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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

Since 1 January 2019, the Group has adopted IFRS 16, Leases. The annual results data reflected in the following have taken into account the impact of the standard:

– The Group's revenue for the year ended 31 December 2019 ("**FY2019**") was approximately RMB1,928.0 million, increased by approximately 7.2% from approximately RMB1,798.0 million in the corresponding period of 2018 ("**FY2018**").

– The Group's earnings before interest, tax, depreciation and amortization ("**EBITDA**") for the year ended 31 December 2019 increased from approximately RMB303.9 million in the corresponding period of 2018 to approximately RMB741.9 million, representing an increase of 144.1%. The EBITDA rate for the year ended 31 December 2019 increased from approximately 16.9% in 2018 to approximately 38.5%.

– The Group's gross profit for the year ended 31 December 2019 was approximately RMB565.0 million, increased by approximately 20.7% from approximately RMB468.2 million in the corresponding period of 2018. The gross profit margin for the year ended 31 December 2019 was approximately 29.3%, increased by approximately 3.3% from approximately 26.0% in the corresponding period of 2018.

– The Group's net profit for the year ended 31 December 2019 was approximately RMB205.0 million, increased by approximately 8.4% from approximately RMB189.1 million in the corresponding period of 2018.

– During the year ended 31 December 2019, the profit attributable to owners of the Company was approximately RMB202.4 million, increased by approximately 8.4% from approximately RMB186.8 million in the corresponding period of 2018.

- During the year ended 31 December 2019, due to the enlarged share capital after the initial public offering, the basic and diluted earnings per share was approximately RMB0.76, decreased by approximately 14.6% from approximately RMB0.89 in the corresponding period of 2018.

- As at 31 December 2019, the Group had no bank borrowings (as at 31 December 2018: RMB190.5 million). Due to the completion of the global initial public offering, the Company's share capital increased from RMB210.0 million as at 31 December 2018 to RMB280.0 million as at 31 December 2019, the share premium increased from RMB Nil as at 31 December 2018 to RMB865.4 million as at 31 December 2019.

- As at 31 December 2019, the Group's total balance of cash and cash equivalents amounted to approximately RMB345.7 million (as at 31 December 2018: approximately RMB367.7 million). There was also fixed deposit of approximately RMB909.2 million (as at 31 December 2018: approximately RMB68.0 million). The liabilities of the Company were denominated in RMB, without any foreign currency liabilities.

The Board considers that the adoption of IFRS 16 resulted in the acceleration of related expenses being charged to the beginning of the lease term. For comparison purposes, the annual results for the year ended 31 December 2019 without adopting IFRS 16, together with a summary of the corresponding results for the same period in 2018 without adopting IFRS 16 are set out below:

- The Group's EBITDA for the year ended 31 December 2019 increased from RMB303.9 million for the year ended 31 December 2018 to approximately RMB355.1 million, representing an increase of approximately 16.8%. The EBITDA rate of the Group increased from approximately 16.9% for the year ended 31 December 2018 to approximately 18.4% for the year ended 31 December 2019.

- The Group's gross profit for the year ended 31 December 2019 was approximately RMB495.2 million, increased by approximately 5.8% from approximately RMB468.2 million in the corresponding period of 2018. The gross profit margin for the year ended 31 December 2019 was approximately 25.7%, decreased by approximately 0.3 percentage points from approximately 26.0% in the corresponding period of 2018.

- The Group's net profit for the year ended 31 December 2019 was approximately RMB233.4 million, increased by approximately 23.5% from approximately RMB189.1 million in the corresponding period of 2018.

- During the year ended 31 December 2019, the profit attributable to the owners of the Company was approximately RMB230.9 million, increased by approximately 23.6% from approximately RMB186.8 million in the corresponding period of 2018.

- During the year ended 31 December 2019, due to the enlarged share capital after the global initial public offering, the basic and diluted earnings per share was approximately RMB0.87, decreased by approximately 2.3% from approximately RMB0.89 in the corresponding period of 2018.

The Board of Directors ("**Board**") of Zhejiang New Century Hotel Management Co., Ltd. (the "**Company**") wishes to announce the audited consolidated annual results of the Company and its subsidiaries (the "**Group**") prepared under International Financial Reporting Standards ("**IFRSs**") for the year ended 31 December 2019 (the "**Reporting Period**"), together with the comparative figures for the corresponding period of 2018. These audited consolidated annual results have been reviewed by the Audit Committee of the Company and recommended approval by the Board. The auditor of the Company, PricewaterhouseCoopers, has agreed that the figures in respect of the Group's annual results for the year ended 31 December 2019 contained in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the year.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

		Year ended 31 December	
	Notes	**2019**	2018
		RMB'000	*RMB'000*
Revenue from contract with customers	*4*	**1,927,980**	1,797,968
Cost of sales		**(1,362,962)**	(1,329,818)
Gross profit		**565,018**	468,150
Selling and marketing expenses		**(106,018)**	(99,822)
Administrative expenses		**(168,062)**	(166,620)
Net impairment losses on financial assets	*12*	**(2,641)**	(541)
Other income	*5*	**40,299**	12,583
Other gains – net	*6*	**4,976**	22,371
Operating profit		**333,572**	236,121
Finance income		**41,554**	9,535
Finance costs		**(111,995)**	(9,205)
Finance (costs)/income – net	*7*	**(70,441)**	330
Share of net profit of associates and joint venture accounted for using the equity method		**5,486**	6,630
Profit before income tax		**268,617**	243,081
Income tax expense	*8*	**(63,643)**	(54,012)
Profit for the year		**204,974**	189,069

	Notes	Year ended 31 December **2019** *RMB'000*	2018 *RMB'000*
Other comprehensive income for the year, net of income tax		**–**	–
Profit and total comprehensive income for the year		**204,974**	189,069
Profit and total comprehensive income attributable to:			
– Owners of the Company		**202,405**	186,787
– Non-controlling interests		**2,569**	2,282
		204,974	189,069
Earnings per share for profit attributable to the owners of the Company for the year– Basic/Diluted (in RMB per share)	*9*	**0.76**	0.89

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

		As at 31 December	
	Notes	**2019**	2018
		RMB'000	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		**661,163**	587,756
Right-of-use assets	*11*	**2,135,362**	–
Investment properties		**895**	910
Land use rights		**–**	44,954
Intangible assets		**6,143**	14,904
Investments accounted for using the equity method		**131,100**	121,564
Financial assets at fair value through other comprehensive income		**2,053**	–
Other non-current assets		**–**	3,170
Deferred tax assets		**74,671**	27,338
Restricted cash		**375,000**	–
Total non-current assets		**3,386,387**	800,596
Current assets			
Inventories		**31,264**	28,322
Trade and other receivables and prepayments	*12*	**194,552**	282,239
Cash and cash equivalents		**345,746**	367,688
Restricted cash		**534,177**	68,000
Total current assets		**1,105,739**	746,249
Total assets		**4,492,126**	1,546,845

