



**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)

Stock code : 1158



**2018**  
Annual Report

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## CORPORATE INFORMATION

### FIRST BOARD OF DIRECTORS

#### Executive Directors

Mr. Jin Wenjie (*Chairman*)  
Mr. Chen Miaoqiang

#### Non-executive Directors

Mr. Chen Miaolin  
Mr. Chen Canrong  
Mr. Jiang Tianyi  
Mr. Zhang Chi

#### Independent non-executive Directors

Mr. Zhang Rungang  
Mr. Khoo Wun Fat William  
Ms. Qiu Yun

### FIRST SUPERVISORY COMMITTEE

#### Supervisors

Ms. Zha Xianghong (*Chairman*)  
Mr. Guo Mingchuan  
Ms. Liu Hong

### NOMINATION COMMITTEE

Mr. Zhang Rungang (*Chairman*)  
Mr. Chen Canrong  
Mr. Khoo Wun Fat William

### AUDIT COMMITTEE

Ms. Qiu Yun (*Chairman*)  
Mr. Jiang Tianyi  
Mr. Khoo Wun Fat William

### REMUNERATION COMMITTEE

Mr. Zhang Rungang (*Chairman*)  
Mr. Chen Miaolin  
Ms. Qiu Yun

### JOINT COMPANY SECRETARIES

Mr. Li Donglin  
Ms. Chan Suet Lam

### AUTHORIZED REPRESENTATIVE

Mr. Jin Wenjie  
Ms. Chan Suet Lam

### AUDITOR

PricewaterhouseCoopers

### LEGAL ADVISERS

As to Hong Kong law:

Dechert

As to PRC law:

King & Wood Mallesons

### COMPANY NAME IN CHINESE

浙江開元酒店管理股份有限公司

### COMPANY NAME IN ENGLISH

Zhejiang New Century Hotel  
Management Co., Ltd.

### H SHARE REGISTRAR

Tricolor Investor Services Limited  
Level 22, Hopewell Centre,  
183 Queen's Road East,  
Hong Kong

### REGISTERED OFFICE

18th Floor,  
No. 818 Shixinzhong Road,  
Beigan Subdistrict,  
Xiaoshan District,  
Hangzhou,  
Zhejiang Province,  
the People's Republic of China  
(the "PRC")

### PRINCIPAL PLACE OF BUSINESS IN THE PRC

18th Floor,  
No. 818 Shixinzhong Road,  
Beigan Subdistrict,  
Xiaoshan District,  
Hangzhou,  
Zhejiang Province,  
PRC

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre,  
183 Queen's Road East,  
Hong Kong

### LISTING EXCHANGE OF THE COMPANY'S H SHARES

Main Board of The Stock Exchange  
of Hong Kong Limited  
("the Stock Exchange")

### H SHARES ABBREVIATION

NC HOTEL

### STOCK CODE

01158

### WEBSITE

<http://www.kaiyuanhotels.com>

## OPERATING DATA

### HOTEL OPERATION SEGMENT

During the Reporting Period, the key performance indicators of our hotels in operation (including our owned hotels and leased hotels) are as follows:

#### Accommodation:

Item	Average Occupancy Rate		Average Rate (RMB/per room)		RevPAR (RMB)	
	2018	2017	2018	2017	2018	2017
Upscale business hotels	<b>65.4%</b>	68.2%	<b>500.5</b>	501.8	<b>327.3</b>	342.5
Upscale resort hotels	<b>52.4%</b>	52.0%	<b>697.5</b>	695.9	<b>365.2</b>	361.8
Mid-scale full service hotels	<b>64.2%</b>	64.4%	<b>357.8</b>	355.1	<b>229.9</b>	228.5
Mid-scale select service hotels	<b>64.3%</b>	64.1%	<b>349.6</b>	347.6	<b>224.8</b>	222.7

Upscale business hotels were affected by the decline of market sentiment in some cities, and led to the decrease in occupancy rate. The occupancy rates and ADRs of other product lines maintained at similar level as compared with the previous year.

#### F&B services

	2018	2017
Average spending per customer (RMB)	<b>125.7</b>	125.9
Utilization rate of seats	<b>73.0%</b>	69.3%
Revenue per sq.m. of banquet rooms (RMB)	<b>13,518.8</b>	11,891.1

During the Reporting Period, average spending per customer maintained of the same level as that of the previous year. The utilization rate of seats increased by 3.7 percentage points year-on-year due to the increase in the number of customers of our F&B services. The revenue per sq.m. of banquet rooms increased by 13.7% year-on-year due to the increase in the demand of the wedding banquet market.

### HOTEL MANAGEMENT SEGMENT

During the Reporting Period, the Group recorded revenue of approximately RMB169.0 million from hotel management segment, representing a year-on-year increase of 23.5%, primarily due to the increased number of newly opened managed hotels. Compared with last year, the revenue growth rate of the hotel management segment further increased. The revenue generated from the hotel management segment as a percentage of the total revenue increased steadily to 9.4% from 8.2% in 2017, and its gross profit margin increased to 94.2%, which became a major driving force for the Group's profit growth.

## OPERATING DATA

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

	As at December 31, 2018		As at December 31, 2017	
	No. of hotels	No. of hotel rooms	No. of hotels	No. of hotel rooms
Operated hotels	31	7,501	25	6,528
Managed hotels	119	26,785	91	20,928
Total	150	34,286	116	27,456

The following table sets forth the breakdown of hotels by hotel categories as at December 31, 2018.

	No. of operated hotels (No. of hotel rooms) in operation	No. of managed hotels (No. of hotel rooms) in operation	No. of operated hotels (No. of hotel rooms) under pipeline	No. of managed hotels (No. of hotel rooms) under pipeline	Total no. of hotels (No. of hotel rooms) in operation and under pipeline
Upscale business hotels	7(2,840)	39(13,416)	1(306)	26(7,955)	73(24,517)
Upscale resort hotels	4(830)	13(2,839)	–	33(7,918)	50(11,587)
Mid-scale full service hotels	8(2,199)	23(5,397)	–	53(13,940)	84(21,536)
Mid-scale select service hotels	12(1,632)	44(5,133)	3(518)	53(5,748)	112(13,031)
Total	31(7,501)	119(26,785)	4(824)	165(35,561)	319(70,671)

## OPERATING DATA

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

	<b>No. of operated hotels (No. of hotel rooms) in operation</b>	<b>No. of managed hotels (No. of hotel rooms) in operation</b>	<b>No. of operated hotels (No. of hotel rooms) under pipeline</b>	<b>No. of managed hotels (No. of hotel rooms) under pipeline</b>	<b>Total no. of hotels (No. of hotel rooms) in operation and under pipeline</b>
First-tier cities	3(421)	7(1,899)	1(156)	3(544)	14(3,020)
New first-tier cities	14(4,025)	33(6,237)	1(202)	44(8,300)	92(18,764)
Second-tier cities	10(2,259)	32(7,723)	–	36(7,663)	78(17,645)
Third-tier cities	4(796)	26(5,714)	2(466)	51(11,125)	83(18,101)
Others	–	21(5,212)	–	31(7,929)	52(13,141)
<b>Total</b>	<b>31(7,501)</b>	<b>119(26,785)</b>	<b>4(824)</b>	<b>165(35,561)</b>	<b>319(70,671)</b>

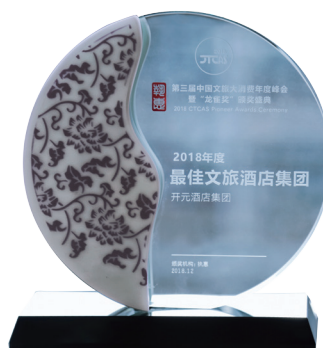
Note: Others include Xinyu, Fuzhou, Enshi, Heze, Shangqiu, Zunyi, Zhangjiajie, Wencang, Suzhou, Yichun, Bozhou, Xuancheng, Shiyan, Xishuangbanna, Shaoyang, Anshun, Lu'an, Kaifeng, Chizhou, Beihai, Huangshi, Yingtan, Zhumadian, Qiandongnanzhou, Dali, Fuzhou and Ya'an.



## MAJOR AWARDS

In 2018, New Century Hotel Group ranked 23rd in terms of scale among global hotel groups, up by 4 places as compared with the previous year. The “New Century” brand was widely recognized by the market and the industry. During the Reporting Period, it has won many awards, as follows:

- Ranking 23rd among Global Hotel Groups – selected by the *Hotels* magazine of America
- Top 60 Hotel Groups in China (ranking 15th) – selected by China Tourist Hotel Association
- Best Domestic Hotel Group
- China’s Best Employer among Hotel Groups – Selected by China Tourist Hotel Association
- Award for Outstanding Innovation of Chinese chain Hotel Brands
- 2018 Top 10 Hotel Management Companies in China
- Most Valuable Hotel Management Company in China 2018
- 2018 Contribution Award for Hotel Talent Development in China
- Inclusion on the 2018 Chinese Brand Value List
- 2017 Top 10 Influential Brands of Domestic Upscale Hotels
- 2017 Top 10 Influential Brands of Boutique Hotels
- National Hotel Management Group with the Highest Development Potential
- Longque Award for Best Cultural Travel Hotel Management
- Longque Award for Best Lifestyle Accommodation Brand
- Top 10 Popular Tourist Brands in Beijing
- Top 10 Most Popular Tourist Hotels in Zhejiang
- Zhejiang Government Quality Nomination Award 2017 – nominated by Zhejiang Quality and Technical Supervision Bureau





## DEFINITIONS AND GLOSSARY

“Articles of Association”	Articles of Association of Zhejiang New Century Hotel Management Co., Ltd. (H shares)
“Birof by New Century”	Birof by New Century, a company incorporated in France on December 11, 2014, and is indirectly owned as to 83.9% by Mr. Chen Miaolin
“our Company”, “Company”, “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
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and for the purposes of this Annual Report, means New Century Tourism, Mr. Chen Canrong, Mr. Chen Miaolin and Mr. Zhang Guanming
“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 the benefit of its subsidiaries)
“first-tier cities”	Beijing and Shanghai
“Group” or “our Group” or “New Century Hotel 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
“H Share(s)”	overseas listed foreign shares in our ordinary share capital with a nominal value of RMB1.00 each, which were subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“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
“Independent Auditor’s Report”	the report of our independent auditors, the text of which is set out on page 87 of this Annual Report
“Listing”	the listing of the H Shares on the Main Board of the Stock Exchange

## DEFINITIONS AND GLOSSARY

“Listing Date”	March 11, 2019, the date on which the H Shares were listed and from which dealings therein were permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“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 three and four 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 three and four Star-rated hotels rated by China National Star Rating System
“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 60.05% and 39.95% by Spearhead Investments Ltd and Sky Town Investment Ltd, respectively, both of which are indirectly wholly-owned by New Century REIT
“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 AND GLOSSARY

“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
“new first-tier cities”	Nanjing, Dalian, Tianjin, Ningbo, Chengdu, Hangzhou, Suzhou, Xi’an, Zhengzhou, Chongqing, Changsha, Qingdao
“Prospectus”	the prospectus for the Company dated February 26, 2019
“Report Period”	the year ended December 31, 2018
“RMB” or “Renminbi”	the lawful currency of the PRC
“second-tier cities”	Lanzhou, Nanchang, Nantong, Taizhou, Hefei, Jiaxing, Changzhou, Xuzhou, Yangzhou, Wuxi, Jinan, Haikou, Wenzhou, Yantai, Shaoxing, Jinhua, Changchun
“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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“third-tier cities”	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
“Upscale Hotel”	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

## FINANCIAL HIGHLIGHTS

2018

2017

### Items of Consolidated Statement of Comprehensive Income

(RMB'000)

Revenue	<b>1,797,968</b>	1,664,643
Gross profit	<b>468,150</b>	431,941
Net profit and total comprehensive income	<b>189,069</b>	166,567
Profit attributable to owners of the Company	<b>186,787</b>	163,042
Earnings per share attributable to owners of the Company (in RMB)	<b>0.89</b>	0.78

### Items of Consolidated Balance Sheet

(RMB'000)

Total assets	<b>1,546,845</b>	1,312,651
Total liabilities	<b>872,900</b>	783,558
Total equity	<b>673,945</b>	529,093
Total equity attributable to owners of the Company	<b>663,848</b>	513,796

## CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to present the annual results of Zhejiang New Century Hotel Management Co., Ltd. for the financial year ended December 31, 2018.

In 2018, under the development guidance of “full expansion and key breakthroughs” and focusing on our “asset-light” business model, the Company adhered to the principal of development first, constantly expanding corporate scale; and quality as the basis, constantly expanding corporate brand. The Company focused on strategic urban development, steadily developed upscale business hotels, actively developed resort hotels, vigorously developed mid-scale limited business hotels, accelerated the creation of new hotel brands, and pursued excellence in business results.

In 2018, sales revenue of the Company reached approximately RMB1,798.0 million, representing a year-on-year increase of approximately 8%. Net profit increased to approximately RMB189.1 million, representing a year-on-year increase of approximately 13.5%. Profit attributable to owners increased to approximately RMB186.8 million, representing a year-on-year increase of approximately 14.6%. These were mainly due to the improved operating results which were attributable to the expansion of the Company's scale of operations, enhanced reputation and the increase in market share. The Board recommended a final dividend of RMB0.36 per share (tax inclusive).

### **FOCUSING ON STRATEGIC URBAN DEVELOPMENT, AND STEADILY IMPROVING THE COMPANY'S OPERATIONAL CAPACITY**

During the Reporting Period, under the development guidance of “full expansion and key breakthroughs”, the Company strengthened the expansion strategy of “the development core of the first-tier cities including Beijing, Shanghai, Guangzhou and Shenzhen, and the development focus of regional core cities and provincial capital cities such as Chengdu and Wuhan, and the development key of strategic cities such as Dalian and Xiamen, which greatly improved the coverage of the New Century Hotel brand in key cities.

For upscale business hotels, the Company worked intensively on the Zhejiang base, actively expanded into core cities of Beijing, Shanghai, Guangzhou and Shenzhen, focused on strategic cities and cities along the Belt and Road, and made breakthroughs in provincial capitals and surrounding cities in provinces we had not entered. For resort hotels, it focused on well-known tourist cities in key areas of China and 5A/4A scenic spots with large traffic or high tourist popularity. For mid-scale hotels, it focused on economically developed cities, well-known tourist cities and cities where New Century high-star hotels were already in operation, and vigorously developed entrusted management projects.

As of December 31, 2018, our hotel portfolio consisted of 150 hotels in operation with over 34,000 hotel rooms throughout the PRC. We were at the forefront of the global hotel groups in terms of the number of hotel rooms. The Company's core competitiveness has been greatly improved, and its operational capacity has steadily increased.

## CHAIRMAN'S STATEMENT

### **STRENGTHENING THE BUILDING OF SERVICE BRAND AND MANAGEMENT BRAND, WHICH SIGNIFICANTLY IMPROVED BRAND VALUE**

During the Reporting Period, the Company focused on increasing the Group's management and control of brands, strictly controlled the brand fit of hotel projects, clarified and standardized brand positioning and naming management in project development, and licensed brand according to brand positioning. Meanwhile, it established and improved the brand management and operation mechanism, brand reputation management, crisis warning and tracking, assessment, etc., to enhance the Company's brand assets management capabilities.

During the Reporting Period, the Company evolved from a marketing-driven business model to one intelligently connecting customers, attracting customers with brands, keeping customers loyal with products, and creating data value. The brand value has increased significantly. It received various awards and recognition at home and abroad.

### **IMPROVING THE COMPANY'S MARKETING NETWORK SYSTEM AND BUILDING NEW HOTEL OPERATION PRODUCTS**

During the Reporting Period, the Company set up a resource platform for cross-border cooperation to conduct cooperation in project expansion, member sharing, customer source transfer, technology development, etc., to accelerate the Company's development with external forces, successfully establish an advanced private cloud technology platform, and build new hotel operation and marketing products.

### **CORPORATE STRATEGIES AND FUTURE DEVELOPMENT OUTLOOK**

The Company believes the following competitive strengths have provided a solid foundation for the Company's rapid development in the future: (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) the Company's diverse and effective hotel reservation channels and loyalty program provides wide hotel guest exposure; and (vi) experienced and professional management team and a dedicated workforce.

Looking forward to the future of China's hotel industry, the supply of upscale hotels will slowdown moderately, while the demand for upscale hotels is expected to grow steadily due to the factors such as the expansion of the middle class, the increase in residents' disposable income and financial accumulation, the improvement of scenic spots and transportation infrastructure, making the situation favourable to hotel operators. Mid-scale selected service leased hotel market is in the early stage of development and is set to benefit from the consumption upgrade for a long period of time.

## CHAIRMAN'S STATEMENT

On the other hand, in the upscale hotel management business, brand concentration is expected to increase, thus illustrating the market characteristic of “big ones remain big and strong ones remain strong”. As a service industry with high barriers to entry, upscale hotel management will be a blue ocean market with limited competition. As one of the leading upscale hotel management groups in China, the Company will benefit from the market development trend of brand concentration with its cost advantage.

The Company intends to seize the market opportunities by implementing the following strategies: (i) attract, retain and promote a dedicated, efficient and creative workforce; (ii) reinforce and enhance the Company's leading position in the upscale business hotels and resort hotels market; (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. The Company will continuously innovate our products and services, improve operational and management efficiency, serving hotel guests to their satisfaction while creating value for hotel owners.

Finally, I sincerely thank all employees and the management for their dedication and hard work, and their valuable contributions to the Company. We also thank all shareholders, landlords and business partners for their support of the Company. We believe that the successful listing of the Company on the Stock Exchange has proven our strength. We will continue to work hard to enhance the Company's value and reward investors with excellent performance!

**Jin Wenjie**

*Chairman*

Hangzhou, China

March 25, 2019

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## 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 (金文杰)	50	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 (陳妙強)	56	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 (陳妙林)	67	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 (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 (江天一)	37	November 23, 2016	November 23, 2016	Non-executive Director	Provision of guidance for the overall development of our Group	None
Mr. Zhang Chi (張弛)	44	November 23, 2016	November 23, 2016	Non-executive Director	Provision of guidance for the overall development of our Group	None
<b>Independent non-executive Directors</b>						
Mr. Zhang Rungang (張潤鋼)	60	June 28, 2017	June 28, 2017	Independent non-executive Director	Provision of independent advice to our Board	None
Mr. Khoo Wun Fat William (丘煥法)	39	August 13, 2018	August 13, 2018	Independent non-executive Director	Provision of independent advice to our Board	None
Ms. Qiu Yun (邱芸)	56	June 28, 2017	June 28, 2017	Independent non-executive Director	Provision of independent advice to our Board	None



## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Mr. Jin Wenjie** (金文杰), aged 50, is an executive director and chairman of the Board of Directors of our Company. Mr. Jin has over 10 years of corporate finance experience and over 10 years of hotel operation and management experience. From October 2003 to October 2007, Mr. Jin served as the general manager of Goldbond Venture Management Limited; from November 2007 to June 2008, he served as a director of Piper Jaffray & Co.'s Shanghai office and the head of China corporate finance; since February 2016, he has served as the vice president of New Century Tourism. Since May 2017, he has served as the chairman of the Board of Directors and non-executive director of New Century Asset Management Limited (the manager of New Century REIT). Mr. Jin obtained a bachelor's degree in energy engineering from Shanghai Jiao Tong University, a master's degree in law from Tongji University, and has his lawyer's qualification certificate of China. Interests in shares owned by Mr. Jin Wenjie are set out in the section headed "The interests or short positions of our Directors, Supervisors and chief executive in the Shares, underlying Shares or debentures of our Company or its associated corporation" in this Annual Report.

**Mr. Chen Miaoqiang** (陳妙強), aged 56, is an executive director and president of our Company. Mr. Chen is also the director of a number of subsidiaries of the Company. Mr. Chen has over 26 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 served as the property investment supervision manager at New Century Tourism from May 1998 to March 1999. He was the general manager of our New Century Grand Hotel Ningbo from January 2000 to January 2004. Mr. Chen obtained a bachelor's degree in physics from Hangzhou Normal University and a master's degree in Executive Master of Business Administration from Zhejiang University. Interests in shares owned by Mr. Chen Miaoqiang are set out in the section headed "The interests or short positions of our Directors, Supervisors and chief executive in the Shares, underlying Shares or debentures of our Company or its associated corporation" in this Annual Report.

### NON-EXECUTIVE DIRECTORS

**Mr. Chen Miaolin** (陳妙林), aged 67, is the founder and one of the Controlling Shareholders of our Group and a non-executive director and a member of the Remuneration Committee of the Company. He is also the vice president of China Tourism Association, the president of Zhejiang Provincial Tourism Association and the deputy chairman of Hangzhou Federation of Industry & Commerce. Mr. Chen has over 32 years of experience in hotel operation and management. From January 1987 to March 1998, Mr. Chen served as the general manager of Xiaoshan Guesthouse; from February 1994 to March 1998, he was the general manager of Xiaoshan New Century Tourism Co., Ltd.; from January 1998 to January 2001, he served as Chairman of the Board of Directors of Hangzhou New Century Real Estate Group Co., Ltd.; from January 2001 to July 2010, he served as Chairman and President of New Century Tourism; since January 2001, Mr. Chen has also served as a director of New Century Tourism; from July 2013 to May 2017, he served as Chairman of the Board of Directors of New Century Asset Management Limited. Mr. Chen obtained a master's degree in business administration from the Macau University of Science and Technology and is a senior economist certified by the Zhejiang Personnel Department. Interests in shares owned by Mr. Chen Miaolin are set out in the sections headed "The interests or short positions of our Directors, Supervisors and chief executive in the Shares, underlying Shares or debentures of our Company or its associated corporation" and "Interests or short positions of substantial shareholders in the Shares or underlying Shares of the Company" in this Annual Report.

**Mr. Chen Canrong** (陳燦榮), aged 55, is a non-executive director and a member of the Nomination Committee of the Company, and is one of the Controlling Shareholders. He is also the deputy chairman of the China Tourist Hotels Association and the deputy chairman of the Zhejiang Hotel Association. Mr. Chen has over 32 years of experience in hotel operation and management. From September 1987 to December 2000, Mr. Chen worked at Xiaoshan Guesthouse and held various positions including deputy general manager, executive deputy general manager and general manager. Since January 2000, he has successively served as Vice President, President and Director of New Century Tourism. In July 2014, he served as Director and Chairman of the Board of Directors of Zhejiang New Century Property Management Co., Ltd., a company listed on the National Equities Exchange and Quotations (stock code: 831971). Mr. Chen obtained a master's degree in Business Administration from the Macau University of Science and Technology.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Jiang Tianyi** (江天一), aged 37, is a non-executive director and a member of the Audit Committee of the Company. Mr. Jiang has over 13 years of experience in private equity investment. Mr. Jiang was an analyst at Deutsche Bank in Hong Kong from May 2004 to August 2006; he served as a director of The Carlyle Group from August 2006 to March 2016; since April 2016, he has been a co-founder and partner of Ocean Link Partners Limited (“Ocean Link”, a private equity investment firm focusing on travel related sectors in China) and 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 listed on the National Equities Exchange and Quotations (stock code: 839264), and a director of several portfolios of Ocean Link. Mr. Jiang obtained a bachelor’s degree in science from Columbia University.

**Mr. Zhang Chi** (張弛), aged 44, is a non-executive director of our Company. Mr. Zhang served as Vice President in the investment banking division at China International Capital Corporation Limited from December 1999 to May 2005; he served as Vice President of the M&A Department of Credit Suisse (Hong Kong) Limited from August 2005 to June 2006; he served as former global partner and managing director of The Carlyle Group from July 2006 to May 2016; since May 2016, he has been serving as managing director and supervisor of Greater China Region of General Atlantic LLC (an American global growth equity firm). Mr. Zhang received a bachelor’s degree in economics from Hefei University of Technology and a master’s degree in economics from Shanghai University of Finance and Economics. Mr. Zhang hold/held directorships in the following listed companies at present and in the past three years: served as the non-executive director of New Century Asset Management Limited (開元資產管理有限公司), the manager of New Century REIT (開元產業投資信託基金) from July 2013 to May 2016; served as the independent director of the 58.com Inc., a company listed on The New York Stock Exchange (stock code: WUBA) from December 2015 to present; served as the non-executive director of the Xiabuxiabu Catering Management (China) Holdings Co., Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 00520) from August 2017 to present.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Zhang Rungang** (張潤綱), aged 60, is an independent non-executive director and the chairman of the Remuneration Committee and the Nomination Committee of the Company. He is also a vice president of China Tourism Association. He has over 34 years of experience in the hospitality and tourism industry. From February 1985 to March 1995, Dr. Zhang served as the deputy general manager of Kunlun Hotel Beijing; from November 1996 to November 2000, he served as deputy general manager of the investment management department of Bank of China; from November 2000 to September 2004, he served as deputy director of the Quality Specification and Management Department of the China National Tourism Administration; from January 2005 to February 2016, he served as a director of BTG-Jianguo Hotel Management Co., Ltd.; from March 2014 to December 2015, he served as a director of Beijing Capital Tourism Group Co., Ltd.; since May 2017, he served as 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). Dr. Zhang received a bachelor’s degree from the International Institute of Politics and a doctoral degree in systems engineering from South China University of Technology in China. Dr. Zhang hold/held directorships in the following listed companies at present and in the past three years: served as the director of BTG Hotels Group Co., Ltd, a company listed on the main board of the Shanghai Stock Exchange (stock code: 600258) from May 2012 to present (served as the chairman of the Board of Directors from May 2012 to January 2017); served as the independent director of the China International Travel Service Corporation Limited, a company listed on the main board of the Shanghai Stock Exchange (stock code: 601888) from March 2017 to present.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Khoo Wun Fat William (丘煥法)**, aged 39, is an independent non-executive director and a member of the Audit Committee and the Nomination Committee of our Company. Mr. Khoo has over 11 years of experience in the legal industry. Mr. Khoo worked at P.C. Woo & Co.; he served as a trainee solicitor, a paralegal and an assistant solicitor of the firm, respectively, from July 2007 to April 2010; he was an assistant solicitor of Charltons from May 2010 to April 2011; he was an associate at DLA Piper Hong Kong from April 2011 to March 2014. In December 2014, Mr. Khoo founded Khoo & Co and served as a partner. Since December 2017, Mr. Khoo has been an independent non-executive director of Alpha Professional Holdings Limited (formerly known as Z-Obee Holdings Ltd.), a company listed on the Main Board of the Stock Exchange (Stock code: 948), and has been an independent non-executive director of Fameglow Holdings Limited (Stock code: 8603), a company listed on GEM operated by the Stock Exchange since September 2018. Mr. Khoo received a bachelor's degree in chemistry from the Chinese University of Hong Kong, a bachelor's degree in law from the City University of Hong Kong and a postgraduate certificate in law from the City University of Hong Kong and was admitted as a solicitor of the High Court of Hong Kong.

**Ms. Qiu Yu (邱斌)**, aged 56, is an independent non-executive director and the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. She is also a professor in the principles of accounting and financial management at the Business School of Ningbo University. She served 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. Ms. Qiu obtained her bachelor's degree in economic management from Fudan University (復旦大學) and a master's degree in business administration from the McGill University. 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). Ms. Qiu has the relevant experience with internal controls and reviewing and analysing audited financial statements of listed companies; and possesses the appropriate accounting and related financial management expertise knowledge required under Rule 3.10(2) and Rule 3.21 of the Listing Rules. Ms. Qiu hold/held directorships in the following listed companies at present and in the past three years: served as the independent director of the Yinyi Co., Ltd., a company listed on the main board of Shenzhen Stock Exchange (stock code: 000981) from July 2011 to October 2017; served as the independent non-executive director and the chairman of Audit Committee of the Youngor Group Co., Ltd., a company listed on the main board of the Shanghai Stock Exchange (stock code: 600177) from May 2014 to present; served as the independent non-executive director and the chairman of Audit Committee of the Rongan Property Co., Ltd., a company listed on the main board of the Shenzhen Stock Exchange (stock code: 000517) from June 2014 to present; served as the independent non-executive director and the chairman of Audit Committee of the Ningbo Powerway Alloy Material Company Incorporated, a company listed on the main board of the Shanghai Stock Exchange (stock code: 601137) from July 2015 to present.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### SUPERVISORS

Name	Age	Date of joining our Group	Date of appointment as Supervisor	Present position in our Company	Roles and responsibilities in our Group	Relationship with other Directors, Supervisors or members of the senior management
Ms. Zha Xianghong (查向宏)	47	November 23, 2016	November 23, 2016	Supervisor	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 (郭名川)	40	November 23, 2016	November 23, 2016	Supervisor	Supervision of the Board and the senior management of our Company	None
Ms. Liu Hong (劉虹)	49	October 1, 2014	June 28, 2017	Employee representative Supervisor	Supervision of the Board and the senior management of our Company	None

**Ms. Zha Xianghong** (查向宏), aged 47, 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. She has more than 21 years of experience in financial management. Ms. Zha has served as a supervising auditor, an audit manager, an audit director, an assistant to general manager of finance department and general manager of finance department of New Century Tourism. She is currently responsible for overseeing the financial and auditing operations of New Century Tourism Group. Ms. Zha obtained her MBA from Hunan University in Changsha, China in October 2014. She has been a qualified accountant in the PRC since April 2007.

