Kai Yuan (in series)                                                                                                                                                                                                                                                                                                                                                                                                | 36, 37, 39, 40, 41 and 43 | March 2, 2021    |
| 3.  | 301856359        | 開元                                                                                                                                                                                                                                                                                                                                                                                                                                  | 36, 37, 39, 40, 41 and 43 | March 10, 2021   |
| 4.  | 301856377        | <br>(in series)                                                                                                                                                                                                                                                                                                                                  | 36, 37, 39, 40, 41 and 43 | March 10, 2021   |
| 5.  | 301856368        | <br>New Century<br><br>New Century<br><br>New Century<br><br>New Century<br>(in series) | 36, 37, 39, 40, 41 and 43 | March 10, 2021   |
| 6.  | 301865674        | 開元<br>New Century                                                                                                                                                                                                                                                                                                                                                                                                                   | 36, 37, 39, 40, 41 and 43 | March 21, 2021   |



## APPENDIX VII STATUTORY AND GENERAL INFORMATION

- (c) As at the Latest Practicable Date, we made applications for the registration of the following trademarks in the PRC which we consider to be material to our business:

| No. | Trademark No. | Trademark                                                                           | Applicant   | Class | Application Date |
|-----|---------------|-------------------------------------------------------------------------------------|-------------|-------|------------------|
| 1.  | 24406590      |    | Our Company | 43    | May 31, 2017     |
| 2.  | 28822913      |    | Our Company | 43    | January 22, 2018 |
| 3.  | 28837158      |    | Our Company | 43    | January 22, 2018 |
| 4.  | 34322647      | 开元曼居精选酒店                                                                            | Our Company | 43    | October 29, 2018 |
| 5.  | 34340157      | 开元曼居臻选酒店                                                                            | Our Company | 43    | October 29, 2018 |
| 6.  | 34343932      | 开元曼居智选酒店                                                                            | Our Company | 43    | October 29, 2018 |
| 7.  | 34362037      |    | Our Company | 43    | October 30, 2018 |
| 8.  | 35146901      |   | Our Company | 43    | December 6, 2018 |
| 9.  | 35856535      |  | Our Company | 43    | January 10, 2019 |

### (ii) Patents

As at the Latest Practicable Date, we have registered the following patents in the PRC under the name of New Century Hotel Management:

| No. | Name                                                                     | Class             | Patent No.    | Application Date | Patent Publication Date | Period of Validity |
|-----|--------------------------------------------------------------------------|-------------------|---------------|------------------|-------------------------|--------------------|
| 1.  | Packing case (New Century Zhenbao – Mid-Autumn version)* (包装盒(开元臻寶-醉中秋)) | Appearance Design | 2016302262583 | June 7, 2016     | July 21, 2017           | 10 years           |



## APPENDIX VII STATUTORY AND GENERAL INFORMATION

### (iii) Software copyrights

As at the Latest Practicable Date, we have registered the following software copyrights in the PRC under the name of Zhejiang Jinshanzi which are material in relation to our business:

| No. | Name of Software                                                                             | Registration No. | Development Completion Date | First Publication Date |
|-----|----------------------------------------------------------------------------------------------|------------------|-----------------------------|------------------------|
| 1.  | Jinshanzi Smart SMS Trigger Platform Software*<br>(金扇子(SHANDS)<br>智慧短信觸發平台軟件 V1.0)           | 2014SR147146     | January 15, 2014            | January 15, 2014       |
| 2.  | Jinshanzi Business Smart Management Software*<br>(金扇子(SHANDS)<br>商務智能管理軟件 V1.0)              | 2014SR138465     | April 18, 2014              | April 20, 2014         |
| 3.  | Jinshanzi Hotel Industry Business Smart Analysis System*<br>(金扇子SHANDS酒店行業商務<br>智能分析系統 V1.0) | 2016SR359985     | July 29, 2016               | Not yet published      |
| 4.  | Jinshanzi Duty Arrangement Software* (金扇子MOD值班達人軟件 V1.0)                                     | 2017SR247962     | January 10, 2017            | January 18, 2017       |
| 5.  | Jinshanzi Hotel Breakfast Management System*<br>(金扇子SHANDS BAS酒店早餐<br>管理系統 V3.1)             | 2017SR645704     | May 30, 2014                | May 30, 2014           |
| 6.  | Jinshanzi USL Joint Sales System*<br>(金扇子USL聯合銷售系統<br>V3.9.0)                                | 2017SR647434     | January 1, 2017             | Not yet published      |
| 7.  | Jinshanzi Valuable Ticket Management System*<br>(金扇子ETS有價票券管理系統<br>V3.5.1)                   | 2017SR647429     | December 29, 2016           | Not yet published      |
| 8.  | Jinshanzi Shangqi Yuexuan Points Mall System*<br>(金扇子商祺悅送積分商城系統<br>V1.0)                     | 2018SR706396     | January 8, 2018             | January 8, 2018        |
| 9.  | Shanzi review software*<br>(扇子歡評軟件)                                                          | 2018SR602309     | March 15, 2018              | Not yet published      |
| 10. | Shanzi Business travel system*<br>(扇子商旅系統)                                                   | 2018SR706140     | December 26, 2017           | January 12, 2018       |