		As at 31 December	
	Notes	**2019**	2018
		RMB'000	*RMB'000*
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		**280,000**	210,000
Share premium		**865,375**	–
Other reserves		**315,373**	276,440
Retained earnings		**117,723**	177,408
Total equity attributable to owners of the Company		**1,578,471**	663,848
Non-controlling interests		**11,572**	10,097
Total equity		**1,590,043**	673,945
Liabilities			
Non-current liabilities			
Borrowings		**–**	185,000
Lease liabilities	*11*	**1,950,150**	–
Deferred income		**18,862**	20,048
Deferred tax liabilities		**246**	442
Total non-current liabilities		**1,969,258**	205,490
Current liabilities			
Contract liabilities	*4*	**216,523**	194,194
Borrowings		**–**	5,500
Lease liabilities	*11*	**309,281**	–
Trade and other payables	*13*	**378,662**	443,081
Current income tax liabilities		**27,173**	23,449
Current portion of long-term liabilities		**1,186**	1,186
Total current liabilities		**932,825**	667,410
Total liabilities		**2,902,083**	872,900
Total equity and liabilities		**4,492,126**	1,546,845

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 17 December 2008 as a limited liability company. On 28 June 2017, the Company was converted into a joint stock company with limited liabilities under the Company law of the PRC and changed its name to Zhejiang New Century Hotel Management Co., Ltd. (浙江開元酒店管理股份有限公司). The Company and its subsidiaries (together, the "Group") are principally engaged in hotel operation and management business in the PRC. The parent company of the Group is New Century Tourism Group Co., Ltd. (開元旅業集團有限公司), a company incorporated in the PRC, and Mr. Chen Miaolin (陳妙林) is the founder and one of the controlling shareholders of the Group.

The address of the Company's registered office is 18/F, 818 Shixin Middle Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC.

The Company completed its global initial public offering and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 11 March 2019 (the "Listing").

These consolidated financial statements are presented in Renminbi thousands (RMB'000), unless otherwise stated. These consolidated financial statements was reviewed by the Audit Committee and approved for issue by the Board of Directors (the "Board") of the Company on 20 March 2020.

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 applied 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, except for the financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, which are measured 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 3.

(a) New and amended standards adopted by the Group

The following standards and interpretations apply for the first time to financial reporting periods commercing on or after 1 Janurary 2019, and have been adopted by the Group:

IFRS 16	Leases
Amendments to IFRS 9	Prepayment features with negative compensation
Amendments to IAS 28	Long-term interests in associates and joint ventures
Amendments to IAS 19	Plan amendment, curtailment or settlement
IFRIC 23	Uncertainty over income tax treatments
Annual improvements IFRS Standards 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules restrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 2.2. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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

The Group has assessed the impact of adopting these new standards, amendments and interpretations. According to the preliminary assessment, these standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions. The Group's assessment of the impact of these new standards and interpretations is set out below.

		Effective for annual periods beginning on or after
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2020
Amendments to IFRS 3	Definition of Business	1 January 2020
Revised conceptual framework	Revised conceptual framework for financial reporting	1 January 2020
IFRS 17	Insurance contracts	1 January 2022

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 "Lease" on the Group's consolidated financial statements. The Group has adopted IFRS 16 restropectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability for hotel property and equipment leases at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;

- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date, and;

- amounts expected to be payable by the Group under residual value guarantees;

- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and;

- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the New Century Group, which does not have recent third party financing, and

- makes adjustments specific to the lease, eg term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and;
- restoration costs;

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset’s useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

(i) Practical expendients applied

In appling IFRS 16 for the first time, the Group has used the following practical expendients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar charateristics;
- relying on previous assesments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use assets at the date of initial application, and;
- using hindsight in determining the lease term where the contract contains options to extend or terminated the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made appling IAS 17 and IFRIC 4 “Determining Whether an Arrangement Contains a Lease”.

(ii) Measurement of lease liabilities

	1 January 2019
	RMB'000
Operating lease commitments disclosed as at 31 December 2018	2,557,271
Less: short-term leases recognised on a straight-line basis as expense	(5,587)
Less: low-value leases recognised on a straight-line basis as expense	(102)
	2,551,582
Discounted using the lessee's incremental borrowing rate of at the date of initial application, lease liabilities recognised as at 1 January 2019	2,132,268
Of which are:	
Current lease liabilities	307,970
Non-current lease liabilities	1,824,298
	2,132,268

(iii) Measurement of right-of-use assets

The associated right-of-use assets were measured on a retrospective basis, using a discount rate based on the lessee's incremental borrowing rate at the date of initial application.There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	RMB'000
	Debit/(Credit)
Right-of-use assets – increased by	2,014,378
Land use rights – decreased by	(44,954)
Favourable operating lease – decreased by	(6,372)
Prepayments – decreased by	(16,832)
Other non-current assets – decreased by	(3,170)
Other receivables – decreased by	(70,554)
Trade and other payables – decreased by	94,737
Lease liabilities (current portion) – increased by	(307,970)
Lease liabilities (non-current portion) – increased by	(1,824,298)
Deferred tax assets – increased by	43,225
The net impact on retained earnings on 1 January 2019 – decreased by	121,810

(v) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated by the management of the Group. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Impairment of property, plant and equipment, right-of-use assets (including land use rights), intangible assets, investment in subsidiaries, associates, joint ventures and other non-financial assets

The Group tests whether property, plant and equipment, right-of-use assets (including land use rights), intangible assets, investments in subsidiaries, associates, joint ventures and other non-financial assets have suffered any impairment periodically. An impairment loss is recognised 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 the investments in subsidiaries, associates or joint ventures are required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate or jointly controlled entities in the period the dividend is declared or if the carrying amount of the investments in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(b) Useful lives of property, plant and equipment, right-of-use assets (including 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 deprecation 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 recognises 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 recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(d) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rate. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's part history, existing market conditions as well as forward looking estimates at the end of each reporting periods.

4 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 is 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.

(a) Segment revenues

The revenue of the Group for the years ended 31 December 2019 and 2018 is set out as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Hotel operation		
Room	**805,862**	743,744
Food and beverage	**600,198**	641,389
Ancillary services	**243,096**	207,082
Rental income	**40,925**	36,766
Subtotal of hotel operation	**1,690,081**	1,628,981
Hotel management	**237,899**	168,987
	1,927,980	1,797,968
Revenue from contracts with customers:		
– Recognised at a point of time	**706,114**	717,406
– Recognised over time	**1,180,941**	1,043,796
	1,887,055	1,761,202
Revenue from other resources:		
– Rental income	**40,925**	36,766

(b) Segment information

The segment information for the business segments for the years ended 31 December 2019 and 2018 are as follows:

