华住

HUAZHU GROUP LIMITED

華住集團有限公司

[Incorporated in the Cayman Islands with limited liability]

GLOBAL OFFERING

Stock Code :〔1179〕

Goldman Sachs

招銀国际 CMB INTERNATIONAL

Joint Sponsors
Joint Global Coordinators
Joint Bookrunners
Joint Lead Managers

CITIC SECURITIES J.P.Morgan Morgan Stanley

Joint Global Coordinators
Joint Bookrunners
Joint Lead Managers

[in alphabetical order]

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

Huazhu Group Limited
華住集團有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	**:**	**20,422,150 Shares (subject to the Over-allotment Option)**
Number of Hong Kong Offer Shares	**:**	**2,042,300 Shares (subject to reallocation)**
Number of International Offer Shares	**:**	**18,379,850 Shares (subject to reallocation and the Over-allotment Option)**
Maximum Public Offer Price	**:**	**HK$368.00 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	**:**	**US$0.0001 per Share**
Stock code	**:**	**1179**

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Goldman Sachs

招銀国际 CMB INTERNATIONAL

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers
(in alphabetical order)

CITIC SECURITIES

J.P.Morgan

Morgan Stanley

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection—Documents Delivered to the Registrar of Companies" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

We expect to determine the pricing of the Offer Shares by agreement with the Joint Global Coordinators (on behalf of the Underwriters) on or about Wednesday, September 16, 2020 and, in any event, not later than Monday, September 21, 2020. The Public Offer Price will be not more than HK$368.00 per Offer Share, unless otherwise announced. If, for any reason, the Public Offer Price is not agreed between us and the Joint Global Coordinators (on behalf of the Underwriters) on or before Monday, September 21, 2020 (Hong Kong time), the Global Offering will not proceed and will lapse.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on the NASDAQ on the last trading day on or before the Price Determination Date (on a per-Share converted basis) were to exceed the maximum Public Offer Price as stated in this prospectus and/or (b) we believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the book building process. If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this prospectus or the International Offer Price.

The Joint Global Coordinators (on behalf of the Underwriters), with our consent may reduce the number of Offer Shares being offered pursuant to the Global Offering at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting—Underwriting Arrangements and Expenses—Hong Kong Public Offering—Grounds for Termination" in this prospectus. It is important that you refer to that section for further details.

Our ADSs, each of which represents one Share, are listed for trading on the NASDAQ under the ticker symbol "HTHT." The last reported sale price of the ADSs on the NASDAQ on September 8, 2020 was US$43.41 per ADS. In connection with the Global Offering, we have filed a registration statement on Form F-3ASR and a preliminary prospectus supplement and plan to file a final prospectus supplement with the SEC to register the sale of Shares under the Securities Act.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS DOCUMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this document or printed copies of any application forms to other public in relation to the Hong Kong Public Offering.

This document is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at ir.huazhu.com. If you require a printed copy of this document, you may download and print from the website addresses above.

September 11, 2020

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This document is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the "*HKEXnews > New Listings > New Listing Information*" section, and our website at ir.huazhu.com. If you require a printed copy of this document, you may download and print from the website addresses above.

To apply for the Hong Kong Offer Shares, you may:

(1) apply online through the **White Form eIPO** service at **www.eipo.com.hk**;

(2) apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:

  (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or

  (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (**https://ip.ccass.com**) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar and **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited, both at +852 2862 8646 on the following dates:

Friday, September 11, 2020	**–**	**9:00 a.m. to 9:00 p.m.**
Saturday, September 12, 2020	**–**	**9:00 a.m. to 6:00 p.m.**
Sunday, September 13, 2020	**–**	**9:00 a.m. to 6:00 p.m.**
Monday, September 14, 2020	**–**	**9:00 a.m. to 9:00 p.m.**
Tuesday, September 15, 2020	**–**	**9:00 a.m. to 9:00 p.m.**
Wednesday, September 16, 2020	**–**	**9:00 a.m. to 12:00 noon**

We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public. The contents of the electronic version of this document are identical to the printed document as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (WUMP) Ordinance.

If you are an **intermediary**, **broker** or **agent**, please remind your customers, clients or principals, as applicable, that this document is available online at the website addresses above.

Please refer to "How to Apply for Hong Kong Offer Shares" for further details on the procedures through which you can apply for the Hong Kong Offer Shares electronically.

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 50 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application HK$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK$
50	18,585.42	1,000	371,708.34	20,000	7,434,166.72	700,000	260,195,835.20
100	37,170.83	1,500	557,562.50	30,000	11,151,250.08	800,000	297,366,668.80
150	55,756.25	2,000	743,416.67	40,000	14,868,333.44	900,000	334,537,502.40
200	74,341.67	2,500	929,270.84	50,000	18,585,416.80	1,021,150(1)	379,569,967.31
250	92,927.08	3,000	1,115,125.01	60,000	22,302,500.16		
300	111,512.50	3,500	1,300,979.18	70,000	26,019,583.52		
350	130,097.92	4,000	1,486,833.34	80,000	29,736,666.88		
400	148,683.33	4,500	1,672,687.51	90,000	33,453,750.24		
450	167,268.75	5,000	1,858,541.68	100,000	37,170,833.60		
500	185,854.17	6,000	2,230,250.02	200,000	74,341,667.20		
600	223,025.00	7,000	2,601,958.35	300,000	111,512,500.80		
700	260,195.84	8,000	2,973,666.69	400,000	148,683,334.40		
800	297,366.67	9,000	3,345,375.02	500,000	185,854,168.00		
900	334,537.50	10,000	3,717,083.36	600,000	223,025,001.60		

Note:

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

*If there is any change in the following expected timetable of the Hong Kong Public Offering, we will issue an announcement to be published in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese), and on the respective website of the Company at **ir.huazhu.com** and the Hong Kong Stock Exchange at **www.hkexnews.hk**.*

	Date[1]
Hong Kong Public Offering commences	9:00 a.m. on Friday, September 11, 2020
Latest time for completing electronic applications under **White Form eIPO** service through the designated website **www.eipo.com.hk**[2]	11:30 a.m. on Wednesday, September 16, 2020
Application lists open[3]	11:45 a.m. on Wednesday, September 16, 2020
Latest time for (a) completing payment for **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s) and (b) giving **electronic application instructions** to HKSCC[4]	12:00 noon on Wednesday, September 16, 2020

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Application lists close[3]	12:00 noon on Wednesday, September 16, 2020
Expected Price Determination Date[5]	Wednesday, September 16, 2020
Announcement of the Public Offer Price and the International Offer Price on our website at **ir.huazhu.com** and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** on or around	Wednesday, September 16, 2020
Announcement of the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on our website at **ir.huazhu.com** and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** on or before	Monday, September 21, 2020

The results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including:

- in the announcement to be posted on our website and the website of the Hong Kong Stock Exchange at **ir.huazhu.com** and **www.hkexnews.hk**, respectively ..... Monday, September 21, 2020

- from the designated results of allocations website at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function from ..... 8:00 a.m. on Monday, September 21, 2020 to 12:00 midnight on Sunday, September 27, 2020

- from the allocation results telephone enquiry by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. from ..... Monday, September 21, 2020 to Thursday, September 24, 2020

Share certificates in respect of wholly or partially successful applications to be dispatched or deposited into CCASS on or before[7][9] ..... Monday, September 21, 2020

White Form e-Refund payment instructions/refund checks in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications to be dispatched on or before[8][9] ..... Monday, September 21, 2020

Dealings in the Shares on the Hong Kong Stock Exchange expected to commence at 9:00 a.m. on ..... Tuesday, September 22, 2020

Notes:

(1) All times refer to Hong Kong local time, except as otherwise stated.

(2) You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is/are a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, September 16, 2020, the application lists will not open or close on that day. See "How to Apply for Hong Kong Offer Shares—Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists" in this prospectus.

(4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS or instructing your **broker** or **custodian** to apply on your behalf via CCASS should refer to the section headed "How to Apply for Hong Kong Offer Shares—Applying Through **CCASS EIPO** Service" in this prospectus.

(5) The Price Determination Date is expected to be on or around Wednesday, September 16, 2020 and, in any event, not later than Monday, September 21, 2020. If, for any reason, we do not agree with the Joint Global Coordinators (on behalf of the Underwriters) on the pricing of the Offer Shares by Monday, September 21, 2020, the Global Offering will not proceed and will lapse.