**Mr. Guo Mingchuan** (郭名川), aged 40, has been a Supervisor of our Company since November 23, 2016, being responsible for overseeing the Board of Directors and senior management of our Company. He has more than 11 years of experience in private equity investment. Mr. Guo has served as an analyst at Morgan Stanley Private Equity, Deputy Director at American International Group Investment Corporation, Senior Investment Manager of The Carlyle Group, and Investment Director of AGIC Capital (漢德資本). He currently serves 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). 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 49, has been the employee representative supervisor of our Company since June 28, 2017, being responsible for overseeing the Board of Directors and senior management of our Company and has served as the director of human resources of our Company since October 2014. She has more than 31 years of experience in the hotel industry. Ms. Liu has served as the director of housekeeping of Xiaoshan Guesthouse, New Century City Hotel (開元城市酒店) and New Century Grand Hotel Hangzhou (杭州開元名都大酒店), the human resources director of New Century Grand Hotel Hangzhou, and the deputy director of general office of the labor union of New Century Tourism. Ms. Liu obtained her bachelor's degree in law from Zhejiang University in July 2000 and her qualification as a human resources manager of a first-class enterprise in December 2012.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### 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
Mr. Hou Frank Feng (侯峰)	56	July 1, 2010	Executive President	March 25, 2019	Overseeing the development and operation of mid-scale select hotels of our Group	None
Mr. Li Donglin (李東林)	44	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)	47	December 17, 2008	Vice President	June 26, 2017	Overseeing the human resources of our Group	None
Ms. Zhao Huajuan (趙華娟)	46	December 17, 2008	Chief Financial Officer	January 1, 2014	Overseeing our Group's financial and accounting operations	None
Mr. Dai Jianping (戴建平)	47	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 (陳文放)	41	January 1, 2011	Vice president	October 26, 2017	Overseeing the development of the Company's projects	None
Mr. Zhu Mingsheng (朱明生)	49	September 25, 2018	Vice president	March 25, 2019	Overseeing the brand and standardization work of our Company	None

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Hou Frank Feng (侯峰)**, aged 56, has been an executive president of the Company and a president of 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”) since March 25, 2019, being responsible for the operation of mid-scale select hotels of the Company and the management of the daily operations of our Group. Mr. Hou served as a vice president of our Company from July 2010 to March 2019. Mr. Hou has over 27 years of experience in the hotel industry. 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. Mr. Hou 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. He was a director of finance department in AON Plc. in the United States, a finance analyst of the investment division of Morgan Stanley, and a general manager at Nanjing Jinling Holdings Ltd. (南京金陵飯店集團有限公司). 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 July 1983 and obtained his master’s degree in hospitality management in Houston University in May 1993.

**Mr. Li Donglin (李東林)**, aged 44, has been a vice general manager of our Company from January 2014 to June 2017, the secretary to the Board since January 2017 and a vice president since June 2017, being responsible for oversight of our Group’s financial and accounting operations and overall secretarial matters of our Company. Mr. Li has been one of the joint company secretaries of our Company in July 2018. Mr. Li served as an assistant to the Chief Financial Officer, Assistant to General Manager, Deputy General Manager, and Vice President of our Group. Mr. Li has over 24 years of experience in financial management. 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), and an accounting manager, audit manager and capital resources manager of Zhejiang Huafu Huafang Group (浙江華孚華紡集團); he has worked as the assistant to the financial general manager and the audit director of New Century Tourism and an assistant to the chief financial officer at New Century Hotel Investment. Mr. Li has been an international certified financial engineer of the American Certification Institute and also accredited as a qualified company secretary by the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Mr. Li obtained a diploma of accounting from Jiangxi University of Finance and Economics (江西財經學院) in June 1995. He 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.

**Ms. Ye Lv (葉綠)**, aged 47, has been a vice president of our Company since June 2017, and is in charge of human resources department since July 2018, being responsible for overseeing the human resources of our Group. Ms. Ye has over 22 years of experience in the hotel industry. Ms. Ye was a housekeeping director at the New Century Resort Hangzhou (杭州開元之江度假村) and a housekeeping director, an assistant to general manager, and a vice general manager of the Group. Ms. Ye obtained a diploma in economic management from Zhejiang University (浙江大學) in July 1999.

**Ms. Zhao Huajuan (趙華娟)**, aged 46, has been the chief financial officer of our Company since January 2014, being responsible for overseeing our Group’s financial and accounting operations. Ms. Zhao has over 26 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), an audit officer at New Century Hotel Investment, and audit officer, assistant of financial officer, vice financial officer and chief financial officer at our Group. 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 47, 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 24 years of experience in hotel operation and management. Mr. Dai served as an assistant to general manager of Zhejiang Golden Horse Hotel (浙江金馬飯店), assistant to general manager of New Century Resort Hangzhou Zhijiang (杭州開元之江度假村), a deputy general manager of New Century Xiaoshan Guesthouse, the general manager of New Century Resort Hangzhou Zhijiang (杭州開元之江度假村), the general manager of Shaoxing Grand New Century Hotel (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) in January 2001 and a master's degree in hotel and tourism management in the Hong Kong Polytechnic University in October 2013.

**Mr. Chen Wenfang (陳文放)**, aged 41, has been the vice president of our Company since October 2017, being responsible for project development business of our Company. Mr. Chen served as sales director, marketing director of the Group, the general manager of Ningbo Shiqifang New Century Resort (寧波十七房開元度假村), and the general manager of New Century Resort Hangzhou Qiandao Lake (杭州千島湖開元度假村). Mr. Chen obtained an associate degree in tourism management from Shanghai Normal University (上海師範大學) in December 2002.

**Mr. Zhu Mingsheng (朱明生)**, aged 49, has been the vice president of our Company since March 2019, being responsible for the brand and standardization work of our Company. He served as the general manager of Information Department of Wanda Hotel Management, Vice President of Interstate China of Jinjiang Group and COO of WeHotel, Senior Vice President of Huazhu Hotels Group and COO of Hanting Business Department. Since September 2018, he has joined our Company as an assistant to the chairman. Mr. Zhu received his undergraduate degree in computer software from Beijing Institute of Technology in 1993. He obtained a master's degree in business administration from Nanjing University in 2005. He studied at the Purdue University in the United States of America from September to October 2006 as a Jinling Visiting Scholar.

### 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.

**Ms. Chan Suet Lam (陳雪霖)** was appointed as one of the joint company secretaries of our Company in July 2018, with effect from the Listing Date. Ms. Chan has over 14 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 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

Due to the complicated market and economic environment, the growth of the demand for the hotel industry was limited in 2018, but this has not changed the long-term trend of the increase in the concentration of the hotel industry and spending power of the consumers. The expansion of upscale hotels was normalized, and the competitive landscape of mid-scale hotels was more rational. Adhering to the mission of "Create good experience for its guests, create value for its owners", the Group promoted organizational innovation within the Group through internal restructuring, actively introduced external multi-platform cooperation, reinforced our leading position in the upscale hotel market while accelerating the layout planning in the midscale market, in order to meet the diversified demands for market consumption. Based on the development principle of "Speed, Quality and Efficiency", the Group focused on the strategic objectives, persisted in innovation for change, accelerated the optimization of the Group's platform and strengthened the formulation of service standards, enhanced the replication ability, which led to the profit structure being further optimized, the brand influence being further enhanced and the capability of sustainable development being further strengthened.

During the Reporting Period, the Group recorded revenue of approximately RMB1,798.0 million, representing an increase of approximately 8% as compared to the same period of last year, the operating profit of the Group was approximately RMB236.1 million, representing an increase of approximately 4.9% as compared to the same period of last year, the earnings before interest, tax, depreciation and amortization ("EBITDA") of the Group was approximately RMB303.9 million, representing an increase of approximately 5.6% as compared to the same period of last year, and the profit attributable to the owners of the Company was approximately RMB186.8 million, representing an increase of approximately 14.6% as compared with the same period of last year, primarily due to the growth of operating results brought by the scale expansion of our hotels.

During the year, the Group had 96 contracted hotels in total (2017: 53), with 38 opened hotels in total (2017: 22). The relatively rapid increase in the number of hotels under pipeline reflected the growing influence of New Century brand nationwide. As at December 31, 2018, our hotel portfolio consisted of 150 hotels in operation (2017: 116) with approximately 34,286 hotel rooms (2017: approximately 27,456) throughout the PRC, representing an increase of approximately 29.3% and approximately 24.9% respectively. Amongst the 150 hotels in operation, 104 were under full service management agreements, 15 were under franchise agreements, two were owned hotels, and 29 were under hotel lease agreements. As at December 31, 2018, we had 169 hotels under pipeline, with over 36,000 hotel rooms, representing an increase of 48.2% and 39.2% respectively as compared to as at the end of 2017.

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

	As at December 31, 2018		As at December 31, 2017	
	No. of Hotels	No. Hotel Rooms	No. of Hotels	No. Hotel Rooms
Operated hotels	31	7,501	25	6,528
Managed hotels	119	26,785	91	20,928
Total	150	34,286	116	27,456



## MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the breakdown of hotels by hotel categories as at December 31, 2018.

	No. of operated hotels (No. of hotel rooms) in operation	No. of managed hotels (No. of hotel rooms) in operation	No. of operated hotels (No. of hotel rooms) under pipeline	No. of managed hotels (No. of hotel rooms) under pipeline	Total no. of hotels (No. of hotel rooms) in operation and under pipeline
Upscale business	7(2,840)	39(13,416)	1(306)	26(7,955)	73(24,517)
Upscale resort	4(830)	13(2,839)	–	33(7,918)	50(11,587)
Mid-scale full service	8(2,199)	23(5,397)	–	53(13,940)	84(21,536)
Mid-scale select service	12(1,632)	44(5,133)	3(518)	53(5,748)	112(13,031)
<b>Total</b>	<b>31(7,501)</b>	<b>119(26,785)</b>	<b>4(824)</b>	<b>165(35,561)</b>	<b>319(70,671)</b>

In 2018, New Century Hotel Group ranked 23rd in terms of scale among global hotel groups, up by four places as compared with the previous year. “New Century” brand were widely recognized by the market and the industry and was awarded “Zhejiang Government Quality Nomination Award 2017” (2017年浙江省政府質量獎提名獎), “China’s Best Employer”, “Most Valuable Hotel Management Company in China 2018”, “Best Domestic Hotel Group” and other accolades during the year.

### HOTEL OPERATION SEGMENT

During the Reporting Period, the Group recorded revenue of approximately RMB1,629.0 million from hotel operation segment, representing a year-on-year increase of approximately 6.6%, primarily due to the increase in revenue generated from wedding banquets and the opening of new hotels. In order to create a new driver for revenue growth, the Group focused on the development of new operated hotel projects in upscale and mid-scale markets. During the year, Hangzhou Fuchun New Century Wonderland Resort (杭州富春開元芳草地鄉村度假酒店), the upscale resort hotel we invested and built, was opened in January 2018, increasing the number of owned hotels to two. In the field of mid-scale hotel chains, five of our leased and operated hotels (located in cities such as Shanghai, Dalian and Ningbo) commenced operation successively (including one converted from an associate to a holding subsidiary), increasing the number of operated hotels from 25 as at the end of 2017 to 31 as at the end of 2018.

#### Owned hotels

As at December 31, 2018, we owned two hotels with 382 hotel rooms, accounted for approximately 1.1% of the hotel rooms in operation.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Leased hotels

In 2018, while enhancing the brand value by expanding the national hotel network rapidly with the entrusted management model, we actively sought for opportunities of leasing hotel properties at reasonable rents to create a new driver for revenue and profit growth. Four new leased hotels commenced operation during the Reporting Period, while another four commenced operation in the first quarter of 2019. As at December 31, 2018, we had 29 leased hotels with 7,119 hotel rooms, accounted for approximately 20.8% of the hotel rooms in operation.

### Key performance indicators of our operated hotels

During the Reporting Period, the key performance indicators of our hotels in operation (including our owned hotels and leased hotels) are as follows:

Item	Average Occupancy Rate		Average Rate (RMB/per room)		RevPAR (RMB)	
	2018	2017	2018	2017	2018	2017
Upscale business hotels	<b>65.4%</b>	68.2%	<b>500.5</b>	501.8	<b>327.3</b>	342.5
Upscale resort hotels	<b>52.4%</b>	52.0%	<b>697.5</b>	695.9	<b>365.2</b>	361.8
Mid-scale full service hotels	<b>64.2%</b>	64.4%	<b>357.8</b>	355.1	<b>229.9</b>	228.5
Mid-scale select service hotels	<b>64.3%</b>	64.1%	<b>349.6</b>	347.6	<b>224.8</b>	222.7

Upscale business hotels were affected by the decline of market sentiment in some cities, and led to the decrease in occupancy rate. The occupancy rates and ADRs of other product lines maintained at similar level as compared with the previous year.

### F&B services

	2018	2017
Average spending per customer (RMB)	<b>125.7</b>	125.9
Utilization rate of seats	<b>73.0%</b>	69.3%
Revenue per sq.m. of banquet rooms (RMB)	<b>13,518.8</b>	11,891.1

During the Reporting Period, average spending per customer was basically the same as that of the previous year. The utilization rate of seats increased by 3.7 percentage points year-on-year due to the increase in the number of people eating. The revenue per sq.m. of banquet rooms increased by 13.7% year-on-year due to the increase in the demand of the wedding banquet market.

## MANAGEMENT DISCUSSION AND ANALYSIS

### HOTEL MANAGEMENT SEGMENT

During the Reporting Period, the Group recorded revenue of approximately RMB169.0 million from hotel management segment, representing a year-on-year increase of 23.5%, primarily due to the increased number of newly opened managed hotels in this year. Compared with last year, the revenue growth rate of the hotel management segment further increased. The revenue generated from the hotel management segment as a percentage of the total revenue increased steadily to 9.4% from 8.2% in 2017, and its gross profit margin increased to 94.2%, which became a major driving force for the Group's profit growth.

#### Full service managed hotels

Over the years, in order to enhance the influence of New Century brand and the brand value, we adhered to expanding the national hotel network rapidly with the full service management model. In 2018, we further developed in the Eastern China market with the most dynamic economy in China, to maximize the influence of New Century brand in the region, and successively had 31 full service managed brand hotels under pipeline. With the good reputation of New Century brand, we further expanded our presence in the country and, through city-based development strategy, we put more efforts into the targeted cities in order to promote the orderly development of our multi-brand projects. We successively established major markets centering on Xi'an, Guizhou and other regions and provincial cities, such as northwest and southwest China, and had 13 full service managed hotels under pipeline by leveraging the good reputation of New Century brand in the regions. As at December 31, 2018, we had 104 full service managed hotels (2017: 80) with 22,859 hotel rooms (2017: 18,060), accounted approximately 66.7% of our hotels in operation (2017: 65.8%). The number of full service managed hotels increased by 30% year-on-year in 2018, with number of hotel rooms increased by 26.6%.

#### Franchised hotels

As at December 31, 2018, we had 15 franchised hotels and 3,926 hotel rooms, accounted for approximately 11.5% of the hotel rooms in operation.

# MANAGEMENT DISCUSSION AND ANALYSIS

## INFORMATION TECHNOLOGY

During the Reporting period, the Group formally established a technology R&D center consisting primarily of product team and technical team based on the original IT team, which further strengthened its professional capabilities in product technology and project management.

- I. The Group completed the innovative design and R&D of its new official website, covering mobile APP, WeChat official account, Alipay Lifestyle account and PC website. Adopting a brand-new technical framework, the new official website unified back-end management, and comprehensively improved the stability and expandability of platform, making it possible to provide members with more convenient and warm online integrated room reservation services.
- II. The Group promoted and implemented the cloud-based central reservation and hotel management system in an all-round manner, which greatly improved its marketing and hotel operation efficiency and simplified the operating procedures for employees, thus ensuring its service quality to a certain extent.
- III. The financial sharing platform, human resource sharing platform and group-based purchase supply chain system were planned and put into operation, contributing to further improving the financial management capability, enhancing the work efficiency of employees, and reducing the overall purchase cost, thereby strengthening the competitiveness of the Group as a whole.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW OF FINANCIAL INFORMATION

### Revenue

Comparison between the financial information of the Group during the Reporting Period and that of the corresponding period in 2017 is as follow:

	Year ended December 31,			
	2018	% of total	2017	% of total
	RMB'000	revenue	RMB'000	revenue
<b>Hotel operation</b>				
Room	743,744	41.4	732,890	44.0
F&B	641,389	35.7	583,156	35.0
Ancillary services	207,082	11.5	178,087	10.8
Rental income	36,766	2.0	33,733	2.0
<b>Subtotal of hotel operation</b>	<b>1,628,981</b>	<b>90.6</b>	1,527,866	91.8
<b>Hotel Management</b>	<b>168,987</b>	<b>9.4</b>	136,777	8.2
<b>Total</b>	<b>1,797,968</b>	<b>100.0</b>	1,664,643	100.0

### Hotel Operation

During the Reporting Period, revenue for the hotel operation segment increased by approximately 6.6% from approximately RMB1,527.9 million in 2017 to approximately RMB1,629.0 million in 2018, primarily due to (i) an approximately 10.0% increase in revenue from F&B services from approximately RMB583.2 million in 2017 to approximately RMB641.4 million in 2018; (ii) an approximately 16.3% increase in the revenue from our ancillary services from approximately RMB178.1 million in 2017 to approximately RMB207.1 million in 2018; and (iii) an approximately 9.0% increase in rental income from approximately RMB33.7 million in 2017 to approximately RMB36.8 million in 2018.

The approximately 10.0% 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) an approximately 13.7% increase in revenue per sq.m. of banquet rooms from approximately RMB11,891.1 in 2017 to approximately RMB13,518.8 in 2018; and (ii) an approximately 3.7% increase in utilization rate of table from approximately 69.3% to approximately 73.0% during the same period.

The approximately 16.3% increase in the revenue from our ancillary services was primarily due to increase in hotel-related value-added services and increase in sales of goods and products during the year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## HOTEL MANAGEMENT

During the Reporting Period, revenue for the hotel management segment increased by approximately 23.5% from approximately RMB136.8 million in 2017 to approximately RMB169.0 million in 2018, mainly due to an approximately 30.8% increase in the number of managed hotels from 91 managed hotels as at December 31, 2017 to 119 managed hotels as at December 31, 2018.

## COST OF SALES

During the Reporting Period, the cost of sales increased by approximately 7.9% from approximately RMB1,232.7 million in 2017 to approximately RMB1,329.8 million in 2018, primarily due to (i) an increase of F&B revenue, which led to an increase in the corresponding operating cost, and (ii) an increase in cost of sales due to the opening of new hotels.

## GROSS PROFIT AND GROSS PROFIT MARGIN

Based on the foregoing, during the Reporting Period, the gross profit of the Group was approximately RMB468.2 million, representing an increase of approximately 8.4% over the same period of 2017, and the gross profit margin was approximately 26.0%, which was relatively stable as compared to the gross profit margin for the same period in 2017 of approximately 25.9%.

## OTHER INCOME AND OTHER GAINS

During the Reporting Period, other income and other gains were approximately RMB35 million, representing a decrease of approximately RMB4.1 million over the same period of last year, primarily due to the compensation income of approximately RMB19.6 million in 2017 received from a third party lessor who has early terminated the lease agreement of Shanghai Puxi New Century Hotel, as compared to the approximately RMB8.4 million in 2018. The decrease was partially offset by the net gains of approximately RMB10.1 million from disposal of Chongqing Dazu District New Century Grand House Hotel Co., Ltd. ("Chongqing Dazu") in June 2018.

## SELLING AND MARKETING EXPENSES

Selling and marketing expenses increased by approximately 16.8% from approximately RMB85.5 million in 2017 to approximately RMB99.8 million in 2018. The increase was primarily due to increase in employee benefit expenses during the same period, primarily because (i) we hired more selling and marketing personnels to enhance our marketing efforts during the same period, and (ii) the average salary of the selling and marketing department of our Group increased due to (a) the increase in bonus accrued which is corresponding to the increase in our revenue and (b) the increase in average basic wage of selling and marketing personnels.

## ADMINISTRATIVE EXPENSES

The administrative expenses increased by approximately 4.4% from approximately RMB159.6 million in 2017 to approximately RMB166.6 million in 2018, mainly due to the addition of the newly opened hotels.

## MANAGEMENT DISCUSSION AND ANALYSIS

### TAXATION

During the Reporting Period, the actual tax rate was approximately 22.2%, as compared to approximately 25.3% over the same period of 2017. The decrease in actual tax rate was primarily due to our recognition of the deferred income tax assets related to tax losses that were not recognized in previous years during the Reporting Period based on the hotel operation results.

### NET PROFIT AND TOTAL COMPREHENSIVE INCOME

As a result of the foregoing, our net profit and total comprehensive income increased by approximately 13.5% from approximately RMB166.6 million in 2017 to approximately RMB189.1 million in 2018. The profit attributable to the owners of the Company increased by approximately 14.6% from approximately RMB163.0 million in 2017 to approximately RMB186.8 million in 2018.

### PROPERTY, PLANT AND EQUIPMENT

The property, plant and equipment of the Group mainly include leasehold improvements, construction in progress, building and facilities, machinery and equipment, office and electronic equipment and vehicles. As of December 31, 2018, the property, plant and equipment of the Group was approximately RMB587.8 million, representing an increase of approximately RMB179.7 million as compared to approximately RMB408.1 million as of December 31, 2017, primarily attributable to the purchase of fixed assets as a result of the completion of construction of our owned hotel, 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, the purchase of fixed assets and the renovation work performed on leased hotels.

### TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The Group's trade receivables primarily consist of management fees receivable and receivable from our corporate customers for room, meeting, conference and exhibition services. Other receivables are mainly composed of (i) deposits to suppliers, which primarily represented the deposits to existing lessors; (ii) VAT recoverable; and (iii) other receivables.

As of December 31, 2018, the Group's total trade receivables were approximately RMB72.7 million, representing an increase of approximately RMB5.5 million as compared to approximately RMB67.2 million as of December 31, 2017, primarily attributable to an increase in revenue of the Group, and the decrease in the provisions for bad debts as a result of the good condition of recovery and lower expected loss rate of receivables during this period.

As of December 31, 2018, the Group's other receivables were approximately RMB138.3 million in total, representing an increase of approximately RMB5.8 million as compared to approximately RMB132.5 million as of December 31, 2017, primarily attributable to an increase in VAT recoverable and the deposits arising from leasing of new hotels.

## MANAGEMENT DISCUSSION AND ANALYSIS

### TRADE AND OTHER PAYABLES

Trade payables mainly 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. Other payables mainly consist of (i) payables for purchase of property, plant and equipment; (ii) staff salaries and welfare payables; and (iii) customers' deposits.

As of December 31, 2018, the total trade payables of the Group amounted to approximately RMB201.4 million, representing an increase of approximately RMB14.4 million as compared with that of approximately RMB187.0 million as of December 31, 2017, mainly attributable to the hotels opened in 2017 and new hotels opened during the Reporting Period as well as an increase in operational supplies payable as compared to last year.

As of December 31, 2018, the total other payables of the Group amounted to approximately RMB241.7 million, representing an increase of approximately RMB48.6 million as compared with that of approximately RMB193.1 million as of December 31, 2017, mainly attributable to the substantial procurement of long-term assets and deposits of new hotels.

### CONTRACT LIABILITIES

The Group's contract liabilities substantially comprised the advances from customers and reward points under the customer loyalty program. Advances from customers primarily represented prepayment received from prepaid card holders, advances from banquet customers and prepayment received from leasing agreements. 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.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group generally funds its growth from cash generated from operations and debt financings. As of December 31, 2018, our Group's total balance of cash and cash equivalents amounted to approximately RMB367.7 million (as of December 31, 2017: approximately RMB424.1 million). The Group had total bank borrowings of approximately RMB190.5 million as at December 31, 2018 (2017: approximately RMB165.0 million). Please refer to notes 26 to the consolidated financial statements for the details of borrowings. As of December 31, 2018, the Group's gearing ratio was at approximately 12% (2017: approximately 13%). The Group constantly monitors its cash flow position, maturity profile of borrowings, availability of banking facilities, gearing ratio and interest rate exposure.



## MANAGEMENT DISCUSSION AND ANALYSIS

### FOREIGN EXCHANGE RISK MANAGEMENT

As at the end of the Reporting Period, all of the Group's assets and liabilities were denominated in RMB. There was no foreign currency operation, therefore no exchange rate risk existed.

### DETAILS ON MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On January 25, 2018, Shanghai Yuege Hotel Operation Co.,Ltd. (上海悦閣酒店經營有限公司) ("Shanghai Yuege"), a subsidiary of our Company, entered into a share transfer agreement with one individual, an Independent Third Party, pursuant to which Shanghai Yuege disposed of 100% equity interests in Shanghai Ruiya Hotel Management Co.,Ltd. (上海瑞亞酒店管理有限公司) ("Shanghai Ruiya") for a consideration of RMB1,000. The consideration was settled on March 22, 2018. The disposal was due to the expiry of the hotel lease agreement entered into by Shanghai Yuege, 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.

On June 27, 2018, New Century Manju Management acquired approximately 19.83% 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 and the acquisition date was August 31, 2018. After the acquisition, Yuyao Manju was indirectly held as to approximately 55.66% by our Company and has been reclassified from an associate to a subsidiary of our Company.

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%.

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 RMB10.0 million. The consideration was fully settled on July 17, 2018. The said disposal took place due to a change in the business model of Chongqing Dazu (重慶市大足) 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## DETAILS ON FUTURE PLANS FOR MATERIAL INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS

Save as the plans for use of proceeds as disclosed in the sub-section headed “Report of the Board of Directors – use of the proceeds from the Initial Public Offering of the Company in this Annual Report, the Group currently does not have plans for material investments or acquisition of capital assets.

## CONTINGENT LIABILITIES

As at December 31, 2018, the Group did not have any contingent liabilities.

## MAJOR RISKS AND UNCERTAINTIES

There are certain risks and uncertainties involved in our Company’s business and operations. Our Company believes that the following are some of the major risks that our Company faces:

### **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 hotel 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.

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

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.

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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### **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.

For more details of the above principal risks and uncertainties and other risks and uncertainties facing the Group, please refer to the section headed "Risk Factors" in the Prospectus.

### **ENVIRONMENTAL POLICIES AND PERFORMANCE**

Details of our Company's environmental policies and performance are set out in the Environmental, Social and Governance Report.

### **COMPLIANCE WITH MAJOR LAWS AND REGULATIONS**

During the year ended December 31, 2018, our Company has complied with the laws and regulations that have a significant impact on our Company, such as relevant foreign capital ownership, public security management, public sanitation, food safety, fire protection, hotel rating, leasing, land or property use, consumer protection, environmental protection, etc.

### **IMPORTANT RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS**

Our Company adheres to the philosophy of "regarding employees as the most valuable assets, giving respect, caring and sharing success" and focusing on the core values of "humanity quality and sincere care" and the mission vision of "creating Chinese quality and creating happy life" to create an atmosphere of "happy work and happy life" for employees.

The important relationship between our Company and its employees, customers and suppliers is set out in the "Environmental, Social and Governance Report".

## MANAGEMENT DISCUSSION AND ANALYSIS

### NEW PRODUCTS AND SERVICES WHICH HAVE BEEN LAUNCHED OR PUBLISHED

In terms of product and service innovation, the Company has established professional field groups in 2018, such as New Century Star Chefs Kitchen (開元星廚匯) and Owner's Relationship Management Committee, as well as regional management center pilot program (試點區域管理中心), multiple technology innovation projects, including room delivery robot (客房送物機器人), face recognition system, unmanned self-service supermarket, scan-to-order technology, etc., and online tips and rewards project (上線小費打賞項目). In order to conform to the needs of customers and market trend, we innovated and upgraded our hotel products from multiple perspectives such as construction material selection, function area division, energy management and soft outfit design, and attempted to create an immersive performance of "Dream of Shiqifang (夢回十七房)" for the first time, so as to improve our customers' satisfaction and return on owners' investment.

In terms of brand innovation, based on the needs of our customers and current development status of the Company, the Company newly created two major hotel brands in 2018, targeting at the two market segments of the mid-scale art and mid-scale boutique, including urban lounge art hotel brand – "A.T.K Hotel (阿緹客)" and city resort travelling boutique hotel brand – "Mayart Hotel (開元美途)", to promote a more complete and much younger brand ecology of New Century.

## MANAGEMENT DISCUSSION AND ANALYSIS

### EMPLOYEE AND REMUNERATION POLICY

As at December 31, 2018, the total number of employees of the enterprise included in the Group's consolidated statements was approximately 5,314. For the year ended December 31, 2018, the total remuneration of employee, including the remuneration of the directors of the company, was approximately RMB477.338 million (2017: RMB440.329 million).

Employees' compensations of the Company include basic wages, allowance and performance bonus. The company established a scientific and reasonable compensation distribution system where the income of the employees is directly proportional to the value created by them for the Company and meanwhile, we will maintain a certain growth of the employees' income based on the market development and the overall benefit growth of the Company.

In order to stimulate employees to work actively, the Company designed various long-term incentive schemes, such as project recommendation award and middle to senior level managers from external recruitment recommendation award, etc.

The amount of remuneration and incentive method for directors and senior management shall be recommended by Remuneration Committee based on the performance appraisal results and the compensation distribution policy, and be determined after the consideration and approval of the Board of Directors of the Company.