	Year ended 31 December 2019		
Business segments	**Hotel operation**	**Hotel management**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Revenue			
Segment revenue	**1,705,225**	**247,772**	**1,952,997**
Inter-segment revenue	**(15,144)**	**(9,873)**	**(25,017)**
Segment revenue from external customers	**1,690,081**	**237,899**	**1,927,980**
Cost of sales	**(1,335,094)**	**(27,868)**	**(1,362,962)**
Selling and marketing expenses	**(83,441)**	**(22,577)**	**(106,018)**
Administrative expenses	**(107,360)**	**(60,702)**	**(168,062)**
Finance expense of leasing liabilities	**(107,513)**	**(57)**	**(107,570)**
Net impairment losses on financial assets	**(1,436)**	**(1,205)**	**(2,641)**
Segment profit	**55,237**	**125,490**	**180,727**

	Year ended 31 December 2018		
Business segments	Hotel operation	Hotel management	Total
	RMB'000	*RMB'000*	*RMB'000*
Revenue			
Segment revenue	1,643,970	177,179	1,821,149
Inter-segment revenue	(14,989)	(8,192)	(23,181)
Segment revenue from external customers	1,628,981	168,987	1,797,968
Cost of sales	(1,319,981)	(9,837)	(1,329,818)
Selling and marketing expenses	(87,155)	(12,667)	(99,822)
Administrative expenses	(108,712)	(57,908)	(166,620)
Net impairment (losses)/gains on financial assets	(2,530)	1,989	(541)
Segment profit	110,603	90,564	201,167

(c) Contract liabilities

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Advances from customers	**209,822**	190,563
Customer loyalty program	**6,701**	3,631
	216,523	194,194

(i) Revenue recognised in relation to contract liabilities

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year		
Advances from customers	**190,563**	187,086
Customer loyalty program	**3,631**	5,266
	194,194	192,352

(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 31 December	
	2019	2018
	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 recognised after next reporting year and beyond	**86,703**	43,777
Expected to be recognised within next reporting year	**12,594**	8,861
	99,297	52,638

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.

5 OTHER INCOME

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Government grants *(i)*	**39,016**	8,100
Investment income from financial asssets at fair value through profit or loss ("FVPL") *(ii)*	**1,283**	4,483
	40,299	12,583

(i) There are no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance. For the year ended 31 December 2019, the government grants was mainly to Changxing Grand New Century Hotel Co., Ltd. of RMB25,000,000 for its grand opening.

(ii) The financial assets at FVPL are wealth management products, denominated in RMB, with expected rates of return ranging from 2.30% to 4.10% per annum for the years ended 31 December 2019 and 2018. They had initial terms ranging from 1 day to 94 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 FVPL. As at 31 December 2019 and 2018, the balance of financial assets at FVPL was Nil.

6 OTHER GAINS – NET

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Net losses on disposal of property, plant and equipment	**(178)**	(87)
Net gains on disposal of subsidiaries	**–**	10,794
Compensation income	**–**	8,400
Waived payables due to third parties	**5,046**	2,600
Others	**108**	664
	4,976	22,371

7 FINANCE (COSTS)/INCOME – NET

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Finance income		
– Interest income derived from bank deposits	**8,990**	9,535
– Interest income derived from term deposits	**23,381**	–
– Realised foreign exchange gains	**9,183**	–
	41,554	9,535
Finance costs		
– Interest expenses on bank borrowings	**(3,173)**	(9,205)
– Finance expense of leasing liabilities *(Note 11)*	**(107,570)**	–
– Realised foreign exchange losses	**(1,252)**	–
	(111,995)	(9,205)
Finance (costs)/income – net	**(70,441)**	330

No finance costs have been capitalised on qualifying assets for the years ended 31 December 2019 and 2018.

8 INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current income tax	**67,946**	61,313
Deferred income tax	**(4,303)**	(7,301)
Income tax expenses	**63,643**	54,012

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 in the PRC is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit before income tax	**268,617**	243,081
Tax calculated at statutory corporate income tax rate	**67,154**	60,770
Expenses not deductible for income tax purpose	**559**	1,050
Tax preferential on STE *(a)*	**(496)**	–
Accelerated tax deduction of R&D expenses	**(1,037)**	–
Temporary difference for which no deferred income tax assets were recognised	**254**	428
Recognisation of previous unrecognised for tax losses	**–**	(6,275)
Utilisation of previous unrecognised tax losses	**(1,419)**	(303)
Effect of exclusion of share of profit tax of joint ventures and associates	**(1,372)**	(1,658)
Income tax expense	**63,643**	54,012

(a) According to Preferential Tax Treatment for Small and Thin-profit Enterprises ("STE") (Notice 2019(13)), the preferential income tax is summarised below:

Amount taxable income	**Discount on taxable income**	**Corporate income tax rate**
No more than RMB1 million (inclusive)	75%	20%
Between RMB1 million and RMB3 million (inclusive)	50%	20%

9 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 31 December 2019 and 2018 are the same as the basic earnings per share as there is no dilutive potential share during the financial year.

	Year ended 31 December	
	2019	2018
Profit attributable to owners of the Company *(in RMB '000)*	**202,405**	186,787
Weighted average number of ordinary shares in issue or deemed to be in issue *(in '000 shares)*	**266,767**	210,000
Basic earnings per share *(in RMB per share)*	**0.76**	0.89

10 DIVIDENDS

On 15 June 2018, a final dividend of RMB 41,238,000 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.

On 25 March 2019, a final dividend of RMB 100,799,982 was declared to all shareholders of the Company. In July 2019, all dividends were paid to the shareholders. The dividends were presented as dividends provided for or paid to the shareholders in the consolidated statements of changes in equity.

On 20 March 2020, the Board of Directors ("Board") approved profit distribution plan for the year ended 31 December 2019. Cash dividends proposed was RMB0.40 per share (inclusive of tax), amounting to a toal dividend of RMB112 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 forthcoming annual general meeting of the Company.

On 20 March 2020, the Board also approved to transfer to all the shareholders to the Company the share premium of the capital reserve fund of the Company on the basis of the existing total number of shares in issue of 280,000,000. One additional share will be transferred to each eligible shareholder registered as at the record date. The capital reserve capitalisation is subject to shareholders' approval at the forthcoming annual general meeting of the Company and approval of the Listing Committee of The Stock Exchange of Hong Kong Limited.

11 LEASES

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at 31 December 2019	As at 1 Janurary 2019
	RMB'000	*RMB'000*
Right-of-use assets		
Properties	**1,693,098**	1,466,151
Equipment and others	**398,494**	496,901
Land use rights	**43,766**	44,954
Favorable operating lease	**5,040**	6,372
Less: impairment loss	**(5,036)**	–
	2,135,362	2,014,378
Lease liabilities		
Current	**309,281**	307,970
Non-current	**1,950,150**	1,824,298
	2,259,431	2,132,268

Additions to the right-of-use assets in 2019 mainly represent the property and equipment lease contracts for newly set up hotels. The total additions of right-of-use assets during the year ended 31 December 2019 were RMB445,691,000.

As at 31 December 2019, the impairment loss of RMB5,036,000 were provided for a loss making hotel. The impairment provision charge during the year was included in cost of sales in the consolidated statement of comprehensive income.