(6) None of the websites set out in this section or any of the information contained on the websites forms part of this prospectus.

(7) Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting—Underwriting Arrangements and Expenses—Hong Kong Public Offering—Grounds for Termination" in this prospectus has not been exercised. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of Share certificates or the Share certificates becoming valid do so entirely at their own risk.

(8) e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Public Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund check. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may invalidate or delay encashment of the refund check.

(9) Applicants who have applied on **White Form eIPO** for 500,000 or more Hong Kong Offer Shares may collect any refund checks (where applicable) and/or Share certificates in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, September 21, 2020 or such other date as notified by us as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund checks. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. Individuals must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied for Hong Kong Offer Shares through **CCASS EIPO** service should refer to the section headed "How to Apply for Hong Kong Offer Shares—Despatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks—Personal Collection—If you apply through **CCASS EIPO** service" in this prospectus for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund checks by ordinary post at their own risk.

Share certificates and/or refund checks for applicants who have applied for less than 500,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund checks will be dispatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in the sections headed "How to Apply for Hong Kong Offer Shares—Refund of Application Monies" and "How to Apply for Hong Kong Offer Shares—Despatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks" in this prospectus.

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such a case, we will make an announcement as soon as practicable thereafter.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Huazhu Group Limited solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, and the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering. Information contained in our website, located at ir.huazhu.com, does not form part of this prospectus.

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This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by and should be read in conjunction with the full prospectus. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in "Risk Factors." You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading, fast-growing multi-brand hotel group in China with international operations. As of the end of 2019, we were China's second largest hotel group and the world's ninth largest, both in terms of number of hotel rooms operated, according to Frost & Sullivan. Our hotels are operated under three different models: leased and owned, franchised, and franchised hotels that we operate under management contracts, which we refer to as "manachised." We expanded our hotel network from 3,746 hotels as of December 31, 2017 to 5,618 hotels as of December 31, 2019, representing a CAGR of 22.5%. The net increase of 1,872 hotels over this period was the largest among all publicly listed hotel groups globally, according to Frost & Sullivan. As of June 30, 2020, we had 6,187 hotels in operation, including 758 leased and owned hotels and 5,429 manachised and franchised hotels, with an aggregate of 599,235 hotel rooms. As of the same date, we were developing an additional 2,375 hotels, including 54 leased and owned hotels and 2,321 manachised and franchised hotels.

Brands are the bedrock of our success. In over a decade, we grew from an economy hotel chain to a multi-brand hotel group covering the full spectrum of market segments. Leveraging our consumer insights and our capability to deliver innovative and trend-setting products, we now operate a portfolio of over 20 distinct hotel brands. As an example of our success in brand-building, our mainstay *HanTing Hotel* brand has become a household name in China, synonymous with a comfortable stay and an affordable price. *HanTing Hotel* had the largest number of hotels among all economy hotel brands of publicly listed hotel groups globally as of December 31, 2019, according to Frost & Sullivan. Our *JI Hotel*, another established brand, ranked first among all midscale hotel brands in China in terms of top-of-mind brand awareness, according to a survey of approximately 1,800 people conducted by Frost & Sullivan in July 2020 (the "**F&S Survey**"). Since launching *Joya Hotel*, our first upscale brand, in 2013, we have further expanded into the upscale market. We have also enlarged our portfolio with international midscale to upscale brands through our strategic alliance with Accor S.A. ("**Accor**") in 2016 and acquisition of Deutsche Hospitality in January 2020. By expanding our brand portfolio, we now offer not only products targeting business travelers, but also brands catering to emerging market trends and customer needs—from weekend getaways to life-enriching experiences. Our lifestyle and resort brand, *Blossom House*, is particularly popular among leisure travelers.

The table below presents our major hotel brands by category as of the date of this prospectus.

Economy	Midscale	Upper Midscale	Upscale
HANTING HOTEL	JI HOTEL	CRYSTAL	JOYA
NI HOO	ORANGE	IntercityHotel	BLOSSOM HOUSE
Hi INN	STARWAY HOTEL	MAN XIN HOTEL	STEIGENBERGER HOTELS & RESORTS
ELAN HOTEL		Mercure HOTELS	Maxx by STEIGENBERGER
ibis		MADISON	

Notes:

(1) Number of hotels in operation as of June 30, 2020: HanTing Hotel (2,638), Ni Hao Hotel (0), Hi Inn (464), Elan Hotel (838), Ibis Hotel (187), JI Hotel (926), Orange Hotel (265), Starway Hotel (392), Crystal Orange Hotel (99), IntercityHotel (42), Manxin Hotel (53), Mercure Hotel (80), Madison Hotel (18), Joya Hotel (9), Blossom House (25), Steigenberger Hotels & Resorts (50), and MAXX by Steigenberger (5).

(2) Number of hotels in the pipeline as of June 30, 2020: HanTing Hotel (523), Ni Hao Hotel (17), Hi Inn (102), Elan Hotel (417), Ibis Hotel (64), JI Hotel (478), Orange Hotel (180), Starway Hotel (288), Crystal Orange Hotel (57), IntercityHotel (19), Manxin Hotel (34), Mercure Hotel (76), Madison Hotel (23), Joya Hotel (3), Blossom House (24), Steigenberger Hotels & Resorts (8), and MAXX by Steigenberger (1).

(3) We enjoy exclusive franchise rights in respect of Accor's Mercure Hotel, Ibis Hotel and Ibis Styles Hotel brands and non-exclusive franchise rights in respect of its Grand Mercure and Novotel Hotel brands in certain regions. In addition, we have exclusive rights to operate, manage, franchise and license hotels under the Jaz in the City brand in certain regions.

We have developed a vast base of loyal and engaged customers under our H Rewards loyalty program. H Rewards covers all of our brands and had approximately 153 million members as of December 31, 2019, making it the largest hotel loyalty program in China, according to Frost & Sullivan. We engage with program members through multiple online and offline touch points to personalize their lodging experiences and foster strong and long-lasting relationships that inspire loyalty to our brands. H Rewards is a powerful distribution platform, enabling us to conduct lower-cost, targeted marketing campaigns and maintain a high percentage of direct sales to customers. In 2019, approximately 76% of our room-nights were sold to customers who were individual or corporate H Rewards members, which was the highest percentage of room-nights sold to loyalty program members among the top ten largest hotel groups globally in terms of room number as of December 31, 2019, according to Frost & Sullivan.

We have developed industry-leading, proprietary technology infrastructure that enhances customer experience, increases our operational efficiency, and supports our fast growth. The core of this infrastructure is a comprehensive suite of modularized applications, including a cloud-based property management system and centralized reservation, procurement and revenue management systems. Leveraging our operational experience and technological capabilities, we have built a centralized shared service center and realized the economies of scale made possible through our enormous hotel operations. For example, our in-house developed revenue management system ("**RMS**") is the first and only RMS in China's hotel industry that can automatically adjust room rates, according to Frost & Sullivan. In the fourth quarter of 2019, approximately 58% of the price adjustments for our hotels in operation for more than 18 months were made automatically by our RMS. We have also undertaken a series of industry-first digitalization initiatives to optimize our hotels' operational efficiency and cost structure and operate "smart" hotels. Our digital transformation initiative, the "Easy" series, has increased the speed and efficiency of our hotels' entire business processes, from the moment a reservation is made until a guest checks out. Largely attributable to our advanced technology infrastructure, we have achieved a low staff-to-room ratio (defined as a hotel's full-time employees divided by the total number of its available rooms) of 0.17 as of December 31, 2019.

Leveraging our strong brand recognition, massive member traffic, and robust technology infrastructure, we have pioneered a business operating system designed to enhance hotel operations across all fronts. Our business operating system is the result of our years of industry know-how, and it includes innovative ideas that are first tested and refined by our leased and owned business. Subsequently, these ideas can be "plugged-and-played" by our franchisees with confidence, thus allowing us to effectively expand our hotel network in an asset-light manner. We added a net 1,872 hotels from December 31, 2017 to December 31, 2019, 99.1% of which were manachised and franchised hotels. Apart from receiving franchise fees for these hotels, we also share our technology infrastructure and our vast customer base with our franchisees. As a result, our manachised and franchised hotels enjoyed a high take rate (meaning the ratio of net revenue recognized in hotel turnover) of 12.2% in 2019. In addition to extending our expertise to our manachised and franchised hotels, we can also monetize our core competencies by offering standardized and tailored SaaS and IT solutions to other hotel operators, real estate companies and service apartment providers. We believe that our distinct approach to hospitality has helped us establish a highly differentiated business model that balances scale, quality and returns.