The Company puts great emphasis on human resources development, focuses on the long-term cultivation and training of management talents at all levels and junior employees, and commits to the close integration of our cultivation and training work with the actual development needs of our Company. During the Reporting Period, the scale of our 2018 reserve managerial training program and 2018 middle-level successor training program had expanded significantly as compared with last year, with the aim to develop our middle to senior level managers to be outstanding, creative, skillful and at the same time equip with international vision, the Company provided them with trainings that integrate theory and practice. During the year, in order to achieve the objective of platform sharing and resources integration, the Company has established a human resources sharing service center to facilitate the allocation of personnel among hotels and hence improve the efficiency of human resources management of the Group. The "Hundred City & Thousand School into New Century" project was launched to deepen our cooperation with educational institutions, and we have established cooperation with 39 universities and colleges by the end of year. In terms of the cultivation of internal professional talents within the Company, we have conducted various trainings during the year, including marketing revenue management training camp, vacation partner training camp, training for senior banquet service officers, New Century star chef and New Century quality control officers. Our Company's systematic internal training program has supplied us with a sufficient number of qualified managers and other employees to meet our continuous needs for skilled employ.

Currently, the Company has not established share option schemes.

# MANAGEMENT DISCUSSION AND ANALYSIS

## SOCIAL RESPONSIBILITY

In our constant pursuit of corporate sustainable development and high-standard corporate values, we strive to be a leader among hotels by following well-thought-out codes of conduct in our development and operation.

Striving to create more value for the society through planning, research and cooperation, we keep developing new products to bring fresher and better experience to customers, and contribute to environmental changes through a sustainable production mode and higher energy efficiency; and encourage innovators to make a good impact. In addition, the Company consistently respects our employees and encourage them to practice their social values.

Enterprises exist for the ultimate value of benefiting the society. We will make continuous progress in sustainable development to achieve our commitments to our customers and employees, the society and the earth. The Company believes that the Company will grow into a well-performing company in the near future and bring more positive influences to the society.

## CORPORATE STRATEGY AND FUTURE DEVELOPMENT OUTLOOK

The Company believes the following competitive strengths have provided a solid foundation for the Company's rapid development in the future: (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) the Company's diverse and effective hotel reservation channels and loyalty program provides wide hotel guest exposure; and (vi) experienced and professional management team and a dedicated workforce.

Looking forward to the future of China's hotel industry, the supply of upscale hotels will slow down moderately, while the demand for upscale hotels is expected to grow steadily due to the factors such as the expansion of the middle class, the increase in residents' disposable income and financial accumulation, the improvement of scenic spots and transportation infrastructure, making the situation favourable to hotel operators. Mid-scale selected service leased hotel market is in the early stage of development and is set to benefit from the consumption upgrade for a long period of time.

Meanwhile, in the upscale hotel management business, brand concentration is expected to accelerate, thus illustrating the market characteristic of "big ones remain big and the strong ones remain strong". As a service industry with high barriers to entry, upscale hotel management will be a blue ocean market with limited competition. As one of the leading upscale hotel management groups in China, the Company will benefit from the market development trend of brand concentration with its cost advantage.

The Company intends to seize the market opportunities by implementing the following strategies: (i) attract, retain and promote a dedicated, efficient and creative workforce; (ii) reinforce and enhance the Company's leading position in the upscale business hotels and resort hotels market; (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 to improve operational efficiency. The Company will continuously innovate our products and services, improve operational and management efficiency, serving hotel guests to their satisfaction while creating value for hotel owners.

## REPORT OF THE BOARD OF DIRECTORS

The Board of Directors is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended December 31, 2018.

### PRINCIPAL BUSINESS

The Company is a leading hotel operation and management group in China, mainly engaging in the operation and management of mid-scale to upscale hotel chains in China. Since its inception in 1988, the Company has 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.

### BUSINESS REVIEW

Details of business review of the Company are set out in:

- (1) Business review in the section headed “Management Discussion and Analysis”; and
- (2) Review of corporate social responsibilities and environmental policies and performance in “Environmental, Social and Governance Report”.

The Company’s (i) corporate strategies and future development outlook; (ii) major risks and uncertainties; (iii) compliance with major laws and regulations and (iv) important relationship with employees, customers and suppliers are respectively set out in the section “Management Discussion And Analysis” in this Annual Report, which constitute part of this Report of the Directors.

### FINANCIAL REVIEW

The annual results of the Group for the year ended December 31, 2018 are set out in the consolidated statement of comprehensive income on page 91 of this Annual Report. The management discussion and analysis regarding financial review is set out on pages 23 to 37 of this Annual Report. The financial summary of the Group for the years ended December 31, 2017 and 2018 are set out on page 11 of this Annual Report.

### SHARE CAPITAL

As at December 31, 2018, the number of each class of shares of the Company is:

Class	Number of shares	Approximate % of the share capital issued of the Company
Domestic shares	159,659,640	76.0%
Non-listed foreign shares	50,340,360	24.0%
Total	210,000,000	100%

## REPORT OF THE BOARD OF DIRECTORS

From the listing of the Company on March 11, 2019 and up to the date of this annual report, the number of each class of shares of the Company is:

Class	Number of shares	Approximate % of the share capital issued of the Company
Domestic shares	159,659,640	57.0%
Non-listed foreign shares	50,340,360	18.0%
H shares	70,000,000	25.0%
Total	280,000,000	100%

### USE OF THE PROCEEDS FROM THE INITIAL PUBLIC OFFERING OF THE COMPANY

H Shares of the Company were listed on the Main Board of the Stock Exchange on the Listing Date. Calculated based on the offer price of HK\$16.5 per Share, the Company's proceeds from the Listing amount to approximately HK\$1,155.0 million. According to the plan as stated in the Prospectus, the net proceeds will be used for the following purposes.

- approximately 25.0% will be used for the development of our upscale business and resort hotels
- approximately 35.0% will be used for the development of our mid-scale hotels
- approximately 10.0% 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
- approximately 5.0% 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
- approximately 15.0% will be used for development of our information technology system by upgrading existing operational and IT system infrastructure
- approximately 10.0% will be used for our general corporate purposes and working capital

From the Listing Date to April 2019, approximately RMB67,070,000 of the raised funds have been used for our general corporate purposes and working capital.

The remaining net proceeds is currently held in bank deposits and it is intended that it will be applied in the manner consistent with the proposed allocations in the Prospectus.



## REPORT OF THE BOARD OF DIRECTORS

### DIVIDEND

The Board has declared to distribute a final dividend of RMB0.36 (tax inclusive) per share to all shareholders of the Company for the year ended December 31, 2018 (2017: RMB0.196 per share), amounting to a total dividend of RMB100.8 million (2017: RMB41.238 million).

### RESERVES

Details in reserves of the Group as at December 31, 2018 are set out in note 24 to the consolidated financial statements of this Annual Report.

### DISTRIBUTABLE RESERVES

According to the Articles of Association, distributable reserves are determined based on the profit of the Company calculated according to the PRC Accounting Standards or the profit calculated according to IFRS, whichever is lower.

According to the PRC Company Law, the profit after tax (after transferring appropriate amount into the statutory surplus reserve fund) can be distributed as dividend.

As at December 31, 2018, based on the calculation made in accordance with the China Accounting Standards for Business Enterprises, relevant PRC Laws, and the Articles of Association, the distributable reserves of the Company amounted to RMB229.2 million, of which about RMB100.8 million is proposed to be the final dividend for the year.

### PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group for the years ended December 31, 2018 and 2017 are set out in note 15 to the consolidated financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2018, the Group's five largest customers in aggregate accounted for 7.1% of the Group's total revenue. The largest customer of the Group, accounting for 3.0% of the total revenue of the Group during the Reporting Period. The Group's customers primarily comprise hotel owners, travel agencies, online travel agencies and corporate clients. One of the five largest customers includes the relevant close associate of Mr. Chen Miaolin, one of our Controlling Shareholders. Save as disclosed and Ctrip.com International, Ltd. which is one of our shareholder, to the knowledge of our Directors, none of our Directors, their respective close associates or any shareholder who owns more than 5.0% of the Group's issued share capital, had any interest in any of the five largest customers of the Group during the Reporting Period. The Company accept payments by hotel guests (including those for F&B services) by way of cash and credit cards. Payments from travel agencies 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 online travel agencies and travel agencies are generally granted a credit period of 30 to 90 days.

The Group's supplies primarily comprise lessors under our hotel operation business, raw materials suppliers, laundering services providers and utilities vendors.

## REPORT OF THE BOARD OF DIRECTORS

For the year ended December 31, 2018, the Group's five largest lessor suppliers in aggregate accounted for 22.9% of the Group's total cost of sales. The Group entered into hotel lease agreements with all of our five largest lessor suppliers. During the Reporting Period, to the knowledge of our Directors, save for New Century REIT (which is a close associate of Mr. Chen Miaolin, one of our Controlling Shareholders and is also the largest supplier, accounted for 16.5% of our Group's total cost of sales during the Reporting Period), none of our Directors, their respective close associates or any shareholder who owns more than 5.0% of our issued share capital, had any interest in any of the Group's five largest lessor suppliers.

For the year ended December 31, 2018, the Group's other suppliers in aggregate accounted for 5.4% of the Group's total cost of sales. During the Reporting Period, to the knowledge of our Directors, save for one of five largest other suppliers, a relevant close associates of Mr. Chen Miaolin, one of the Group's Controlling Shareholders and the largest other supplier, who accounted for 1.4% of the Group's total cost of sales during the Reporting Period, none of our Directors, their respective close associates, or any shareholders who owns more than 5.0% of the Group's issued share capital had any interest in any of the Group's five largest other suppliers.

### CHARITABLE DONATION

For the years ended December 31, 2018 and 2017, the Group made no charitable donations.

### LIST OF DIRECTORS AND SUPERVISORS DURING THE YEAR AND UP TO THE DATE OF THIS REPORT

The Board of Directors of our Company is composed of nine directors and the list is as follows:

#### Executive Directors

Mr. Jin Wenjie (*chairman*)

Mr. Chen Miaoqiang

#### Non-executive Directors

Mr. Chen Miaolin

Mr. Chen Canrong

Mr. Jiang Tianyi

Mr. Zhang Chi

#### Independent non-executive Directors

Mr. Zhang Rungang

Mr. Khoo Wun Fat William (*appointed on August 13, 2018*)

Ms. Qiu Yun

The Board of Supervisors of the Company is composed of three supervisors. During the Reporting Period, the supervisors of the Company were:

Ms. Zha Xianghong (*chairman*)

Mr. Guo Mingchuan

Ms. Liu Hong

## REPORT OF THE BOARD OF DIRECTORS

### SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

According to the requirements of the Articles of Association of the Company, all directors (including non-executive directors) are elected by the Shareholders' meeting, each for a term of three years. Upon expiration of the term of office of the directors, they may be re-elected. Since the Company has entered into a service agreement (for the purpose of executive directors and non-executive directors) or a letter of appointment (for the purpose of independent non-executive directors) with each of the directors for the period till June 25, 2020, and they are subject to re-election in accordance with the provisions of the Articles of Association, no directors are required to re-elect at the forthcoming annual general meeting of the Company.

The appointments of all the directors shall commence from the date of their respective appointment until the expiration of the term of office of the first Board of Directors (i.e. June 25, 2020). The appointments of all the supervisors shall commence from the date of their respective appointment until the expiration of the term of office of the first Board of Supervisors (i.e. June 25, 2020).

No director or supervisor enters into any service agreement/letter of appointment with the Company which shall not be terminated by the Company within one year without compensation (except statutory compensation).

### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each independent non-executive Director has given a written confirmation for his/her independence under Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independent.

### DIRECTORS AND SUPERVISORS' MATERIAL INTERESTS IN TRANSACTION, ARRANGEMENTS OR CONTRACTS

Saved as disclosed in this Annual Report, there was no transaction, arrangements or contracts to which the Company or any of its holding companies or subsidiaries was a party, and in which a Director or a Supervisor or the entities connected with them had a material interest, whether directly or indirectly, during the year or at the end of the year.

### CONTINUING CONNECTED TRANSACTIONS

The Company has conducted the following continuing connected transactions by entering into a number of agreements with our connected persons in accordance with the section headed "Connected Transactions" in the prospectus of the Company.

Continuing connected transactions under the (1) Full Service Management Services Framework Agreement; (2) Sale of Goods and Services Framework Agreement; (3) Supply of Hotel Services and Goods Framework Agreement; and (4) Supply of Wine Products Framework Agreement shall be subject to the reporting, annual review, and announcement requirements, but be exempt from the independent shareholders' approval requirement.

Continuing connected transactions under the Master Hotel Lease and Management Agreement shall be subject to the reporting, annual review, announcement and independent Shareholders' approval requirements.

## REPORT OF THE BOARD OF DIRECTORS

Details of the abovementioned continuing connected transactions have been set out in pages 42 to 50 of this Annual Report and have also been set out in the related party transactions disclosed in the note 33 to the consolidated financial statements for the year ended December 31, 2018. Save as otherwise specified in the context, all the following terms have the same meaning as defined in the Prospectus.

### (i) Full Service Management Services Framework Agreement

On February 12, 2019, the 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 to regulate the Group's provision of full service hotel management services to New Century Tourism and New Century Holdings for 2019, 2020 and 2021.

Date of the agreement: February 12, 2019

Parties to the agreement:

- (i) New Century Tourism and New Century Holdings as the receivers; and
- (ii) the Group as the supplier

Term: from March 11, 2019 to December 31, 2021.

Nature of the transaction: The 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, 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").

#### *Pricing policy*

The fees to be received by the 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 favourable term as compared to what we typically charge hotel owners who are Independent Third Parties.

## REPORT OF THE BOARD OF DIRECTORS

The historical amount of continuing connected transactions under the Full Service Management Services Framework Agreement for each of the three years ended December 31, 2018, and the relevant annual cap for each of the three years ending December 31, 2021 are as follows:

Item	Historical amounts (RMB'000,000)			Annual caps (RMB'000,000)		
	For the year ended 2016	For the year ended 2017	For the year ended 2018	For the year ended 2019	For the year ended 2020	For the year ended 2021
Fees charged by the Group according to the Full Service Management Services Framework Agreement for the relevant periods	23.9	29.2	34.9	43.0	50.0	57.0

### (ii) Sale of Goods and Services Framework Agreement

On February 12, 2019, the Group entered into a sale of goods and services framework agreement (the "Sale of Goods and Services Framework Agreement") with New Century Tourism and New Century Holdings to regulate the Group's sale of goods and services to New Century Tourism and New Century Holdings for 2019, 2020 and 2021.

Date of the agreement: February 12, 2019

Parties to the agreement:

- (i) New Century Tourism and New Century Holdings as the receivers; and
- (ii) the Group as the supplier

Term: from March 11, 2019 to December 31, 2021.

Nature of the transaction: The 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").

#### *Pricing policy*

The fees to be received by the 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. The 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.

## REPORT OF THE BOARD OF DIRECTORS

The historical amount of continuing connected transactions under the Sale of Goods and Services Framework Agreement for each of the three years ended December 31, 2018, and the relevant annual cap for each of the three years ending December 31, 2021 are as follows:

Item	Historical amounts (RMB'000,000)			Annual caps (RMB'000,000)		
	For the year ended 2016	For the year ended 2017	For the year ended 2018	For the year ended 2019	For the year ended 2020	For the year ended 2021
Fees charged by the Group according to the Sale of Goods and Services Framework Agreement for the relevant periods	15.8	14.2	18.7	22.0	25.0	28.0

### (iii) Supply of Hotel Services and Goods Framework Agreement

On February 12, 2019, the 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, to regulate New Century Tourism's supply of hotel services and goods to the Group for 2019, 2020 and 2021.

Date of the agreement: February 12, 2019

Parties to the agreement:

- (i) the Group as the receiver; and
- (ii) New Century Tourism as the supplier

Term: from March 11, 2019 to December 31, 2021.

Nature of the transaction: New Century Tourism Group agreed to provide to the Group certain hotel services, including but not limited cleaning services and electrical wiring products (the "Supply of Hotel Services and Goods").

#### *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.

## REPORT OF THE BOARD OF DIRECTORS

The historical amount of continuing connected transactions under the Supply of Hotel Services and Goods Framework Agreement for each of the three years ended December 31, 2018, and the relevant annual cap for each of the three years ending December 31, 2021 are as follows:

Item	Historical amounts (RMB'000,000)			Annual caps (RMB'000,000)		
	For the year ended 2016	For the year ended 2017	For the year ended 2018	For the year ended 2019	For the year ended 2020	For the year ended 2021
Fees paid by the Group according to the Supply of Hotel Services and Goods Framework Agreement for the relevant periods	11.7	12.0	13.0	15.0	15.0	15.0

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 constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules.

#### (iv) Supply of Wine Products Framework Agreement

On February 12, 2019, the Group entered into a supply of wine products framework agreement (the "Supply of Wine Products Framework Agreement") with Birot by New Century, to regulate Birot by New Century's supply of wine products to the Group for 2019, 2020 and 2021.

Date of the agreement: February 12, 2019

Parties to the agreement:

- (i) the Group as the receiver; and
- (ii) Birot by New Century as the supplier

Term: from March 11, 2019 to December 31, 2021.

Nature of the transaction: Birot by New Century agreed to provide to the Group certain wine products, including but not limited to red wine (the "Supply of Wine Products"), for a term commencing from the Listing Date until December 31, 2021.

## REPORT OF THE BOARD OF DIRECTORS

### *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. The 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 the Group to Birot by New Century shall not be higher than the fees paid to Birot by New Century by Independent Third Parties.

The historical amount of continuing connected transactions under the Supply of Wine Products Framework Agreement for each of the three years ended December 31, 2018, and the relevant annual cap for each of the three years ending December 31, 2021 are as follows:

Item	Historical amounts (RMB'000,000)			Annual caps (RMB'000,000)		
	For the year ended 2016	For the year ended 2017	<b>For the year ended 2018</b>	For the year ended 2019	For the year ended 2020	For the year ended 2021
Fees paid by the Group according to the Supply of Wine Products Framework Agreement for the relevant periods	5.2	7.2	<b>6.2</b>	7.5	7.5	7.5

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.

### **(V) 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.

Date of the agreement: June 14, 2013

Parties to the agreement:

- (i) the Group as the lessee and the hotel manager; and
- (ii) New Century Hotel Investment as the lessor



## REPORT OF THE BOARD OF DIRECTORS

Term: ten years starting from July 10, 2013. New Century Hotel Management has also granted the REIT 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.

Nature of the transaction: 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 the Company for the lease and management of each of the New Century REIT Hotel Properties. The Company is the lessee and the hotel manager under the Hotel Lease and Management Agreements.

### *Pricing policy*

For the first five years of the Master Hotel Lease and Management Agreement commencing from July 10, 2013 to July 9, 2018, the Company is required to pay a minimum aggregate annual base rent of RMB216 million (tax inclusive) pursuant to the terms under the Master Hotel Lease and Management Agreement, unless the Total Rent 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 the Company (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 the Company 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 the Company for the preceding four years instead of the Market Base Rent, being no less than RMB183.6 million (tax inclusive).

## REPORT OF THE BOARD OF DIRECTORS

The historical amount (tax inclusive) of continuing connected transactions under the Master Hotel Lease and Management Agreement for each of the three years ended December 31, 2018, and the relevant annual cap (tax inclusive) for each of the three years ending December 31, 2021 are as follows:

Item	Historical amounts (RMB'000,000)			Annual caps (RMB'000,000)		
	For the year ended 2016	For the year ended 2017	<b>For the year ended 2018</b>	For the year ended 2019	For the year ended 2020	For the year ended 2021
Fees paid by the Group according to the Master Hotel Lease and Management Agreement for the relevant periods	217.9	219.3	<b>226.6</b>	237.0	244.0	251.0

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 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 constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

### WAIVERS

The Company confirms that the Stock Exchange has granted us waivers from strict compliance with (i) the announcement requirement of the Chapter 14A of the Listing Rules in respect of the continuing connected transactions 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; and (ii) the announcement and independent shareholders' approval requirements of the Listing Rules in respect of the continuing connected transactions in relation to the Master Hotel Lease and Management Agreement, subject to the aggregate value of the abovementioned continuing connected transactions as at each financial year do not exceeding the relevant annual cap amount stated above.

### ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

Pursuant to Rule 14A.55 of the Listing Rules, the above non-exempt continuing connected transactions have been reviewed by the independent non-executive directors of the Company who have confirmed that the transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) conducted on general commercial terms or better terms; and (c) according to the agreements governing the relevant transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

As the Company had not been listed on the Stock Exchange on December 31, 2018, and the framework agreements for the continuing connected transactions under the (1) Full Service Management Services Framework Agreement; (2) Sale of Goods and Services Framework Agreement; (3) Supply of Hotel Services and Goods Framework Agreement; and (4) Supply of Wine Products Framework Agreement were signed after the Reporting Period, the continuing connected transactions under the (1) Full Service Management Services Framework Agreement; (2) Sale of Goods and Services Framework Agreement; (3) Supply of Hotel Services and Goods Framework Agreement; and (4) Supply of Wine Products Framework Agreement do not fall under "Connected Transactions" or "Continuing Connected Transactions" in accordance with Chapter 14A of the Listing Rules during the Reporting Period.

## REPORT OF THE BOARD OF DIRECTORS

The Company's auditor has been engaged by the Company to report on the abovementioned continuing connected transactions under the Master Hotel Lease and Management Agreement. The auditor has issued a letter to the Board containing their findings and conclusions in respect of the abovementioned continuing connected transactions under the Master Hotel Lease and Management Agreement in accordance with Rule 14A.56 of the Listing Rules. The auditor has confirmed that nothing has come to their attention that causes them to believe that the abovementioned continuing connected transactions under the Master Hotel Lease and Management Agreement:

- (a) have not been approved by the Board;
- (b) were not conducted, in each material respect, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group; and
- (c) were not conducted, in each material respect, in accordance with the relevant agreement governing the transactions.

A copy of the auditor's letter has been submitted to the Stock Exchange by the Company in accordance with Rule 14A.57 of the Listing Rules.

The details of related party transactions entered into by the Group during the year ended December 31, 2018 are set out in Note 33 to the consolidated financial statements of this Annual Report. Apart from the continuing connected transactions disclosed above, none of related party transactions constitutes the "Connected Transaction" and "Continuing Connected Transaction" under Chapter 14A of the Listing Rules.

The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

### PRE-EMPTIVE RIGHTS

There is no provision relating to pre-emptive rights under the Articles of Association and the applicable laws in China where the Company is incorporated.

### MANAGEMENT CONTRACT

During the financial year, no contracts other than full-time employment with any directors or employees of the Company concerning the management or administration of the whole or any material part of the business were entered into by the Company or existed.

### INTERESTS OF DIRECTORS AND SUPERVISORS AND THEIR ASSOCIATES IN COMPETING BUSINESS

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. However, 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, either leased or managed by our Group.

## REPORT OF THE BOARD OF DIRECTORS

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 operation and management of hotel properties in the PRC 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 “Relationship with our Controlling Shareholders – Deed of Non-Competition” in the Prospectus.

During the Reporting Period and up to the date of this Annual Report, none of the Directors or Supervisor or any of their respective associates (as defined in the Listing Rules) was considered to be interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

### PERMITTED INDEMNITY PROVISIONS

An insurance policy with permitted indemnity provision insuring claims made against, amongst others, directors and senior management staff of the company representing the company has been in force from the Listing Date to the date of this Annual Report.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

None of the Company or its subsidiaries purchased, sold or redeemed any listed securities of the Company from the Listing Date to the date of this Annual Report.

### EQUITY-LINKED AGREEMENT

The Company did not entered into any equity-linked agreements during the year.

### THE INTERESTS OR SHORT POSITIONS OF OUR DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF OUR COMPANY OR ITS ASSOCIATED CORPORATION

As the Company was not yet listed on the Stock Exchange on December 31, 2018, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”) and section 352 of the SFO did not apply to the Directors, Supervisors and chief executive of the Company as at December 31, 2018.

On the Listing Date, the interests or short positions of our Directors, Supervisors and chief executive in the Shares, underlying Shares or debentures of our Company or its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) contained in Appendix 10 to the Listing Rules, are set out as follows:

## REPORT OF THE BOARD OF DIRECTORS

### Interest in the shares of our Company

Name of Director	Nature of Interest	Class of Shares	Number of Shares	% in the relevant class of issued shares of our Company	% in the total issued shares of our Company
Chen Miaolin	Interest of a controlled corporation <sup>(2)</sup>	Unlisted Shares <sup>(6)</sup>	135,331,770	64.44	48.33
Jin Wenjie	Interest of a controlled corporation <sup>(3)</sup>	Unlisted Shares <sup>(6)</sup>	13,437,900	6.40	4.80
Chen Miaoqiang	Interest of a controlled corporation <sup>(4)</sup>	Unlisted Shares <sup>(6)</sup>	7,223,580	3.44	2.58
	Interest of spouse <sup>(5)</sup>	Unlisted Shares <sup>(6)</sup>	7,223,580	3.44	2.58

#### Notes:

- All interests stated are long positions.
- 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.
- 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.
- 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.
- 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 Listing.

Save as disclosed above, as at the Listing Date, neither any of the Directors, Supervisors nor chief executive had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## REPORT OF THE BOARD OF DIRECTORS

### INTERESTS OR SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES OR UNDERLYING SHARES OF THE COMPANY

As the Company was not yet listed on the Stock Exchange on December 31, 2018, Divisions 2 and 3 of Part XV of the SFO and Section 336 of the SFO did not apply to any substantial shareholder as at December 31, 2018.

On the Listing Date, the interests or short positions of the following persons (other than Directors (except Mr. Chen Miaolin), Supervisors and chief executive of the Company) or corporations in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO are as follows:

Name of Shareholder	Nature of Interest	Class of Shares	Number of Shares	% in the relevant class of issued shares of our Company	% in total issued shares of our Company
New Century Tourism	Beneficial owner	Unlisted Shares <sup>(8)</sup>	125,676,180		
	Interest of a controlled corporation <sup>(9)</sup>	Unlisted Shares <sup>(8)</sup>	9,655,590		
			135,331,770	64.44	48.33
Chen Miaolin	Interest of a controlled corporation <sup>(9)(10)</sup>	Unlisted Shares <sup>(8)</sup>	135,331,770	64.44	48.33
NC Hotels Investment Holding Pte. Ltd.	Beneficial owner <sup>(11)</sup>	Unlisted Shares <sup>(8)</sup>	40,482,540	19.28	14.46
Ctrip.com (Hong Kong) Limited	Beneficial owner <sup>(12)</sup>	H Shares	14,830,000	21.19	5.30
Morgan Stanley & Co. International plc	Underwriter <sup>(13)</sup>	H Shares	10,500,000 <sup>(13)</sup>	15.00	3.75
Rong Tong Fund Management Co., Ltd. represents: Rongtong Ronghai QDII No. 29 SMA (融通融海29號(QDII)單一資產管理計劃)	Investment Manager <sup>(14)(15)</sup>	H Shares	6,990,000	9.99	2.50
Rex Top Global Investments Limited	Beneficial owner <sup>(16)</sup>	H Shares	6,230,000	8.90	2.23
Huatai Securities Co., Ltd.	Interest of a controlled corporation <sup>(17)</sup>	H Shares	4,750,000	6.79	1.70

*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 listing.
- 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.

## REPORT OF THE BOARD OF DIRECTORS

10. 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.
11. NC Hotels Investment Holding Pte. Ltd. is ultimately controlled by GAP (BERMUDA) LIMITED. GAP (BERMUDA) LIMITED is deemed under the SFO to be interested in the Shares held by NC Hotels Investment Holding Pte. Ltd.
12. Ctrip.com (Hong Kong) Limited is a wholly-owned subsidiary of Ctrip.com International, Ltd. Ctrip.com International, Ltd. is deemed under the SFO to be interested in the Shares held by Ctrip.com (Hong Kong) Limited.
13. Morgan Stanley & Co. International plc is ultimately controlled by Morgan Stanley, such shares are physically settled unlisted derivatives. As its over-allotment option has expired on March 31, 2019, Morgan Stanley ceases to hold any interests in the H shares of the Company.
14. Rong Tong Fund Management Co., Ltd. represents: Rongtong Ronghai QDII No. 29 SMA (Rongtong Ronghai No. 29 (QDII) (融通融海29號(QDII) 單一資產管理計劃) (“Rongtong”) is ultimately controlled by Sumitomo Mitsui Trust Holdings, Inc. Sumitomo Mitsui Trust Holdings, Inc. is deemed under the SFO to be interested in the Shares held by Rongtong.
15. As of April 10, 2019, the number of H shares of the Company held by Rongtong as an investment manager increased to 9,169,000 shares.
16. Yeung Lik David is the controller and director of Rex Top Global Investments Limited.
17. These shares are directly held by Huatai Capital Investment Limited, an indirect wholly-owned subsidiary.

Save as disclosed above, as at the Listing Date, Directors, Supervisors and chief executives of the Company are not aware of any other person or corporation having an interest or a short position in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

### **DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' RIGHTS TO SUBSCRIBE FOR SHARES OR BONDS**

Neither at the end of, nor at any time during the year was the Company, or any of its subsidiaries, its holding company or subsidiary of its holding company a party to any arrangement to enable the Directors, Supervisors, or chief executives of the Group to acquire benefits by means of the acquisition of shares or bonds of the Company or any other surviving body corporate.

### **TAX RELIEF AND EXEMPTION**

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

### **AUDITOR**

The consolidated financial statements prepared by the Company in accordance with IFRS have been audited by PricewaterhouseCoopers. The PricewaterhouseCoopers is about to retire and is willing to offer itself for re-appointment. The resolution on reappointing PricewaterhouseCoopers as the auditor of the Company will be proposed at the forthcoming annual general meeting.