The consolidated statement of comprehensive income shows the following amounts relating to leases:

	2019
	RMB'000
Depreciation charge of right-of-use assets	
Properties	**216,700**
Equipment and others	**100,451**
Land use rights	**1,188**
Favorable operating lease	**1,332**
	319,671

(ii) Amounts recognised in the consolidated statement of comprehensive income

	2019	2018
	RMB'000	*RMB'000*
Interest expense (included in finance cost) *(Note 7)*	**107,570**	–
Operating expenses	**16,693**	–
– relating to short-term leases (included in cost of goods sold and administrative expenses)	**11,701**	–
– relating to leases of low-value assets that are not shown above as short-term leases (included in cost of goods sold and administrative expenses)	**2,192**	–
– relating to variable lease payments not included in lease liabilities (included in administrative expenses)	**2,800**	–

The total cash outflow for leases for the year ended 31 December 2019 was RMB421,842,000.

(iii) The Group's leasing activities and how these are accounted for

The Group leases various land, buildings equipmentss and vehicle. Rental contracts are typically made for fixed periods of 2 to 40 years, but may have extension options as described in below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(iv) Variable lease payments

Some property leases contain variable payment terms. Variable payment payment of land, properties, equipment and others, initially measured using the minimum fixed lease payment at the commencement date, will be revised based on the valuation result and actual performance result every year. The Group reassesses the right-of-use assets and lease liabilities when the lease payment are revised.

(v) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise optional flexibility in terms of managing contracts.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

12 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade receivables due from third parties	**92,891**	70,762
Trade receivables due from related parties	**6,347**	5,831
	99,238	76,593
Less: provision for impairment	**(4,934)**	(3,849)
Trade receivables – net	**94,304**	72,744
Deposits to suppliers	**4,211**	63,362
Other receivables due from related parties	**831**	21,376
VAT recoverable	**46,489**	39,947
Others	**15,247**	17,199
	66,778	141,884
Less: provision for other receivables	**(4,368)**	(3,604)
Other receivables – net	**62,410**	138,280
Prepayments	**37,838**	71,215
Total trade, other receivables and prepayments	**194,552**	282,239

(a) Trade receivables

As at 31 December 2019 and 2018, the fair values of the trade receivables of the Group approximate to their carrying amount and 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 31 December	
	2019	2018
	RMB'000	*RMB'000*
– Up to 3 months	**79,011**	66,153
– 3 months to 1 year	**12,900**	8,032
– 1 year to 2 years	**6,491**	697
– 2 years to 3 years	**24**	1,320
– Over 3 years	**812**	391
	99,238	76,593

For the credit risk arising from trade 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 Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance 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 expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The closing loss allowances for trade receivables as at 31 December 2019 and 2018, reconcile to the opening loss allowances as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Opening balance at 1 Janurary	**(3,849)**	(5,223)
(Additions)/reversal	**(1,880)**	1,064
Write-off	**795**	310
Closing balance at 31 December	**(4,934)**	(3,849)

(b) Other receivables

Other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

The closing loss allowances for other receivables as at 31 December 2019 and 2018, reconcile to the opening loss allowances as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Opening balance at 1 Janurary	**(3,604)**	(4,501)
Additions	**(761)**	(1,605)
Write-off	**–**	2,502
Acquisition of subsidiary	**(3)**	–
Closing balance at 31 December	**(4,368)**	(3,604)

13 TRADE AND OTHER PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade payables:		
– Due to third parties	**135,895**	178,715
– Due to related parties	**867**	22,709
	136,762	201,424
Other payables due to related parties	**10,219**	10,945
Payables for purchase of property, plant and equipment	**67,360**	73,318
Customers' deposits	**32,476**	37,025
Accrued expenses	**37,982**	33,506
Staff salaries and welfare payables	**87,900**	82,972
Accrued taxes other than income tax	**5,963**	3,744
Interest payables	**–**	147
	378,662	443,081

As at 31 December 2019 and 2018, 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 31 December 2019 and 2018, trade and other payables were all denominated in RMB.

As at 31 December 2019 and 2018, the aging analysis of the trade payables of the Group based on invoice date were as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
– Within 1 year	**131,724**	195,887
– 1 year to 2 years	**3,132**	3,446
– 2 years to 3 years	**971**	1,396
– Over 3 years	**935**	695
	136,762	201,424

FINANCIAL HIGHLIGHTS

	2019	2018
	(RMB'000)	*(RMB'000)*
Key Items of Consolidated Statement of Comprehensive Income		
Revenue	**1,927,980**	1,797,968
Gross profit	**565,018**	468,150
Net profit	**204,974**	189,069
Profit attributable to the owners of the Company	**202,405**	186,787
Earnings per share attributable to the owners of the Company (in RMB)	**0.76**	0.89
Key Items of Consolidated Balance Sheet		
Total assets	**4,492,126**	1,546,845
Total liabilities	**2,902,083**	872,900
Total equity attributable to the owners of the Company	**1,578,471**	663,848

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2019, in the face of complicated domestic and foreign environment, China's economic growth slowed down, and difficult trading conditions continued for the hotel industry. The growth in demand of the industry declined significantly year-on-year, yet the growth in supply remained basically unchanged as compared to the corresponding period in last year. This imbalance between supply and demand has become increasingly prominent, which contributes to the deterioration of the hotel industry. Facing unoptimistic business conditions, on the one hand, the Company adhered to the mission of "Create good experience for its guests, create value for its owners, and lead the progress of the industry", and actively responding to the complex and changing market environment, focusing on customer needs, and creating strong product brand matrix which covers the needs of customers, promoting the development of asset-light entrusted management business across the country, continuously innovating the internal organization and systems of the Company, stimulating vigor and enhancing core competitiveness. On the other hand, the Company focused on "three adherences" – adherence to innovation to empower the value of "New Century" brand, adherence to openness to promote the sharing and optimization of the Group's platform and adherence to standardization to accelerate the Group's replication capabilities and improve profitability.

During the Reporting Period, the Group recorded a revenue of approximately RMB1,928.0 million, representing an increase of approximately 7.2% as compared to the same period of last year, the operating profit of the Group was approximately RMB333.6 million, representing an increase of approximately 41.3% as compared to the same period of last year, the EBITDA of the Group was approximately RMB741.9 million, representing an increase of approximately 144.1% as compared to the same period of last year, which was mainly attributable to the adoption of IFRS 16, and the profit attributable to the owners of the Company was approximately RMB202.4 million, representing an increase of approximately 8.4% as compared with the same period of last year, primarily due to the revenue and profit of management segment brought by the scale expansion of our hotels. To facilitate comparison with 2018, assuming that IFRS 16 was not adopted during the year of 2019, the EBITDA of the Group will be approximately RMB355.1 million, representing an increase of approximately 16.8% as compared with the same period of last year, and the EBITDA rate will be approximately 18.4%. Profit attributable to owners of the Company will be approximately RMB230.9 million, representing an increase of approximately 23.6% as compared with the same period of last year.