We have recorded outstanding financial performance in recent years. Our net revenue grew from RMB8,229 million in 2017 to RMB10,063 million in 2018, and further to RMB11,212 million in 2019. We had net income attributable to our company of RMB1,228 million, RMB716 million and RMB1,769 million in 2017, 2018 and 2019, respectively. Our adjusted EBITDA (non-GAAP) amounted to RMB2,379 million, RMB3,269 million and RMB3,349 million, and our net cash provided by operating activities amounted to RMB2,453 million, RMB3,049 million and RMB3,293 million in these respective periods.

Beginning from the first quarter of 2020, we have been negatively impacted by COVID-19. However, we have experienced recovery outperforming the industry since March 2020. As of June 30, 2020, approximately 96% of legacy Huazhu's hotels (excluding hotels under governmental requisition) had resumed operations with an occupancy rate of approximately 83% in early June 2020, while approximately 79% of legacy DH's hotels had resumed operations with an occupancy rate of approximately 29% as of June 30, 2020. We believe that our core competencies and proven business model well-position us to increase our share in the expanding global lodging industry and continue to deliver encouraging financial performance.

OUR COMPETITIVE STRENGTHS AND STRATEGIES

Competitive Strengths

We believe that the following competitive strengths have contributed significantly to our success and differentiate us from our competitors:

- A World Leading and Fast-Expanding Hotel Group, Well-Positioned for Continuing Rapid Growth
- A Highly Differentiated Development Approach Balancing Scale, Quality and Returns
- Brand of Choice, Boosting a Massive, Loyal Customer Base
- Robust Technology Infrastructure Built on Data Insights and Industry Know-how
- Proven Track Record of Successful Acquisition and Integration
- Powerful and Self-Reinforcing Market Position
- Visionary and Seasoned Management Team Committed to Innovation

Strategies

We aim to become a world leading company in the lodging industry. To achieve this goal, we intend to pursue the following growth strategies:

- Rapid Expansion of Quality Hotel Network
- Strengthening Multi-brand Portfolio
- Bolstering Multi-channel Direct Sales
- Rollout of Global Technology Platform
- Global Expansion

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following summary of our financial condition and results of operations (including the selected consolidated financial data set forth below) during the Track Record Period is based upon and should be read in conjunction with our audited consolidated financial statements contained in the Accountants' Report in Appendix IA to this prospectus. Our consolidated financial statements have been prepared in accordance with U.S. GAAP.

The summary of historical financial information set forth below includes translations of financial data in Renminbi into U.S. dollars for the convenience of the reader. These translations were made at a rate of RMB7.0808 to US$1.00, the noon buying rate in effect as of March 31, 2020 set forth in the H.10 statistical release of the Federal Reserve Board.

Our historical results for any prior period do not necessarily indicate our results to be expected for any future period. Additionally, on January 2, 2020, we completed the acquisition of Deutsche Hospitality and have consolidated its financial information since then. As a result, our financial information for the three months ended March 31, 2020 and for future periods are not comparable with our financial information for the prior periods. Please see "Appendix IB—Steigenberger Hotels AG Consolidated Financial Statements as of and for the twelve months ended December 31, 2019" and "Appendix II—Unaudited Pro Forma Financial Information."

Selected Consolidated Statements of Comprehensive Income Data

	Year Ended December 31,			Three Months Ended March 31,		
	2017	2018	2019	2019	2020	
	(In millions of RMB)			(Unaudited)		(In millions of US$)
Net revenues	8,229	10,063	11,212	2,387	2,013	284
Operating costs and expenses[(1)]	6,874	7,945	9,236	2,129	2,958	419
Income (losses) from operations	1,426	2,344	2,108	264	(857)	(122)
Unrealized gain (loss) from fair value changes of equity securities	35	(914)	316	(90)	(1,003)	(142)
Income (loss) before income taxes	1,597	1,393	2,565	163	(2,128)	(301)
Net income (loss)	1,228	727	1,761	99	(2,158)	(305)
Less: net income (loss) attributable to non-controlling interest	(0)	11	(8)	(7)	(23)	(4)
Net income (loss) attributable to our Company	1,228	716	1,769	106	(2,135)	(301)

(1) Includes share-based compensation expenses as follows:

	Year Ended December 31,			Three Months Ended March 31,		
	2017	2018	2019	2019	2020	
	(In millions of RMB)			(Unaudited)		(In millions of US$)
Share-based compensation expenses	66	83	110	26	29	4

The decrease in net income from 2017 to 2018 was primarily attributable to our unrealized loss from fair value changes of equity securities of RMB914 million in 2018, which was primarily because the price of Accor's shares decreased significantly from December 31, 2017 to December 31, 2018.

Selected Consolidated Balance Sheet Data

	As of December 31,			As of March 31,	
	2017	2018	2019	2020	
	(In millions of RMB)				(In millions of US$)
Cash and cash equivalents	3,475	4,262	3,234	1,800	254
Restricted cash	481	622	10,765	1,675	237
Prepaid rent	660	955	–	–	–
Property and equipment, net	4,523	5,018	5,854	6,471	914
Intangible assets, net	1,644	1,834	1,662	5,854	827
Operating lease right-of-use assets	–	–	20,875	29,567	4,176
Long-term investments	2,362	6,152	1,929	1,920	271
Goodwill	2,265	2,630	2,657	5,339	754
Total assets	17,508	23,993	52,983	59,678	8,428
Accounts payable	766	890	1,176	1,143	161
Short-term debt	131	948	8,499	5,782	816
Operating lease liabilities, current	–	–	3,082	3,388	478
Long-term debt	4,922	8,812	8,084	7,810	1,103
Deferred rent-long-term	1,380	1,507	–	–	–

	As of December 31,			As of March 31,	
	2017	2018	2019	2020	
		(In millions of RMB)			(In millions of US$)
Operating lease liabilities, non-current	–	–	18,496	27,618	3,900
Deferred revenue	1,341	1,463	1,738	1,776	251
Total liabilities	11,274	17,674	45,483	54,402	7,682
Non-controlling interest	36	145	121	76	11
Total equity	6,234	6,319	7,500	5,276	746
Net current assets (liabilities)	1,990	1,005	969	(6,878)	(971)

The decrease in our net assets from RMB7,500 million as of December 31, 2019 to RMB5,276 million (US$746 million) as of March 31, 2020 was primarily attributable to a net loss attributable to our Company of RMB2,135 million (US$301 million) in the three months ended March 31, 2020, which was resulted primarily from a decline in our net revenues due to the outbreak of COVID-19.

Our net current liabilities position as of March 31, 2020 was primarily because of (i) a decrease in restricted cash as we paid off the outstanding consideration for our acquisition of Deutsche Hospitality and (ii) a decrease in cash and cash equivalents, which we used to pay for our operating costs and expenses after experiencing declines in revenues since the outbreak of COVID-19 in January 2020. Our net current liabilities decreased slightly from RMB6,878 million (US$971 million) as of March 31, 2020 to RMB5,985 million (US$847 million) as of June 30, 2020, primarily due to an increase in cash and cash equivalents resulting from part of the proceeds from our issuance in May 2020 of our convertible senior notes due 2026. We have taken various cost and cash outflow mitigation measures to counter the negative impact of COVID-19 on our financial performance, such as negotiating rent reduction and deferment, reducing or eliminating discretionary spending, streamlining our staff and placing a number of our hotel staff on temporary furlough. A substantial majority of our hotels had resumed operations as of June 30, 2020, and the hotel industries in China and Europe have been recovering. To increase our revenues, we will continue expanding our sales network by opening more hotels and increasing sales of our hotel rooms by strengthening our online and offline direct sales channels. In May 2020, we issued convertible senior notes due 2026 to refinance our convertible senior notes due 2022; the convertible senior notes due 2022 have been classified as short-term debt as a result of the noteholders' right to put the notes on November 2, 2020. We believe all of these measures and factors will help to improve our net current liabilities position.