## REPORT OF THE BOARD OF DIRECTORS

### PUBLIC FLOAT

H Shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on March 11, 2019. Based on the information that is publicly available to the Company and within the knowledge of its Directors, as of the date of this annual report, the Company has maintained sufficient public float as required under the Listing Rules.

### EVENTS OCCURRING AFTER THE REPORTING PERIOD

On March 11, 2019, the Company issued 70,000,000 H Shares with nominal value of RMB1.00 each at a price of HK\$16.50 per share in connection with the initial public offering of H Shares of the Company on the Main Board of the Stock Exchange, and raised gross proceeds of approximately HK\$1,155,000,000, equivalent to RMB988,783,950.

On March 25, 2019, the Board of Directors approved the profit distribution plan for the year ended December 31, 2018. Pursuant to the profit distribution plan, the status surplus reserve of RMB18.78 million was appropriated for the year ended December 31, 2018, and the cash dividends proposed was RMB0.36 (before tax) per share, amounting to a total dividend of RMB100.8 million calculated based on the total number of shares in issue of 280,000,000. The profit distribution plan is subject to shareholders' approval at the incoming annual general meeting.

Saved for the abovementioned events and as disclosed in this Annual Report, there had been no major events affecting the Company since the end of this year.

On behalf the Board of Directors

Jin Wenjie  
Chairman and Executive Directors

March 25, 2019



## REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

The Supervisory Committee of the Company performed its duties diligently and responsibly, and safeguarded the interests of the Company and its shareholders in accordance with the relevant provisions of the Company Law and the Articles of Association.

During the year, the Supervisory Committee conducted a cautious review of the Company's development plans and business activities, actively provided reasonable opinions and suggestions to the Board of Directors, and conducted strict and effective supervision over whether major decisions of the Company's management were in line with shareholders' rights and interests.

The Supervisory Committee is not aware of any serious breach of laws, regulations or the Articles of Association and any actions detrimental to the interests of the shareholders of the Company by our Directors and management in the performance of duties on the Company's behalf, and considered that the Company's internal control system was refined.

The Supervisory Committee expressed satisfaction with various works and economic benefits of the Company in 2018 and was confident in the Company's future development prospects.

By Order of the Supervisory Committee

**Zha Xianghong**

*Chairperson of the Supervisory Committee*

March 25, 2019

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high corporate governance standards.

The Board believes that good corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has established a corporate governance framework and has formulated policies and procedures in accordance with the Corporate Governance Code (the "Corporate Governance Code") set out in Appendix XIV to the Listing Rules. These policies and procedures lay a foundation for enhancing the board's ability to implement corporate governance and strengthening appropriate supervision of the Company's business conduct and affairs.

In the light of the listing of the H Shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on March 11, 2019 (the "Listing Date"), the Corporate Governance Code is not applicable to the Company in 2018. The Company has been adopting the principles and code provisions as set out in the Corporate Governance Code as a general practice of corporate governance of the Company during the period from the date of the listing to the date of this annual report.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding relevant Directors' and Supervisors' securities transactions.

The Company has made specific enquiries to all of the Directors and the Supervisors and they have confirmed that they have complied with the Model Code throughout the period from the date of the listing to the date of this annual report.

The Company has also formulated guidelines that are not less stringent than the standard code provisions for securities transactions conducted by employees who may have inside information relating to the Company or its securities. The Company has not found any incidents in which relevant employees have violated the guidelines.

## BOARD OF DIRECTORS

The Company is headed by a valid board of directors who oversees the business, strategic decisions and performance of the Group and makes objective decisions in the best interests of the Company.

The Board of Directors regularly reviews the contributions that each director shall make to perform its duties for the Company and whether the directors have given sufficient time to perform their duties.

## CORPORATE GOVERNANCE REPORT

### COMPOSITION OF THE BOARD OF DIRECTORS

The board of directors currently consists of the following nine members:

#### Executive director

Mr. Jin Wenjie (*Chairman*)

Mr. Chen Miaoqiang (*President*)

#### Non-executive director

Mr. Chen Miaolin (*member of the Remuneration Committee*)

Mr. Chen Canrong (*member of the Nomination Committee*)

Mr. Jiang Tianyi (*member of the Audit Committee*)

Mr. Zhang Chi

#### Independent non-executive director

Mr. Zhang Rungang (*Chairman of the Nomination Committee and Remuneration Committee*)

Mr. Khoo Wun Fat William (*member of the Audit Committee and Nomination Committee*)

Ms. Qiu Yu (*Chairman of the Audit Committee and member of the Remuneration Committee*)

The biographical details of the directors are set out in the section “Directors, Supervisors and Senior Management” on pages 15 to 18 of this annual report. The relationship between board members is also disclosed in this section.

### BOARD MEETING AND SHAREHOLDER’S GENERAL MEETING ATTENDANCE RECORD

Since the Listing Date, the board of directors has held a meeting to review the annual results of the Group for the year ended December 31, 2018, and all directors have attended the board meeting in person.

Looking ahead, the Board of Directors will hold at least four regular meetings each year for directors to actively participate in person or through electronic communication methods.

In addition to regular board meetings, the chairman will also hold a meeting with independent non-executive directors without other directors each year.

Since the Listing Date, the Company has not yet held a shareholders’ general meeting.

## CORPORATE GOVERNANCE REPORT

### CHAIRMAN AND PRESIDENT

As required by the Company, the positions of Chairman and President are held by different persons and there is a clear division of work between the two roles. The Chairman mainly exercises the following duties and powers: 1. to preside over shareholders' general meetings and to convene and preside over Board meetings; 2. to check the implementation of board resolutions; 3. to sign corporate shares, corporate bonds and other securities issued by the Company; 4. to organize various systems for the operation of the board of directors and to coordinate the operation of the board of directors; 5. to sign important documents of the board of directors and to sign important legally binding documents on behalf of the Company; 6. to exercise the authority of the legal representative; 7. to nominate the secretary of the board of directors, the members and the chairman of the special committee of the board of directors; 8. to listen to the regular or irregular work report of the Company's senior management, and to provide guiding opinions on the implementation of the resolutions of the board of directors; 9. in case of force majeure such as extraordinarily serious natural disasters, to exercise special disposal rights for the company affairs in accordance with the law and the Company's interests, and afterwards report to the Company's board of directors and shareholders' meeting; 10. other powers stipulated by laws, administrative regulations, departmental rules or the Company's Articles of Association and conferred by the board of directors. The president is accountable to the board of directors and exercises the following powers: 1. to preside over the Company's production and operation management, and to report to the board of directors; 2. to organize and implement board resolutions; 3. to organize and implement the Company's annual business plan and investment plan formulated by the board of directors; 4. to draw up the setting plan of internal management organization of the Company; 5. to formulate the plan for setting up the branches of the Company; 6. to formulate the basic management system of the Company; 7. to formulate the specific regulations of the Company; 8. to propose the board of directors to hire or dismiss the Company's vice president and chief financial officer; 9. to appoint or dismiss the management personnel other than those who should be appointed or dismissed by the board of directors; and 10. other powers conferred by the Company's Articles of Association and the board of directors.

As of the date of this annual report, the chairman of the Company is Mr. Jin Wenjie and the president is Mr. Chen Miaoqiang.

### SUPERVISOR AND SUPERVISORY BOARD

The Supervisory Board of the Company is accountable to the general meeting of shareholders, exercises the inspection of the Company's finances according to law, supervises the legal compliance of the Company's directors and senior management in performing their duties, and safeguards the legitimate rights and interests of the Company and its shareholders. The members of the Supervisory Board are composed of shareholder representative supervisors and employee representative supervisors. Shareholder representative supervisors are elected and removed by the general meeting of shareholders. The proportion of employee representative supervisors is not less than one-third of the members of the Supervisory Board, and are democratically elected and removed by the employees of the Company.

## CORPORATE GOVERNANCE REPORT

### INDEPENDENT NON-EXECUTIVE DIRECTOR

The Board has been in compliance with the Listing Rules for the appointment of at least three independent non-executive directors (accounting for at least one-third of the board of directors) from the date of the listing to the date of this annual report, and at least one of them must have appropriate professional qualifications or accounting or related financial management expertise.

Each of the independent non-executive directors has given written confirmation of its independence as set out in Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors are independent.

### APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code Provision A.4.1 of the CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas Code Provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

According to the Articles of Association of the Company (the "Articles of Association"), all directors (including non-executive directors) are elected by the general meeting of shareholders for a term of three years. Upon expiration of the term of office of the directors, they may be re-elected. Since the Company has entered into a service agreement (for the purpose of executive directors and non-executive directors) or a letter of appointment (for the purpose of independent non-executive directors) for the period till June 25, 2020 and they are subject to re-election in accordance with the provisions of the Articles of Association, no directors are required to re-elect at the forthcoming annual general meeting of shareholders of the Company.

### RESPONSIBILITIES, ACCOUNTABILITY AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and supervision of the Company and is collectively responsible for directing and supervising the affairs of the Company. Directors take decisions objectively in the interests of the Company.

The Board of Directors directs management directly and indirectly through its committees, including the formulation of strategies and supervision of the management's implementation of strategies, supervision of the Group's operations and financial performance, as well as ensuring that the Group has a sound internal control and risk management system.

All directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

## CORPORATE GOVERNANCE REPORT

Independent non-executive directors are responsible for ensuring a high level of regulatory reporting to the Company and playing a balanced role within the Board of Directors in order to effectively exercise independent judgments on the actions and operations of the Company.

All directors have full and timely access to all the information of the Company as well as the services and advice from the senior management. The directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The directors shall disclose to the Company details of other offices held by them, and the Board regularly reviews the contribution required from each director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

### CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

The Directors should keep abreast of the developments and changes in the regulatory requirements to effectively perform their duties and to ensure that their contribution to the board remains informed and relevant.

Directors should participate in appropriate continuous professional development training to develop and refresh their knowledge and skills. Internally-facilitated briefings for directors will be arranged and reading material on relevant topics will be issued to directors where appropriate. All directors are encouraged to attend relevant training courses at the Company's expenses.

Prior to the Listing Date, all Directors (i) have attended the training courses conducted by the legal adviser of the Company, the content of which was related to, among other things, the duties of directors and on-going obligations of listed companies; and (ii) have been given the relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors and duty of disclosure of interests.

## CORPORATE GOVERNANCE REPORT

### BOARD COMMITTEES

The Board established three committees under its management, namely the Audit Committee, the Remuneration Committee and the Nomination Committee to monitor specific areas of the Company's affairs. All board committees have written working rules to clearly define their powers and responsibilities. The working rules of the above-mentioned committees are published on the website of the Company ([www.kaiyuanhotels.com](http://www.kaiyuanhotels.com)) and the website of the Hong Kong Exchanges and Clearing Limited (the "Stock Exchange Website") ([www.hkexnews.hk](http://www.hkexnews.hk)), or also be provided at the request of shareholders.

The majority of the members of the board of directors are independent non-executive directors. The detailed information of chairman and members of each board committee are set out in the "Composition of the Board of Directors" of the Corporate Governance Report.

### THE AUDIT COMMITTEE

The Audit Committee consists of two independent non-executive Directors (Ms. Qiu Yun and Mr. Khoo Wun Fat William), and a non-executive Director (Mr. Jiang Tianyi). Ms. Qiu Yun is the chairman of the Audit Committee.

The rigor of the working rules of the Audit Committee is not inferior to the terms set out in the CG Code. The primary duties of the Audit Committee include assisting the Board in reviewing the financial data and reporting process, auditing scope and appointing external auditors, reviewing and supervising the Company's financial monitoring, internal controls, risk management systems and the operation of the internal audit department, as well as arrangements for employees of the Company to report or raise doubts about the misconduct of the Company's financial reporting, internal control or other aspects.

From the date of listing to the date of this annual report, the Audit Committee held a meeting on March 25, 2019 to review the annual financial statements, annual results announcements and annual reports as of December 31, 2018, and the effectiveness of financial reporting system, risk management and internal control systems and internal audit functions, review of external auditor's remuneration, terms of employment and its independence, continuing connected transactions, and arrangements for employees to pay attention to possible misconduct. All members of the Audit Committee attended the meeting in person.

The Audit Committee has also held a meeting with the external auditor from the date of listing to the date of this annual report.

# CORPORATE GOVERNANCE REPORT

## REMUNERATION COMMITTEE

The Remuneration Committee consists of two independent non-executive Directors (Mr. Zhang Rungang and Ms. Qiu Yu) and one non-executive Director (Mr. Chen Miaolin). Mr. Zhang Rungang is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are not inferior to the terms set out in the CG Code. The principal functions of the Remuneration Committee include reviewing the remuneration packages of directors and senior management, and the remuneration policy and structure of all directors and senior management, providing advice to the board and the establishment of transparent procedures to improve the relevant remuneration policy and structure to ensure none of the Directors or any of their associates can participate in determining their own remuneration.

From the date of listing to the date of this annual report, the Remuneration Committee held a meeting on March 25, 2019 to consider the remuneration package for the appointment of the Vice President of the Company. All members of the Remuneration Committee attended the meeting in person.

Details of the remuneration of the senior management by band during the Report Period are as follows:

Remuneration Bands (RMB)	Number of the Senior Management
500,001 – 1,000,000	5
1,000,001 – 1,500,000	1

## NOMINATION COMMITTEE

The Nomination Committee consists of two independent non-executive Directors (Mr. Zhang Rungang and Mr. Khoo Wun Fat William) and one non-executive Director (Mr. Chen Canrong). Mr. Zhang Rungang is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are not inferior to the terms set out in the CG Code. The primary duties of the Nomination Committee include reviewing the structure, number and composition of the Board, research on the selection criteria, procedures and methods of directors and senior management, providing advice to the Board on director appointments and succession plans, and assessment of the independence of independent non-executive directors.

From the date of listing to the date of this annual report, the Nomination Committee held one meeting on March 25, 2019 to consider the appointment of the Vice President of the Company. All members of the Nomination Committee attended the meeting in person.



## CORPORATE GOVERNANCE REPORT

### BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy which sets out the approach adopted by the Board of the Company to achieve diversity. The Company considers and believes that the board diversity is beneficial to enhance the quality of the performance of the Company. In order to achieve a sustainable and balanced development, the Company regards the increasing diversity at the board level as a key element in supporting its strategic goals and maintaining sustainable development. When setting up the composition of the board of directors, according to the board diversity policy, the Company considers board diversity in numerous aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and years of service. All appointments of the Board are subject to the principle of meritocracy and are based on objective criteria when considering candidates and fully take into account the benefits of board diversity.

Screening of director candidates will be based on a number of different aspects including, but not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The final decision will be subject to the value and contribution that the selected candidate brings to the board.

The Nomination Committee will review the board diversity policy, as appropriate, to ensure its effectiveness.

### SELECTION FOR DIRECTORS AND SENIOR MANAGEMENT

The Nomination Committee shall study the election criteria, selection process and term of office of the directors and senior management of the Company in accordance with provisions of pertinent laws and regulations and the Articles of Association and taking into account the actual conditions of the Company, formulate resolutions and submit the same for the approval of the Board and implement accordingly.

The selection criteria and procedures for the selection of directors and senior management are set out in the working rules of the Nomination Committee.

### CORPORATE GOVERNANCE FUNCTION

The Audit Committee is authorised by the Board to perform the functions set out in Code Provision D.3.1 of the Corporate Governance Code. The responsibilities of the Audit Committee include (1) the formulation and review of the Company's corporate governance policies and practices, and giving recommendations to the board of directors; (2) reviewing and monitoring the training and continuing professional development of the directors and senior management; (3) reviewing and monitoring the Company's policies and practices in complying with legal and regulatory requirements; (4) the formulation, review and monitoring of the Code of Conduct and compliance manuals (if any) of the employees and directors; and (5) reviewing the Company's compliance with the Corporate Governance Code of the Listing Rules, reporting to the Board of Directors and reviewing disclosures in the Corporate Governance Report.

From the date of listing to the date of this annual report, the Audit Committee held a meeting on March 25, 2019 to review the above corporate governance matters of the Company.

## CORPORATE GOVERNANCE REPORT

### RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for risk management and internal control systems and reviewing its effectiveness. These systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted a number of risk management processes and guidelines that define the authority to perform key business processes and office functions including project management, sales and leasing, financial reporting, human resources and information technology.

The Company's procedures for identifying, assessing, and managing significant risks include: identifying, analyzing, and responding to external operational risks such as supply sources, technology changes, creditor requirements, and competitor behavior; identifying, analyzing, and responding to internal operational risks such as human resources and information systems; identifying, analyzing, and responding to financial reporting risks; and identifying, analyzing, and responding to fraud risks.

The Company has established a set of systematic risk assessment process and risk prevention and control mechanism related to financial reporting. It identifies the risks that lead to financial report misstatements, property loss and fraud from the aspect of both the company level and the business activity level, and analyses the related impacts.

The Board of Directors conducts regular annual reviews of the effectiveness of the risk management and internal control systems. The Audit Committee under the Board of Directors is responsible for reviewing the Company's risk management and internal control systems and the above-mentioned work performed by the internal audit department and discussing with the Board of Directors to ensure that effective measures are taken.

All departments conduct regular internal control assessments to identify risks that may affect the Group's business and various aspects, including key operational and financial processes, regulatory compliance and information security. Each segment has conducted a self-assessment to confirm that it has properly complied with the monitoring policy.

The management and Division Supervisors are responsible for assessing the likelihood of risk occurrence, developing a response plan, monitoring the risk management process, and reporting to the Audit Committee and the Board all evaluation results and the effectiveness of the system.

The Management has confirmed to the Board of Directors and the Audit Committee the effectiveness of the risk management and internal control systems for the year ended December 31, 2018.

## CORPORATE GOVERNANCE REPORT

The internal audit department is responsible for providing internal audit functions and conducting an independent review of the adequacy and effectiveness of the risk management and internal control systems. The internal audit department reviews key issues related to accounting practices and all major controls, and provides the Audit Committee with the results of its review and recommendations for improvement.

The Board of Directors, with the assistance of the Audit Committee, reviews the risk management and internal control systems (including financial, operational and compliance controls) for the year ended December 31, 2018 with reference to the management report and internal audit results, and has not identified any significant issues, therefore considers such systems is valid. The annual review also covers financial reports, internal audit functions and staff qualifications, experience and related resources.

The Company has a reporting procedure so that employees of the Company can draw attention to the possible misconduct of the Company's financial reporting, internal control or other matters in a confidential manner.

The Company has developed its disclosure policy which provides a general guide to the Directors, Supervisors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. The compliance manual has set up relevant procedures and internal monitoring for the Company's handling and publication of inside information. If information is determined as inside information by the management, the Company shall ensure the inside information to be handled and published to the public in an equal and timely way in accordance with the SFO and the Listing Rules.

Control procedures have been implemented by the Company to ensure that unauthorized access and use of inside information are strictly prohibited.

### **Non-competition Commitment**

The Controlling Shareholder of the Company (the "Promisor") has signed a confirmation letter regarding compliance with the non-competition undertakings, and they hereby confirm during the period from the date of listing to the date of signing the confirmation letter (March 25, 2019) until the date of the annual report, the Promisor, including any of its close associates (as defined by the Listing Rules from time to time), strictly abode by and enforced the commitments under the Non-Competition Deed and has not breached any terms of the Non-Competition Deed in any circumstances.

### **Directors' Responsibility in Respect of the Financial Statements**

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2018.

The Directors are not aware of any material uncertainties relating to events or circumstances that may cause significant doubts about the Company's ability to continue as a going concern.

A statement of the Company's independent auditor on the reporting responsibilities of the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 87 to 90 of this Annual Report.

## CORPORATE GOVERNANCE REPORT

### Auditor's Remuneration

The remuneration to PricewaterhouseCoopers, the external auditor of the Company, in respect of the audit services rendered for the year ended December 31, 2018 is approximately RMB800,000. During the year, PricewaterhouseCoopers did not provide non-audit service to the Company.

### Company Secretary

Mr. Li Donglin, Board Secretary and Vice President of the Company, and Ms. Chan Suet Lam of Tricor Services Limited, an external services provider, are the joint company secretaries of the Company. The main contact person of Ms. Chan in the Company is Mr. Li Donglin.

All Directors are advised and served by the Joint Company Secretary on corporate governance and board practices and matters.

Mr. Li Donglin is aware of the requirements of Rule 3.29 of the Listing Rules. Considering that the H Shares were only listed on the Stock Exchange on March 11, 2019, Mr. Li Donglin will comply with the requirements of Rule 3.29 of the Listing Rules for the year ending December 31, 2019. During the year ended December 31, 2018, Ms. Chan Suet Lam has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

### SHAREHOLDERS' RIGHTS

The Company contacts its shareholders through various communication channels.

In order to protect the interests and interests of the shareholders, the Company will present an independent proposal at the general meeting of shareholders on each of the major individual matters, including the election of individual directors. All the proposals presented at the general meeting of shareholders will be voted in accordance with the Listing Rules and the results of the voting will be published on the websites of the Company and the Hong Kong Stock Exchange after the conclusion of each general meeting of shareholders.

### CONVENING AN EXTRAORDINARY GENERAL MEETING

According to Article 69 of the Articles of Association, shareholders holding more than 10% of shares (individually or together with others) shall be entitled to request for an extraordinary general meeting or class meeting according to the said procedures. They shall sign one or several written requests with the same content and format, and stating the subject of the meeting, the aforesaid shareholders may request the board of directors to convene an extraordinary general meeting or class meeting. Concerning the above request, the board of directors shall, in accordance with the law, administrative regulations and this Articles of Association, reply with a written opinion to state whether it agrees or disagrees to convene an extraordinary general meeting within 10 days upon receipt of the proposal. Shares held by the above shareholders shall be calculated as at the date of submitting the written request. The shareholding of the convening shareholders shall not be lower than 10% prior to the announcement of the resolutions of the general meeting. The convening shareholders shall submit relevant certification documents to the board of directors of the Company upon the issuance of the notice of the general meeting and the announcement of the resolution of the general meeting.

## CORPORATE GOVERNANCE REPORT

### PROPOSAL AT THE GENERAL MEETING OF SHAREHOLDERS

According to Article 72 of the Articles of Association, shareholders who individually or jointly hold not less than 3% of the Shares of the Company shall be entitled to put forward an extempore proposal to the convener in writing 10 days prior to the date of the general meeting. The Company convened the annual general meeting of shareholders, and shareholders holding more than 3% (inclusive) of the Company's total number of shares with voting rights shall have the right to submit a new proposal to the Company in writing. The Company shall include the matters within the terms of reference of the general meeting in the agenda of the meeting. The convener shall dispatch a supplementary notice of the general meeting and announce the contents of such extempore proposal within 2 days upon receipt of the proposal. Except as provided in the preceding paragraph, the convener shall not modify the proposals listed in the notice of the general meeting or add new proposals after the announcement of the notice of the general meeting.

For proposing a person for election as a Director, please refer to the Procedures for Shareholder to Propose A Person For Election As A Director published on the Company's Website.

### MAKING AN INQUIRY TO THE BOARD

When making any enquiry to the board of directors, shareholders may send a written inquiry to the Company. The company generally does not handle verbal or anonymous queries.

### CONTACT DETAILS

Shareholders may mail their enquiries or requests as described above to the following address:

Address: Securities Department of Zhejiang New Century Hotel Management Co., Ltd., 18/F, No. 818, Shixinzhong Road, Beigan Street, Xiaoshan District, Hangzhou, Zhejiang, the People's Republic of China

For the avoidance of doubt, shareholders must submit and send the officially signed original copy of written request, notice or statement or inquiry (as the case may be) to the above address, and provide the full name, contact details and identification documents for coming into effect. Shareholder information can be disclosed in accordance with the law.

The Company believes that effective communication with shareholders is important to strengthen investor relations and to enable investors to understand the business performance and strategies of the Group. The Company is committed to maintaining continuous communication with its shareholders, in particular through the annual general meeting of shareholders and other extraordinary general meetings. The directors or their representatives (if applicable) will meet the shareholders at the annual general meeting of shareholders and answer enquiries.

## CORPORATE GOVERNANCE REPORT

### ARTICLE OF ASSOCIATION

The Articles of Association (as amended from time to time) is effective upon consideration and approval by the Company's 2017 Annual General Meeting of Shareholders on June 15, 2018. From the date of listing to the date of this annual report, the Company has not made any changes to the Articles of Association. The Articles of Association can be viewed on the websites of the Company and the Stock Exchange.

Reference is made to the announcement of the Company dated March 29, 2019. Pursuant to the "Company Law of the People's Republic of China" and other relevant regulatory requirements, and taking into consideration the actual circumstances of the Company, the Board proposes to make amendments to the Articles of Association. The proposed amendments to the Articles of Association are subject to the approval of the shareholders of the Company by way of a special resolution at the 2018 annual general meeting of the Company.

Details of the proposed amendments are as follow:

No.	Articles	Before Amendment	After Amendment
1.	Article 12	<p>Upon registration according to the law, our Company's business scope is hotel management and consulting services, housing leasing services, franchise business activities, operation by branches include accommodation, bars, chess, swimming pools, KTV rooms, saunas, haircuts, beauty, catering services, food management, conference and exhibition services, retail of daily necessities, foot bath, fitness services, amusement hall (table tennis room, billiard room), photography services, parking services and operation of tobacco products retail business with operating permits. (Items subject to approval according to law may be operated after approval by relevant departments)</p> <p>The above business scope shall be subject to the items approved by the competent industrial and commercial administration department.</p>	<p>Upon registration according to the law, our Company's business scope is hotel management and consulting services, housing leasing services, franchise business activities, operation by branches include accommodation, bars, chess, swimming pools, KTV rooms, saunas, haircuts, beauty, catering services, food management, conference and exhibition services, retail of daily necessities, foot bath, fitness services, amusement hall (table tennis room, billiard room), photography services, parking services and operation of tobacco products retail business with operating permits, <b><u>hotel design, hotel construction management consultancy and services.</u></b> (Items subject to approval according to law may be operated after approval by relevant departments)</p> <p>The above business scope shall be subject to the items approved by the competent industrial and commercial administration department.</p>

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No.	Articles	Before Amendment	After Amendment
2.	Article 23	<p>The registered capital of our Company is RMB210 million. Prior to the issuance of H Shares, the registered capital of our Company is RMB210 million.</p> <p>After the issuance of the above H Shares, the registered capital of our Company is RMB280,000,000. Our Company will handle the corresponding change registration procedures in the competent industrial and commercial administration department according to the actual issuance, and report to the securities governing authority of the State Council for the record.</p>	<p><b><u>The registered capital of our Company is RMB280 million.</u></b></p>
3.	Article 30 Second and Third Paragraphs	<p>Our Company shall notify creditors within 10 days after adoption of the resolution to reduce the registered capital and shall publish at least three announcements in newspapers within 30 days. The creditors shall have the right to require our Company to repay the debts or provide the corresponding guaranty for debt repayment within 30 days after receipt of the notice or within 90 days after the first announcement if the creditors haven't received the notice.</p> <p>After our Company's reduction in capital, our registered capital may not be less than the statutory minimum amount.</p>	<p>Our Company shall notify creditors within 10 days after adoption of the resolution to reduce the registered capital and <b><u>shall publish an announcement in newspapers</u></b> within 30 days. The creditors shall have the right to require our Company to repay the debts or provide the corresponding guaranty for debt repayment within 30 days after receipt of the notice or within <b><u>45 days after the announcement</u></b> if the creditors haven't received the notice.</p>

## CORPORATE GOVERNANCE REPORT

No.	Articles	Before Amendment	After Amendment
4.	Article 62 First Paragraph	<p>The following powers shall be exercised at the general meeting:</p> <p>(I) to decide on our Company's operational objectives and investment plans;</p> <p>(II) to elect and replace the Directors and Supervisors (not being representative(s) of employees) and to decide on the matters relating to the remuneration of Directors and Supervisors;</p> <p>(III) to review and approve the reports of the Board of Directors;</p> <p>(IV) to review and approve the reports of the Supervisory Committee;</p> <p>(V) to review and approve the annual financial budgets and final accounts of our Company;</p> <p>(VI) to review and approve the profit distribution proposals and loss recovery proposals of our Company;</p> <p>(VII) to decide on merger, division, dissolution and liquidation of our Company or change of our corporate form;</p> <p>(VIII) to decide on the issue of corporate bonds or other securities and listing proposals;</p> <p>(IX) to decide on the appointment, reappointment or non-renewal or removal of the auditors of our Company;</p>	<p>The following powers shall be exercised at the general meeting:</p> <p>(I) to decide on our Company's operational objectives and investment plans;</p> <p>(II) to elect and replace the Directors and Supervisors (not being representative(s) of employees) and to decide on the matters relating to the remuneration of Directors and Supervisors;</p> <p>(III) to review and approve the reports of the Board of Directors;</p> <p>(IV) to review and approve the reports of the Supervisory Committee;</p> <p>(V) to review and approve the annual financial budgets and final accounts of our Company;</p> <p>(VI) to review and approve the profit distribution proposals and loss recovery proposals of our Company;</p> <p><b><u>(VII) to decide on the increase or decrease of the registered capital of the Company;</u></b></p> <p>(VIII) to decide on merger, division, dissolution and liquidation of our Company or change of our corporate form;</p> <p>(IX) to decide on the issue of corporate bonds or other securities and listing proposals;</p> <p>(X) to decide on the appointment, reappointment or non-renewal or removal of the auditors of our Company;</p>