## APPENDIX VII STATUTORY AND GENERAL INFORMATION

### (iv) Copyrights

As at the Latest Practicable Date, our Company has registered the following copyrights in the PRC which are material in relation to our business:

| No. | Name of Copyright                                                      | Registration No.     | Development Completion Date | First Publication Date | Registered Owner             |
|-----|------------------------------------------------------------------------|----------------------|-----------------------------|------------------------|------------------------------|
| 1.  | Marble Crystal (Video)* (大理石結晶(視頻))                                    | 國作登字-2017-I-00460081 | November 1, 2016            | November 1, 2016       | New Century Hotel Management |
| 2.  | Fish Cooking (Video)* (整魚服務(視頻))                                       | 國作登字-2017-I-00460248 | November 1, 2016            | November 1, 2016       | New Century Hotel Management |
| 3.  | Red Wine Service (Video)* (紅葡萄酒服務(視頻))                                 | 國作登字-2017-I-00460246 | November 1, 2016            | November 1, 2016       | New Century Hotel Management |
| 4.  | Conference Desk Design and Service Technique (PPT)* (會議台型設計與服務技巧(PPT)) | 國作登字-2017-I-00460092 | November 1, 2016            | November 1, 2016       | New Century Hotel Management |
| 5.  | Dust Wiping for Guestrooms (Video)* (客房抹塵(視頻))                         | 國作登字-2017-I-00460084 | November 1, 2016            | November 1, 2016       | New Century Hotel Management |
| 6.  | Food Serving (Video)* (派菜服務(視頻))                                       | 國作登字-2017-I-00460082 | November 1, 2016            | November 1, 2016       | New Century Hotel Management |
| 7.  | Landline Disinfection (Video)* (電話機消毒(視頻))                             | 國作登字-2017-I-00459440 | November 1, 2016            | November 1, 2016       | New Century Hotel Management |
| 8.  | White Wine Service (Video)* (白葡萄酒服務(視頻))                               | 國作登字-2017-I-00460247 | November 1, 2016            | November 1, 2016       | New Century Hotel Management |
| 9.  | Banquet Design and Service Technique (PPT)* (宴會設計與服務技巧(PPT))           | 國作登字-2017-I-00460091 | November 1, 2016            | November 1, 2016       | New Century Hotel Management |
| 10. | Wood Floor Waxing (Video)* (木地板打蠟(視頻))                                 | 國作登字-2017-I-00460083 | November 1, 2016            | November 1, 2016       | New Century Hotel Management |
| 11. | Technique of Wiping Goblet (Video)* (擦拭高腳杯的方法(視頻))                     | 國作登字-2017-I-00460086 | November 1, 2016            | November 1, 2016       | New Century Hotel Management |
| 12. | Carpet Cleaning (Video)* (地毯除漬(視頻))                                    | 國作登字-2017-I-00460089 | November 1, 2016            | November 1, 2016       | New Century Hotel Management |
| 13. | Marble Daily Maintenance (Video)* (大理石日常保養(視頻))                        | 國作登字-2017-I-00460087 | November 1, 2016            | November 1, 2016       | New Century Hotel Management |