We had net intangible assets of RMB1,644 million, RMB1,834 million, RMB1,662 million and RMB5,854 million (US$827 million) as of December 31, 2017, 2018 and 2019 and March 31, 2020, respectively. We also had goodwill of RMB2,265 million, RMB2,630 million, RMB2,657 million and RMB5,339 million (US$754 million) as of these respective dates. While we did not recognize an impairment on intangible assets or goodwill as of March 31, 2020, the magnitude and duration of COVID-19 may change the assumptions and estimates used in the valuation of intangible assets and goodwill, which could result in future impairment charges. On March 31, 2020, the estimated fair value of our intangible assets with indefinite useful lives exceeded their carrying value by approximately RMB3,634 million. A 5% increase in the discount rate or decrease in the forecast of future revenues, the operating margin or the royal saving rate could reduce the fair value of indefinite-life intangible assets below their carrying value, which could result in future impairment charges of up to RMB229 million, nil, nil and RMB155 million, respectively. On March 31, 2020, the estimated fair value of the legacy Huazhu reporting unit substantially exceeded its carrying value, and the estimated fair value of the legacy DH reporting unit exceeded its carrying value by approximately RMB79 million. A 5% decline in the underlying discounted cash flow or increase in the discount rate could have resulted in goodwill impairment charges of approximately RMB218 million and RMB337 million, respectively.

Selected Consolidated Cash Flow Data

	Year ended December 31,			Three months ended March 31,		
	2017	2018	2019	2019	2020	
	(In millions of RMB) (Unaudited)					(In millions of US$)
Operating cash flows before movements in working capital	2,252	2,989	4,847	814	(25)	(4)
Movements in working capital	201	60	(1,554)	(667)	(1,321)	(186)
Net cash provided by (used in) operating activities	2,453	3,049	3,293	147	(1,346)	(190)
Net cash used in investing activities	6,235	6,345	285	378	5,235	739
Net cash provided by (used in) financing activities	4,536	4,248	6,045	(194)	(3,893)	(550)
Interest paid, net of amounts capitalized	187	239	414	82	87	12
Income taxes paid	380	613	712	207	112	16

The negative operating cash outflows for the three months ended March 31, 2020 were primarily because we experienced a decline in revenues in the first quarter of 2020 due to the outbreak of COVID-19 since January 2020. To increase our operating cash inflows, we plan to continue implementing our various cost and cash flow mitigation measures and increasing our revenues as discussed in relation to our net current liabilities position above.

Non-GAAP Financial Data

In evaluating our business, we consider and use non-GAAP measures, such as EBITDA, Adjusted EBITDA and adjusted net income (loss) attributable to our Company, as supplemental measures to review and assess our operating performance.

We use earnings before interest income, interest expense, income tax expense (benefit) and depreciation and amortization, or EBITDA, a non-GAAP financial measure, to assess our results of operations before the impact of investing and financing transactions and income taxes. Given the significant investments that we have made in leasehold improvements, depreciation and amortization expense comprises a significant portion of our cost structure. We believe that EBITDA is widely used by other companies in the lodging industry and may be used by investors as a measure of our financial performance. We also use Adjusted EBITDA, another non-GAAP measure, which is defined as EBITDA before share-based compensation expenses and unrealized gains (losses) from fair value changes of equity securities. In addition, we use adjusted net income attributable to our Company excluding share-based compensation expenses and unrealized gains (losses) from fair value changes of equity securities, a non-GAAP financial measure. We exclude share-based compensation expenses and unrealized gains (losses) from fair value changes of equity securities in calculating adjusted net income (loss) attributable to our Company and Adjusted EBITDA because these line items are non-cash expenses that are not directly related to our business operations. Share-based compensation expenses represent non-cash expenses associated with share options and restricted stock we granted under the Share Incentive Plans. As to unrealized gains (losses) from fair value changes of equity securities, upon the adoption of ASU 2016-01 on January 1, 2018, the unrealized gains and losses on the investments in publicly traded equity securities began to be required to be recorded in the periodic net earnings as compared to the other comprehensive income prior to 2018, while these gains and losses are likely to be very significant given the size of our holding and the volatility inherent in the equity securities' prices. These gains and losses have caused and will continue to cause significant volatility in our periodic earnings and have little analytical or predictive value. We present Adjusted EBITDA and adjusted net income (loss) attributable to our Company because they are used by our management to evaluate our operating performance. We also believe that Adjusted EBITDA and adjusted net income (loss) attributable to our Company provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies. Our calculation of EBITDA, Adjusted EBITDA and adjusted net income (loss) attributable to our Company does not deduct foreign exchange loss, which was approximately RMB18 million, RMB144 million, RMB35 million and RMB58 million (US$8

million) in 2017, 2018, 2019 and the three months ended March 31, 2020, respectively. The presentation of EBITDA, Adjusted EBITDA and adjusted net income (loss) attributable to our Company should not be construed as an indication that our future results will be unaffected by other charges and gains we consider to be outside the ordinary course of our business.

The use of EBITDA, Adjusted EBITDA and adjusted net income (loss) attributable to our Company has certain limitations. Depreciation and amortization expense for various long-term assets, income tax, interest income and interest expense have been and will be incurred and are not reflected in the presentation of EBITDA. Share-based compensation expenses and unrealized gains (losses) from fair value changes of equity securities have been and will be incurred and are not reflected in the presentation of Adjusted EBITDA or adjusted net income (loss) attributable to our Company. Each of these items should also be considered in the overall evaluation of our results. Additionally, EBITDA and Adjusted EBITDA do not consider capital expenditures and other investing activities and should not be considered as a measure of our liquidity. We compensate for these limitations by providing the relevant disclosure of our depreciation and amortization, interest income, interest expense, income tax expense, share-based compensation expenses, unrealized gains (losses) from fair value changes of equity securities, capital expenditures and other relevant items both in our reconciliations to the U.S. GAAP financial measures and in our consolidated financial statements, all of which should be considered when evaluating our performance.

The terms EBITDA, Adjusted EBITDA and adjusted net income (loss) attributable to our Company are not defined under U.S. GAAP, and none of EBITDA, Adjusted EBITDA or adjusted net income (loss) attributable to our Company is a measure of net income, operating income, operating performance or liquidity presented in accordance with U.S. GAAP. When assessing our operating and financial performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance measure that is calculated in accordance with U.S. GAAP. In addition, our EBITDA, Adjusted EBITDA and adjusted net income (loss) attributable to our Company may not be comparable to EBITDA, Adjusted EBITDA, adjusted net income (loss) or similarly titled measures utilized by other companies since such other companies may not calculate EBITDA, Adjusted EBITDA or adjusted net income (loss) in the same manner as we do. See "Financial Information—Non-GAAP Financial Measures Specific Factors Affecting Our Results of Operations—Financial Key Performance Indicators—Non-GAAP Financial Data—EBITDA, Adjusted EBITDA and Adjusted Net Income (Loss) Attributable to Our Company" for more information.

	Year Ended December 31,			Three Months Ended March 31,		
	2017	2018	2019	2019	2020	
	(In millions of RMB)					(In millions of US$)
Net income (loss) attributable to our Company	1,228	716	1,769	106	(2,135)	(301)
Share-based compensation expenses	66	83	110	26	29	4
Unrealized (gains) losses from fair value changes of equity securities	(35)	914	(316)	90	1,003	142
Adjusted net income (loss) attributable to our Company (Non-GAAP)	1,259	1,713	1,563	222	(1,103)	(155)
Net income (loss) attributable to our Company	1,228	716	1,769	106	(2,135)	(301)
Interest income	(113)	(148)	(160)	(33)	(29)	(4)
Interest expense	87	244	315	77	137	19
Income tax expense (benefit)	357	569	640	31	(30)	(4)
Depreciation and amortization	789	891	991	231	321	45
EBITDA (Non-GAAP)	2,348	2,272	3,555	412	(1,736)	(245)
Share-based compensation expenses	66	83	110	26	29	4
Unrealized (gains) losses from fair value changes of equity securities	(35)	914	(316)	90	1,003	142
Adjusted EBITDA (Non-GAAP)	2,379	3,269	3,349	528	(704)	(99)

Selected Operating Data

	As of December 31,			As of March 31,	
	2017	2018	2019	2020	
				Legacy Huazhu[(1)]	Legacy DH[(2)]
Total hotels in operation	3,746	4,230	5,618	5,838	115
Leased and owned hotels	671	699	688	689	67
Manachised hotels	2,874	3,309	4,519	4,793	27
Franchised hotels	201	222	411	356	21
Total hotel rooms in operation	379,675	422,747	536,876	552,362	23,126
Leased and owned hotels	85,018	86,787	87,465	88,355	12,327
Manachised hotels	275,065	314,932	418,700	437,219	5,709
Franchised hotels	19,592	21,028	30,711	26,788	5,090
Total hotel room-nights available for sale	128,761,738	144,497,182	171,660,048	40,311,390	1,890,071
Leased and owned hotels	30,198,307	31,448,206	32,018,639	7,410,073	1,048,451
Manachised hotels	92,582,541	105,917,757	130,860,614	30,995,965	458,600
Franchised hotels	5,980,890	7,131,219	8,780,795	1,905,352	383,020
Number of cities	378	403	437	446	78

(1) Legacy Huazhu in this prospectus refers to our Group excluding our newly acquired Deutsche Hospitality.