## CORPORATE GOVERNANCE REPORT

No.	Articles	Before Amendment	After Amendment
		<p>(X) to amend the Articles of Association;</p> <p>(XI) to review and approve the external guarantees of our Company that require the approval by the general meeting;</p> <p>(XII) to review our Company's substantial assets acquired or disposed of or guarantees (excluding guarantee for our subsidiaries) granted within one year for an amount exceeding 30% of the latest audited total assets of our Company;</p> <p>(XIII) to review and approve matters relating to the changes in the use of proceeds from share offerings;</p> <p>(XIV) to review the equity incentive plan;</p> <p>(XV) to review proposals made by shareholders individually or jointly holding more than 3% of the voting shares of our Company;</p> <p>(XVI) to review other matters which, in accordance with the laws, administrative regulations, departmental rules, listing rules of the stock exchange where our shares are listed or the Articles of Association, should be approved at the general meeting.</p>	<p>(XI) to amend the Articles of Association;</p> <p>(XII) to review and approve the external guarantees of our Company that require the approval by the general meeting;</p> <p>(XIII) to review our Company's substantial assets acquired or disposed of or guarantees (excluding guarantee for our subsidiaries) granted within one year for an amount exceeding 30% of the latest audited total assets of our Company;</p> <p>(XIV) to review and approve matters relating to the changes in the use of proceeds from share offerings;</p> <p>(XV) to review the equity incentive plan;</p> <p>(XVI) to review proposals made by shareholders individually or jointly holding more than 3% of the voting shares of our Company;</p> <p>(XVII) to review other matters which, in accordance with the laws, administrative regulations, departmental rules, listing rules of the stock exchange where our shares are listed or the Articles of Association, should be approved at the general meeting.</p>

## CORPORATE GOVERNANCE REPORT

No.	Articles	Before Amendment	After Amendment
5.	Article 89 First Paragraph	<p>The chairman of the Board shall preside over and act as the chairman of the general meeting. If the chairman is unable or fails to perform his or her duties, the vice chairman shall preside over and act as the chairman of the meeting (if there are two or more vice chairmen, the vice chairman elected by more than half of the Directors shall preside over the meeting); if there is no vice chairman or the vice chairman cannot or fails to fulfill the duty thereof, more than half of the Directors shall jointly elect a director to preside over and act as the chairman of the meeting. If more than half of the Directors fail to elect a Director to preside over and act as the chairman of the meeting, the attending shareholders may elect a person to preside over the meeting; if for any reason the shareholders cannot elect a person to preside over the meeting, the shareholder (including proxy thereof) holding the most voting shares among the attending shareholders shall act as the chairman of the meeting. The chairman of the Board shall invite the chairmen of the Audit Committee, Nomination Committee and Remuneration Committee to attend the general meeting. If the chairman of relevant committee fails to attend the meeting, the chairman of the Board shall invite another committee member (being an independent non-executive director, or if the said committee member fails to attend the meeting, invite a representative duly authorized by him or her) to attend the meeting.</p>	<p>The chairman of the Board shall preside over and act as the chairman of the general meeting. <b><u>If the chairman is unable or fails to perform his or her duties, a director shall be elected by more than half of the Directors to preside over and act as the chairman of the meeting.</u></b> If more than half of the Directors fail to elect a Director to preside over and act as the chairman of the meeting, the attending shareholders may elect a person to preside over the meeting; if for any reason the shareholders cannot elect a person to preside over the meeting, the shareholder (including proxy thereof) holding the most voting shares among the attending shareholders shall act as the chairman of the meeting. The chairman of the Board shall invite the chairmen of the Audit Committee, Nomination Committee and Remuneration Committee to attend the general meeting. If the chairman of relevant committee fails to attend the meeting, the chairman of the Board shall invite another committee member (being an independent non-executive director, or if the said committee member fails to attend the meeting, invite a representative duly authorized by him or her) to attend the meeting.</p>

## CORPORATE GOVERNANCE REPORT

No.	Articles	Before Amendment	After Amendment
6.	Article 125	<p>The Board of Directors shall comprise at least nine Directors, including three independent non-executive directors, at least one of whom shall be a financial or accounting professional as required by the Listing Rules.</p> <p>The Board of Directors may have one chairman, and the general meeting may decide whether and how to set a vice chairman by an ordinary resolution (provisions of the Articles of Association on vice chairman shall only apply when a vice chairman is set, same below).</p> <p>The chairman and vice chairman shall be elected or removed by votes from more than half of all the Directors, shall serve a term of three years, and is eligible for re-election.</p>	<p>The Board of Directors shall comprise <b><u>nine Directors, with one chairman of the Board, with no vice chairman,</u></b> and including three independent non-executive directors, at least one of whom shall be a financial or accounting professional as required by the Listing Rules.</p> <p><b><u>The chairman</u></b> shall be elected or removed by votes from more than half of all the Directors, shall serve a term of three years, and is eligible for re-election.</p>
7.	Article 129 Second Paragraph	<p>The vice chairman shall assist the chairman in performing his or her duties. If the chairman is unable or fails to perform his or her duties, such duties shall be performed by the vice chairman (if there are two or more vice chairmen, the vice chairman elected by more than half of the Directors shall perform the said duties); if there is no vice chairman or the vice chairman cannot or fails to fulfill the duty thereof, more than half of the Directors shall jointly elect a director to perform the said duties.</p>	<p>If the chairman is unable or fails to perform his or her duties, <b><u>a Director shall be elected by more than half of the Directors to perform the said duties.</u></b></p>
8.	Article 217 First Paragraph	<p>The liquidation committee shall inform the creditors within 10 days following its establishment, and shall publish a public notice on the newspapers approved by the stock exchange where our shares are listed at least three times within 60 days. The creditors shall report their rights to the liquidation committee within 30 days of the receipt of the written notification, or in the event that no such notification is received, within 45 days of the date of the announcement.</p>	<p>The liquidation committee shall inform the creditors within 10 days following its establishment, and shall <b><u>publish a public notice on the newspapers approved by the stock exchange where our shares are listed within 60 days.</u></b> The creditors shall report their rights to the liquidation committee within 30 days of the receipt of the written notification, or in the event that no such notification is received, within 45 days of the date of the announcement.</p>

## CORPORATE GOVERNANCE REPORT

### **POLICIES ON SHAREHOLDERS**

The Company has developed a shareholder communication policy to ensure proper handling of shareholder opinions and concerns. The Company will review the policy regularly to ensure its effectiveness.

The Company has adopted a policy on the payment of dividends. The policy sets out the guidelines to be applied by the Company in relation to the dividend declaration, payment or distribution to shareholders and factors to take into consideration, including the financial performance and condition, business cycle and future expansion plans of the Group, overall economic and financial environment and other internal or external factors that may have impact on the Group's business or financial performance.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company hereby issues the environmental, social and governance report for 2018 to introduce the Company's sustainable development philosophy and practices to all stakeholders.

## SOCIAL RESPONSIBILITY

### I. Stakeholders

The Company has always adhered to its commitment to social responsibility, conducted sustainable operation with high quality, reasonable and effective ESG policies, and actively communicated with stakeholders such as shareholders, employees, suppliers and customers, with the Board evaluating the Company's ESG risk management and internal control system, and the management comprehensively carrying out environmental, social and governance related works.

### II. The Company's Integrity

In 2018, under the strong leadership of the Company's party organization and Audit Committee, and the guidance of Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era, the Company thoroughly studied and implemented the spirit of the 19th National Congress of the Communist Party of China and the spirit of the Second Plenary Session of the 19th Central Commission for Discipline Inspection. The Company focused on and served the central task of the business development, strengthened the supervision and accountability system, conscientiously fulfilled the supervision responsibility of constructing the Party conduct and an honest and clean government, and strived to enable all party member leaders to lead all staffs to equip themselves and guide practices with Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era, to constantly advance the construction of the Company conduct and an honest and clean government and anti-corruption work so as to protect the Company's sustained and healthy development.

The Company has strictly complied with the Company Law of the PRC, the Anti-unfair Competition Law of the PRC and Anti-money Laundering Law of the PRC and other laws and regulations relating to bribery, extortion and fraud, establishing the whistleblower channels to report behaviors breaching professional ethics and fraud, and organizing various supervision and education activities, including integrity film learning, party work conferences and so on. All the reports received are subject to assessment and investigation. The existing deficiencies of the Company will be addressed in a timely manner through education and disciplines so as to maintain the cleanness of Party. With the aim of promoting the construction of a clean government as well as anti-corruption campaign of the Company, the Company accepts complaints and keeps the cases of complaints strictly confidential as well as safeguards the lawful rights and interests of the informants.

The Company adhered to high standards, strictly implemented the Party's disciplines, rules and regulations, system of the Company, and organized all staff to carry out "Two Studies, One Action". Party organizations and audit departments at all levels resolutely implemented the requirements of Party building in the new era, increased the accountability for violations of disciplines and rules, and continued to promote the construction of an honest and clean government of the Company. The Company required the broad masses of Party members to follow the spirit of the Party's 19th National Congress, not to forget their initial intentions, to keep their mission in mind, and to go all out to realize the Company's overall strategy.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## QUALITY SERVICES

The Company is committed to creating quality products, providing world-class services, and striving to provide guests with services perfectly blending Eastern culture and international standards. Through careful consideration of and catering to the needs of guests, we have summarized our core service commitment as “always caring, efficient and convenient, meticulous and happy”, and integrated the Company’s culture into every happy service process, so that every guest staying at the Hotels can enjoy the intimate services.

Providing quality services to guests is the lifeline and also the continual developmental gene of New Century Hotel. Strengthening service quality management and creating quality services is a strategic task for the Company to build its core competitiveness and remain invincible. In the past 30 years, the Company has always based its values on high quality, conformed to the consumption upgrading trend, continuously improved the service quality and management, and provided guests with a wonderful experience in the high quality development.

### I. Service Design

#### 1. *Quality Banquet Service Ambassador*

In 2010, the Company pioneered in the hotel industry by introducing the “Quality Banquet Service Ambassadors”, who specialized in high-end banquet services. In response to the guests’ demand for high-end banquet services, the Quality Banquet Service Ambassadors provide well-trained, meticulous and elegant professional and special services, showing our care. Quality banquet service ambassadors is a key professional and special catering service project created by the Company. In 2018, a total of 82 ambassadors were trained, increasing the total number of training sessions and ambassadors to 13 and 468, respectively, attracting and cultivating more hotel professional service talents with comprehensive skills, displaying strong point of unique service and improving the quality of banquet service of the Company.



#### 2. *Golden Key to the Conference: Providing “One-Stop” Conference Services*

The “Golden Key of the Conference” is a set of the latest conference service mode that the Company summarized and innovated by accumulating experience in daily conference reception and management, improving service quality, and concentrating on the design and innovation. By applying the Golden Key spirit and professional conference services of the Chief Concierge of the Front Office to the conference services, we fostered “Golden Keys” that were expert in one thing and good at many and did their best, to serve major conferences. Through the coordination and organization work before the conference reception, the implementation and communication of work in the conference reception, the special service design tailored to conferences and the archival conference materials after conferences, we upgraded

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

conference services to a new level to create a new conference service mode, and comprehensively improve the quality of conference services, create quality services for guests and expand the brand influence of the Company.



### 3. *New Century Star Chefs*

The F&B brand of the Company have always been well-known in the industry. After decades of development, we have a group of "Star Chefs" (namely "New Century Star Chefs") with exquisite culinary skills and some reputation and influence. "New Century Star Chefs" made great contribution to the brand awareness of the Company by innovating dishes, developing specialty dishes, actively participating in various competitions and industry events and important reception activities inside and outside of the Company, helping the development and innovation of the Company's F&B service.

In order to recruit more professional F&B talents and promote cooperation and exchange among the top F&B talents of the Company, the Company established New Century Star Chefs Kitchen in September 2018, which was positioned as the executive branch and responsible for the operation and management of New Century Star Chefs Kitchen. By the end of 2018, the "New Century Star Chefs Training Class" had trained a total of 38 people, and "Professional Class for Mid-level Successors" had trained a total of 10 people; a total of 54 hotels and 76 people participated in the training of "Sichuan-style sauce", a standardized F&B product of the Company. New Century Star Chefs Kitchen aligned with the Company's strategy to promote the development of hotel business, met the needs of the Company's rapid development for F&B professionals, and systematically established a "Huangpu Military Academy" in the development of F&B professionals, to steadily deliver F&B professionals to the Company's Hotel. By expanding its research on Zhejiang cuisine culture and promoting Chinese cuisine, it helps constantly consolidate the industry leading position of the Company's F&B brand.



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### 4. *New Century Concierge*

The concierges are experts of information management and serve as an important advisory role for the Company's guests. As friends, secretaries and confidants of guests, New Century Concierge presents each guest with the right information and solutions in the most meaningful and satisfying way according to their unique personalities and cognitions. By the end of 2018, the Company had trained a total of 47 concierges. The establishment of the professional team of Concierge lies in the creation of service system and brand image of the exclusive "New Century Concierge", redefining the "localization" and "individualization" of the Company's services, enhancing the appeal of the humanistic service spirit, expanding the brand influence and supporting the hotel business management.

### 5. *Other Special Services*

In 2018, our Company signed a strategic cooperation agreement with Yunji Robot to explore and deeply cooperate in the application of intelligent robots in the hotel industry, and conduct customized research and development for different service links and application scenarios in the hotel industry, produce serialized intelligent service robot products and related applications for the hotel industry to reduce labor costs, improve our operational efficiency, and provide a healthier, safer and more hygienic service to the guests.

## II. **Guest Satisfaction**

In 2018, our Company re-designed the Quality Management System which was optimized and upgraded on the basis of the original system. It consisted of two aspects: group and hotel. In the five sub-systems of quality organization, quality standard, quality evaluation, quality information analysis and quality execution guarantee, we clarified responsibilities at all levels, quality standards, monitoring channels, analysis output, and performance results, and strived to achieve a large quality closed-loop of the Group and hotel benign micro-circulation in the new situation of the Company's new structure and scale development. Specifically, at the Group level, we implemented a top-down large closed-loop management model, which is jointly promoted by the quality leader and the hotel operation support team on the basis of effectively integrating the resources of all departments of the Group; at the hotel level, we implemented the benign bottom-up microcirculation operation mode, which was shared by the hotel quality officer and the key quality improvement implementation team. The two sides worked together to continuously update the quality inspection standards and operation manuals to effectively guide hotels to improve quality management.

Our Company introduced the "Quality Officer" plan which had two training on quality officers in 2018 with the total number of trainees reaching 138, committed to training a group of quality professionals in hotel operation who are highly motivated, down-to-earth, skilled, professional, willing to communicate and good at coordination, to help with the improvement of hotels' level of quality management.

According to the data of Joint Wisdom, in 2018, the average number of reviews of our Company was much higher than the industry average. The major indexes such as the rate of response to negative reviews, favorable rate and total Huiping score were higher than the average of the competition. As of December 31, 2018, the Huiping favorable rate was 90%, up 3.7 percentage points year-on-year; the favorable rate on official website was 85.9%, up 4.6 percentage points year-on-year; the response rate was 97.3%, up 4.25 percentage points year-on-year.



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company is not aware of any significant data security breaches affecting our Company's hotel operations in 2018.

In 2018, the Company is not aware of any instances of non-compliance with relevant laws and regulations that have a significant impact on the Company concerning health and safety or any other aspects of product/service responsibility including but not limited to advertising, labeling and data privacy.

Our Company's quality management, quality services and products were recognized by the market and within the industry, and core competitiveness of the cooperation is continually increasing.

### CARING FOR EMPLOYEES

#### I. Employment Rules

The Company strictly abides by the "Labor Law of the PRC" and the "Labor Contract Law of the PRC" and other laws and regulations, and has standardized processes for employee recruitment, new employee onboarding and contracting. There is no restriction or requirement on gender, region, ethnicity and belief in recruitment. The assessment of candidates is more focused on professional experience, performance and business capabilities and personal overall quality, development potential and other factors. In the recruitment and hiring process, we eliminate the recruitment of young workers under the age of 18; in respect of employee termination and dismissal, we protect the legitimate rights and interests of laborers, strictly abide by the requirements of laws and regulations.

#### II. Talent Selection, Training and Promotion

The Company follows no set pattern in talent selection and training. Outstanding internal employees enjoy priority in promotion opportunities. We provide a comprehensive talent development promotion system, curriculum library system, and a large number of training implementation plans for internal employees. In terms of talent development, with the "3+1" Management Talents Training System (Reserve Senior Management Program, Middle Management Succession Program, Future Star Program, Management Trainee Program), outstanding employees that pass assessment will be transferred to the primary, middle and top level management teams respectively; In addition, the Company focuses on training of hotel professionals, and has formed a professional talent development channel through the market income management training camp, holiday partner training camp, and training programs for quality banquet service ambassadors, chief concierges, New Century star chefs, and New Century quality officers. The Company has also developed a curriculum system for internal use, including new employee induction training courses, supervisory management courses, key position courses, 22 national copyright certification courses, collective courses, and courses for quality banquet service ambassadors, chief concierges, and vitality experts. The internal online network college learning platform has made it convenient for subordinate employees to learn. The Company's training system and curriculum system has provided employees with a wealth of opportunities for learning and promotion.

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### III. Employee Holidays

All employees of the Company enjoy national statutory holidays, and New Century Hotel Group Human Resources Management Manual stipulates the conditions for employees' paid annual leaves, sick leaves, marriage leaves, maternity leaves and other vacations, and specific operational procedures to protect employees' right to holidays. The Company strictly abides by the provisions of the Labor Contract Law of the PRC and resolutely puts an end to mandatory labor. According to the nature of work, the working hours of all employees of the Company are divided into standard working hours, comprehensive working hours and irregular working hours. The Company stipulates that due to the needs of operation and management, extending working hours and work overtime. Employees will only be arranged overtime work if they are willing to and subject to the approval of managers in charge, and compensatory time off or overtime compensation will be arranged in time.

### IV. Compensation and Benefits

Employees' compensations of the Company include basic wages, allowance, and performance bonus. The Company has considered and strengthened the performance incentive policy and established a scientific and reasonable compensation distribution system from the starting point of stimulating and motivating employees and effectively protecting their rights and interests, so that the income of employees increase with the increase in value created by them for the Company. Meanwhile, we maintain a certain annual growth of the employees' income based on the market development and the overall benefits of the Company. The Company provides employees with insurance coverage including pension insurance, medical insurance, unemployment insurance, work injury insurance, and maternity insurance and housing provident fund.

### V. Employee Care and Corporate Culture

The Company annually launch a series of cultural activities such as "Hotel Industry Technology Competition" and "New Century Cultural Festival", and public activities such as "Riding Day" to carry forward cultural concepts. The Company also organizes employee activities in various festivals including female employees' outing on Women's Day, employee evening party and moon cake gift boxes for each employee on the Mid-Autumn Festival, employees New Year's Eve dinner, annual travel and professional physical examination for older employees to care for employees with sincerity.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company adheres to the philosophy of "Treating Employees as the Most Valuable Assets, Showing Respect, Caring Genuinely and Sharing Success" and focuses on the core values of "Humanity Quality, Sincere Care" and the mission and vision of "Creating Chinese Quality and Happy Life", so as to create an atmosphere of "Happy Work, Happy Life" for employees, actively mobilize the enthusiasm of employees, enhance the loyalty of employees to the Company, and promote the common development of employees and the Company.

### HEALTH AND SAFETY

Our Company has formulated over 20 detailed Rules and Regulations on Safety Management, including the Fire Management System, Safe Evacuation Channel Management System, Workplace Safety Management System and so on; established a series of Safety Management Standards, including Safety Operation Guidance Standards, Daily Safety Inspection Guidance Standards, Risk Control Self-Inspection Standards, etc. Our Company's hotel conducts a comprehensive safety self-assessment manual assessment twice a year, issues reports after the assessment and implements effective improvements to non-compliant items.

Our Company formulated the Hotel Security Accident Emergency Plan by identifying potential hidden accidents and emergencies. Each hotel has established a "Crisis Management Committee" to make a thorough contingency plan to respond to possible fires, explosions, civil harassment, casualties, elevator accidents, power outages, floods, food poisoning, etc., and strive to respond quickly in the event of a crisis through effective cooperation to ensure the safety of employees and customers and the continuity of operations. Our Company's safety management has achieved outstanding results, and there has been no major safety accident in the past three years.

Our Company attach importance to fire safety. The hotel regularly organizes two fire drills every year, organizes at least one evacuation drill, evaluates the effects of the exercises, improves the problems in the exercises, and improves emergency response capabilities.

Since 2012, our Company has introduced the hotel food safety management system and to prevent food safety issues through careful planning of each operation process; the Operation Manual of Food Safety Management System was prepared. Our Company's hotel has set up a special organization for the construction of food safety management system, strictly implementing the safety management system for the entire food operation process from the procurement, storage, processing, cooking, cleaning and disinfection, etc. We organizes special persons to evaluate the operation of the food safety management system of hotels and propose improvements every year.

Our Company attaches great importance to the health and safety protection of employees, formulates the labor protection system of enterprises according to the Labor Law and relevant safety regulations; it formulates the Labor Protection System for Women Workers and Minors and gives special protection; it strengthens employee training and raises employees' awareness of safety and health; it pays attention to protecting the physical and mental health of employees, carries out physical examination for all employees every year to prevent occupational diseases; it improves the working environment, strengthens the management of five-routine working regulations, and keeps an eye on MSDS (Safety Data Card) for employees who are exposed to chemical drugs to ensure first aid measures to be taken in the event of an accident.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In the initial stage of construction, our Company focused on the impact of infrastructure on the health and safety of guests and employees, and strictly required that the decorative materials used meet environmental requirements, including woodworking boards, paints, furniture, paints, etc. At the same time, the hotel will entrust a third party to conduct inspections on areas of "central air conditioning, restaurant air, water quality of swimming pools, air of entertainment venues, guest rooms (air, furniture, cotton products)". More than half of the hotels offer air purifiers in the rooms for guests to choose to further reduce the impact of the environment on air quality.

### RESPONSIBLE PROCUREMENT

The Company's supply chain conducts open tendering, selects suppliers on merits, respects intellectual property rights, protects the interests of suppliers, and selects suppliers from the location of the hotel as far as possible to promote the development of the area.

The Company insists on maintaining close cooperation with partners, providing support and assistance to excellent suppliers in capital, technology, product research and development, management, and sharing corporate values to achieve win-win cooperation.

The Company and its partners jointly drafted and implemented the New Century Food Safety and Hygiene Standard to ensure and promote public food safety. In the process of responsible procurement, the Company organizes an annual all-round assessment of suppliers on quality, delivery, price and service to ensure the "New Century Quality".

The Company has always implemented the "New Century's Back to Nature" plan. It is committed to the development and application of green products, and actively promotes eco-friendly room supplies such as toothbrushes, combs and shavings using plant starch as raw materials, bathing liquids, shampoos and hair conditioner bottles using PCR regeneration materials, and packaging papers made of inorganic mineral powder (stone powder) so as to advocate the green value proposition of "New Century's Back to Nature" and meet the public demand for environmentally friendly products.

Under the background of the need to protect drinking water sources, in order to ensure consumers safe drinking water, the Company and Nongfu Spring has cooperated to develop customized bottled mineral water of "source" water to actively spread the healthy water drinking idea, adhere to sustainable development and fulfill the Company's social responsibility since 2012.

### SOCIAL WELFARE

The Company conveys sense of mission and responsibility of New Century as a leading national hotel group to the society, publicizes the brand of the Company, healthy life and work concept to the society, and makes the Company a corporate citizen with a real sense of responsibility. The Company supports education, sports and community construction and other fields, as well as actively carries out public welfare activities.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The 8th New Century Cycling Day was celebrated. Over 4,500 employees from more than 120 New Century companies in 63 cities nationwide and some members of the community participated in the cycling activities.



### ENERGY CONSERVATION AND EMISSION REDUCTION

The Company has always treated environmental protection, energy conservation and emission reduction as an important part of the sustainable development strategy, actively created a sustainable development environment and established a good social image of the Company. As the continuing growth of energy costs, in order to alleviate the pressure on hotel operations caused by rising prices, and in response to the government's request to develop a circular economy and establish a conservation-oriented society, the Company continuously ensured the energy conservation and efficient operation of facilities and equipment through technological transformation, while further improving the Company's energy conservation management work by developing energy conservation and emission reduction management system with management measures. The Company's hotels have implemented or are implementing a standardized and effective energy conservation and emission reduction system, which has achieved certain results. The following key performance indicators within the scope of environment cover the major operating hotels and certain managed hotels under operations in the year of 2018.

#### I. Emission reduction

Our Company strictly abides by the laws and regulations formulated by the government. In terms of the environment, our Company strictly abide by the relevant laws and regulations such as the Environmental Protection Law of the People's Republic of China, our Company has strengthened management of potential issues on various environmental factors in the preparation and operation management of subordinate hotels.

In terms of noise management, the noise of hotel operation mainly comes from equipment room, roof fan, air conditioning cooling tower and boiler. The subordinate hotels of our Company make treatment and rectification by adopting sound insulation method and silencer method. In terms of equipment selection, low-noise equipment is used as much as possible to ensure that the noise meets the Social Living Environment Noise Emission Standard (GB 22337-2008), so as not to affect the living environment of the surrounding residents.

In terms of exhaust emission, it is mainly emission from boiler combustion processes, kitchen fumes, and parking lot emission. For the exhaust gas of the boiler, the Company's hotels mainly improve the combustion efficiency, so that all the fuels are burned out. Various dedusting means are adopted for the burnt fly ash to reduce the emission of nitrogen oxides; at the same time, we carry out the transformation of the flue gas waste heat recovery device for the boiler to improve boiler operating efficiency to ensure that the Boiler Air Pollutant Emission Standard (GB 13271-2014) is met. Regarding the problem of kitchen fumes, the Company's hotels are equipped with a lampblack purifier, and quarterly clean the fume pipes, fans and other facilities in a timely manner to ensure that the standard requirements of the Emission Standard of Cooking Fume (Trial) (GB 18483-2001) are met. The fuels used by the Company's hotels currently are clean energy of natural gas to reduce exhaust emissions.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In terms of greenhouse gases, the main sources of greenhouse gas emissions of the Company's hotels are indirect energy emissions from electricity and direct emissions from natural gas combustion in boilers and kitchens. Hotels use the most advanced energy-saving technologies such as stove energy-saving retrofits and steamer energy-saving retrofits, and adjust the energy use structure to reduce energy consumption and greenhouse gas emissions. The total greenhouse gas emissions of the hotels within the scope of our Group's statistics in 2018 were about 279,987 tCO<sub>2</sub>e.

In terms of sewage discharge, the sewage of the Company's hotels is mainly domestic sewage generated by guests and employees and kitchen sewage. All sewage discharges comply with national standards. Some hotels are equipped with a reclaimed water treatment device to discharge the sewage reaching the standard to the municipal pipeline network after being treated by the sewage treatment device. At the same time, the staffs of the hotel engineering department regularly clean and inspect the rain sewage pipelines. The hotels strengthen the management of employees and prohibit any dumping of waste oils, chemicals and others actions that cause great harm to the environment. The hotels sewage discharge meets the requirements of the state Integrated Sewage Discharge Standard (GB 8978-1996). The wastewater discharge of the hotels within the scope of our Group's statistics in 2018 was about 4,986,978 tons.

In terms of waste management, the waste of the Company's hotels includes kitchen waste and garbage generated by guests and employee. All dry trash are separated from wet trash as dry or wet in the garbage room after collection, garbage should not be placed in the open air to prevent rainwater from flowing into the rainwater pipeline. Hotels treat or recycle paper and plastic box glass with recycled value uniformly, and other wastes are disposed of by the municipal sanitation department. The waste discharge of the hotels within the scope of our Group's statistics in 2018 was estimated to be about 9,100 tons, including domestic garbage, septic tanks, kitchen waste, chemicals, and scrapped electrical equipment.

### II. Energy saving and consumption reducing

Our Company established the "Energy Conservation Committee" and "Energy Conservation Team", set up "Special Manager of Energy", extended the energy assessment target from the department level to the team, and formulated the secondary assessment system of energy. At the same time, the Energy Conservation Toolbox Manual of New Century Hotel Group was formulated, and 432 energy-saving related opportunities were identified from 15 divisions such as the Housekeeping Department and Food and Beverage Department, and its impact was assessed and it was implemented in each hotel. At the same time, in response to common energy-saving hidden dangers, the 100 Articles for Saving Hotels were formulated.