## APPENDIX VII STATUTORY AND GENERAL INFORMATION

| No. | Name of Copyright                                                                   | Registration No.         | Development<br>Completion Date | First<br>Publication Date | Registered Owner                |
|-----|-------------------------------------------------------------------------------------|--------------------------|--------------------------------|---------------------------|---------------------------------|
| 14. | Carpet Wash<br>(Video)*<br>(地毯抽洗(視頻))                                               | 國作登字-2017-I-<br>00460088 | November 1,<br>2016            | November 1,<br>2016       | New Century Hotel<br>Management |
| 15. | Wine Display and<br>Opening (Video)*<br>(葡萄酒的展示與開<br>啟(視頻))                         | 國作登字-2017-I-<br>00460090 | November 1,<br>2016            | November 1,<br>2016       | New Century Hotel<br>Management |
| 16. | Dust Cleaning<br>(Video)*<br>(推塵(視頻))                                               | 國作登字-2017-I-<br>00460077 | November 1,<br>2016            | November 1,<br>2016       | New Century Hotel<br>Management |
| 17. | Guestroom<br>Maintenance<br>(Video)*<br>(客房保養(視頻))                                  | 國作登字-2017-I-<br>00460085 | November 1,<br>2016            | November 1,<br>2016       | New Century Hotel<br>Management |
| 18. | Carpet Dry-clean<br>(Video)*<br>(地毯乾洗(視頻))                                          | 國作登字-2017-I-<br>00460074 | November 1,<br>2016            | November 1,<br>2016       | New Century Hotel<br>Management |
| 19. | Washroom Cleaning<br>(Video)*<br>(衛生間清潔(視頻))                                        | 國作登字-2017-I-<br>00460076 | November 1,<br>2016            | November 1,<br>2016       | New Century Hotel<br>Management |
| 20. | Method of Cleaning<br>the Decanter<br>(Video)* 清洗醒酒<br>器的方法(視頻)                     | 國作登字-2017-I-<br>00460079 | November 1,<br>2016            | November 1,<br>2016       | New Century Hotel<br>Management |
| 21. | Food Serving<br>(Video)*<br>(上菜服務(視頻))                                              | 國作登字-2017-I-<br>00460078 | November 1,<br>2016            | November 1,<br>2016       | New Century Hotel<br>Management |
| 22. | Vacuum Cleaning and<br>Vacuum Cleaner<br>Maintenance<br>(Video)* (吸塵與吸<br>塵器保養(視頻)) | 國作登字-2017-I-<br>00488473 | November 1,<br>2016            | November 1,<br>2016       | New Century Hotel<br>Management |
| 23. | New Century<br>Fangcaodi Panggu*<br>(開元芳草地胖咕)                                       | 浙作登字11-2017-<br>F-9836   | July 19, 2017                  | Not yet published         | Our Company                     |

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## APPENDIX VII STATUTORY AND GENERAL INFORMATION

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(v) *Domain names*

As at the Latest Practicable Date, our Company has registered the following domain names which we consider to be material to our business:

| No. | Domain Name             | Expiry Date     |
|-----|-------------------------|-----------------|
| 1   | 10105050.cn             | July 5, 2022    |
| 2   | 10105050.com.cn         | July 5, 2022    |
| 3   | centuryclub.cn          | August 6, 2020  |
| 4   | centuryhotels.cn        | August 6, 2020  |
| 5   | centuryhotels.com.cn    | August 6, 2020  |
| 6   | Kaiyuancareer.cn        | March 22, 2023  |
| 7   | Kaiyuancareer.com       | March 22, 2023  |
| 8   | Kaiyuancareer.com.cn    | March 22, 2023  |
| 9   | Kaiyuanhotels.cn        | August 6, 2020  |
| 10  | Kaiyuanhotels.com.cn    | August 6, 2020  |
| 11  | Kaiyuanhotels.net       | August 10, 2022 |
| 12  | ncreit.cn               | April 16, 2021  |
| 13  | ncreit.com.cn           | April 16, 2021  |
| 14  | nchotels.cn             | August 10, 2022 |
| 15  | nchotels.com.cn         | August 10, 2022 |
| 16  | newcenturyhotels.cn     | August 10, 2022 |
| 17  | newcenturyhotels.com.cn | August 10, 2022 |
| 18  | shands.cn               | March 20, 2020  |
| 19  | shands.com.cn           | March 20, 2020  |

Except as disclosed in this sub-section headed "2. Intellectual property rights of our Company", there are no other trade or service marks, patents, other intellectual property rights which are or may be material in relation to our business.