(2) Legacy DH in this prospectus refers to Deutsche Hospitality.

Unaudited Pro Forma Financial Data

The summary unaudited pro forma results have been derived from our unaudited pro forma consolidated statement of comprehensive income for the year ended December 31, 2019, which combines the historical consolidated statements of comprehensive income of our Company and Deutsche Hospitality, giving effect to our acquisition of Deutsche Hospitality as if it had occurred on January 1, 2019. These unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the acquisition actually taken place at the beginning of the period presented, and may not be indicative of future operating results.

The financial information set forth below includes translations of financial data in RMB into U.S. dollars for the convenience of the reader. These translations were made at a rate of RMB6.9618 to US$1.00, the noon buying rate in effect as of December 31, 2019 set forth in the H.10 statistical release of the Federal Reserve Board.

	Pro Forma Results Year Ended December 31, 2019	
	(In millions of RMB)	(In millions of US$)
Total revenues	14,995	2,154
Income from operations	2,260	325
Income before income taxes	2,631	378
Net income	1,780	256
Net income attributable to Huazhu Group Limited/ Steigenberger Hotels AG	1,788	257

OUR MAJOR SHAREHOLDERS AND RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, Mr. Ji Qi, our founder, executive chairman of our Board and Chief Executive Officer, beneficially owned and controlled (i) 1,023,171 Shares; (ii) 72,344,905 Shares through Winner Crown, a company wholly owned by Sherman Holdings which is in turn wholly owned by Credit Suisse Trust Limited; and (iii) 16,000,000 ADSs representing 16,000,000 Shares and 10,224,652 Shares held by East Leader, over which Mr. Ji has voting power pursuant to a power of attorney dated November 27, 2014. Assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued pursuant to the Share Incentive Plans, Mr. Ji will be entitled to (directly and indirectly through Winner Crown, Sherman Holdings and East

Leader) control the voting rights of approximately 31.37% of our total outstanding Shares immediately after the Global Offering. Therefore, Mr. Ji, Winner Crown, Sherman Holdings and East Leader will be our Controlling Shareholders after the Listing.

As at the Latest Practicable Date, the beneficial ownership of our Shares by our major shareholders was as follows:

Name	Shares beneficially owned	Percent
Directors and Executive Officers:		
Ji Qi	99,592,728	33.53%
John Wu Jiong	7,674,388	2.58%
Zhao Tong Tong	26,324,652	8.86%
Zhang Shangzhi	*	*
Shang Jian	*	*
Sébastien, Marie, Christophe Bazin	–	–
Gaurav Bhushan	–	–
Zhang Min	*	*
Hee Theng Fong	–	–
Cao Lei	–	–
Jin Hui	*	*
Liu Xinxin	*	*
Teo Nee Chuan	*	*
All Directors and Executive Officers as a Group	107,840,341	36.30%
Principal Shareholders:		
Winner Crown	72,344,905	24.36%
Accor	15,543,167	5.23%
East Leader	26,224,652	8.83%
Invesco Ltd.	35,980,590	12.11%
Trip.com	22,049,446	7.42%

* Less than 1%.

Accor beneficially owns 15,543,167 Shares, representing approximately 5.23% of our total outstanding Shares as at the Latest Practicable Date and approximately 4.90% of our total outstanding Shares immediately after the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued pursuant to the Share Incentive Plans). Accordingly, Accor will no longer remain as our major shareholder immediately after the Global Offering. For further details, please see the sections headed "Major Shareholders," "Relationship with our Controlling Shareholders" and "History and Corporate Structure."

RELATED PARTY TRANSACTIONS

We have been conducting transactions with our major shareholder, Trip.com, in the ordinary course of our business. For example, Trip.com rendered reservation services and rented hotels to us and we provided marketing and training services to Trip.com during the Track Record Period. We also completed strategic alliance transactions with our major shareholder, Accor, in January 2016 to develop hotels under Accor's brands and form an alliance with Accor in the Pan-China region. We have also conducted various related party transactions, including brand licensing and reservation services, during the Track Record Period. Please refer to the section headed "Related Party Transactions" for further details of our related party transactions during the Track Record Period.

DIVIDEND POLICY

We may declare and pay dividends from time to time. In 2018, we revised our dividend policy to maintain a moderate dividend distribution every year with the range of 0.5% to 2.0% of our market capitalization from the current year's net income starting from 2018. Subject to our Articles of Association and applicable laws, our Board of Directors has complete discretion in deciding whether to pay dividends. Even if our Board of Directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the Board of Directors may deem relevant. If we pay any dividends, we will pay our ADS holders to the same extent as holders of our Shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. We are restricted from distributing cash dividends until June 30, 2021 pursuant to the

waiver from certain financial covenants that we obtained on April 17, 2020 for our syndicated bank loans and therefore do not expect to accrue PRC dividend withholding tax in 2020. For further details, please refer to the paragraphs headed "Financial Information—Dividend Policy" in this prospectus.

RISK FACTORS

There are certain risks involved in our business and industries, our business operations, investing in our Shares and ADSs, the Listing and the Global Offering, many of which are beyond our control. For example, these risks include, among others, the following risks relating to our business:

- The COVID-19 outbreak has adversely affected, and may continue to adversely affect, our financial and operating performance;
- Our operating results are subject to conditions affecting the lodging industry in general;
- Our business is sensitive to Chinese, European and global economic conditions. A severe or prolonged downturn in the Chinese, European or global economy could materially and adversely affect our revenues and results of operations;
- The lodging industries in China and Europe are competitive, and if we are unable to compete successfully, our financial condition and results of operations may be harmed;
- Seasonality of our business and national or regional special events may cause fluctuations in our revenues, cause our Shares and/or ADS price to decline, and adversely affect our profitability;
- If the value of our brand or image diminishes, it could have a material and adverse effect on our business and results of operations;
- We could suffer impairment losses for our intangible assets; and
- We may suffer impairment losses for our goodwill.

USE OF PROCEEDS

We estimate that the net proceeds from the Global Offering will be approximately HK$7,335.0 million after deducting the estimated underwriting fees and other estimated offering expenses payable by us and based upon an indicative offer price of HK$368.00 per Offer Share for both Hong Kong Public Offering and International Offering, and assuming the Over-allotment Option is not exercised, or HK$8,444.0 million if the Over-allotment Option is exercised in full.

We expect to use the net proceeds from the Global Offering (assuming the Over-allotment Option is not exercised) for the following purposes:

(i) approximately 40% to fund the capital expenditures and expenses to strengthen our hotel network, including opening of new hotels and the upgrade and on-going maintenance of existing hotels.

(ii) approximately 30% to repay part of our US$500 million revolving credit facility that we drew down in December 2019.

(iii) approximately 20% to enhance our technology platform, including our H Rewards loyalty program.

(iv) approximately 10% for general corporate purposes.

Please see the section headed "Use of Proceeds" for further details.