Our Company conducts "energy audits" on subordinate hotels or hotels conduct "energy audits" by themselves. The audit includes "hotel energy management, energy consumption and energy measurement statistics, energy consumption structure, energy equipment efficiency, comprehensive energy consumption, energy cost analysis, amount of energy saving, and energy saving technical innovation project". Through audit, the improvement in water, electricity and gas use of each hotel was explored, and a series of improvements were carried out with respective hotels, including the application of energy-saving technologies such as LED lamp replacement, air conditioning condensate recovery, heat recovery of laundry rooms, boiler condensate recovery, plate heat exchange modification, and biomass boilers. The total electricity consumption of the hotels within the scope of our Group's statistics in 2018 was about 216,727,456 kWh, and the power consumption per unit area was about 63.68 kWh/m<sup>2</sup>.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In terms of proactive prevention and elimination of hidden dangers, our Company has formulated the corporate environmental management guidelines and objectives, incorporated environmental indicators into the performance appraisal system, and implemented an energy consumption analysis information system to analyze and make statistics of energy consumption. Our Company established a daily reporting system for water, electricity and gas consumption, recorded and analyzed the energy consumption status. All major departments established energy quota standards and responsibility systems. Our Company continued to increase investment in energy-saving technological transformation and environmental protection facilities, and reinvested the cost of energy conservation and consumption reduction into facilities and equipment and environmental protection and energy conservation transformation. In addition, our Company also used various channels to strengthen the training of professional knowledge and skills for engineering and technical personnel and employees, and regularly organized activities to consult employees on energy saving and emission reduction ideas. In response to public concerns about the resource and energy consumption, hotel operation safety, and employee safety brought about by hotel operations, corresponding preventive measures have been formulated.

In terms of the protection and conservation of water resources, we improve water efficiency in a number of ways. We install cold and hot water meters in each water use area of the hotel, and regularly read the meter. Through data analysis, we can judge whether there is water leakage or abnormal water use in the pipeline, so that the rectification can be carried out in a timely manner. In terms of technological transformation, reclaimed water devices are installed in some hotels to reuse water resources. There's a water-saving environmental protection card in the hotel rooms and we arrange the replacement and cleaning of the sheets and bath towels if necessary. The total water consumption of the hotels within the scope of our Group's statistics in 2018 was about 5,541,087 tons.

In 2018, our Company achieved certain results in energy conservation and consumption reduction work. The overall energy consumption of the hotels within the scope of our Company's statistics decreased by 0.45 percentage points, approximately compared with that of 2017, the power consumption per unit area decreased by 1.18 kWh/m<sup>2</sup>, approximately, and the water consumption of hotel rooms decreased by 0.07 tons/room, approximately. Going forward, the Company will continue to explore and pay attention to the application and development of energy-saving technologies, to improve energy management level and achieve sustainable development through more reasonable management.

### III. Protecting the environment and natural resources

In the policy of reducing major impacts of human factors on natural resources, the Company continues to raise employees' awareness of energy saving and consumption reduction, introduce new technologies, and continuously carry out energy saving and consumption reduction to minimize waste generation. At the same time, in the hotel business area, guests are also guided to save energy and reduce consumption and use recycled products as much as possible.

In terms of the use of environmentally friendly products, the Company adopts the "New Century's Back to Nature (還木開元)" series of products in the room consumables. Such products can be degraded and returned to the manufacturer for recycling production, which has been recognized by guests and equipment. In addition, the Company are actively participating in the "Earth Hour" event to guide guests and employees to focus on the Earth and protect the natural environment and natural resources.

# INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

**To the Shareholders of Zhejiang New Century Hotel Management Co., Ltd.**  
*(Incorporated in the People's Republic of China with limited liability)*

## OPINION

### What we have audited

The consolidated financial statements of Zhejiang New Century Hotel Management Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 91 to 195, which comprise:

- the consolidated balance sheet as at December 31, 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.



# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit relates to "Recoverability of the carrying values of the property, plant and equipment, land use rights and intangible assets ("hotel property and equipment") of loss making hotels":

### Key Audit Matter

#### **Recoverability of the carrying values of the property, plant and equipment, land use rights and intangible assets ( "hotel property and equipment" ) of loss making hotels**

Refer to Note 2.11, Note 4(a) and 4(b), Note 15, Note 16 and Note 17 to the consolidated financial statements.

The Group, through its subsidiaries, holds equity interests in a number of hotels in the People's Republic of China ("the PRC"). The carrying values of Property, plant and equipment, Land use rights and Intangible assets amounted to RMB587.8 million, RMB45.0 million and RMB14.9 million respectively on the consolidated balance sheet as at December 31, 2018. With the hotels operating in different locations in the PRC, and operating under different categories and brands, the performance of the Group's hotels varies and with some recording losses. There is a risk that the carrying values of the loss making hotels are higher than their recoverable amounts.

Management considers each hotel to be a separate cash-generating unit ("CGU") and performs impairment assessments, where impairment indicators exist, to determine the recoverable amount of the hotel property and equipment. The recoverable amount is determined as the CGU's value-in-use, which involves estimation of future business performance and key assumptions including discount rates, occupancy rates, sales growth rates, etc. Based on the impairment assessments carried out by management, management concluded that no provision for impairment of hotel property and equipment was necessary as at December 31, 2018.

We focused on this area as the impairment assessments and determination of recoverable amounts involve significant management's judgements and estimations.

### How our audit addressed the Key Audit Matter

Our audit procedures in relation to management's impairment assessments included the following:

- We understood, evaluated and validated the internal controls in respect of management's assessments and measurement of impairment, and assessed how management identified the indicators of potential impairments of hotel property and equipment.
- We evaluated management's future cash flow forecasts and the process by which they were prepared, including testing the mathematical accuracy of the underlying calculations and compared the future cash flow forecasts to the latest approved budgets and actual results of the prior period;
- We assessed the appropriateness of methodologies and assumptions used by management in the calculations of the recoverable amounts. This included the evaluation of the discount rates with reference to market data; assessing the reasonableness of occupancy rates and sales growth rates by comparing them to historical results and latest economic and industry forecasts.
- We performed sensitivity analyses where there were indicators of impairment. This was undertaken by making adjustments to the key assumptions in management's impairment assessment and considered whether any reasonably possible adjustments, in isolation or as a combination, would result in material impairment.

Based on our audit procedures performed, we found the assessments of the recoverability of the carrying values of the property and equipment of the loss making hotels were supported by the evidence we obtained.

## INDEPENDENT AUDITOR'S REPORT

### OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Group's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

## INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chu Wang Hay.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, March 25, 2019

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2018

	Notes	Year ended December 31,	
		2018 RMB'000	2017 RMB'000
Revenue	5	1,797,968	1,664,643
Cost of sales	8	(1,329,818)	(1,232,702)
<b>Gross profit</b>		<b>468,150</b>	431,941
Selling and marketing expenses	8	(99,822)	(85,457)
Administrative expenses	8	(166,620)	(159,585)
Net impairment losses on financial assets	8, 20	(541)	(958)
Other income	6	12,583	10,436
Other gains – net	7	22,371	28,644
<b>Operating profit</b>		<b>236,121</b>	225,021
Finance income	10	9,535	5,402
Finance costs	10	(9,205)	(10,406)
Finance income/(costs) – net	10	330	(5,004)
Share of net profit of associates and joint venture accounted for using the equity method	11	6,630	3,005
<b>Profit before income tax</b>		<b>243,081</b>	223,022
Income tax expense	12	(54,012)	(56,455)
<b>Profit and total comprehensive income for the year</b>		<b>189,069</b>	166,567
<b>Profit and total comprehensive income attributable to:</b>			
– Owners of the Company		186,787	163,042
– Non-controlling interests		2,282	3,525
		<b>189,069</b>	166,567
<b>Earnings per share for profit attributable to the owners of the Company for the year – Basic/Diluted (in RMB per share)</b>	13	<b>0.89</b>	0.78

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# CONSOLIDATED BALANCE SHEET

As at December 31, 2018

	Notes	As at December 31,	
		2018 RMB'000	2017 RMB'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	587,756	408,053
Investment properties		910	925
Land use rights	16	44,954	46,142
Intangible assets	17	14,904	15,037
Investments accounted for using the equity method	11	121,564	118,388
Other non-current assets	18	3,170	14,554
Deferred tax assets	28	27,338	19,560
<b>Total non-current assets</b>		<b>800,596</b>	622,659
<b>Current assets</b>			
Inventories	19	28,322	26,793
Trade and other receivables and prepayments	20	282,239	239,090
Cash and cash equivalents	21	367,688	424,109
Restricted cash	21	68,000	–
<b>Total current assets</b>		<b>746,249</b>	689,992
<b>Total assets</b>		<b>1,546,845</b>	1,312,651
<b>Equity and liabilities</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	23	210,000	210,000
Other reserves	24	276,440	267,355
Retained earnings		177,408	36,441
<b>Total equity attributable to owners of the Company</b>		<b>663,848</b>	513,796
Non-controlling interests		10,097	15,297
<b>Total equity</b>		<b>673,945</b>	529,093

# CONSOLIDATED BALANCE SHEET

As at December 31, 2018

	Notes	As at December 31,	
		2018 RMB'000	2017 RMB'000
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	26	185,000	160,000
Deferred income	27	20,048	21,714
Deferred tax liabilities	28	442	137
<b>Total non-current liabilities</b>		<b>205,490</b>	181,851
<b>Current liabilities</b>			
Contract liabilities	5	194,194	192,352
Borrowings	26	5,500	5,000
Trade and other payables	25	443,081	380,088
Current income tax liabilities		23,449	23,561
Current portion of long-term liabilities	27	1,186	706
<b>Total current liabilities</b>		<b>667,410</b>	601,707
<b>Total liabilities</b>		<b>872,900</b>	783,558
<b>Total equity and liabilities</b>		<b>1,546,845</b>	1,312,651

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 91 to 195 of the Company were approved by the Board of Directors on March 25, 2019 and were signed on its behalf:

**Jin Wenjie**  
Chairman

**Chen Miaoqiang**  
Executive Director

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2018

	Notes	Attributable to owners of the Company					Non-controlling interests	Total Equity
		Paid-in capital/Share capital	Other reserves	Retained earnings	Total			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
<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		-	-	163,042	163,042	3,525	166,567	
<b>Total comprehensive income</b>		-	-	163,042	163,042	3,525	166,567	
<b>Transactions with owners in their capacity as owners</b>								
Capital injections from Non-controlling shareholders		15,100	121,420	-	136,520	6,590	143,110	
Dividends provided for or paid	14	-	-	(59,690)	(59,690)	(1,433)	(61,123)	
Appropriation to statutory reserve		-	2,985	(2,985)	-	-	-	
<b>Others</b>								
Employee share-based compensation	24	-	3,510	-	3,510	-	3,510	
Conversion into a joint stock company	23, 24	21,220	97,909	(119,129)	-	-	-	
Business combination under common control	34	-	(40,000)	-	(40,000)	-	(40,000)	
<b>As at December 31, 2017</b>		210,000	267,355	36,441	513,796	15,297	529,093	

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2018

	Notes	Attributable to owners of the Company			Total RMB'000	Non- controlling interests RMB'000	Total Equity RMB'000
		Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000			
<b>As at January 1, 2018</b>		210,000	267,355	36,441	513,796	15,297	529,093
<b>Comprehensive income</b>							
Profit for the year		-	-	186,787	186,787	2,282	189,069
<b>Total comprehensive income</b>		-	-	186,787	186,787	2,282	189,069
<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	14	-	-	(41,238)	(41,238)	(1,659)	(42,897)
Transactions with non-controlling interests	34	-	4,503	-	4,503	(9,507)	(5,004)
Appropriation to statutory reserve	24	-	4,582	(4,582)	-	-	-
<b>Others</b>							
Acquisition of a subsidiary	30	-	-	-	-	2,484	2,484
<b>As at December 31, 2018</b>		210,000	276,440	177,408	663,848	10,097	673,945

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.



## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, 2018

	Notes	Year ended December 31,	
		2018 RMB'000	2017 RMB'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	31(a)	268,940	323,831
Interest paid		(9,212)	(11,561)
Income tax paid		(61,446)	(44,197)
<b>Net cash generated from operating activities</b>		<b>198,282</b>	268,073
<b>Cash flows from investing activities</b>			
Payments for the transaction with non-controlling interests	34	(5,004)	–
Payments for financial assets at fair value through profit or loss		(376,849)	(162,897)
Payments for property, plant and equipment, land use rights and intangible assets		(221,316)	(150,425)
Change of restricted cash for term deposit	21	(2,000)	–
Payment for acquisition of a subsidiary, net of cash acquired	30	(1,545)	–
Proceeds from sale of financial assets at fair value through profit or loss		376,849	317,897
Proceeds from sale of property, plant and equipment	31(b)	368	3,469
Proceed from the repayment of loans to related parties		–	56,000
Dividends received from associates and joint ventures		136	474
Interest received from loans to related parties		–	992
Interest received from financial assets at fair value through profit or loss		4,483	8,754
Proceeds from disposal of subsidiaries, net of cash disposed	29	9,461	12,621
<b>Net cash (used in)/generated from investing activities</b>		<b>(215,417)</b>	86,885

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, 2018

	Notes	Year ended December 31,	
		2018 RMB'000	2017 RMB'000
<b>Cash flows from financing activities</b>			
Payment for business combination under common control	34	–	(40,000)
Payment for listing expenses		(16,389)	–
Proceeds from borrowings		35,000	320,100
Repayment of borrowings		(16,200)	(509,100)
Dividends paid to the Company's shareholders	14	(41,238)	(59,690)
Dividends paid to non-controlling interests in subsidiaries		(1,659)	(1,433)
Change of restricted cash pledged for bank borrowings		–	40,000
Proceeds of capital injection from shareholders		–	136,520
Proceeds from capital injection of non-controlling interests		1,200	6,590
<b>Net cash used in financing activities</b>		<b>(39,286)</b>	<b>(107,013)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of the year	21	424,109	176,164
<b>Cash and cash equivalents at end of the year</b>	21	<b>367,688</b>	<b>424,109</b>

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 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 address of the Company's registered office is 18/F, No. 818 Shixinzhong Road, Beigan Subdistrict, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited on March 11, 2019 ("Date of Listing").

These consolidated financial statements are presented in thousand of Renminbi (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on March 25, 2019.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently to all the years presented, unless otherwise stated. The consolidated financial statements are for the Group consisting of Zhejiang New Century Hotel Management Co., Ltd. and its subsidiaries.

### 2.1 Basis of preparation

The consolidated financial statements of the Group has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board ("IASB"). The consolidated financial statements has have been prepared on a historical cost basis, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of the consolidated financial statements 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 consolidated financial statements, are disclosed in Note 4.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### 2.1.1 Changes in accounting policies and disclosures

- (a) New and amendments and interpretations adopted by the Group

The following new and amended standards and interpretations are effective for the financial year beginning on January 1, 2018, none of them has a material impact to the Group on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

		<b>Effective date</b>
IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	January 1, 2018
Amendments to IFRS 4	Insurance contracts applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"	January 1, 2018 or when the entity first applies IFRS 9
Annual improvements 2014-2016 cycle	IFRS 1 "First-time Adoption of IFRS" and IFRS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
Amendments to IAS 40	Transfer of investment property	January 1, 2018
IFRIC22	Foreign Currency Transactions and Advance Consideration"	January 1, 2018

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### 2.1.1 Changes in accounting policies and disclosures (Continued)

- (b) New standards and interpretations not yet adopted by the Group  
Certain new accounting standards and interpretations have been published that are not mandatory for the year ended December 31, 2018 and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

		<b>Effective for annual periods beginning on or after</b>
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

The Group has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

#### Nature of change

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### 2.1.1 Changes in accounting policies and disclosures (Continued)

##### (b) New standards and interpretations not yet adopted by the Group (Continued)

###### Impact

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 32(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 sheet. As for the financial impact on the consolidated statement of comprehensive income, the operating lease expenses will decrease, while depreciation and amortization and interest expense will increase.

###### Date of adoption

The Group will apply the standard from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

### 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 to 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Subsidiaries (Continued)

#### 2.2.1 Consolidation (Continued)

##### (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 acquired business and the equity interests issued by the Group, the fair value of any asset or liability resulting from a contingent consideration arrangement and fair value of any pre-existing equity interest in subsidiary. 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 acquired entity 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.

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 ("OCI"). 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 acquired entity and the acquisition-date fair value of any previous equity interests in the 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 identifiable assets of the business acquired keep, the difference is recognized directly in the profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Subsidiaries (Continued)

#### 2.2.1 Consolidation (Continued)

(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 OCI 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 OCI are reclassified to profit or loss.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Subsidiaries (Continued)

#### 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.

### 2.3 Associates

Associates are all entities over which the Group has significant influence but not control or joint 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 after initially being recognized at cost.

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 OCI is reclassified to the profit or loss where appropriate.

The Group's share of associate's post-acquisition profit or loss is recognized in profit or loss, and its share of post-acquisition movements in OCI is recognized in OCI. 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 venture accounted for using the equity method" in the consolidated 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 profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 OCI. 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 OCI 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 venture accounted for using the equity method" in the consolidated statements of comprehensive income.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 consolidated financial statements 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 OCI.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.7 Property, plant and equipment (Continued)

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

Buildings and facilities	20 to 60 years
Machinery and equipment	5 to 10 years
Office and electronic equipment	5 to 20 years
Vehicles	5 to 10 years
Leasehold improvements	3 to 20 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.

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 consolidated 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 profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 profit or loss on a straight-line basis over the period of the leases of 40 years, net of impairment losses, if any.

### 2.10 Intangible assets

#### (a) Computer software

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 lease agreements arising from the acquisition of subsidiaries which is amortized over the remaining period of the lease agreement from 7 to 15 years.

#### (c) Goodwill

Goodwill is measured as described in Note 2.2.1(a). 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 disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs 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.

### 2.11 Impairment of investments in subsidiaries, associates and joint venture and 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 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 investments in subsidiaries, associates or joint venture 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 OCI, 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 OCI. 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 OCI.

See Note 22 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.12 Financial assets (Continued)

#### (b) Measurement (Continued)

##### 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 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 OCI ("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 subsequently 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 OCI, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.12 Financial assets (Continued)

#### (c) *Impairment*

The Group has the following types of financial assets subjects to IFRS 9's new expected credit loss model:

- 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.

#### (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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.12 Financial assets (Continued)

#### (d) Derecognition (Continued)

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 equivalents.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 service 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 contract liabilities 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

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, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.23 Current and deferred income tax (Continued)

#### (b) *Deferred income tax*

Deferred income tax is provided in full, 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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from 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 or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### (c) *Investment allowances and similar tax incentives*

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 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.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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
- do 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.28 Revenue recognition (Continued)

(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 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.

(c) *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. 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.

### 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 profit or loss on a straight-line basis over the term of the lease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 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 cash flow 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 operations are in the PRC, most of the transactions, assets and liabilities are denominated in RMB. As at December 31, 2018 and 2017, all assets and liabilities are denominated in RMB. The Group's exposure to foreign exchange fluctuation is not material.

(ii) Cash flow interest rate risk

The Group has no significant interest-bearing assets except for cash and cash equivalents and restricted cash. Therefore, the Group's interest rate risk mainly arises from borrowings, cash and cash equivalents and restricted cash. Borrowings, cash and cash equivalents and restricted cash obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings, cash and cash equivalents and restricted cash obtained at fixed rates expose the Group to fair value interest rate risk.

As at December 31, 2018 and 2017, if the interest rates on borrowings with floating rate, 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:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Net profit decreased/(increased)		
– Increase in interest rates	876	406
– Decrease in interest rates	(876)	(406)

The Group regularly monitors its interest rate risk to ensure there is no undue exposure to significant interest rate movements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Financial risk factors (Continued)

(b) *Credit risk*

The Group is exposed to credit risk in relation to its cash and cash equivalents, restricted cash, 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, 2018 and 2017, 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

Category	As at December 31,	
	2018 RMB'000	2017 RMB'000
Group 1	218,213	141,289
Group 2	213,160	279,238
Group 3	2,660	1,669
	<b>434,033</b>	422,196

To manage risk arising from trade and other receivables, 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 regularly assessed. The management makes 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Financial risk factors (Continued)

#### (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.

	Less than 1 year RMB'000	Between 1-2 years RMB'000	Between 2-3 years RMB'000	Over 3 years RMB'000	Total RMB'000
<b>As at December 31, 2018</b>					
Bank borrowings	5,500	115,000	15,000	55,000	190,500
Interest payables on borrowings	9,373	7,188	3,228	5,356	25,145
Trade and other payables	322,712	–	–	–	322,712
	<b>337,585</b>	<b>122,188</b>	<b>18,228</b>	<b>60,356</b>	<b>538,357</b>
<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
	278,653	12,673	120,614	42,886	454,826

The interest payables on borrowings are calculated based on borrowings held as at December 31, 2018 and 2017 without taking into account future borrowings. Floating-rate interests are estimated using the relevant interest rates as at December 31, 2018 and 2017, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 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, 2018 and 2017 are as follows:

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Total borrowings	190,500	165,000
Total assets	1,546,845	1,312,651
Gearing ratio	12%	13%

### 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:

- **Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1;
- **Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data 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; and
- **Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

As at December 31, 2018 and 2017, the Group did not have any financial assets or liabilities that were measured at fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Fair value estimation (Continued)

(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.

(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 years ended December 31, 2018 and 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 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) Impairment of property, plant and equipment, land use rights, intangible assets, investment in subsidiaries, associates, joint ventures and other non-financial assets**

The Group tests whether property, plant and equipment, land use rights, intangible assets, investments in subsidiaries, associates, joint ventures and other non-financial assets have suffered any impairment in accordance with the accounting policies stated in Note 2.11. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amounts of CGUs are predominantly determined based on value-in-use calculations which require the use of estimates.

**(b) 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.

**(c) 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.

**(d) 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 the Group's judgement and estimation. In making this judgement and estimation, the Group evaluates, among other factors, the duration of receivables, the financial health and collection history of individual debtors and the expected future change of credit risks, including the consideration of factors such as general economy measure, change in macroeconomic indicators etc.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 5 SEGMENT INFORMATION AND REVENUE

The chief operating decision-maker has been identified as the executive directors of the Company who review the Group's internal reporting in order to assess performance and allocate resources. The executive directors of the Company have determined the operating segments based on these reports.

As a result of this evaluation, the Group determined that it has the following operating segments:

- Hotel operation; and
- 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.

The executive directors of the Company consider the business from a business perspective, and assesses the performance of the 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 to the executive directors of the Company, as they do not use such information to allocate resources to or evaluate the performance of the operating segments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 5 SEGMENT INFORMATION AND REVENUE (Continued)

### (a) Segment revenues

The revenue of the Group for the years ended December 31, 2018 and 2017 are set out as follows:

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
<b>Hotel operation</b>		
Room	743,744	732,890
Food and beverage	641,389	583,156
Ancillary services	207,082	178,087
Rental income	36,766	33,733
<b>Subtotal of hotel operation</b>	<b>1,628,981</b>	1,527,866
<b>Hotel Management</b>	<b>168,987</b>	136,777
	<b>1,797,968</b>	1,664,643
<b>Revenue from contracts with customers:</b>		
– Recognized at a point of time	717,406	652,011
– Recognized over time	1,043,796	978,899
	<b>1,761,202</b>	1,630,910
<b>Revenue from other resources:</b>		
– Rental income	36,766	33,733





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 5 SEGMENT INFORMATION AND REVENUE (Continued)

### (c) Contract liabilities

The Group has recognized the following liabilities related to contracts with customers:

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Advances from customers	190,563	187,086
Customer loyalty program (Note 2.19)	3,631	5,266
	194,194	192,352

### (i) Revenue recognized in relation to contract liabilities

The following table shows how much of the revenue recognized in the current reporting period relates to carried-forward contract liabilities:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Revenue recognized that was included in the contract liabilities balance at the beginning of the year		
Advances from customers	187,086	181,476
Customer loyalty program	5,266	5,219
	192,352	186,695

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 5 SEGMENT INFORMATION AND REVENUE (Continued)

### (c) Contract liabilities (Continued)

#### (ii) Unsatisfied long-term franchise hotel contracts

The following table shows unsatisfied performance obligations resulting from fixed-price long-term franchise hotel contracts:

	As at December 31,	
	2018	2017
	RMB'000	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		
Expected to be recognized over one year	43,777	43,279
Expected to be recognized within one year	8,861	6,979
	<b>52,638</b>	50,258

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 the respective periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 6 OTHER INCOME

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Government grants	8,100	2,272
Income from financial assets at fair value through profit or loss (i)	4,483	8,164
	<b>12,583</b>	10,436

- (i) 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 for the years ended December 31, 2018 and 2017. 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.

## 7 OTHER GAINS – NET

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Net (losses)/gains on disposal of property, plant and equipment	(87)	1,094
Net gains on disposal of subsidiaries (Note 29)	10,794	3,104
Compensation income (a)	8,400	19,600
Waived payables due to third parties	2,600	3,588
Others	664	1,258
	<b>22,371</b>	28,644

- (a) It represented the compensation payment received from a third party lessor who had early terminated the lease agreement with the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 8 EXPENSES BY NATURE

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Employee benefit expenses (Note 9)	477,338	440,329
Operating lease expenses	400,928	374,067
Costs of materials consumption	393,734	352,150
Utility cost	90,526	90,563
Depreciation of property, plant and equipment (Note 15)	54,404	53,949
Marketing and promotion expenses	52,744	45,447
Travelling and communication expenses	28,294	24,726
Repairs and maintenance	26,807	26,144
Laundry costs	16,996	15,007
Taxes and levies	6,910	5,691
Out-sourcing service	5,629	4,994
Amortization of intangible assets (Note 17)	5,560	4,727
Bank charges	4,847	3,939
Uniform expenses	3,744	3,597
Transportation expenses	3,743	3,486
Professional fees	3,236	4,227
Amortization of land use rights (Note 16)	1,188	1,188
Auditor's remuneration	800	1,326
Net impairment losses on financial assets	541	958
Depreciation of investment properties	15	15
Miscellaneous	18,817	22,172
<b>Total cost of sales, selling and marketing and administrative expenses</b>	<b>1,596,801</b>	<b>1,478,702</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 9 EMPLOYEE BENEFIT EXPENSES

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Wages, salaries and bonuses	367,480	340,783
Pension costs – defined contribution plan	28,927	25,792
Housing fund, medical insurance and other social insurance	33,474	25,160
Other employee benefits	47,457	45,084
Share-based compensation expenses (Note 24)	–	3,510
	477,338	440,329

### (a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended December 31, 2018 and 2017 included 1 director (2017: 1) whose emoluments are reflected in the analysis shown in Note 37. The emoluments payable to the remaining 4 individuals during the year are as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Wages, salaries and bonuses	5,120	4,251
Pension costs – defined contribution plan	28	98
Housing fund, medical insurance and other social insurance and other employee benefits	203	189
Share-based compensation expenses (Note 24)	–	2,632
	5,351	7,170

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 9 EMPLOYEE BENEFIT EXPENSES (Continued)

### (a) Five highest paid individuals (Continued)

The number of highest paid non-director individuals whose remuneration fell within the following bands is set out below:

	Number of individuals	
	2018	2017
RMB1,000,001 – RMB1,500,000	4	3
RMB3,000,001 – RMB3,500,000	–	1
	4	4

- (b) For the years ended December 31, 2018 and 2017, no directors, supervisors, senior management or the five highest paid individuals of the Group waived any emoluments and no other emoluments were paid by the Group to any of the directors, supervisors, senior management or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 10 FINANCE INCOME/(COSTS) – NET

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
<b>Finance income</b>		
– Interest income derived from bank deposits	9,535	4,495
– Interest income derived from loan to related parties (Note 33)	–	907
	9,535	5,402
<b>Finance costs</b>		
– Interest expenses on bank and other borrowings	(9,205)	(8,886)
– Interest expenses on borrowings from related parties (Note 33)	–	(1,520)
	(9,205)	(10,406)
<b>Finance income/(costs) – net</b>	<b>330</b>	<b>(5,004)</b>

Finance costs have been capitalized on qualifying assets at average interest rates of 4.85% and 4.31% with amount of nil and RMB912,000 for the years ended December 31, 2018 and 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 11 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Investment in a joint venture (a)	118,440	112,297
Investments in associates (b)	3,124	6,091
	121,564	118,388

### (a) Investment in a joint venture

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Beginning of the year	112,297	109,414
Share of net profit	6,143	2,883
End of the year	118,440	112,297

Particulars of the joint venture of the Group as at December 31, 2018 and 2017, which is unlisted, are set out below:

Company Name	Place of establishment	Date of establishment	Principal activities	Equity interest held by the Company	
				As at December 31, 2018	2017
Beijing Gehua New Century Hotel Co., Ltd. (北京歌華開元大酒店有限公司, "Beijing Gehua")	Beijing, China	September 19, 2005	Hotel operation and management	49%	49%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 11 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

### (a) Investment in a joint venture (Continued)

Summarized key financial information for the joint venture is as follows:

Summarised balance sheet	As at December 31,	
	2018 RMB'000	2017 RMB'000
Current assets	42,651	18,305
Including: Cash and cash equivalents	34,019	10,330
Non-current assets	192,227	217,941
Total assets	234,878	236,246
Current liabilities	(45,172)	(44,076)
Non-current liabilities	–	(15,000)
Total liabilities	(45,172)	(59,076)
Net assets	189,706	177,170
<b>Reconciliation to carrying amount:</b>		
Opening net assets	177,170	171,288
Net profit for the year	12,536	5,882
Closing net assets	189,706	177,170
Group's share in %	49%	49%
Group's share in RMB	92,957	86,814
Goodwill	25,483	25,483
Carrying amount	118,440	112,297



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 11 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

### (a) Investment in a joint venture (Continued)

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Revenue	142,111	130,880
Interest income	48	26
Interest expense	(167)	(1,508)
Income tax	(2,920)	(1,615)
Net profit after tax and total comprehensive income	12,536	5,882
Share of net profit	6,143	2,883

### (b) Investments in associates

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Beginning of the year	6,091	6,443
Transferred from an associate to a subsidiary (Note 30)	(3,318)	–
Share of net profit	487	122
Declaration of dividends	(136)	(474)
End of the year	3,124	6,091

Particulars of the associates of the Group as at December 31, 2018 and 2017, which is unlisted, are set out below:

Company Name	Registered capital RMB	Date of establishment	Principal activities	Equity interest held by the Company	
				As at December 31, 2018	2017
Zhejiang Haogu Internet Technology Co., Ltd. (浙江皓谷網絡科技有限公司)	15,000,000	May 20, 2016	Internet technology development	20%	20%
Yuyao Manju	3,000,000	November 23, 2015	Hotel management and operation	Note 30 and Note 34	35.83%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 12 INCOME TAX EXPENSE

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Current income tax	61,313	52,165
Deferred income tax (Note 28)	(7,301)	4,290
Income tax expenses	54,012	56,455

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 for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	243,081	223,022
Tax calculated at PRC corporate income tax rates of 25%	60,770	55,756
Expenses not deductible for income tax purpose	1,050	824
Tax losses for which no deferred income tax assets were recognized	5,037	1,990
Temporary difference for which no deferred income tax assets were recognized	428	2,024
Recognition of previous unrecognized for tax losses	(6,275)	–
Utilization of previous unrecognized tax losses	(5,340)	(3,388)
Effect of exclusion of share of profit tax of joint ventures and associates	(1,658)	(751)
Income tax expense	54,012	56,455

### (a) PRC corporate income tax

Enterprises incorporated in the PRC are subject to income tax rates of 25%. The income tax provision of the Group has been calculated at the applicable tax rate on the estimated assessable profits for the years ended December 31, 2018 and 2017 based on existing legislations, interpretations and practices.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 13 EARNINGS PER SHARE

Basic earnings per share is 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 financial year. Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. The diluted earnings per share for the years ended December 31, 2018 and 2017 are the same as the basic earnings per share as there is no dilutive potential share during the financial year.