## APPENDIX VII STATUTORY AND GENERAL INFORMATION

### C. FURTHER INFORMATION ABOUT DIRECTORS, SUBSTANTIAL SHAREHOLDERS AND EXPERTS

#### 1. Disclosure of interests

Immediately following completion of the [REDACTED], the interests and short positions of each of our Directors and chief executive in the Shares, underlying Shares or debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) once the H Shares are listed, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to us and the Stock Exchange or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein once the H Shares are listed, will be as follows:

| Name of Director   | Nature of Interest                                  | Class of Shares                | Shares held as at the Latest Practicable Date and immediately prior to the [REDACTED] |            | Shares held immediately following the completion of the [REDACTED] (assuming no exercise of the [REDACTED]) |            |                                                                                           | Shares held immediately following the completion of the [REDACTED] (assuming full exercise of the [REDACTED]) |            |                                                                     |
|--------------------|-----------------------------------------------------|--------------------------------|---------------------------------------------------------------------------------------|------------|-------------------------------------------------------------------------------------------------------------|------------|-------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|------------|---------------------------------------------------------------------|
|                    |                                                     |                                | Number                                                                                | Company    | Number                                                                                                      | of Shares  | Approximate % of interest in the total share capital of our relevant class of our Company | Number                                                                                                        | of Shares  | Approximate % of interest in the total share capital of our Company |
|                    |                                                     |                                |                                                                                       |            |                                                                                                             |            |                                                                                           |                                                                                                               |            |                                                                     |
| Mr. Jin Wenjie     | Interest of a controlled corporation <sup>(2)</sup> | Unlisted Shares <sup>(3)</sup> | [REDACTED]                                                                            | [REDACTED] | [REDACTED]                                                                                                  | [REDACTED] | [REDACTED]                                                                                | [REDACTED]                                                                                                    | [REDACTED] | [REDACTED]                                                          |
| Mr. Chen Miaoqiang | Interest of a controlled corporation <sup>(4)</sup> | Unlisted Shares                | [REDACTED]                                                                            | [REDACTED] | [REDACTED]                                                                                                  | [REDACTED] | [REDACTED]                                                                                | [REDACTED]                                                                                                    | [REDACTED] | [REDACTED]                                                          |
|                    | Interest of spouse <sup>(5)</sup>                   | Unlisted Shares                | [REDACTED]                                                                            | [REDACTED] | [REDACTED]                                                                                                  | [REDACTED] | [REDACTED]                                                                                | [REDACTED]                                                                                                    | [REDACTED] | [REDACTED]                                                          |

*Notes:*

- All interests stated are long positions.
- Mr. Jin Wenjie is a general partner of and has full control over Ningbo Meishan Bonded Area Kaihui Taiheng Investment Management Partnership (Limited Partnership)\* (寧波梅山保稅港區開匯泰亨投資管理合夥企業(有限合夥)) ("Kaihui Taiheng"). Mr. Jin Wenjie is deemed under the SFO to be interested in the Shares held by Kaihui Taiheng.
- Unlisted Shares include Domestic Shares and Unlisted Foreign Shares. Based on the advice of our PRC Legal Adviser, holders of Unlisted Foreign Shares and Domestic Shares are entitled to the same rights. Holders of Unlisted Foreign Shares and Domestic Shares will be treated as if they are in the same class of shares under the SFO upon the completion of the [REDACTED].
- Mr. Chen Miaoqiang is a general partner of and has full control over Ningbo Meishan Bonded Area Kairui Shiqi Investment Management Partnership (Limited Partnership)\* (寧波梅山保稅港區開瑞世祺投資管理合夥企業(有限合夥)) ("Kairui Shiqi"). Mr. Chen Miaoqiang is deemed under the SFO to be interested in the Shares held by Kairui Shiqi.
- Ms. Lu Jun, the spouse of Mr. Chen Miaoqiang, owns as to 20.0% limited partnership interests in Kairui Shiqi, and as such, Mr. Chen Miaoqiang is deemed under the SFO to be interested in the Shares held by Kairui Shiqi.

