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

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1158)

CHANGE IN USE OF PROCEEDS

Reference is made to the prospectus issued by Zhejiang New Century Hotel Management Co., Ltd (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 26 February 2019 (the “**Prospectus**”) in relation to the Global Offering, the 2018 annual report (the “**Annual Report**”) dated 24 April 2019 and the 2019 interim report (the “**Interim Report**”) dated 26 August 2019 of the Company in which the utilisation of the net proceeds from the Global Offering from the Listing up to 30 June 2019 was disclosed. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as defined in the Prospectus.

USE OF PROCEEDS

As disclosed in the section headed “Future Plans and Use of Proceeds” in the Prospectus, the Company intended to use the net proceeds raised from the Listing as follows:

- (i) approximately 25.0% will be used for the development of our upscale business and resort hotels;
- (ii) approximately 35.0% will be used for the development of our mid-scale hotels;
- (iii) 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;
- (iv) 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;
- (v) approximately 15.0% will be used for development of our information technology system by upgrading existing operational and IT system infrastructure;
- (vi) approximately 10.0% will be used for our general corporate purposes and working capital.

The following table shows the intended use of the net proceeds as disclosed in the Prospectus, and the respective utilised amounts as at the date of this announcement:

Use of proceeds	Amount of net proceeds earmarked		Utilised amount of net proceeds from the Listing Date up to the date of this announcement	Unutilized amount of Net Proceeds as at the date of this announcement	Unutilized proportion
	(HKD million)	(RMB million)*	(HKD million)	(HKD million)	
Development of our upscale business and resort hotels	280.0	239.7	13.1	266.9	95.3%
Development of our mid-scale hotels	392.0	335.6	11.6	380.4	97.0%
Brand building and promotion including but not limited to, engaging in marketing and promotional activities, sponsorship of industry events and advertising	112.0	95.9	0.0	112.0	100.0%
Recruitment of more talent and strengthening our implementation of training to our staff and recruitment programs for supporting our business expansion	56.0	47.9	1.3	54.7	97.7%
Development of our information technology system by upgrading existing operational and IT system infrastructure	168.0	143.8	1.4	166.6	99.1%
General corporate purposes and working capital	112.0	95.9	108.3	3.7	3.3%
Total	1,120.0	958.9	135.7	984.3	

* The amounts stated in RMB in this column are converted into Hong Kong dollars at a rate of RMB1 to HK\$1.1681. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate

REASONS FOR AND BENEFITS OF THE CHANGE IN USE OF PROCEEDS

As the date of this announcement, the unutilised net proceeds of the Company amounted to approximately HK\$984.3 million (the “**Unutilised Net Proceeds**”). Taking into account of the on-going impact of the novel coronavirus pneumonia (the “**Epidemic**”) on the hotel industry due to the decrease in demand from business travellers or tourists and the uncertainty in the recovery of the domestic business and tourism consumer market, the board (the “**Board**”) of directors (the “**Directors**”) of the Company considers that it would not be commercially sensible to utilize the proceeds to invest in the development of our hotels which are in seriously affected areas at this stage, and also considering that the Epidemic has adversely affected the business operation and financial performance of the Group as disclosed in the voluntary announcement of the Company dated 16 February 2020, in order to utilise the proceeds more effectively and meet the financial needs of our Group, the Board resolved to reallocate portion of the Unutilised Net Proceeds to “general corporate purposes and working capital” and to a new business initiative for “strategical development of the Group’s business through business acquisition and business collaboration”. Details of the reallocation, with notes setting out the rationale behind the change in allocation term each initial use of proceeds, are as follows:

Use of proceeds	Original approximate percentage of Net Proceeds as stated in the Prospectus	Utilised amount of Net Proceeds from the Listing Date up to the date of this announcement (HK\$ million)	Unutilised amount of Net Proceeds as at the date of this announcement (HK\$ million)	Revised allocation of Unutilised Net Proceeds (HK\$ million)	Notes
Development of our upscale business and resort hotels	25%	13.1	266.9	158.4	(1)
Development of our mid-scale hotels	35%	11.6	380.4	100.0	(2)
Brand building and promotion including but not limited to, engaging in marketing and promotional activities, sponsorship of industry events and advertising	10%	0.0	112.0	0.0	(3)
Recruitment of more talent and strengthening our implementation of training to our staff and recruitment programs for supporting our business expansion	5%	1.3	54.7	54.7	
Development of our information technology system by upgrading existing operational and IT system infrastructure	15%	1.4	166.6	66.6	(4)
General corporate purposes and working capital	10%	108.3	3.7	305.7	
Strategical development of the Group’s business through business acquisition and business collaboration	–	–	–	298.9	
Total	100%	135.7	984.3	984.3	