	Year ended December 31,	
	2018	2017
Profit attributable to owners of the Company (in RMB'000)	<b>186,787</b>	163,042
Weighted average number of ordinary shares in issue or deemed to be in issue (in '000 shares)	<b>210,000</b>	210,000
Basic earnings per share (in RMB per share)	<b>0.89</b>	0.78

## 14 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 all 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 15 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities RMB'000	Machinery and equipment RMB'000	Office and electronic equipment RMB'000	Vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
<b>As at January 1, 2017</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 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 in progress	28	1,913	393	–	23,724	(26,058)	–
Disposals	(1,137)	(308)	(793)	(137)	–	–	(2,375)
Disposal of subsidiaries (Note 29)	–	(1,397)	(924)	(78)	(33,861)	–	(36,260)
Depreciation charge (Note 8)	(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 year ended December 31, 2018</b>							
Opening net book amount	84,162	20,711	43,974	3,827	155,080	100,299	408,053
Additions	15,026	16,223	24,486	1,186	37,110	161,680	255,711
Acquisition of a subsidiary (Note 30)	–	592	1,102	1	9,969	–	11,664
Transferred from construction in progress	108,144	8,601	6,514	–	52,223	(175,482)	–
Disposals	–	(76)	(241)	(138)	–	–	(455)
Disposal of subsidiaries (Note 29)	–	(6,304)	(4,378)	(240)	(21,891)	–	(32,813)
Depreciation charge (Note 8)	(8,251)	(5,239)	(13,955)	(1,227)	(25,732)	–	(54,404)
Closing net book amount	199,081	34,508	57,502	3,409	206,759	86,497	587,756
<b>As at December 31, 2018</b>							
Cost	215,140	70,040	148,839	10,230	387,476	86,497	918,222
Accumulated depreciation	(16,059)	(35,532)	(91,337)	(6,821)	(180,717)	–	(330,466)
Net book amount	199,081	34,508	57,502	3,409	206,759	86,497	587,756

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 15 PROPERTY, PLANT AND EQUIPMENT (Continued)

As at December 31, 2018, certain buildings and facilities with carrying amount of RMB52,292,629 were pledged as collaterals for the Group's bank borrowings (Note 26) (As at December 31, 2017: RMB55,212,975).

Depreciation of property, plant and equipment have been charged to profit or loss (Note 8) as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Administrative expenses	1,611	1,595
Cost of sales	52,793	52,354
	54,404	53,949

### 16 LAND USE RIGHTS

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:

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
In the PRC		
– Lease of 40 years	44,954	46,142

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended December 31, 2018

**16 LAND USE RIGHTS** (Continued)

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Beginning of the year	<b>46,142</b>	47,330
Amortization charges (Note 8)	<b>(1,188)</b>	(1,188)
End of the year	<b>44,954</b>	46,142

As at December 31, 2018, certain land use rights with carrying amount of RMB44,954,000 were pledged as collaterals for the Group's bank borrowings (Note 26) (As at December 31, 2017: RMB46,142,000).

The amortization of land use rights have been charged to profit or loss (Note 8) as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Cost of sales	<b>1,188</b>	1,188

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 17 INTANGIBLE ASSETS

	Computer software RMB'000	Favorable operating lease RMB'000	Goodwill RMB'000	Total RMB'000
<b>As at January 1, 2017</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
<b>For the year ended December 31, 2018</b>				
Opening net book amount	7,333	7,704	–	15,037
Additions	3,495	–	–	3,495
Acquisition of a subsidiary (Note 30)	–	–	2,132	2,132
Disposal of subsidiaries	(200)	–	–	(200)
Amortization charge (Note 8)	(4,228)	(1,332)	–	(5,560)
Closing net book amount	6,400	6,372	2,132	14,904
<b>As at December 31, 2018</b>				
Cost	33,806	18,696	2,132	54,634
Accumulated amortization	(27,406)	(12,324)	–	(39,730)
Net book amount	6,400	6,372	2,132	14,904

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 17 INTANGIBLE ASSETS (Continued)

- (i) The amortization of intangible assets have been charged to profit or loss (Note 8) as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Administrative expenses	2,154	1,378
Cost of sales	3,406	3,349
	5,560	4,727

(ii) **Impairment tests for goodwill**

The goodwill of the Group was allocated to the hotel operation segment. The principal component of goodwill represents the excess of cost of acquisition of Yuyao Manju (Note 30) over the fair value of the identified net assets acquired. The goodwill impairment assessment is based on recoverable amounts which are determined by their value in use.

The recoverable amounts of goodwill is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budget.

The key assumptions used for value-in-use calculation in 2018 are as follows:

Annual growth rate in ADR	14.7%
Occupancy rate on available room basis	68.2%
Discount rate per annum	13.38%

These assumptions have been used for the analysis of the CGUs. Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Management estimates the discount rate using pre-tax rates that reflect market assessments of the time value of money and the specific risks relating to the CGU. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections. In view of the value-in-use of goodwill, no impairment loss is considered necessary.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 18 OTHER NON-CURRENT ASSETS

Other long-term assets represent prepayment of operating lease expenses.

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Prepayment of operating lease expenses	3,170	14,554

### 19 INVENTORIES

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Foods and beverage	20,093	17,625
Consumables, supplies and others	8,229	9,168
	28,322	26,793
Less: provision for impairment	—	—
	28,322	26,793

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 20 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at December 31,	
	2018 RMB'000	2017 RMB'000
Trade receivables due from third parties	70,762	68,216
Trade receivables due from related parties (Note 33(c))	5,831	4,235
	<b>76,593</b>	72,451
Less: provision for impairment	(3,849)	(5,223)
Trade receivables – net	<b>72,744</b>	67,228
Deposits to suppliers	63,362	54,753
Other receivables due from related parties (Note 33(c))	21,376	20,518
VAT recoverable	39,947	21,361
Interest receivable	590	–
Others	16,609	40,323
	<b>141,884</b>	136,955
Less: provision for other receivables	(3,604)	(4,501)
Other receivables – net	<b>138,280</b>	132,454
Prepayments	71,215	39,408
Total trade, other receivables and prepayments	<b>282,239</b>	239,090

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 20 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

### (a) Trade receivables

As at December 31, 2018 and 2017, the fair values of the trade receivables of the Group approximate to 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,	
	2018	2017
	RMB'000	RMB'000
– Up to 3 months	66,153	62,272
– 3 months to 1 year	8,032	4,987
– 1 year to 2 years	697	2,473
– 2 years to 3 years	1,320	1,085
– Over 3 years	391	1,634
	<b>76,593</b>	72,451

Movements in the provision for impairment of trade receivables that are assessed for impairment collectively are as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Beginning of the year	(5,223)	(4,230)
(Additions)/reversal	1,064	(1,267)
Write-off	310	274
End of the year	<b>(3,849)</b>	(5,223)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 20 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

### (a) Trade receivables (Continued)

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, 2018 and 2017 is determined as follows, the expected credit losses below also incorporate forward looking information.

	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, 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 December 31, 2018</b>								
Expected loss rate	1.00%	0.92%	3.92%	9.28%	20.95%	68.44%	100.00%	
Gross carrying amount (RMB'000)	5,831	24,913	35,643	7,798	697	1,320	391	76,593
Loss allowance provision (RMB'000)	(58)	(229)	(1,398)	(724)	(146)	(903)	(391)	(3,849)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 20 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

### (b) Other receivables

Other receivables are measured at amortized costs. The receivables are mainly composed of the deposits to suppliers, VAT recoverable, interest receivables and receivables due from related parties which were considered to be low credit risk, and thus the impairment provision recognized for the years ended December 31, 2018 and 2017 was limited to 12 months expected losses.

Movements in the provision for impairment of other receivables are as follows:

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
Beginning of the year	(4,501)	(4,813)
(Additions)/reversal	(1,605)	309
Write-off	2,502	3
End of the year	(3,604)	(4,501)

	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, 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 December 31, 2018</b>								
Expected loss rate	0.05%	0.04%	0.54%	1.00%	3.00%	36.69%	62.55%	
Gross carrying amount (RMB'000)	21,366	107,010	5,213	2,349	335	28	5,583	141,884
Loss allowance provision (RMB'000)	(11)	(47)	(28)	(23)	(10)	(10)	(3,475)	(3,604)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 21 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Cash at bank and in hand	435,688	424,109
Less: restricted cash (a)	(68,000)	–
Cash and cash equivalents	367,688	424,109

As at December 31, 2018 and 2017, all the cash at bank and in hand are denominated in RMB.

- (a) Restricted cash represents term deposit, guaranteed deposits held in separate reserve accounts pledged as security deposits under certain lease agreements.

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Deposits pledged for issued letter of guarantee	66,000	–
Term deposit	2,000	–
	68,000	–

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 22 FINANCIAL INSTRUMENTS BY CATEGORY

	As at December 31, 2018		
	Assets at fair value through profit or loss RMB'000	Assets at amortized cost RMB'000	Total RMB'000
<b>Assets as per consolidated balance sheets</b>			
Trade and other receivables (excluding VAT recoverable and prepayments)	–	187,466	187,466
Restricted cash	–	68,000	68,000
Cash and cash equivalent	–	367,688	367,688
<b>Total</b>	<b>–</b>	<b>623,154</b>	<b>623,154</b>

	As at December 31, 2017		
	Assets at fair value through profit or loss RMB'000	Assets at amortized cost RMB'000	Total RMB'000
<b>Assets as per consolidated balance sheets</b>			
Trade and other receivables (excluding VAT recoverable and prepayments)	–	178,321	178,321
Cash and cash equivalent	–	424,109	424,109
<b>Total</b>	<b>–</b>	<b>602,430</b>	<b>602,430</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 22 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

	As at December 31, 2018		
	Liabilities at	Liabilities at	Total
	fair value	amortized	
	through profit	cost	
or loss			
	RMB'000	RMB'000	RMB'000
<b>Liabilities as per consolidated balance sheets</b>			
Bank and other borrowings	–	190,500	190,500
Trade and other payables (excluding accrued expenses, tax payables and salary payable)	–	322,859	322,859
<b>Total</b>	<b>–</b>	<b>513,359</b>	<b>513,359</b>

	As at December 31, 2017		
	Liabilities at	Liabilities at	Total
	fair value	amortized	
	through profit	cost	
or loss			
	RMB'000	RMB'000	RMB'000
<b>Liabilities as per consolidated balance sheets</b>			
Bank and other borrowings	–	165,000	165,000
Trade and other payables (excluding accrued expenses, tax payables and salary payable)	–	265,814	265,814
<b>Total</b>	<b>–</b>	<b>430,814</b>	<b>430,814</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 23 SHARE CAPITAL

In 2017, the paid-in capital of the Company increased by an amount of RMB15,100,000, from RMB173,680,000 to RMB188,780,000. The excess of the cash consideration received from the capital injection over the paid-in capital amounted to RMB121,420,000 was recorded as capital reserve in "other reserves" (Note 24(b)).

On June 25, 2017, the Company was converted into a joint-stock company with limited liability with issued share capital of 210,000,000 ordinary shares of nominal value of RMB1.00 each by converting the paid-in capital amounted to RMB188,780,000 and capitalizing retained earnings amounted to RMB119,129,000. Excess of the capital account of the Company over the nominal value of the issued share capital amounted to RMB97,909,000 was recognized as "other reserves" in the consolidated balance sheet (Note 24(b)).

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Share capital	210,000	210,000

## 24 OTHER RESERVES

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Statutory reserve (a)	20,355	15,773
Capital reserve (b)	232,625	228,122
Share-based compensation reserve (c)	23,460	23,460
Total	276,440	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 share capital.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 24 OTHER RESERVES (Continued)

### (b) Capital reserve

	RMB'000
<b>As at January 1, 2017</b>	48,793
Excess of the cash consideration received over the paid-in capital (Note 23)	121,420
Conversion into a joint stock company (Note 23)	97,909
Payment for acquisition of a subsidiary under common control (Note 34)	(40,000)
<b>As at December 31, 2017</b>	228,122
Transactions with non-controlling interests (Note 34)	4,503
<b>As at December 31, 2018</b>	<b>232,625</b>

### (c) Share-based compensation reserve

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 8).

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 Zhejiang Jinshanzi Network Technology Co., Ltd. granted in 2017
Growth rate	4.66% to 4.71%
Discount rate	14.00%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 25 TRADE AND OTHER PAYABLES

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Trade payables:		
– Due to third parties	178,715	164,667
– Due to related parties (Note 33(c))	22,709	22,323
	201,424	186,990
Other payables due to related parties (Note 33(c))	10,945	10,397
Payables for purchase of property, plant and equipment	73,318	35,428
Customers' deposits	37,025	32,845
Accrued expenses	33,506	26,113
Staff salaries and welfare payables	82,972	85,760
Accrued taxes other than income tax	3,744	2,401
Interest payables	147	154
	443,081	380,088

As at December 31, 2018 and 2017, all trade and other payables of the Group were non-interest bearing. Their fair values approximate to their carrying amounts due to their short maturities.

As at December 31, 2018 and 2017, trade and other payables were all denominated in RMB.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 25 TRADE AND OTHER PAYABLES (Continued)

As at December 31, 2018 and 2017, the aging analysis of the trade payables of the Group based on invoice date were as follows:

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
– Within 1 year	195,887	175,556
– 1 year to 2 years	3,446	10,237
– 2 years to 3 years	1,396	599
– Over 3 years	695	598
	<b>201,424</b>	186,990

## 26 BORROWINGS

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Non-current		
Bank borrowings – unsecured	100,000	–
Bank borrowings – secured and guaranteed (a)	85,000	160,000
	<b>185,000</b>	160,000
Current		
Bank borrowings – secured (a)	500	5,000
Current portion of long-term borrowings – secured (a)	5,000	–
	<b>5,500</b>	5,000

The carrying amounts of the Group's borrowings are all denominated in RMB.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 26 BORROWINGS (Continued)

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity date whichever is earlier at the year end are as follows:

	6 months or less RMB'000	Between 6 and 12 months RMB'000	Over 1 year RMB'000	Total RMB'000
As at December 31, 2017	165,000	–	–	165,000
As at December 31, 2018	<b>190,500</b>	–	–	<b>190,500</b>

The maturity of the borrowings is as follows:

	As at December 31, 2018 RMB'000	2017 RMB'000
On demand or within 1 year	<b>5,500</b>	5,000
Between 1 and 2 years	<b>115,000</b>	5,000
Between 2 and 5 years	<b>30,000</b>	145,000
Over 5 years	<b>40,000</b>	10,000
	<b>190,500</b>	165,000

The weighted average effective interest rates for the years ended December 31, 2018 and 2017:

	As at December 31, 2018 RMB'000	2017 RMB'000
Borrowings – current – RMB	<b>4.79%</b>	4.67%
Borrowings – non-current – RMB	<b>4.87%</b>	4.77%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 26 BORROWINGS (Continued)

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,	
	2018	2017
	RMB'000	RMB'000
Carrying amount		
Bank borrowings	185,000	160,000
Fair value		
Bank borrowings	196,292	162,942

The fair value of bank borrowings 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 has complied with the financial covenants of its borrowing facilities during the years ended December 31, 2018 and 2017.

The Group had the following undrawn bank borrowing facilities:

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
RMB Facilities	120,000	274,000

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 26 BORROWINGS (Continued)

### (a) Bank borrowings – secured and guaranteed

The details of bank borrowings that were secured and guaranteed are as follows:

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Guaranteed by related parties	–	100,000
Secured by property, plant and equipment and land use rights (Note 15, 16)	90,500	65,000
	90,500	165,000

## 27 DEFERRED INCOME

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Non-current deferred income		
Assets related government grants (a)	20,048	21,714
Current portion of long-term liabilities		
Assets related government grants (a)	1,186	706
Total deferred income	21,234	22,420

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 27 DEFERRED INCOME (Continued)

### (a) Asset 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:

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
Beginning of the year	22,420	13,529
Additions	–	9,597
Credited to profit or loss	(1,186)	(706)
End of the year	21,234	22,420

## 28 DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITIES

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,	
	2018 RMB'000	2017 RMB'000
Deferred income tax assets		
To be recovered after more than 12 months	8,418	3,214
To be recovered within 12 months	18,920	16,346
	27,338	19,560
Deferred income tax liabilities		
To be recovered after more than 12 months	(442)	(137)
	26,896	19,423



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 28 DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITIES (Continued)

The movement on the net deferred income tax assets is as follows:

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
Beginning of the year	19,423	24,893
Credited/(Charged) to profit or loss (Note 12)	7,301	(4,290)
Acquisition of a subsidiary (Note 30)	172	–
Disposal of subsidiaries	–	(1,180)
End of the year	26,896	19,423

Movements in deferred tax assets and deferred tax liabilities for the year ended December 31, 2018 and 2017, without taking into consideration of offsetting of balance within the same jurisdiction, are as follows:

Deferred income tax assets	Tax losses carried forward RMB'000	Rental expense recognition difference between tax and accounting RMB'000	Provisions RMB'000	Depreciation difference between tax and accounting RMB'000	Other temporary differences RMB'000	Total RMB'000
As at January 1, 2017	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	8,801	2,227	(557)	(237)	257	10,491
Acquisition of a subsidiary (Note 30)	–	–	–	172	–	172
As at December 31, 2018	8,801	12,471	1,863	7,570	501	31,206

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 28 DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITIES (Continued)

Deferred income tax liabilities	Rental revenue recognition difference between tax and accounting RMB'000	Fair value change of financial assets at fair value through profit or loss RMB'000	Depreciation difference between tax and accounting RMB'000	Other temporary difference RMB'000	Total RMB'000
As at January 1, 2017	(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 to profit or loss	(494)	–	(2,735)	39	(3,190)
As at December 31, 2018	<b>(1,575)</b>	–	<b>(2,735)</b>	–	<b>(4,310)</b>

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 RMB7,006,250 and RMB13,781,500, as at December 31, 2018 and 2017 in respect of losses amounting to RMB28,025,000 and RMB55,126,000 that can be carried forward against future taxable income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 29 DISPOSALS OF SUBSIDIARIES

During the years ended December 31, 2018 and 2017, 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 Shanghai Ruiya and Chongqing Dazu

On March 31, 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 year ended December 31, 2018.

	Carrying value		
	Shanghai Ruiya RMB'000	Chongqing Dazu RMB'000	Total RMB'000
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)
<b>Total net assets disposed</b>	<b>(672)</b>	<b>(121)</b>	<b>(793)</b>
<b>Gains on disposal of subsidiaries (Note 7)</b>	<b>673</b>	<b>10,121</b>	<b>10,794</b>
Cash proceeds from disposal:	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>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 29 DISPOSALS OF SUBSIDIARIES (Continued)

### (b) Disposal of Suzhou Qiju and Shaoxing Dayu

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.

	Carrying value		
	Shaoxing Dayu RMB'000	Suzhou Qiju RMB'000	Total RMB'000
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)
<b>Total net assets disposed</b>	<b>8,525</b>	<b>2,616</b>	<b>11,141</b>
<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>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 30 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.

The following table summarizes the consideration paid, the net assets acquired and goodwill, also the net cash outflow arising on the acquisition:

	Fair value RMB'000
Property, plant and equipment (Note 15)	11,664
Deferred tax assets (Note 28)	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)
Net identifiable assets of Yuyao Manju	5,603
Less: non-controlling interest	(2,484)
Add: Goodwill (Note 17)	2,132
Net assets acquired	5,251
Consideration for additional 19.83% equity interest	1,871
The fair value of previously held equity interest	3,380
Total purchase consideration	5,251
Net cash outflow arising on acquisition:	
Cash consideration	1,871
Cash and cash equivalent in the subsidiary acquired	(326)
	1,545

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 1 January 2018, the consolidated revenue and profit of the Group would be increased by approximately RMB8,169,000 and RMB873,000 respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 31 CASH FLOW INFORMATION

### (a) Cash generated from operations

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
Profit before income tax	<b>243,081</b>	223,022
Adjustments for:		
– Depreciation of property, plant and equipment (Note 8)	<b>54,404</b>	53,949
– Depreciation of investment properties (Note 8)	<b>15</b>	15
– Amortization of land use rights (Note 8)	<b>1,188</b>	1,188
– Amortization of intangible assets (Note 8)	<b>5,560</b>	4,727
– Net impairment losses on financial assets (Note 8)	<b>541</b>	958
– Income from financial assets at fair value through profit or loss (Note 6)	<b>(4,483)</b>	(8,164)
– Share of net profits of associates and joint ventures accounted for using the equity method (Note 11)	<b>(6,630)</b>	(3,005)
– Net gains on disposal of subsidiaries (Note 7)	<b>(10,794)</b>	(3,104)
– Net losses/(gains) on disposal of property, plant and equipment and intangible assets (Note 7)	<b>87</b>	(1,094)
– Non-cash share-based payments (Note 9)	<b>–</b>	3,510
– Net finance expenses (Note 10)	<b>9,205</b>	9,499
– Deferred income (Note 27)	<b>(1,186)</b>	8,891
– Other non-current assets (Note 18)	<b>11,384</b>	7,571
Change in working capital:		
– Restricted cash (Note 21)	<b>(66,000)</b>	32,400
– Trade and other debtors	<b>(32,437)</b>	(13,231)
– Inventories (Note 19)	<b>(1,770)</b>	(4,707)
– Trade and other creditors	<b>66,775</b>	11,406
Cash generated from operations	<b>268,940</b>	323,831

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 31 CASH FLOW INFORMATION (Continued)

### (b) Proceeds from disposal of property, plant and equipment

In the consolidated cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
Net book amount (Note 15)	455	2,375
Net (losses)/gains on disposal of property, plant and equipment (Note 7)	(87)	1,094
Proceeds from disposal of property, plant and equipment	368	3,469

### (c) Net debt reconciliation

	As at December 31,	
	2018 RMB'000	2017 RMB'000
Cash and cash equivalents	367,688	424,109
Restricted cash	68,000	–
Borrowings – repayable within one year	(5,500)	(5,000)
Borrowings – repayable after one year	(185,000)	(160,000)
Net debt	245,188	259,109
Cash and cash equivalents	367,688	424,109
Restricted cash	68,000	–
Gross debt – fixed interest rates	(500)	(5,000)
Gross debt – variable interest rates	(190,000)	(160,000)
Net debt	245,188	259,109

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 31 CASH FLOW INFORMATION (Continued)

### (c) Net debt reconciliation (Continued)

	Assets		Liabilities				Total RMB'000
	Cash and cash equivalent RMB'000	Restricted cash RMB'000	Borrowings due within 1 year RMB'000	Borrowings due after 1 year RMB'000	Loan due to a related party RMB'000	Dividend payable RMB'000	
<b>As at January 1, 2017</b>	176,164	72,400	(135,000)	(150,000)	(69,000)	-	(105,436)
<b>Cash flows</b>	247,945	(72,400)	130,000	(10,000)	69,000	61,123	425,668
<b>Non-cash change</b>							
- Dividend declared	-	-	-	-	-	(61,123)	(61,123)
<b>As at December 31, 2017</b>	424,109	-	(5,000)	(160,000)	-	-	259,109
<b>Cash flows</b>	(56,421)	68,000	4,500	(30,000)	(6,700)	42,897	22,276
<b>Non-cash change</b>							
- Dividend declared	-	-	-	-	-	(42,897)	(42,897)
- Business combination	-	-	-	-	6,700	-	6,700
- Reclassification	-	-	(5,000)	5,000	-	-	-
<b>As at December 31, 2018</b>	<b>367,688</b>	<b>68,000</b>	<b>(5,500)</b>	<b>(185,000)</b>	<b>-</b>	<b>-</b>	<b>245,188</b>

### (d) Non-cash investing and financing activities

The amount of additions shown in the "property, plant and equipment" and "intangible assets" without payment for the years ended December 31, 2018 and 2017 were RMB37,890,000 and RMB8,632,000 respectively. Besides, the Group had no other significant non-cash investing and financing activities during the years ended December 31, 2018 and 2017.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 32 COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Capital commitments

Capital expenditure contracted for at the end of year, but not yet incurred was as follows:

	<b>As at December 31,</b>	
	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Property, plant and equipment	–	6,464

### (b) Operating lease commitments

	<b>As at December 31,</b>	
	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Within one year	<b>363,731</b>	375,609
Later than one year but not later than five years	<b>1,367,152</b>	1,474,013
Later than five years	<b>826,388</b>	946,753
	<b>2,557,271</b>	2,796,375

### (c) Contingent liabilities

As at December 31, 2018 and 2017, the Group did not have any significant contingent liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 33 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 Birotby 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
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. (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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 33 RELATED PARTY TRANSACTIONS (Continued)

### (a) Name and relationship with related parties (Continued)

Controlled by the Controlling Shareholders	Chinese name
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. (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
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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 33 RELATED PARTY TRANSACTIONS (Continued)

### (a) Name and relationship with related parties (Continued)

#### Controlled by the Controlling Shareholders

#### Chinese name

Shanghai New Century Commercial Operation Management Co., Ltd.	上海開元商業經營管理有限公司
Taizhou New Century Huating Real Estate Limited	台州開元華庭置業有限公司
Hangzhou New Century Xixifan Hotel Co., Ltd.	杭州開元溪西飯店有限責任公司
Hangzhou New Century International Tourism Co., Ltd.	杭州開元國際旅行社有限公司
Zhejiang New Century Equity Investment Co., Ltd.	浙江開元股權投資有限公司
Yuyao New Century Manju Hotel Management Co., Ltd. (Till August 2018)	余姚祺立酒店管理有限公司

#### 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. (Till December 2017)	上海松江開元名都大酒店有限公司

#### Joint ventures of the Group

#### Chinese name

Beijing Gehua	北京歌華開元大酒店有限公司
Zhejiang Haogu Internet Technology Co., Ltd.	浙江皓穀網路科技有限公司

#### 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
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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 33 RELATED PARTY TRANSACTIONS (Continued)

### (b) Transactions with related parties

*Hotel management revenue*

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Beijing Gehua New Century Hotel Co., Ltd.	9,722	8,260
Xuzhou New Century Grand Hotel Co., Ltd.	5,603	6,006
Shanghai Songjiang New Century Grand Hotel Co., Ltd.	–	3,631
Taizhou New Century Hotel Co., Ltd.	3,782	3,960
Ningbo Jiulong Lake New Century Resort Co., Ltd.	3,367	3,396
New Century Grand Hotel Kaifeng Business Company Co., Ltd.	3,324	3,320
Shaoxing Yuzhuang New Century Hotel Management Co., Ltd.	2,693	375
Changjiang Hengshengyuan Qiziwan Tourism Real Estate Co., Ltd.	2,571	637
Hainan Hengshengyuan Qiziwan New Century Resort Co., Ltd.	1,483	1,440
Hangzhou New Century Tourism Development Co., Ltd.	1,339	1,137
Ningbo Seventeen House New Century Resort Co., Ltd.	1,159	965
Haining New Century Grand Real Estate Co., Ltd.	708	113
Ningbo New Century Hotel Co., Ltd.	704	859
Haining New Century Grand Hotel Co., Ltd.	584	–
Yuyao New Century Manju Hotel Management Co., Ltd.	442	700
Hangzhou New Century Xixifan Hotel Co., Ltd.	376	–
Deqing Yixin Investment and Management Co., Ltd.	273	588
Hangzhou New Century Yuege Restaurant Management Co., Ltd.	120	143
	<b>38,250</b>	35,530

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 33 RELATED PARTY TRANSACTIONS (Continued)

### (b) Transactions with related parties (Continued)

#### *Hotel operation revenue*

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
New Century Tourism Group Co., Ltd.	1,377	1,295
Zhejiang New Century Property Management Co., Ltd.	1,047	568
Hangzhou New Century Real Estate Group Co., Ltd.	839	636
Hangzhou New Century International Tourism Co., Ltd.	–	128
Shanghai Songjiang New Century Grand Hotel Co., Ltd.	–	18
	<b>3,263</b>	2,645