## APPENDIX VII STATUTORY AND GENERAL INFORMATION

### 2. Substantial Shareholders

So far as our Directors are aware, immediately following the completion of the [REDACTED] and assuming the [REDACTED] is not exercised, the following persons will have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO.

| Name of Shareholder                    | Nature of Interest                                     | Class of Shares                | Number     | Approximate % of interest in the relevant class of Shares | Approximate % of interest in the total share capital of our Company |
|----------------------------------------|--------------------------------------------------------|--------------------------------|------------|-----------------------------------------------------------|---------------------------------------------------------------------|
| New Century Tourism                    | Beneficial owner                                       | Unlisted Shares <sup>(2)</sup> | [REDACTED] | [REDACTED]                                                | [REDACTED]                                                          |
|                                        | Interest of a controlled corporation <sup>(3)</sup>    | Unlisted Shares                | [REDACTED] | [REDACTED]                                                | [REDACTED]                                                          |
| Mr. Chen Miaolin                       | Interest of a controlled corporation <sup>(3)(4)</sup> | Unlisted Shares                | [REDACTED] | [REDACTED]                                                | [REDACTED]                                                          |
| NC Hotels Investment Holding Pte. Ltd. | Interest of a controlled corporation                   | Unlisted Shares                | [REDACTED] | [REDACTED]                                                | [REDACTED]                                                          |

Notes:

- All interests stated are long positions.
- Unlisted Shares include Domestic Shares and Unlisted Foreign Shares. Based on the advice of our PRC Legal Adviser, the holders of Unlisted Foreign Shares and Domestic Shares are entitled to the same rights. Holders of Unlisted Foreign Shares and Domestic Shares will be treated as if they are in the same class of shares under the SFO upon the completion of the [REDACTED].
- New Century Tourism is a general partner of and has full control over Hangzhou Qianhe Qiju Investment Management Partnership (Limited Partnership)\* (杭州謙和祺聚投資管理合夥企業(有限合夥)) (“Qianhe Qiju”). New Century Tourism is deemed under the SFO to be interested in the Shares held by Qianhe Qiju.
- Mr. Chen Miaolin indirectly owns as to 85.2% of the equity interests in New Century Tourism and Mr. Chen Miaolin is deemed under the SFO to be interested in the Shares held by New Century Tourism.

### 3. Service contracts

We have entered into a service contract with each of our Directors and Supervisors in respect of, among other things, compliance with relevant laws and regulations, observation of the Articles of Association and provisions on arbitration. Except as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

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## STATUTORY AND GENERAL INFORMATION

### 4. Directors' and Supervisors' remuneration

The aggregate remuneration before tax (including fees, salaries, contributions to pension schemes, benefits in kind and discretionary bonuses) paid to our Directors and Supervisors for the year ended December 31, 2017 and the eight months ended August 31, 2018 was approximately RMB2.8 million and RMB1.6 million, respectively.

Under arrangements currently in force, we estimate the total compensation before tax payable to our Directors and Supervisors for the year ended December 31, 2018 was approximately RMB3.3 million.

### 5. Agency fees or commissions received

Save as disclosed in the sub-section headed "D. Other information – 2. Joint Sponsors" in this appendix, none of our Directors nor the experts named in the sub-section headed "D. Other information – 7. Consents of experts" in this appendix had received any agency fee or commission from our Company within the two years preceding the date of this document.

### 6. Disclaimers

Except as disclosed in this document:

- (i) our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the [REDACTED], have an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly interested in 10% or more of the nominal value or any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of its subsidiaries;
- (ii) none of our Directors or chief executive of our Company has any interest or short position in shares, underlying shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they are taken or deemed to have under such provisions of the SFO) or would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or would be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to us and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange;
- (iii) none of the Directors nor the experts named in the sub-section headed "D. Other information – 5. Qualification of experts" in this appendix is interested in the promotion, or in any assets which, within the two years immediately preceding the issue of this document, have been acquired or disposed of by, or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

## APPENDIX VII

## STATUTORY AND GENERAL INFORMATION

- (iv) none of the Directors nor the experts named in the sub-section headed "D. Other information – 5. Qualification of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole;
- (v) none of the Directors nor the experts named in the sub-section headed "D. Other information – 5. Qualification of experts" in this appendix has any shareholding in any member of our Group nor the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (vi) so far as is known to our Directors, none of our Directors, their respective associates or our Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in our five largest customers or our five largest suppliers of our Company; and
- (vii) none of our Directors has any existing or proposed service contracts with any member of our Company (which is not determinable by the employer within one year without payment of compensation (other than statutory compensation)).