Notes:

- (1) The board believes that due to the impact of the Epidemic on market conditions, the lease opportunities for new properties of upscale business and resort hotels have been reduced and the term of lease has been increased, which resulted in an increase in our development costs. Therefore, other than maintaining the use of HK\$158.4 million of the Unutilized Net Proceeds to acquire the former Hilton Hangzhou Xiaoshan (杭州蕭山中贏希爾頓酒店) owned by the hotel branch of Handzhou Magen Real Estate Co., Ltd.(杭州摩根置業有限公司), the Board resolved to allocate HK\$108.5 million of the Unutilized Net Proceeds to “strategical development of the Group’s business through business acquisition and business collaboration”.
- (2) The board believes that due to the impact of the Epidemic on market conditions, the lease opportunities for new properties of mid-scale hotels have been reduced, and therefore the Board resolved to allocate HK\$190.4 million of the Unutilised Net Proceeds to “strategical development of the Group’s business through business acquisition and business collaboration” and HK\$90.0 million to “general corporate purposes and working capital”.
- (3) In view of the challenging market conditions mentioned above, the board resolved to re-allocate HK\$112.0 million of the Unutilised Net Proceeds from brand building and promotion fees to “general corporate purposes and working capital”.
- (4) In view of the challenging included market conditions mentioned above and benefiting from the fact that the Group will adopt a cooperative approach and self-development strategy to reduce the cost of developing and upgrading existing operational and IT system infrastructure, the Board resolved to allocate HK\$100.0 million of the Unutilised Net Proceeds to “general corporate purposes and working capital” in order to supplement working capital.

The Board resolved to allocate HK\$305.7 million of the Unutilised Net Proceeds to “general corporate purposes and working capital” for the daily business operations such as lease payments, payment for goods and taxes in order to supplement the cash flow of the Group’s hotels that are being affected by the Epidemic.

The Board believes that, in the mid to long run of the hotel industry, the Company can obtain greater market opportunities from Southeast China, North China and other regions. In addition to development of our upscale business and resort hotels and mid-scale hotels, it is important that the Company seizes the investment opportunities in a timely manner, such as acquiring light asset business which can facilitate our expansion of customer base, expanding our services to the market, enhancing our competitiveness, entering into lease agreements and purchasing furnishings, or cooperating with management companies with rich hotel resources and operating and managing their hotel assets, which can effectively expand the strategic layout of the Group and accelerate the Group’s business development. The Board therefore resolved to allocate HK\$298.9 million of the Unutilised Net Proceeds to business abovementioned potential acquisitions and business cooperation to strategically expand our hotel business in the long run, whereby the Board considers that the acquisition target or business partner should achieve synergy with our business. The Board will strictly identify the targets and analysis thus background and management team to ensure such acquisition and cooperation are beneficent to the Company and the Shareholders as a whole.

The board believes that the aforesaid change in the use of the net proceeds is conducive to the sustainable development of our business and that the Group can use its financial resources more effectively to improve the profitability of the Group. The Board also considers that the changes in the use of the net proceeds will not have any material adverse effect on the existing business and operations of the Group, and are in the interests of the Company and its shareholders as a whole.

GENERAL

The aforesaid change in use of proceeds is subject to the approval of the shareholders of the Company by way of an ordinary resolution at the 2019 annual general meeting of the Company.

The Board will continuously assess the plans for the use of the net proceeds, and may revise or amend such plans where necessary, to cope with the changing market conditions and strive for better business performance for the Group. The Board confirms that, save as disclosed in this announcement, there are no other changes to the use of net proceeds.

The Company intends to convene the 2019 annual general meeting to, among other things, seek shareholders' approval on the change in use of proceeds. Votes at the annual general meeting will be taken by poll.

A circular containing, among other things, details of the change in use of proceeds will be dispatched to the shareholders of the Company in due course.

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

Hangzhou, China
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.