In 2019, the Group's rapid development strategy achieved significant impact, resulting in rapid business development, rapid growth in the number of openings and contracts as well as the continued increased in the influence of the New Century brand throughout the country. At the same time, the management fee for the Reporting Period has increased, and the growth rate of revenue without the adoption of IFRS 16 exceeded more than 20%. During the Reporting Period, the Group had 150 newly contracted hotels in total (2018: 96), with 75 newly opened hotels in total (2018: 38). As at 31 December 2019, our hotel portfolio consisted of 216 hotels in operation (2018: 150) with approximately 44,785 hotel rooms (2018: approximately 34,286) throughout the PRC, representing an increase of approximately 44.0% and approximately 30.6% respectively. Amongst the 216 hotels in operation, 160 were under full service management agreements, 17 were under franchise agreements, two were owned hotels, one was operated under license by a third party, and 36 were under hotel lease agreements. As at 31 December 2019, we had 239 hotels under pipeline, with over 44,000 hotel rooms, representing an increase of 41.4% and 23.0% respectively as compared to as at 31 December 2018.

The following table sets forth the number of hotels and hotel rooms in operation as at 31 December 2018 and 2019.

	As at 31 December 2019		As at 31 December 2018	
	No. of Hotels	**No. Hotel Rooms**	No. of Hotels	No. Hotel Rooms
Operated hotels	**38**	**9,160**	31	7,501
Managed hotels	**178**	**35,625**	119	26,785
Total	**216**	**44,785**	150	34,286

The following table sets forth the number of hotels and hotel rooms by hotel categories as at 31 December 2019.

	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	**8(3,287)**	**42(14,153)**	**–**	**27(8,035)**	**77(25,475)**
Upscale resort hotels	**4(830)**	**17(4,270)**	**–**	**34(6,717)**	**55(11,817)**
Mid-scale full service hotels	**11(2,901)**	**33(7,607)**	**–**	**71(17,486)**	**115(27,994)**
Mid-scale select service hotels	**15(2,142)**	**86(9,595)**	**3(408)**	**104(12,100)**	**208(24,245)**
Total	**38(9,160)**	**178(35,625)**	**3(408)**	**236(44,338)**	**455(89,531)**

In 2019, New Century hotel group ranked 25th in terms of scale among global hotel groups, maintaining the industry leading position of the global top 30 hotel groups for four consecutive years; ranking in the top 20 of China hotel groups, and being included in top 60 of China hotel groups for five consecutive years. In 2019, "New Century" brand received high social evaluation and market recognition, the Group was awarded "China Hotel Awards for the Chain Hotel Award", "Top 10 Influencing Brands of Domestic High-end Hotels", "Most Influential Hotel Group in China" and other accolades.

Hotel operation segment

During the Reporting Period, the Group recorded a revenue of approximately RMB1,690.1 million from the hotel operation segment, representing a year-on-year increase of approximately 3.8%, primarily due to 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 Reporting Period, one upscale full service hotel (located in Changxing, Zhejiang) and three mid-scale full service hotels (all located in Ningbo, including one converted from entrusted management hotel to leased hotel) were added. As for the mid-scale limited service sector, the three hotels we leased and operated (located in cities such as Changxing, Zhejiang, Shanghai and Chengdu) commenced operation successively, and collectively, these increased our number of operated hotels from 31 as at 31 December 2018 to 38 as at 31 December 2019.

Owned hotels

As at 31 December 2019, we owned two hotels with 382 hotel rooms, accounted for approximately 0.9% of the hotel rooms in operation.

Leased hotels

In 2019, while enhancing the brand value by rapidly and continuously expanding the national hotel network rapidly with the entrusted management model, we actively sought opportunities of leasing hotels at reasonable rents to create a new driver for revenue and profit growth. Seven new leased hotels commenced operation during the Reporting Period. As at 31 December 2019, we had 36 leased hotels (2018: 29) with 8,778 hotel rooms, accounting for approximately 19.6% of the hotel rooms in operation.

Operating data

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

	Average Occupancy Rate (%)		ADR (RMB)		RevPAR (RMB)	
Item	**2019**	2018	**2019**	2018	**2019**	2018
Upscale business hotels	**62.4**	65.4	**465.9**	500.5	**290.9**	327.3
Upscale resort hotels	**57.1**	52.4	**676.1**	697.5	**385.8**	365.2
Mid-scale full service hotels	**60.4**	64.2	**353.1**	357.8	**213.1**	229.9
Mid-scale select service hotels	**62.1**	64.3	**315.5**	349.6	**196.1**	224.8

Upscale resort hotels benefit from the maturity of hotels that were opened in 2018, and its occupancy rate of this year has improved, driving the overall single rooms revenue of the product line. However, other product lines were affected by the slower start-up period of newly added hotels which had commenced operations in a year which sew declining prosperity in some cities, leading to the decline in occupancy rates and ADRs.

F&B services

	2019	2018
Average spending per customer (RMB)	**129.4**	125.7
Utilization rate of seats	**72.4%**	73.0%
Revenue per sq.m. of banquet rooms (RMB)	**10,378.7**	13,518.8

For F&B services, the average spend per customer (unit price) increased throughout the year, representing a year-on-year increase of RMB3.7 per unit. Utilization rate of seats was limited by the fact that some newly opened hotels were still in their start-up period, and the demand in some cities was declining, thus utilization rate of seats decreased by 0.6%. Revenue per sq.m. of banquet rooms was affected by the decline in the demand for wedding banquets in southern China, especially in Zhejiang (due to local customs), resulting in a decrease of RMB3,140.1 in the revenue per sq.m. of banquet rooms.

Hotel Management Segment

During the Reporting Period, the Group recorded a revenue of approximately RMB237.9 million from the hotel management segment, representing a year-on-year increase of 40.8%, primarily due to the increased number of newly opened full service management 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 12.3% from 9.4% in FY2018, becoming a major driving force for the Group's profit growth.

Corporate Strategies and Future Development Outlook

At the beginning of 2020, affected by the COVID-19 pneumonia epidemic (the "**Epidemic**"), the hotel industry has undergone severe tests. At present, the Company has sufficient financial resources and will actively take various measures to deal with the adverse effects caused by the Epidemic.

Looking forward to the future of China's hotel industry, as the mid-to-long-term policy goals of the "comprehensive well-off" policy and the "13th Five-Year plan" are about to end, we believe the basic trend of steady improvement and long-term improvement of China's overall economy remain unchanged and economic growth will remain generally stable, despite the impact of the Sino-US trade war and the overall economic downward pressure. In terms of market demand of the hotel industry, the improvement of living standards of urban and rural residents, especially the rapid rise of the Chinese middle class. Expansion of residents' culture and tourism consumption, and the rise of the new generation consumer classes will greatly increase the demand of diverse tourism cultural products and high-quality tourism service experiences. On the supply side, we expect the industry concentration will be further enhanced through capital mergers and acquisitions or cooperation and alliances.