THE LISTINGS

Our ADSs have been listed and traded on the NASDAQ Global Select Market since March 26, 2010. Dealings in our ADSs on the NASDAQ Global Select Market are conducted in U.S. dollars. We have applied for a listing of our Shares on the Main Board under Chapter 19C (Secondary Listings of Qualifying Issuers) of the Hong Kong Listing Rules. Dealings in our Shares on the Hong Kong Stock Exchange will be conducted in Hong Kong dollars. Our Shares will be traded on the Hong Kong Stock Exchange in board lots of 50 Shares. For additional information, see "Information About the Listing."

EXCEPTIONS AND WAIVERS

As we are applying for listing under Chapter 19C of the Hong Kong Listing Rules, we will not be subject to certain provisions of the Hong Kong Listing Rules, including, among others, rules on notifiable transactions, connected transactions, share option schemes, content of financial statements as well as certain other continuing obligations. In addition, in connection with the Listing, we have applied for a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (WUMP) Ordinance and the SFO, and a ruling under the Takeovers Codes. For additional information, see "Waivers and Exemptions."

Among the various waivers that we have applied for, we have applied to the Hong Kong Stock Exchange for a waiver from strict compliance with the requirements in Paragraph 3(b) of Practice Note 15 to the Hong Kong Listing Rules such that we are able to spin off a subsidiary entity and list it on the Hong Kong Stock Exchange within three years of the Listing. While we do not have any specific plans with respect to the timing or details of any potential spin-off listing on the Hong Kong Stock Exchange as at the date of this prospectus, we continue to explore the ongoing financing

requirements for our various businesses and may consider a spin-off listing on the Hong Kong Stock Exchange for one or more of those businesses within the three-year period subsequent to the Listing. As of the Latest Practicable Date, we have not identified any target for a potential spin-off. As a result we do not have any information relating to the identity of any spin-off target or any other details of any spin off and accordingly, there is no material omission of any information relating to any possible spin-off in this prospectus. The waiver granted by the Hong Kong Stock Exchange is conditional upon us confirming to the Hong Kong Stock Exchange in advance of any spin-off that it would not render our Company incapable of fulfilling the eligibility requirements under Rule 19C.05 of the Hong Kong Listing Rules based on the financial information of the entity or entities to be spun off at the time of the Listing (calculated cumulatively if more than one entity is spun off). We cannot assure you that any spin-off will ultimately be consummated, whether within the three-year period after the Listing or otherwise, and any such spin-off will be subject to market conditions at the time. In the event that we proceed with a spin-off, the Company's interest in the entity to be spun-off will be reduced accordingly.

We enjoy exemptions from certain obligations under U.S. securities laws and the NASDAQ rules as a foreign private issuer as defined under the U.S. Exchange Act. Investors should exercise care when investing in our Shares and/or ADSs. See "Information about the Listing—Conversion between Shares Trading in Hong Kong and ADSs—Summary of Exemptions as a Foreign Private Issuer in the U.S."

ARTICLES OF ASSOCIATION

We are an exempted company incorporated in the Cayman Islands with limited liability and our affairs are governed by our Articles of Association, the Cayman Companies Law, as well as the common law of the Cayman Islands. The laws of Hong Kong differ in certain respects from the Cayman Companies Law, and our Articles of Association are specific to us and include certain provisions that may be different from common practices in Hong Kong, such as the absence of requirements that the appointment, removal and remuneration of auditors must be approved by a majority of our shareholders. Therefore, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 19C.07(3) of the Hong Kong Listing Rules. We have also applied for, and the Stock Exchange has granted, a waiver from strict compliance with the Rule 19C.07(7) of the Hong Kong Listing Rules, subject to the conditions that: (a) we put forth a resolution at each of our annual general meetings after the Listing, until, amongst others, the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda will be 10% of the voting rights, on a one vote per share basis, in our share capital; and (b) we will seek irrevocable undertakings from each of Mr. Ji Qi, Trip.com, AAPC Hong Kong Limited and Mr. John Wu Jiong prior to the Listing to vote in favor of the proposed resolution outlined above at each of our annual general meetings after the Listing until our Articles of Association have been amended accordingly, with a view to ensuring that there may be adequate votes in favor of such resolution. See "Risk Factors—Risks Related to Our ADSs, Shares and the Listing—You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts or Hong Kong courts may be limited. The ability of U.S. or Hong Kong authorities to bring actions against us or our management may also be limited," "Information about the Listing" and "Waivers and Exemptions—Shareholder Protection Requirements" for further details.

OFFERING STATISTICS

	Based on the indicative price per Offer Share of HK$368.00 for Both Hong Kong Public Offering and International Offering
Our market capitalization[(1)]	HK$116,821 million
Unaudited pro forma consolidated adjusted net tangible assets less liabilities per Share[(2)]	HK$(0.36)

(1) The calculation of market capitalization is based on 317,449,194 Shares that are in issue immediately following the Global Offering, without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued pursuant to the Shares Incentive Plans, including pursuant to the exercise of options or the vesting of restricted stocks or other awards that have been or may be granted from time to time and any issuance or repurchase and cancellation of Shares and/or ADSs that we may make after the Latest Practicable Date.

(2) The unaudited pro forma adjusted net tangible assets less liabilities per Share is based on a total of 306,926,800 Shares that are in issue assuming that the Global Offering had been completed on June 30, 2020, without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of restricted stocks or other awards that have been or may be granted from time to time and any issuance or repurchase and cancellation of Shares and/or ADSs that we may make after the Latest Practicable Date.

DETERMINATION OF OFFER PRICE

We will determine the price for the Offer Shares for the Global Offering on the Price Determination Date, which is expected to be on or about Wednesday, September 16, 2020 and, in any event, no later than Monday, September 21, 2020, by agreement with the Joint Global Coordinators (for themselves and on behalf of the Underwriters).

The Public Offer Price will be determined by reference to, among other factors, the closing price of the ADSs on NASDAQ on the last trading day on or before the Price Determination Date (which is accessible to the Shareholders and potential investors at https://www.nasdaq.com/market-activity/stocks/htht), and the Public Offer Price will not be more than HK$368.00 per Hong Kong Offer Share.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on NASDAQ on the last trading day on or before the Price Determination Date (on a per-Share converted basis) were to exceed the maximum Public Offer Price as stated in this document and/or (b) we believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the book-building process.

If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this document or the International Offer Price.

LISTING EXPENSES

We expect to incur listing expenses of approximately RMB159.8 million (assuming that the Global Offering is conducted at the indicative offer price per Offer Share of HK$368.00 and the Over-allotment Option is not exercised), representing approximately 2.4% of the gross proceeds from the Global Offering. We will recognize RMB9.3 million as general and administrative expenses in the year ending December 31, 2020 and RMB150.5 million as a deduction in equity directly.

NO MATERIAL ADVERSE CHANGE

After due and careful consideration, our Directors confirm that except as disclosed in "—COVID-19 Outbreak: Impact and Response" and "—Recent Developments," up to the date of this prospectus, there has not been any material adverse change in our financial or trading position or prospects since March 31, 2020 (being the date to which our latest published audited financial statements were made), and there is no event since March 31, 2020 which would materially affect the information shown in the Accountants' Report in Appendix IA to this prospectus.

COVID-19 OUTBREAK: IMPACT AND RESPONSE

Impact on the Hotel Industry Globally and in China

The hotel industry is closely related to commercial activities and travel, which have been materially and adversely affected by COVID-19 since early 2020. COVID-19 was declared by the World Health Organization as a Public Health Emergency of International Concern on January 31, 2020 and a pandemic on March 11, 2020. As a result of the global outbreak of COVID-19, governments around the world have taken various measures to contain its potential spread and infection, such as travel restrictions and regional lockdowns, as well as temporary shutdown of public facilities, tourist attractions and recreation venues. The occupancy rates and RevPAR of hotels slumped globally in the first half of 2020 as a result of the plunge in demand for travel.

Along with governments' efforts to combat the spread of COVID-19, the economies and hotel industries have been gradually recovering in some regional markets that have made substantial progress in the control of the pandemic. For example, China had generally controlled the spread of COVID-19 by the end of June 2020 and its economy and hotel industry are gradually recovering. By the end of June 2020, the impact of COVID-19 on the European countries had been gradually alleviated and the lockdown measures and temporary restrictions on non-essential travel in Europe had gradually been lifted. As a result, the hotel industry in Europe is also gradually recovering. However, in some other regional markets, where COVID-19 is still spreading and raging, the hotel industries are expected to be under continued pressure. In general, Frost & Sullivan forecasts the global hotel supply to stay stagnant from 2020 to 2024 due to the impact of COVID-19. For more information, see "Industry Overview."