#### *Rental income*

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
New Century East Nursing Home, Jinnan District, Tianjin	166	962
Hangzhou Qiandao Lake Resort Yacht Club Co., Ltd.	–	566
	<b>166</b>	1,528

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 33 RELATED PARTY TRANSACTIONS (Continued)

### (b) Transactions with related parties (Continued)

*Sales of goods*

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Shaoxing Yuzhuang New Century Hotel Management Co.,Ltd.	3,458	260
Taizhou New Century Hotel Co., Ltd.	3,123	3,872
Beijing Gehua New Century Hotel Co., Ltd.	2,438	1,670
Xuzhou New Century Grand Hotel Co., Ltd.	2,165	1,472
Zhejiang New Century Property Management Co., Ltd.	2,158	1,761
Ningbo New Century Hotel Co., Ltd.	1,673	2,216
Ningbo Jiulong Lake New Century Resort Co., Ltd.	1,341	1,262
New Century Grand Hotel Kaifeng Business Company Co.,Ltd.	801	840
Haining New Century Grand Real Estate Co., Ltd.	628	58
Hangzhou New Century Tourism Development Co., Ltd.	570	57
Ningbo Seventeen House New Century Resort Co., Ltd.	449	481
Changjiang Hengshengyuan Qiziwan Tourism Real Estate Co., Ltd.	335	194
Hainan Hengshengyuan Qiziwan New Century Resort Co.,Ltd.	301	27
New Century Tourism Group Co., Ltd.	245	660
Hangzhou New Century Yuege Restaurant Management Co., Ltd.	152	131
Hangzhou New Century Real Estate Group Co., Ltd.	120	168
Henan New Century Grand Real Estate Co., Ltd.	84	13
Hangzhou New Century Real Estate Co., Ltd.	50	45
Yuyao New Century Manju Hotel Management Co., Ltd.	–	58
Shanghai Songjiang New Century Grand Hotel Co., Ltd.	–	1,698
Others	1,048	664
	<b>21,139</b>	<b>17,607</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 33 RELATED PARTY TRANSACTIONS (Continued)

### (b) Transactions with related parties (Continued)

*Interest charged to related parties:*

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Zhejiang New Century Equity Investment Co., Ltd.	–	629
Shanghai Songjiang New Century Grand Hotel Co., Ltd.	–	278
	–	907

*Other service income:*

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Beijing Gehua New Century Hotel Co., Ltd.	1,046	1,137
Shaoxing Yuzhuang New Century Hotel Management Co., Ltd.	912	423
Ningbo New Century Hotel Co., Ltd.	765	588
Zhejiang New Century Property Management Co., Ltd.	701	738
Xuzhou New Century Grand Hotel Co., Ltd.	651	553
Ningbo Jiulong Lake New Century Resort Co., Ltd.	649	646
Hangzhou New Century Tourism Development Co., Ltd.	500	537
Taizhou New Century Hotel Co., Ltd.	403	325
Ningbo Seventeen House New Century Resort Co., Ltd.	306	506
Haining New Century Grand Real Estate Co., Ltd.	287	238
Shanghai New Century Enterprise Operation Management Co., Ltd.	272	221
New Century Grand Hotel Kaifeng Business Company Co., Ltd.	252	286
Xuzhou New Century Grand Real Estate Co., Ltd.	221	229
Hainan Hengshengyuan Qiziwan New Century Resort Co., Ltd.	199	168
Ningbo Zhenhai New Century Heya Real Estate Co., Ltd.	170	170
Yuyao New Century Manju Hotel Management Co., Ltd.	98	94
Henan New Century Grand Real Estate Co., Ltd.	–	136
Shanghai Songjiang New Century Grand Hotel Co., Ltd.	–	661
Others	563	483
	7,995	8,139



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 33 RELATED PARTY TRANSACTIONS (Continued)

### (b) Transactions with related parties (Continued)

*Purchase of goods:*

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
New Century Birotby Winery	6,195	7,238
Zhejiang Haogu Internet Technology Co., Ltd.	433	–
Hangzhou Huang Chaoyi Printing Co., Ltd.	161	444
New Century Tourism Group Co., Ltd.	24	23
	<b>6,813</b>	7,705

*Purchase of Services:*

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Hangzhou New Century Zhijiang Cleaning Chain Co., Ltd.	9,056	9,157
Ningbo New Century Hotel Co., Ltd.	1,907	1,955
Hangzhou New Century Tourism Development Co., Ltd.	364	–
Hangzhou Ledu Property Services Co., Ltd.	351	330
Shaoxing Yuzhuang New Century Hotel Management Co.,Ltd.	187	–
Beijing Gehua New Century Hotel Co., Ltd.	69	24
Shanghai Songjiang New Century Grand Hotel Co., Ltd.	–	11
Beijing New Century Grand Hotel Management Co., Ltd.	–	–
	<b>11,934</b>	11,477

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 33 RELATED PARTY TRANSACTIONS (Continued)

### (b) Transactions with related parties (Continued)

*Purchase of non-current assets:*

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Hangzhou Jinjian Intelligent Technology Co., Ltd.	927	533
Hangzhou Xiaoshan Chaoyi Carpet Co., Ltd.	161	1,544
Hangzhou New Century Decorating Co., Ltd.	–	355
	<b>1,088</b>	2,432

*Interest paid to related parties:*

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
New Century Tourism Group Co., Ltd.	–	1,520

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 33 RELATED PARTY TRANSACTIONS (Continued)

### (b) Transactions with related parties (Continued)

*Rental expenses payable/paid to related parties:*

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Zhejiang New Century Hotel Investment and Management Group Co., Ltd.	97,212	86,440
Ningbo New Century Spearhead Investment Co., Ltd.	42,220	42,894
Zhejiang Spearhead Investment Co., Ltd.	36,756	36,022
Chun'an Qiandao Lake New Century Spearhead Investment Co., Ltd.	23,260	23,047
Changchun New Century Spearhead Investment and Management Co., Ltd.	18,389	22,447
Zhejiang New Century Property Management Co., Ltd.	833	2,393
New Century Tourism Group Co., Ltd.	688	619
New Century Holdings Group Co., Ltd.	83	158
Hangzhou New Century Senbo Tourism Investment Co., Ltd.	65	–
	<b>219,506</b>	214,020

- (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*

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
New Century Tourism Group Co., Ltd.	–	100,000

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 33 RELATED PARTY TRANSACTIONS (Continued)

### (c) Balances with related parties

*Trade receivables due from – trade in nature*

	As at December 31,	
	2018 RMB'000	2017 RMB'000
Beijing Gehua	1,282	720
Shanghai Songjiang New Century Grand Hotel Co., Ltd.	865	473
Haining New Century Grand Real Estate Co., Ltd.	806	7
Taizhou New Century Hotel Co., Ltd.	568	725
Shaoxing Yuzhuang New Century Hotel Management Co.,Ltd.	486	139
Hainan Hengshengyuan Qiziwan New Century Resort Co.,Ltd.	388	120
Xuzhou New Century Grand Hotel Co., Ltd.	370	419
New Century Grand Hotel Kaifeng Business Company Co., Ltd.	200	207
Ningbo Jiulong Lake New Century Resort Co., Ltd.	162	164
Changjiang Hengshengyuan Qiziwan Tourism Real Estate Co., Ltd.	125	9
Zhejiang New Century Property Management Co., Ltd.	106	92
Hangzhou Xianghu New Century Senbo Cultural Tourism Development Co.,Ltd.	95	11
Hangzhou New Century Tourism Development Co., Ltd.	73	64
New Century Tourism Group Co., Ltd.	64	320
Ningbo New Century Hotel Co., Ltd.	57	207
Hangzhou New Century Real Estate Group Co., Ltd.	46	139
Ningbo Seventeen House New Century Resort Co., Ltd.	37	63
Hangzhou New Century Yuege Restaurant Management Co., Ltd.	25	12
Shanghai New Century Commercial Operation Management Co., Ltd.	17	1
Hangzhou New Century Senbo Tourism Investment Co., Ltd.	16	4
Shanghai New Century Commercial Operation Management Co., Ltd.	–	300
Others	43	39
	<b>5,831</b>	<b>4,235</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 33 RELATED PARTY TRANSACTIONS (Continued)

### (c) Balances with related parties (Continued)

*Other receivables due from – trade in nature*

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Zhejiang New Century Hotel Investment and Management Group Co., Ltd.	20,447	20,447
Haining New Century Grand Real Estate Co., Ltd.	193	6
Ningbo New Century Hotel Co., Ltd.	168	2
Shanghai Songjiang New Century Grand Hotel Co., Ltd.	138	–
Chun'an Qiandao Lake New Century Spearhead Investment Co., Ltd.	109	–
Xuzhou New Century Grand Hotel Co., Ltd.	96	2
Chun'an Qiandao Lake New Century Property Management Co., Ltd.	44	–
New Century Tourism Group Co., Ltd.	36	–
Shaoxing Yuzhuang New Century Hotel Management Co., Ltd.	32	5
Taizhou New Century Huating Real Estate Limited	21	–
Zhejiang New Century Property Management Co., Ltd.	14	–
Deqing New Century Senbo Holiday Development Co., Ltd.	13	–
Hainan Hengshengyuan Qiziwan New Century Resort Co., Ltd.	12	1
Taizhou New Century Hotel Co., Ltd.	11	–
Hangzhou Xianghu New Century Senbo Cultural Tourism Development Co.,Ltd.	10	–
Shanghai New Century Commercial Operation Management Co., Ltd.	–	44
Others	32	11
	<b>21,376</b>	<b>20,518</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended December 31, 2018

**33 RELATED PARTY TRANSACTIONS (Continued)****(c) Balances with related parties (Continued)***Prepayment due from – trade in nature*

	<b>As at December 31,</b>	
	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Zhejiang New Century Hotel Investment and Management Group Co., Ltd.	<b>307</b>	185
Hangzhou Jinjian Intelligent Technology Co., Ltd.	<b>182</b>	28
Hangzhou Huang Chaoyi Printing Co., Ltd.	<b>43</b>	–
New Century Tourism Group Co., Ltd.	<b>6</b>	–
Hangzhou New Century Zhijiang Cleaning Chain Co., Ltd.	–	1
Beijing Gehua	–	41
New Century Birotby Winery	–	887
Hangzhou Ledu Property Services Co., Ltd.	–	2
	<b>538</b>	1,144

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 33 RELATED PARTY TRANSACTIONS (Continued)

### (c) Balances with related parties (Continued)

*Trade payables due to – trade in nature*

	<b>As at December 31,</b>	
	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Zhejiang New Century Hotel Investment and Management Group Co., Ltd.	<b>10,769</b>	9,552
Ningbo New Century Spearhead Investment Co., Ltd.	<b>4,645</b>	4,636
Zhejiang Spearhead Investment Co., Ltd.	<b>3,860</b>	4,205
Changchun New Century Spearhead Investment and Management Co., Ltd.	<b>1,057</b>	1,612
Hangzhou New Century Zhijiang Cleaning Chain Co., Ltd.	<b>792</b>	488
Chun'an Qiandao Lake New Century Spearhead Investment Co., Ltd.	<b>683</b>	841
Hangzhou New Century Decorating Co., Ltd.	<b>324</b>	434
Hangzhou Huang Chaoyi Printing Co., Ltd.	<b>86</b>	90
Beijing Gehua	<b>65</b>	1
Hangzhou Jinjian Intelligent Technology Co., Ltd.	<b>63</b>	7
Shanghai Songjiang New Century Grand Hotel Co., Ltd.	<b>62</b>	10
Zhejiang Haogu Internet Technology Co., Ltd.	<b>30</b>	–
Hainan Hengshengyuan Qiziwan New Century Resort Co., Ltd.	<b>16</b>	1
Haining New Century Grand Real Estate Co., Ltd.	<b>14</b>	–
Shaoxing Yuzhuang New Century Hotel Management Co., Ltd.	<b>10</b>	1
Ningbo New Century Hotel Co., Ltd.	<b>9</b>	160
Taizhou New Century Hotel Co., Ltd.	<b>8</b>	1
New Century Tourism Group Co., Ltd.	<b>5</b>	12
Chun'an Qiandao Lake New Century Property Management Co., Ltd.	<b>–</b>	268
Others	<b>211</b>	4
	<b>22,709</b>	22,323

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 33 RELATED PARTY TRANSACTIONS (Continued)

### (c) Balances with related parties (Continued)

*Other payables due to – trade in nature (Continued)*

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Hangzhou New Century Decorating Co., Ltd.	5,173	5,394
Hangzhou Jinjian Intelligent Technology Co., Ltd.	867	514
Beijing Gehua	810	1,330
Shanghai Songjiang New Century Grand Hotel Co., Ltd.	702	–
Hainan Hengshengyuan Qiziwan New Century Resort Co.,Ltd.	542	142
Ningbo New Century Hotel Co., Ltd.	467	308
Taizhou New Century Hotel Co., Ltd.	384	319
Shaoxing Yuzhuang New Century Hotel Management Co., Ltd.	356	667
Xuzhou New Century Grand Hotel Co., Ltd.	293	498
New Century Grand Hotel Kaifeng Business Company Co., Ltd.	283	243
Haining New Century Grand Real Estate Co., Ltd.	261	–
Ningbo Seventeen House New Century Resort Co., Ltd.	202	253
Hangzhou New Century Tourism Development Co., Ltd.	183	289
Ningbo Jiulong Lake New Century Resort Co., Ltd.	140	343
Hangzhou Xiaoshan Chaoyi Carpet Co., Ltd.	51	16
Deqing New Century Investment and Management Co., Ltd.		
New Century Business Hotel	24	12
New Century Holdings Group Co., Ltd.	16	–
Yuyao New Century Manju Hotel Management Co., Ltd.	–	65
Others	191	4
	<b>10,945</b>	<b>10,397</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 33 RELATED PARTY TRANSACTIONS (Continued)

### (c) Balances with related parties (Continued)

Advances due from:

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Haining New Century Grand Real Estate Co., Ltd.	303	–
Hangzhou Jinjian Intelligent Technology Co., Ltd.	111	16
New Century Tourism Group Co., Ltd.	78	–
Hangzhou Xianghu New Century Senbo Cultural Tourism Development Co., Ltd.	59	–
Zhejiang New Century Property Management Co., Ltd.	24	24
Hangzhou New Century Real Estate Group Co., Ltd.	6	–
Shaoxing Yuzhuang New Century Hotel Management Co., Ltd.	–	94
Deqing New Century Investment and Management Co., Ltd.	–	7
New Century Business Hotel	–	7
Xuzhou New Century Grand Hotel Co., Ltd.	–	257
Ningbo Jiulong Lake New Century Resort Co., Ltd.	–	103
	581	501

### (d) Key management compensation

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Wages, salaries and bonuses	8,249	4,251
Pension costs – defined contribution plan	–	25
Housing fund, medical insurance and other social insurance and other employee benefits	312	128
Share-based compensation expenses	–	2,632
	8,561	7,036

The emoluments fell within following bands:

	Year ended December 31,	
	2018	2017
	Number	Number
Nil to RMB500,000	7	11
RMB500,001 to RMB1,000,000	6	3
RMB1,000,001 to RMB1,500,000	2	2
	15	16

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 34 PRINCIPAL SUBSIDIARIES

The Group's principal subsidiaries (all of which are limited liability companies) at December 31, 2018 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of subsidiaries	Date of establishment	Place of establishment	Principal activities	Registered capital (RMB)	Equity interest held by the Company		Directly/indirectly held
					As at December 31, 2018	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%	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%	Directly
Shanghai Yuege Hotel Operation Co., Ltd. ("Shanghai Yuege") (上海悅閣酒店經營有限公司)	2010-01-21	Shanghai, China	Hotel operation	12,000,000	99.9999% (Note (b))	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	N/A (Note 29 (a))	65%	Indirectly
Shanghai Ruiyue Hotel Co., Ltd. ("Shanghai Ruiyue") (上海瑞悅酒店有限公司)	2010-05-07	Shanghai, China	Hotel operation	5,000,000	99.9999% (Note (b))	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%	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%	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%	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	80%	80%	Directly
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%	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%	Directly

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 34 PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiaries	Date of establishment	Place of establishment	Principal activities	Registered capital (RMB)	Equity interest held by the Company		Directly/indirectly held
					As at December 31, 2018	2017	
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%	Directly
Jiande New Century Wonderland Resort Co., Ltd. (建德開元芳草地酒店有限公司)	2015-12-10	Zhejiang, China	Hotel operation	80,000,000	100%	100%	Directly
Changxing New Century Wonderland Resort Co., Ltd. (長興開元芳草地酒店有限公司)	2014-12-24	Zhejiang, China	Hotel operation	30,000,000	100%	100%	Directly (Note (d))
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	N/A	N/A	Directly (Note 29 (b))
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	N/A	N/A	Directly (Note 29 (b))
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%	Indirectly
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	55.66% (Note 30)	19.83% (Note 11)	Indirectly
Ningbo New Century Manju Hotel Management Co., Ltd. (寧波開元曼居酒店管理有限公司)	2016-03-09	Zhejiang, China	Hotel management	5,000,000	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	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	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)	2017-04-24	Shanghai, China	Hotel management	5,000,000	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	70%	70%	Indirectly

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 34 PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiaries	Date of establishment	Place of establishment	Principal activities	Registered capital (RMB)	Equity interest held by the Company		Directly/indirectly held
					As at December 31, 2018	2017	
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	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	100%	100%	Indirectly
Chongqing Dazu District New Century Grand House Hotel Co., Ltd. (Note 31) (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 (Note 29 (a))	100%	Directly
Zhejiang New Century Catering Management Co., Ltd. ("Catering Management") (浙江開元餐飲管理有限公司)	2017-07-06	Zhejiang, China	Catering services	10,000,000	N/A (Note (c))	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	60%	60%	Directly
Shanghai Yueshang Hotel Management Co., Ltd. (上海閱尚酒店管理有限公司)	2017-09-29	Shanghai, China	Hotel management and operation	500,000	70%	70%	Indirectly
Hunan Manju Hotel Management Co., Ltd. ("Hunan Manju") (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	100% (Note (a))	N/A	Indirectly
Chengdu Liju Hotel Management Co., Ltd. ("Chengdu Liju") (成都麗居酒店管理有限公司)	2018-03-20	Sichuan, China	Hotel management and operation	5,000,000	100% (Note (a))	N/A	Indirectly
Ningbo New Century Manfei Hotel Management Co., Ltd. ("Ningbo Manfei") (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	100% (Note (a))	N/A	Indirectly
Changxing Grand New Century Hotel Co., Ltd. ("Changxing Grand New Century Hotel") (長興開元名都大酒店有限公司)	2018-07-09	Zhejiang, China	Hotel operation	50,000,000	100% (Note (a))	N/A	Directly
Changxing New Century Mayart Hotel Co., Ltd. ("Changxing Mayart") (長興開元美途酒店有限公司)	2018-08-24	Zhejiang, China	Hotel operation	5,000,000	100% (Note (a))	N/A	Directly

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 34 PRINCIPAL SUBSIDIARIES (Continued)

### (a) Newly established subsidiaries

On January 24, 2018, the Group established the wholly-owned subsidiary Hunan Manju. As at December 31, 2018 the registered capital of Hunan Manju was RMB5,000,000.

On March 20, 2018, the Group established the wholly-owned subsidiary Chengdu Liju. As at December 31, 2018 the registered capital of Chengdu Liju was RMB5,000,000.

On May 2, 2018, the Group established the wholly-owned subsidiary Ningbo Manfei. As at December 31, 2018 the registered capital of Ningbo Manfei was RMB5,000,000.

On July 9, 2018, the Group established the wholly-owned subsidiary Changxing Grand New Century Hotel. As at December 31, 2018 the registered capital of Changxing Grand New Century Hotel was RMB50,000,000.

On August 24, 2018, the Group established the wholly-owned subsidiary Changxing Mayart. As at December 31, 2018 the registered capital of Changxing Mayart was RMB5,000,000.

### (b) Transaction with non-controlling interests

On November 15, 2018, the Group acquired an additional 34.9999% of the shares of Shanghai Yuege and its subsidiary Shanghai Ruiyue (together "the Yuege Group") with a total consideration of RMB5,004,000 (the "Acquisition"). Immediately prior to the Acquisition, the carrying amount of the existing 34.9999% non-controlling interest in the Yuege Group was RMB9,507,000. The Group recognized a decrease in non-controlling interests of RMB9,507,000. The effect on the equity attributable to the owners of Yuege Group during the year is summarised as follows:

	<b>2018</b>
Carrying amount of non-controlling interests acquired	<b>9,507</b>
Consideration paid to non-controlling interests	<b>(5,004)</b>
Excess of consideration paid recognized in the transactions with non-controlling interests reserve within equity	<b>4,503</b>

There were no transactions with non-controlling interests in 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 34 PRINCIPAL SUBSIDIARIES (Continued)

### (c) Termination of operations of subsidiaries

On October 8, 2018, the Group terminated the operation of the wholly-owned subsidiary Catering Management.

### (d) Business combination under common control

In 2017, the Company has acquired the total share of Changxing Wonderland from New Century Tourism Group Co., Ltd. on March 31, 2017. The purchase consideration for the acquisition of Changxing Wonderland was RMB40,000,000. The Company and Changxing Wonderland are under common control of New Century Tourism Group Co., Ltd. before and after the acquisition, the acquisition is therefore regarded as a common control combination (Note 2.2.1(b)). Since completion of the acquisition, the financial statements of Changxing Wonderland have been included in the consolidated financial statements of the Group as if the acquisition had occurred from the date when 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 Changxing Wonderland used to be recorded in "Capital reserve" with amount of RMB40,000,000 was reversed and recorded as a payment for acquisition of a subsidiary under common control (Note 24(b)).

## 35 EVENTS OCCURRING AFTER THE REPORTING PERIOD

On March 11, 2019, the Company issued 70,000,000 H shares of RMB1.00 each at HK\$16.50 per share in connection with the initial public offering of H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, and raised gross proceeds of approximately HK\$1,155,000,000, equivalent to RMB988,783,950.

On March 25, 2019, the Board of Directors approved the profit distribution plan for the year ended December 31, 2018. Pursuant to the profit distribution plan, the statutory surplus reserve of RMB18.78 million was appropriated for the year ended December 31, 2018, and the cash dividends proposed was RMB0.36 (before tax) each share, amounting to a total dividend of RMB100.8 million calculated based on the total number of shares in issue of 280,000,000. The profit distribution plan is subject to shareholders' approval at the incoming annual general meeting.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	Note	As at December 31,	
		2018 RMB'000	2017 RMB'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		111,040	87,550
Investment properties		910	925
Intangible assets		2,988	1,686
Investments in subsidiaries		316,744	220,440
Investments accounted for using the equity method	11	121,564	115,246
Other non-current assets		2,459	14,202
Deferred tax assets		3,695	6,605
<b>Total non-current assets</b>		<b>559,400</b>	446,654
<b>Current assets</b>			
Inventories		12,893	13,887
Trade, other receivables and prepayments		362,280	337,159
Cash and cash equivalent		110,420	184,968
Restricted cash		68,000	–
<b>Total current assets</b>		<b>553,593</b>	536,014
<b>Total assets</b>		<b>1,112,993</b>	982,668

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

	Notes	As at December 31,	
		2018 RMB'000	2017 RMB'000
<b>Equity and liabilities</b>			
<b>Equity attributable to owners of the Company</b>			
Paid-in capital/share capital		210,000	210,000
Other reserves	(a)	260,782	256,200
Retained earnings		235,536	93,570
<b>Total equity</b>		<b>706,318</b>	559,770
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings		100,000	100,000
<b>Total non-current liabilities</b>		<b>100,000</b>	100,000
<b>Current liabilities</b>			
Borrowings	26	500	5,000
Trade and other payables		203,402	214,405
Contract liabilities		82,164	86,850
Current income tax liabilities		20,609	16,643
<b>Total current liabilities</b>		<b>306,675</b>	322,898
<b>Total liabilities</b>		<b>406,675</b>	422,898
<b>Total equity and liabilities</b>		<b>1,112,993</b>	982,668

The balance sheet of the Company was approved by the Board of Directors on March 25, 2019 and was signed on its behalf:

**Jin Wenjie**  
Chairman

**Chen Miaoqiang**  
Executive Director



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

Notes

### (a) Reserve movement of Company

	Other reserves RMB'000	Retained earnings RMB'000
<b>Balance at 1 January 2017</b>	54,262	117,765
Profit for the year	–	157,609
Capital injection from shareholder	121,420	–
Dividends provided for or paid	–	(59,690)
Appropriation to statutory reserve	2,985	(2,985)
Conversion into a joint stock company	97,909	(119,129)
Business combination under common control	(29,605)	–
Disposal of subsidiaries	9,229	–
<b>Balance at December 31, 2017</b>	256,200	93,570
Profit for the year	–	187,786
Dividends provided for or paid	–	(41,238)
Appropriation to statutory reserve	4,582	(4,582)
<b>Balance at December 31, 2018</b>	<b>260,782</b>	<b>235,536</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 37 BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' and supervisors' emoluments

The emoluments paid or payable to the directors, 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) and supervisors by entities comprising the Group during the years ended December 31, 2018 and 2017 are disclosed below:

	Year ended December 31, 2018				Total RMB'000
	Director's fee RMB'000	Salaries and bonuses RMB'000	Pension costs – defined contribution plan RMB'000	Other employee benefits and share-based compensation expense RMB'000	
<b>Directors</b>					
<i>Executive directors</i>					
Mr. Jin Wenjie	–	300	21	265	586
Mr. Chen Miaoqiang	–	1,718	48	95	1,861
<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	120	–	–	–	120
Mr. Li Zhiqiang (i)	80	–	–	–	80
Ms. Qiu Yun	120	–	–	–	120
Mr. Khoo Wun Fat William (ii)	33	–	–	–	33
	<b>353</b>	<b>2,018</b>	<b>69</b>	<b>360</b>	<b>2,800</b>
<b>Supervisors</b>					
Ms. Zha Xianghong	–	–	–	–	–
Mr. Guo Mingchuan	–	–	–	–	–
Ms. Liu Hong	–	454	33	1	488
	–	454	33	1	488
	<b>353</b>	<b>2,472</b>	<b>102</b>	<b>361</b>	<b>3,288</b>

(i) Resigned from non-executive directors since August 2018.

(ii) Appointed as non-executive directors since August 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 37 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

### (a) Directors' and supervisors' emoluments (Continued)

	Year ended December 31, 2017				
	Director's fee RMB'000	Salaries and bonuses RMB'000	Pension costs – defined contribution plan RMB'000	Other employee benefits and share-based compensation expense RMB'000	Total RMB'000
<b>Directors</b>					
<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 (iii)	60	–	–	–	60
Mr. Li Zhiqiang (iii)	60	–	–	–	60
Ms. Qiu Yun (iii)	60	–	–	–	60
	180	1,868	31	554	2,633
<b>Supervisors</b>					
Ms. Zha Xianghong	–	–	–	–	–
Mr. Guo Mingchuan	–	–	–	–	–
Ms. Liu Hong (iv)	–	183	11	2	196
	–	183	11	2	196
	180	2,051	42	556	2,829

(iii) Appointed as Independent non-executive director since June 2017.

(iv) Appointed as employee representative since June 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 37 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

**(b) Directors' termination benefits**

No directors' retirement or termination benefits subsisted at the end of the year or at any time during the years ended December 31, 2018 and 2017.

**(c) Directors' benefits and interests**

No directors' benefits and interests subsisted at the end of the year or at any time during the year (2017: Nil).

**(d) 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 year (2017: Nil).

**(e) 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 year (2017: Nil).

**(f) 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 year (2017: Nil).

## FOUR-YEAR FINANCIAL SUMMARY

	2018	2017	2016	2015
<b>Items of Consolidated Statement of Comprehensive Income</b>				
(RMB'000)				
Revenue	<b>1,797,968</b>	1,664,643	1,602,006	1,522,082
Profit attributable to owners of the Company	<b>186,787</b>	163,042	84,324	30,107
Earnings per share attributable to owners of the Company (RMB)	<b>0.89</b>	0.78	0.4	0.14
<b>Items of Consolidated Balance Sheet</b>				
(RMB'000)				
Total assets	<b>1,546,845</b>	1,312,651	1,252,985	1,134,853
Total liabilities	<b>872,900</b>	783,558	935,956	871,879
Total equity	<b>673,945</b>	529,093	317,029	262,974
Total equity attributable to owners of the Company	<b>663,848</b>	513,796	310,414	256,090
<b>Items of Consolidated Statements of Cash Flows</b>				
(RMB'000)				
Net cash generated from operating activities	<b>198,282</b>	268,073	168,931	97,442
<b>Relevant Financial Information</b>				
Proposed dividend (RMB'000)	<b>100,800</b>	41,238		
Proposed dividend per share (RMB)	<b>0.36</b>	0.196		
Earnings before interests, taxes, depreciation and amortization (RMB'000)	<b>303,918</b>	287,905	178,022	110,666
Total equity per share (RMB)	<b>3.21</b>	2.52		
Total equity per share attributable to the owners of the Company (RMB)	<b>3.16</b>	2.45		
Gearing ratio (total borrowings divided by total assets)	<b>12%</b>	13%	28%	27%