### D. OTHER INFORMATION

#### 1. Litigation

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, no member of our Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is pending or threatened by or against any member of our Group.

#### 2. Joint Sponsors

China Galaxy International Securities (Hong Kong) Co., Limited, being one of the Joint Sponsors, has provided a loan to Huge Harvest International Limited, a limited liability company incorporated in the BVI which is owned as to 83.90% by Mr. Chen Miaolin, one of our non-executive Directors and Controlling Shareholders and as such, China Galaxy International Securities (Hong Kong) Co., Limited is not an independent sponsor according to the independence criteria applicable to sponsors set out in Rule 3.07 of the Listing Rules.

Apart from China Galaxy International Securities (Hong Kong) Co., Limited, the other Joint Sponsor, BOCOM International (Asia) Limited satisfies the independence criteria applicable to sponsors set out in Rule 3.07 of the Listing Rules.

The aggregate sponsor fee of the Joint Sponsors is HK\$[REDACTED], and is payable by our Company.

The Joint Sponsors have made an application on behalf of our Company to the Stock Exchange for [REDACTED] of and permission to deal in the Shares in [REDACTED] and to be [REDACTED] as mentioned herein. All necessary arrangements have been made to enable the relevant Shares to be admitted into [REDACTED].



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## STATUTORY AND GENERAL INFORMATION

### 3. Promoters

The information about our promoters is as follows:

#### No. Name of the promoters

1. Zhejiang Xiaoshan Kaiyuan Tourism Group Co., Ltd\* (開元旅業集團有限公司)
2. NC Hotels Investment Holding Pte. Ltd.
3. Ningbo Meishan Bonded Area Kaihui Taiheng Investment Management Partnership (Limited Partnership)\* (寧波梅山保稅港區開匯泰亨投資管理合夥企業(有限合夥))
4. Ocean Century Hotels Limited
5. Hangzhou Qianhe Qiju Investment Management Partnership (Limited Partnership)\* (杭州謙和祺聚投資管理合夥企業(有限合夥))
6. Ningbo Meishan Bonded Area Kairui Shiqi Investment Management Partnership (Limited Partnership)\* (寧波梅山保稅港區開瑞世祺投資管理合夥企業(有限合夥))
7. Shanghai Ouling Bohui Investment Center (Limited Partnership)\* (上海鷗翎鉅卉投資中心(有限合夥))

Save for the [REDACTED] and as disclosed in this document, within the two years immediately preceding the date of this document, no cash, security or benefit has been paid, allotted or given or is proposed to be paid, allotted or given to the promoters named above in connection with the [REDACTED] or the related transactions described in this document.

### 4. Preliminary expenses

We have not incurred any preliminary expenses.

### 5. Qualification of experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given their opinions or advice in this document are as follows:

| Name                                                           | Qualifications                                                                                                                                                                           |
|----------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| China Galaxy International Securities (Hong Kong) Co., Limited | a licensed corporation licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO |
| BOCOM International (Asia) Limited                             | a licensed corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO                                  |
| PricewaterhouseCoopers                                         | certified public accountants                                                                                                                                                             |

## APPENDIX VII

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| Name                            | Qualifications    |
|---------------------------------|-------------------|
| King & Wood Mallesons           | PRC legal adviser |
| Cushman & Wakefield Limited     | property valuer   |
| Horwath HTL (Beijing) Co., Ltd. | industry expert   |

### 6. Compliance adviser

Our Company has agreed to appoint BOCOM International (Asia) Limited as our compliance adviser upon [REDACTED] in compliance with Rule 3A.19 of the Listing Rules.