The Company will maintain and enhance its competitive advantages, further shifting its high-end hotel portfolio to a "network model", establishing a strong development capability to ensure effective output and expansion, and increasing the rebranding intensity, especially the development of high-end hotel rebranding rental business continue to expand leadership in the upscale hotel market in order to ensure the growth of business and revenue scale, improving the regional construction and management of mid-scale hotel teams, and comprehensively promoting the constant rapid development of mid-scale hotels.

We believe the following competitive strengths will provide a solid foundation for our rapid development in the future: (i) being one of the leading upscale hotel groups in China with strong brand recognition and rich experience; (ii) innovative and flexible operation and management mechanism with distinct synergy in executing the business model of combining hotel operation and hotel management businesses; (iii) broad cooperative basis, in particular cross-sector cooperation, deepens customer traffic value and transforms to commercial value; (iv) the diverse and effective hotel reservation channels and loyalty program provides us with wide hotel guest exposure; and (v) experienced and professional management team and a dedicated workforce.

We intend to seize market opportunities by implementing the following strategies: (i) adhere to and improve talent training strategies, especially the three-tier talent training plan; (ii) complete the coverage of key cities and improve the nationwide hotel network; (iii) rapidly expand mid-scale hotel business and targeted launch of mid-scale hotels with unique designs and experience offers so as to increase mid-scale market share; (iv) increase marketing activities and crossover marketing initiatives to maintain our strong brand recognition and expand our guests base; (v) further investment and development in innovative digital strategies and improving operational efficiency; and (vi) further enhance space utilization efficiency and space management capabilities by building extension capabilities and expanding cross-industry cooperation. We will continuously innovate our products and services, improve operational and management efficiency, serving hotel guests to their satisfaction while creating value for hotel owners.

FINANCIAL REVIEW

Revenue

Comparison between the financial information of the Group during the Reporting Period and that of the corresponding period of 2018 is as follow:

	Year ended 31 December			
	2019		2018	
	RMB'000	**% of total revenue**	*RMB'000*	% of total revenue
Hotel operation				
Room	**805,862**	**41.8%**	743,744	41.4%
Food and beverage	**600,198**	**31.2%**	641,389	35.7%
Ancillary services	**243,096**	**12.6%**	207,082	11.5%
Rental income	**40,925**	**2.1%**	36,766	2.0%
Subtotal of hotel operation	**1,690,081**	**87.7%**	1,628,981	90.6%
Hotel Management	**237,899**	**12.3%**	168,987	9.4%
	1,927,980	**100.0%**	1,797,968	100.0%

Hotel Operation

During the Reporting Period, revenue for the hotel operation segment increased by approximately 3.8% from approximately RMB1,629.0 million in FY2018 to approximately RMB1,690.1 million in FY2019, primarily due to (i) an approximately 8.4% increase in revenue from accommodation services from approximately RMB743.7 million in FY2018 to approximately RMB805.9 million in FY2019; (ii) an approximately 17.4% increase in the revenue from our ancillary services from approximately RMB207.1 million in FY2018 to approximately RMB243.1 million in FY2019; and (iii) an approximately 11.1% increase in rental income from approximately RMB36.8 million in FY2018 to approximately RMB40.9 million in FY2019. Such increases were partially offset by an approximately 6.4% decrease in the revenue from F&B services from approximately RMB641.4 million in FY2018 to RMB600.2 million in FY2019.

The approximately 6.4% decrease in the revenue from our F&B services was largely due to the decrease in market demand in Zhejiang Province for wedding banquet services, which further led to an approximately 23.2% decrease in revenue per sq.m. of banquet rooms from approximately RMB13,518.8 in FY2018 to approximately RMB10,378.7 in FY2019.

The approximately 17.4% increase in the revenue from our ancillary services was primarily due to (i) an approximately 57.8% increase in hotel-related value-added services from approximately RMB29.6 million in FY2018 to approximately RMB46.7 million for the Reporting Period; and (ii) an approximately 39.3% increase in sales of goods and products from approximately RMB76.0 million in FY2018 to approximately RMB105.9 million for the same period in FY2019.

Hotel Management

During the Reporting Period, revenue for the hotel management segment increased by approximately 40.8% from approximately RMB169.0 million in FY2018 to approximately RMB237.9 million in FY2019, mainly due to an approximately 49.6% increase in the number of managed hotels from 119 to 178 (among which, the number of managed mid-scale select service hotels increased from 44 to 86, representing an increase of 95.5%).

Gross Profit and Gross Profit Margin

Based on the foregoing, during the Reporting Period, the gross profit of the Group was approximately RMB565.0 million, representing an increase of approximately 20.7% over the same period of 2018, and the gross profit margin was approximately 29.3%, representing an increase of 3.3 percentage points as compared to the gross profit margin for the same period in 2018 of approximately 26.0%, primarily due to the adoption of the new lease standard by the Group from 1 January 2019. As IFRS 16 was not adopted during the year ended 31 December 2018, disregarding the impact of the adoption of IFRS 16 on our annual results for comparison purposes, the Group's gross profit would be approximately RMB495.2 million, representing an increase of 5.8% over the same period of last year and the gross profit margin would be approximately 25.7%, which remained basically the same as compared to FY2018.

Other Income and Other Gains

During the Reporting Period, other income and other gains were approximately RMB45.3 million, representing an increase of approximately RMB10.3 million over FY2018, primarily due to (i) a one-time award of RMB25.0 million given by the local government in FY2019 received for the opening of Changxing Grand New Century Hotel on schedule; (ii) a local government listing award of RMB4.7 million received for the Company's listing in 2019; (iii) the compensation income of approximately RMB8.4 million in 2018 received from a third party lessor who has early terminated the hotel lease agreement of Shanghai Puxi New Century Hotel.

Selling and Marketing Expenses

Selling and marketing expenses increased by approximately 6.2% from approximately RMB99.8 million in FY2018 to approximately RMB106.0 million in FY2019. The increase was primarily due to the increased expenses caused by the accelerated expansion of hotel management business.

Administrative expenses

Administrative expenses increased by approximately 0.6% from approximately RMB166.6 million in FY2018 to approximately RMB168.1 million in FY2019, primarily due to the addition of newly opened hotels.

Taxation

During the Reporting Period, the effective tax rate was approximately 23.7%, as compared to approximately 22.2% over the same period of 2018. The increase in effective tax rate was primarily due to our recognition of the deferred income tax assets related to tax losses that were not recognised in previous years during the Reporting Period based on the hotel operation results in FY2018.

Net Profit and Total Comprehensive Income

During the Reporting Period, the net profit and total comprehensive income increased by approximately 8.4% from approximately RMB189.1 million in FY2018 to approximately RMB205.0 million in FY2019. The profit attributable to the owners of the Company increased by approximately 8.4% from approximately RMB186.8 million in 2018 to approximately RMB202.4 million in FY2019. As IFRS 16 was not adopted during the year ended 31 December 2018, disregarding the impact of the adoption of IFRS 16 on our annual results for comparison purposes, the Group's net profit and total comprehensive income would be approximately RMB233.4 million, representing an increase of 23.5% over the same period of last year and the profit attributable to the owners of the Company would be approximately RMB230.9 million, representing an increase of 23.6% as compared to the same period of 2018.