Travel Restrictions in China and Europe

Beginning from March 28, 2020, the Chinese government suspended entry for almost all foreigners, including those holding valid visas or residence permits. The travel restriction in China has been gradually lifted in the regions that have made positive progress in pandemic control. On August 10, 2020, China announced that eligible foreigners from 36 European countries holding valid residence permits, including work permits or permits for family reunion and personal matters, can apply for a visa to enter China.

On June 30, 2020, the EU Council adopted a *Recommendation on the gradual lifting of the temporary restrictions on non-essential travel into the EU* (the "Recommendation"), which suggested to lift travel restrictions of countries listed in the Recommendation. Upon revision by EU Member States and the EU Council, the list is reviewed every two weeks. According to the updated list published by the EU Council on August 7, 2020, EU Member States should start lifting the travel restrictions for residents of the following countries, including Australia, Canada, Georgia, Japan, New Zealand, Rwanda, South Korea, Thailand, Tunisia, Uruguay and China (subject to confirmation of reciprocity), subject to the criteria and conditions set out in the Recommendation.

Impact on Our Business Operations

As a result of the impact of COVID-19, we had over 2,000 hotels temporarily closed at the peak in February 2020 and 369 hotels temporarily closed as of March 31, 2020 (out of a total of 5,838 hotels as of the same date), all of which were in China . As of June 30, 2020, approximately 96%, or 5,700, of legacy Huazhu's hotels (excluding those under governmental requisition) had resumed operations with an occupancy rate of approximately 83% in early June 2020. In the three months ended March 31, 2020, the Chinese governmental authorities requisitioned accumulatively 610 of our hotels (including approximately two million room-nights, approximately 12% of which were from our leased hotels) in various locations and during different periods for the accommodation of medical support workers and for quarantine purposes. As of June 30, 2020, we still had 139 hotels under such governmental requisition in China. We generally waived the franchise fees for our manachised and franchised hotels under requisition by the government. For our leased and owned hotels under requisition, we received payment from the government or the quarantined guests as required by the government for the hotel rooms sold. We recognized revenues of approximately RMB30.4 million and RMB44.5 million in aggregate for our leased and owned hotels while they were requisitioned by the government in the three months ended March 31 and June 30, 2020, respectively.

Due to the Chinese government's effective measures to contain the spread of COVID-19, China's domestic travel has gradually recovered, following eased travel restrictions and the national policy for resuming production and work. However, in June and July 2020, there was a resurgence of new COVID-19 cases discovered in Beijing. Beijing reinstituted strict travel restrictions to curb the spread of COVID-19 again. Our occupancy rate in Beijing and its nearby cities and provinces, such as Tianjin and Hebei, was affected. After the containment of the mini-outbreak of COVID-19 in Beijing in early July, our occupancy rate in China has gradually improved, though there have been reports of relatively small numbers of new COVID-19 cases in China.

As COVID-19 spreads globally, the hotel operations of Deutsche Hospitality in Europe have also been adversely affected since early March 2020. Local governments in Europe imposed travel restrictions and lockdowns to contain the spread of COVID-19, and as a result, a number of our Deutsche Hospitality hotels were temporarily closed. At the end of March 2020, 85, or 74%, of the 115 hotels of Deutsche Hospitality were temporarily closed. Since May 2020, the European countries' governments have gradually reopened their economies. As of June 30, 2020, 92, or approximately 79%, of the 116 hotels of Deutsche Hospitality had resumed operations with an occupancy rate of approximately 29%.

We have experienced recovery outperforming the industry since March 2020, as a substantial majority of our hotels had resumed operations with improved occupancy rates as of June 30, 2020 as discussed above. We believe that our well-recognized brands and vast customer base have made us more resilient to business downturns (such as the one caused by COVID-19) than many of our competitors. For example, in the second quarter of 2020, the average occupancy rate of legacy Huazhu's hotels recovered to approximately 69% following the outbreak of COVID-19, compared to the industry average of approximately 40% in China, according to Frost & Sullivan.

We expect to close down approximately 350 to 450 hotels in China in 2020 (including those already closed down in this year), which consist of approximately 300 to 350 hotels that are expected to be closed down for operational reasons and approximately 50 to 100 hotels that are expected to be closed down due to the adverse impact of COVID-19. For the first six months of 2020, we estimate that 43 of our hotels were closed down due to this pandemic, including hotels under the Elan Hotel, Hi Inn, HanTing Hotel, Ibis Hotel and Starway Hotel brands located in various tiers of cities in China. All of these hotels closed down due to the pandemic were manachised or franchised hotels, and as such, we did not bear any expenses in relation to their closures. Revenue and net income contributions from these hotels were insignificant during the Track Record Period. The number of

hotels that may be closed down due to the pandemic in the second half of 2020 largely depends on the development of the pandemic; based on the current pandemic conditions, we expect the number to be less than in the first half of the year. In addition, we expect to close down 12 hotels outside China in 2020 (including those already closed down in this year), which consist of 10 hotels in Europe and two hotels outside Europe (other than China); all of these closures are expected to be due to operational reasons and none is due to the pandemic.

Impact on Our Financial Performance

The Chinese, German and other relevant governments' containment measures negatively affected our hotels' RevPAR and revenue. The RevPAR for all hotels in operation of legacy Huazhu (excluding hotels under governmental requisition or temporarily closed) was RMB88 in the three months ended March 31, 2020, significantly lower than the RevPAR of RMB178 in the same period of 2019. In addition, the RevPAR for all hotels in operation of legacy DH (excluding hotels temporarily closed) was EUR46 in the three months ended March 31, 2020, also lower than the RevPAR of EUR59 in the same period of 2019.

The following table sets forth the net revenues and income/(loss) from operations of legacy Huazhu for the periods indicated.

	For the month ended					
	January 31,		February 28, 2019	February 29, 2020	March 31,	
	2019	2020			2019	2020
	(In millions of RMB)					
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Net revenues	761	652	696	245	930	392
Income/(loss) from operations	47	(142)	(20)	(417)	237	(173)

Primarily due to the impact of COVID-19, in the first three months of 2020 legacy Huazhu experienced decreases in net revenues compared to the corresponding months of 2019 and recorded operating losses. Despite the seasonality that typically results in low net revenues in February, legacy Huazhu's net revenues slumped to a low in February and gradually picked up in March of this year, generally in line with the timeline of the pandemic's outbreak and control in China. On the other hand, legacy DH's revenues increased slightly in January and February 2020 compared to the same months in 2019, though it recorded a loss from operations and net loss in February of both 2019 and 2020 primarily due to seasonality. Legacy DH's revenues decreased significantly in March 2020 compared to March 2019 and recorded a loss from operations and net loss in March 2020, primarily due to the outbreak of the pandemic in Europe in this month. Primarily due to the impact of COVID-19, our net revenues decreased by 15.7% from RMB2,387 million in the three months ended March 31, 2019 to RMB2,013 million (US$284 million) in the same period of 2020. Excluding Deutsche Hospitality, legacy Huazhu's net revenues for the three months ended March 31, 2020 were RMB1.3 billion (US$182 million), representing a 46.0% decrease compared to the same period of 2019.

The table below sets forth the RevPAR, average daily room rate and occupancy rate of legacy Huazhu's hotels (excluding hotels under governmental requisition or temporarily closed for January, February and March 2020 and excluding hotels under governmental requisition for April, May and June 2020) and of legacy DH's hotels (excluding hotels temporarily closed for March through June 2020) for the periods indicated.

	For the month ended											
	January 31,		February 28, 2019	February 29, 2020	March 31,		April 30,		May 31,		June 30,	
	2019	2020			2019	2020	2019	2020	2019	2020	2019	2020
RevPAR												
Legacy Huazhu (in RMB)	168	123	166	40	199	81	209	112	211	131	196	137
Legacy DH (in Euro)	53	53	57	56	66	26	67	8	70	12	74	21
Average daily room rate												
Legacy Huazhu (in RMB)	211	207	222	189	230	164	237	172	243	188	230	192
Legacy DH (in Euro)	97	92	90	89	97	84	100	58	99	84	101	93
Occupancy rate (as a percentage)												
Legacy Huazhu	80	60	75	21	87	49	88	65	87	70	86	71
Legacy DH	54	58	64	63	68	31	68	13	71	15	74	22

Legacy Huazhu has witnessed a strong recovery of its RevPAR, average daily room rate and occupancy rate since March 2020 as a result of the Chinese government's effective pandemic control measures. On the other hand, legacy DH's RevPAR, average daily room rate and occupancy rate declined significantly in March 2020 and reached a low in April; they slightly picked up in June 2020 and have been gradually recovering since then.