### 7. Consents of experts

Each of the parties listed in the sub-section headed "D. Other Information – 5. Qualification of experts" in this appendix has given and has not withdrawn its written consent to the [REDACTED] of this document, with the inclusion of its letters and/or reports and/or opinions and/or summary thereof (as the case may be) and/or references to its name included herein in the form and context in which they respectively appear.

### 8. Binding effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

### 9. No material adverse change

Save as disclosed in the sub-section headed "Financial Information – No material adverse change" in this document, our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Company or our subsidiaries since August 31, 2018 and up to the date of this document.

### 10. Miscellaneous

Save as disclosed in this document:

- (i) Within the two years preceding the date of this document:
  - (a) no share or loan capital of our Company or any of its subsidiaries has been issued, agreed to be issued or is proposed or intended to be [REDACTED] fully or partly paid either for cash or for a consideration other than cash;
  - (b) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries and no commission has been paid or is payable in connection with the issue or sale of any capital of our Company or any of its subsidiaries; and

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- (c) no commission has been paid or is payable to any person for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares or debenture of our Company or any of its subsidiaries;
- (ii) no founder, management or deferred shares or any debentures of our Company or any of our subsidiaries have been issued or agreed to be issued;
- (iii) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
- (iv) our Company has no outstanding convertible debt securities or debentures;
- (v) there are no arrangements under which future dividends are waived or agreed to be waived;
- (vi) there are no procedures for the exercise of any right of pre-emption or transferability of subscription rights;
- (vii) there are no contracts for hire or hire purchase of plant to or by us for a period of over one year which are substantial in relation to our business;
- (viii) there have been no interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months;
- (ix) none of the experts named in the sub-section headed "D. Other Information – 5. Qualification of experts" in this appendix:
  - (a) is interested beneficially or non-beneficially in any securities in any member of our Group, including the Shares; or
  - (b) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group, including the Shares;
- (x) the Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited liability company and does not expect to be subject to the Law of the PRC on Sino-foreign Equity Joint Ventures;
- (xi) no company within our Group is presently listed on any stock exchange or traded on any trading system; and
- (xii) in case of any discrepancies between the English language version and the Chinese language version of this document, the English version shall prevail.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries.

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## APPENDIX VIII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

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### DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration include:

- (a) a copy of the [REDACTED];
- (b) the written consents referred to in the sub-section headed "Appendix VII – Statutory and General Information – D. Other Information – 7. Consents of experts" in this document; and
- (c) a copy of each of the material contracts referred to in the sub-section headed "Appendix VII – Statutory and General Information – B. Further Information about our Business – 1. Summary of material contracts" in this document.

### DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Dechert at 31/F, Jardine House, One Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

- (a) the Articles of Association;
- (b) the accountant's report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this Document;
- (c) the report on the unaudited [REDACTED] financial information of our Group from PricewaterhouseCoopers, the text of which is set out in Appendix IIA to this document;
- (d) the letters from PricewaterhouseCoopers and the Joint Sponsors relating to the profit estimate, the texts of which are set out in Appendix IIB to this document;
- (e) the audited consolidated financial statements of our Group for the years ended December 31, 2015, 2016 and 2017;
- (f) the property valuation report (including the valuation certificates) prepared by Cushman & Wakefield Limited relating to the property interests of our Group, the text of which is set out in Appendix III to this document;
- (g) the PRC legal opinion(s) dated the [REDACTED] issued by King & Wood Mallesons, our legal advisers as to PRC laws;
- (h) the material contracts referred to in the sub-section headed "Appendix VII – Statutory and General Information – B. Further Information about our Business – 1. Summary of material contracts" in this document;

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**APPENDIX VIII** **DOCUMENTS DELIVERED TO THE REGISTRAR OF**  
**COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION**

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- (i) the written consents referred to in the sub-section headed "Appendix VII – Statutory and General Information – D. Other Information – 7. Consents of experts" in this document;
- (j) the service contracts referred to in the sub-section headed "Appendix VII – Statutory and General Information – C. Further information about Directors, substantial Shareholders and experts – 3. Service contracts" in this document;
- (k) the PRC Company Law, together with its unofficial English translation;
- (l) the Mandatory Provisions, together with its unofficial English translation;
- (m) the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies, together with its unofficial English translation; and
- (n) the industry report prepared by Horwath HTL (Beijing) Co., Ltd..