Total Cash and Cash Equivalents

As at 31 December 2019, our Group's total balance of cash and cash equivalents amounted to approximately RMB345.7 million (as at 31 December 2018: approximately RMB367.7 million). There was also fixed deposit of approximately RMB909.2 million (as at 31 December 2018: approximately RMB68.0 million).

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 at 31 December 2019, the property, plant and equipment of the Group was approximately RMB661.2 million, representing an increase of approximately RMB73.4 million or 12.5% as compared to approximately RMB587.8 million as of 31 December 2018, primarily attributable to the Group's renovation of the newly leased hotels and the acquisition of related assets during the Reporting Period.

Trade and Other Receivables and Prepayments

The Group's trade receivables primarily consist of management fees receivable and receivables from our corporate customers for room and meetings, incentives, conferences and exhibitions ("**MICE**") services. Other receivables are mainly composed of (i) VAT recoverable deposits to suppliers, and (ii) receivables from related parties and other receivables.

As at 31 December 2019, the Group's total trade receivables were approximately RMB94.3 million, representing an increase of approximately RMB21.6 million 29.7% as compared to approximately RMB72.7 million as at 31 December 2018, primarily attributable to the newly increased hotels and the increase in the Group's revenue.

As at 31 December 2019, the Group's other receivables and prepayments were approximately RMB100.2 million in total, representing a decrease of approximately RMB109.3 million as compared to approximately RMB209.5 million as of 31 December 2018, primarily attributable to (i) RMB5.0 million of project tendering deposits recovered during the year; (ii) the Group adopted IFRS 16 at the beginning of this year which led to rental deposits and prepaid rent originally recorded in other receivables and prepayments being transferred to the lease liabilities account; and (iii) the prepaid listing fee of RMB16.0 million for 2018.

Trade and Other Payables

Trade payables mainly consist of payables due to third parties and related parties in respect of purchase of goods and services. Other payables mainly consist of (i) payables for the purchase of property, plant and equipment; (ii) staff salaries and welfare payables; and (iii) customers' deposits.

As at 31 December 2019, the total trade payables of the Group amounted to approximately RMB136.8 million, representing a decrease of approximately RMB64.6 million as compared with that of approximately RMB201.4 million as at 31 December 2018, mainly attributable to the adoption of IFRS 16 from the beginning of this year, which resulted in the outstanding rent payable, which was originally included in other payables, being transferred to the lease liabilities account.

Contract Liabilities

The Group's contract liabilities are substantially comprised of 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. Our customer loyalty program primarily involves a promotion program under which customers may accumulate points for hotel service purchases made, which entitle them to discounts on future hotel service purchases.

The Group's contract liabilities increased from approximately RMB194.2 million as at 31 December 2018 to approximately RMB216.5 million as at 31 December 2019, primarily due to the advance receipts from general customer base of the newly increased hotels.

Use of Proceeds from Initial Public Offering

The H shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited ("**Stock Exchange**") on 11 March 2019 ("**Listing Date**"). Based on the offer price of HK$16.5 per share, the proceeds raised by the Company from the listing amounted to approximately HK$1,155.0 million. Withe reference to the plan mentioned in the prospectus of the Company dated 26 February 2019, the net proceeds used by the Group from the Listing Date up to 31 December 2019 are as follows:

Use of proceeds	Amount reserved for net proceeds		Use of Proceeds from the Listing Date to 31 December 2019	Unutilised amount	Unutilised percentage
	HK$ million	*RMB million**	*RMB million*	*RMB million*	
Developing our upscale business and resort hotels	280.0	239.7	9.9	229.8	95.9%
Developing our mid-scale resort hotels	392.0	335.6	7.4	328.2	97.8%
Brand building and promotion, including but not limited to marketing and promotional activities, sponsorship of industry events and advertisements	112.0	95.9	0.0	95.9	100.0%
Recruiting more talents and strengthening our training and recruitment programs for employees to support our business expansion	56.0	47.9	1.0	46.9	97.9%
Developing information technology systems by upgrading existing operating and IT system infrastructures	168.0	143.8	1.2	142.6	99.2%
General corporate purposes and working capital	112.0	95.9	92.7	3.2	3.3%
Total	1,120.0	958.9	112.2	846.7	

* The amount of RMB stated in this indication is converted into Hong Kong dollars at the exchange rate of RMB1 to HK$1.1681. There is no indication that the RMB amounts have been, may or may have been converted to Hong Kong dollars at that exchange rate, and vice versa.

The Board also intends to change the use of proceeds from the initial public offering. Please refer to the announcement of the Company dated 20 March 2020 in relation to the change of use of proceeds, which is subject to the approval of the ordinary resolution at the forthcoming annual general meeting (the "**AGM**").

OTHER INFOMRATION

HUMAN RESOURCES AND TRAINING

As at 31 December 2019, the total number of employees of the Group was approximately 5,745 (2018: 5,314). For the year ended 31 December 2019, the total remuneration of employees (including the remuneration of Directors of the Company, but excluding the remuneration of independent non-executive Directors) was approximately RMB530.3 million (2018: RMB477.3 million).

The Group puts great emphasis on human resources development, focuses on the long-term cultivation and training of management talents at all levels, and commits to the close integration of our cultivation and training work with the actual development needs of our Group. During the Reporting Period, the scale of our 2019 reserve managerial training program and 2019 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 Group provides them with training that integrates theory and practice. During the Reporting Period, in order to achieve the objective of platform sharing and resources integration, the Group 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 35 universities and colleges by the end of 2019. In terms of the cultivation of professional talents within the Group, we have conducted various trainings during the Reporting Period, 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 systematic internal training program has supplied us with a sufficient number of qualified managers and other employees to meet the continuous needs for skilled employees.

Currently, the Group has not established any share option schemes.

CORPORATE GOVERNANCE

Throughout the entire period from the Listing Date to 31 December 2019, the Company has adopted the principles and code provisions set out in the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") to implement the good corporate governance practices of the Company and has complied with the relevant code provisions.

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 of the Listing Rules to regulate the securities transactions by Directors and Supervisors of the Company.

The Company has made specific enquiries to all the Directors and Supervisors of the Company, and all of them have confirmed that they have been in compliance with the Model Code throughout the entire period from the Listing Date to as at 31 December 2019.

The Company is not aware of any non-compliance with the Model Code by any relevant employee who may possess inside information in relation to the Company or its securities.

Audit Committee

The Company has established the audit committee. The main responsibility of the audit committee is to review and monitor the financial reporting, risk management and internal control systems of the Company, and assist the Board to fulfill its responsibility over the audit of the Group. The audit committee of the Company consists of two independent non-executive Directors (Ms. Qiu Yun and Mr. Khoo Wun Fat William) and one non-executive Director (Mr. Jiang Tianyi). Ms. Qiu Yun is the chairperson of the audit committee.

The audit committee has reviewed the annual results of the Group for the year ended 31 December 2019 and recommended approval by the Board. The annual results of the Group for the year ended 31 December 2019 were also reviewed by the external auditor of the Company, PricewaterhouseCoopers. The audit committee also reviewed with the management of the Group regarding the accounting principles and practices adopted by the Group, and discussed with them the internal controls, risk management and financial reporting matters.

Purchase, sale or redemption of listed securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities since entire period from the Listing Date and up to 31 December 2019.

Capital Reserve Capitalisation

The Board proposed to transfer to all the shareholders of the Company the share premium of the capital reserve fund of the Company upon its listing on the Main Board of the Stock Exchange of Hong Kong Limited on the basis of the existing total share capital of 280,000,000 shares. One additional share will be transferred to each eligible shareholder whose name appear on the register of members of the Company on Thursday, 16 July 2020.

The capital reserve capitalization is subject to the following conditions:

1. the proposed capital reserve capitalization having been approved by the Company's shareholders at the 2019 annual general meeting of the Company;

2. the listing committee of The Stock Exchange of Hong Kong Limited granting the listing as well as the class meeting of the H shareholder of the Company and the class meeting of the holder of domestic shares and unlisted foreign shares and permission to deal in, capitalised H shares;

3. the compliance with relevant legal procedures and requirements under the Company Law of the People's Republic of China that are applicable to the proposed capital reserve capitalization.

Capitalised domestic shares, unlisted foreign shares and H shares will, in all respects, enjoy equal rights with existing domestic shares, unlisted foreign shares and H shares, respectively. Holders of capitalised shares will be entitled to receive all future dividends and distributions (if any) declared, made or paid after the date on which the capitalised shares are issued, but not entitled to the final dividend of the Company that is subject to approval at the 2019 annual general meeting. Capitalised domestic shares, unlisted foreign shares and H shares will be issued pro rata.

The Board also proposed to change the registered capital and amend the Articles of Association of the Company to reflect the change in registered capital as a result of the capital reserve capitalisation. The change in the registered capital and amendments to the Articles of Association of the Company shall be subject to the approval of the AGM by way of special resolution.

A circular containing, among other things, detailed arrangements regarding the capital reserve capitalisation together with the notice of the AGM will be dispatched to the holders of H shares of the Company in due course.

Final Dividend

The Board proposes to distribute a final dividend of RMB0.4 per share (tax included) (2018: RMB0.36 per share) to all shareholders of the Company for the year ended 31 December 2019 for a total of RMB112.0 million (2018: RMB100.8 million).

The final dividend will be declared in Renminbi ("**RMB**") and paid to holders of H shares of the Company in Hong Kong dollars ("**HK$**"). The relevant exchange rate will be calculated based on the average exchange rate of RMB against the HK$ issued by the People's Bank of China five business days before the AGM; and (i) the final dividend paid to the holders of domestic shares of the Company will be paid in RMB, and (ii) the final dividend paid to holders of non-listed foreign shares of the Company will be declared in RMB and paid in foreign currency (except RMB).

Subject to the approval of the shareholders of the Company at the forthcoming AGM, the proposed final dividend is expected to be paid on Friday, 31 July 2020 to the eligible shareholders whose names appear on the register of members of the Company on Thursday, 16 July 2020.

In accordance with the Enterprise Income Tax Law of the People's Republic of China and its implementation rules (the "**EIT Law**"), non-resident enterprises shall pay enterprise income tax on income derived from China, and the applicable tax rate is 10.0%. To this end, any H shares registered in the name of non-individual Shareholders, including HKSCC Nominees Limited, other nominees, trustees or other organizations and groups will be treated as being held by non-resident enterprise shareholders (as defined in the EIT Law), and the Company will distribute the final dividend to such non-resident enterprise shareholders after withholding such 10.0% enterprise income tax.

The Company distributes the 2019 final dividend to the individual shareholders of H shares, which would be subject to the personal income tax at the rate of 10%. It would be specifically handled in line with relevant regulations and tax collection and management requirements, unless the tax regulations, relevant tax agreements or notices requires otherwise.

Annual general meeting

The AGM will be held on Wednesday, 20 May 2020. The notice of the AGM will be published on the websites of the Company (www.kaiyuanhotels.com) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and sent to shareholders of the Company within the prescribed time and in such manner in accordance with the requirements of the Listing Rules.

Closure of register of members

In order to determine the entitlement of shareholders of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 20 April 2020 to Wednesday, 20 May 2020, both days inclusive, during which period no transfer of shares in the Company will be registered. To be eligible to attend and vote at the AGM or any adjournment thereof, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 17 April 2020.

In order to determine the entitlement to the capital reserve capitalization and the proposed final dividend (subject to approval by the shareholders of the Company at the AGM), the register of members of the Company will be closed from Friday, 10 July 2020 to Thursday, 16 July 2020, both days inclusive, during which period no transfer of shares in the Company will be registered. In order to be eligible for to the capital reserve capitalization and the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 9 July 2020.

Subsequent Event

(a) On 21 January 2020, the Group entered into an asset purchase agreement to acquire all operating assets of Hilton Hotel Hangzhou Xiaoshan with the total consideration of RMB135.6 million and also a change of lease subject agreement in respect of the sublease of the Hilton Hotel Hangzhou Xiaoshan, commencing from 20 January 2020 to 20 March 2038, with the annual rental payable of approximately RMB11.69 million.

(b) Following the outbreak of Coronavirus Disease 2019 ("the COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country, including postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in all public place and etc..

To fulfill the Group's social responsibility, the Group has taken measures such as free refund, exemption of management fees, appropriate settlement of the hotels requisitioned and closed due to the epidemic situation, closely monitoring the health conditions of our employees, strengthening disinfection and cleaning of our hotels and etc.. As a result, the business in hotel operation and management have weakened significantly from late January and onwards. The Group will pay close attention to the development of the COVID-19 outbreak and its impact on the hotel business, and will continue to perform relevant assessments and take proactive measures.

Upon the date of this issuance of financial statements, for the leased hotels, the Group has received downward adjustment of rental expenses from related party and third party lessees for the year ending 31 December 2020.

(c) Please refer to the section "Capital reserve capitalisation" and "Final Dividend".

Publication of annual results

This announcement is posted on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.kaiyuanhotels.com). The annual report will be despatched to the shareholders of the Company and posted on the aforementioned websites in due course.

By order of the Board
Zhejiang New Century Hotel Management Co., Ltd.
Jin Wenjie
Chairman and Executive Director

Hangzhou, the PRC, 20 March 2020

As at the date of this announcement, the Board comprises Mr. JIN Wenjie and Mr. CHEN Miaoqiang as executive Directors; Mr. CHEN Miaolin, Mr. CHEN Canrong, Mr. JIANG Tianyi and Mr. ZHANG Chi as non-executive Directors; and Mr. ZHANG Rungang, Mr. KHOO Wun Fat William and Ms. QIU Yun as independent non-executive Directors.