Due to the impact of COVID-19, we recognized impairment losses related to right-of-use assets, equity securities without readily determinable fair values and equity-method investments of RMB10 million, RMB45 million and RMB47 million, respectively, in the three months ended March 31, 2020. Net income attributable to our Company of RMB106 million in the three months ended March 31, 2019 changed to a net loss attributable to our Company of RMB2,135 million (US$301 million) in the same period of 2020. Legacy Huazhu's net loss attributable to our Company was RMB2,013 million (US$284 million) in the three months ended March 31, 2020. Net cash provided by operating activities of RMB147 million in the three months ended March 31, 2019 changed to net cash used in operating activities of RMB1,346 million (US$190 million) in the same period of 2020.

We also had net current liabilities of RMB6,878 million (US$971 million) and RMB5,985 million (US$847 million) (unaudited) as of March 31 and June 30, 2020, respectively, primarily because we experienced declines in revenues in the first few months of this year due to the outbreak of COVID-19. To improve our liquidity, we have obtained additional credit facilities at favorable interest rates. As of June 30, 2020, we had unutilized credit facilities of RMB5.3 billion, including EUR45 million of credit facilities to support Deutsche Hospitality's cash needs.

We have taken various cost and cash flow mitigation measures to counter the negative impact of COVID-19 on our financial performance, such as (i) discussing with our leased hotel lessors for rent reduction and deferment, (ii) reducing or eliminating discretionary spending, including marketing, non-essential training, and capital expenditures, and (iii) freezing new recruitments, streamlining our staff, and placing a number of our hotel staff on temporary furlough and/or reducing their workdays to adjust for the lower hotel occupancy rate. The Chinese government has announced a number of relief measures for Chinese companies, including encouraged rental waivers, reduction and delayed payment of social insurance and taxes and continued support from financial institutions. The German government has also announced certain relief measures, including salary compensation from the German government for our furloughed employees. In particular, lessors for legacy Huazhu's leased hotels in China have agreed to reduce our rental payments, approximately RMB101 million of the reduction having been recognized in the first six months of 2020. In addition, lessors for legacy DH's leased hotels have agreed for us to delay payment of the second quarter's rent until later this year or early next year, totaling approximately EUR21.8 million as of June 30, 2020. Moreover, as of July 24, 2020, Deutsche Hospitality had been granted by the German government salary compensation for its short-time contract employees of approximately EUR24.8 million in 2020. In addition, as of June 30, 2020, Deutsche Hospitality had secured commercial insurance compensation for hotel closures of approximately EUR17.8 million for the year of 2020, of which approximately EUR7.6 million had been received in the second quarter of 2020. These measures have partially offset the adverse impact of COVID-19 on our operations.

To help our franchisees to cope with the pandemic, we have taken measures to ensure timely delivery of hotel supplies arranged by our centralized procurement team, and helped our franchisees to obtain lower-interest bank loans to meet their short-term working capital needs. For example, we helped introduce our franchisees to the banks and provided the banks with monthly operating statements of the franchisees recorded in our information systems as an evidence of the franchisees' credit profiles. We do not bear any obligations under the loans that the banks extended to our franchisees. In addition, we also offered temporary franchise fee reduction to our franchisees in China, which totaled RMB70 million and RMB49 million in the three months ended March 31 and June 30, 2020, respectively. No temporary franchise fee reduction was offered to franchisees in Europe in these same periods.

Considering our available cash and cash equivalents, restricted cash, unutilized credit facilities and 10% of the net proceeds from the Global Offering for general corporate purposes in the worst-case scenario and based on the relevant assumptions below, we believe that we will still have adequate financial resources to fund our operations, including payment for budgeted capital expenditures for our hotels under development, repurchases of our convertible senior notes due 2022 if all noteholders exercise their put option in full, and repayment of all of our short-term loans, for approximately two years after June 30, 2020. The worst-case scenario assumes that the average RevPAR of our hotels will remain the same as that in the second quarter of 2020, and the above estimation of financially viable period of approximately two years is also based on the following additional assumptions: (i) all short-term debt as of June 30, 2020 and all interest expenses are assumed to be repaid when due; (ii) contractual obligations for new leases that have not yet commenced are expected to be performed; (iii) we would not proceed with the construction or renovation of the hotels under development that are in the pre-conversion stage in the worst-case scenario; and (iv) we would not

purchase ordinary shares in the fund for the European hotel real estate of Commerz Real in the worst-case scenario. Almost all of our restricted cash as of June 30, 2020 was related to cash set aside to repay our short-term debt and our interest expenses and was therefore included in our financial resources as of the same date.

RECENT DEVELOPMENTS

Financial Results for the Second Quarter of 2020

The financial information set forth below includes translations of financial data in RMB into U.S. dollars for the convenience of the reader. These translations were made at a rate of RMB7.0651 to US$1.00, the noon buying rate in effect as of June 30, 2020 set forth in the H.10 statistical release of the Federal Reserve Board.

Income Data

	Three Months Ended			
	June 30, 2019	**March 31, 2020**	**June 30, 2020**	
	(Unaudited)	**(In millions of RMB)**	**(Unaudited)**	**(In millions of US$)**
Revenue				
Leased and owned hotels	2,001	1,516	1,236	175
Manachised and franchised hotels	803	465	676	96
Others	55	32	41	6
Net revenues	2,859	2,013	1,953	277
Operating costs and expenses:				
Hotel operating costs	1,743	2,377	2,135	302
Other operating costs	17	8	7	1
Selling and marketing expenses	102	146	107	15
General and administrative expenses	247	316	263	37
Pre-opening expenses	122	111	99	14
Total operating costs and expenses	2,231	2,958	2,611	369
Other operating income, net	29	88	164	23
Income (Loss) from operations	657	(857)	(494)	(69)
Interest income	41	29	26	4
Interest expense	(83)	(137)	(142)	(20)
Other (expense) income, net	135	(102)	21	3
Unrealized gains (losses) from fair value changes of equity securities	149	(1,003)	(34)	(5)
Foreign exchange gain (loss)	35	(58)	34	5
Income (Loss) before income taxes	934	(2,128)	(589)	(82)
Income tax (expense) benefit	(286)	30	68	10
(Loss) from equity method investments	(43)	(60)	(33)	(5)
Net income (loss)	605	(2,158)	(554)	(77)
Net (income) loss attributable to noncontrolling interest	8	23	6	1
Net income (loss) attributable our Company	613	(2,135)	(548)	(76)

	Three Months Ended			
	June 30, 2019	March 31, 2020	June 30, 2020	
	(In millions of RMB)			(In millions of US$)
Non-GAAP Measures:				
Net income (loss) attributable to our Company	613	(2,135)	(548)	(76)
Share-based compensation expenses	31	29	38	5
Unrealized (gains) losses from fair value changes of equity securities	(149)	1,003	34	5
Adjusted net income (loss) attributable to our Company (Non-GAAP)	495	(1,103)	(476)	(66)
Net income (loss) attributable to our Company	613	(2,135)	(548)	(76)
Interest income	(41)	(29)	(26)	(4)
Interest expense	83	137	142	20
Income tax expense (benefit)	286	(30)	(68)	(10)
Depreciation and amortization	245	321	331	47
EBITDA (Non-GAAP)	1,186	(1,736)	(169)	(23)
Share-based compensation expenses	31	29	38	5
Unrealized (gains) losses from fair value changes of equity securities	(149)	1,003	34	5
Adjusted EBITDA (Non-GAAP)	1,068	(704)	(97)	(13)

Net Revenue

Our net revenues decreased by 3.0% from RMB2,013 million in the three months ended March 31, 2020 to RMB1,953 million (US$277 million) (unaudited) in the three months ended June 30, 2020, comprising RMB1,822 million (unaudited), or 93%, from legacy Huazhu and RMB131 million (unaudited), or 7%, from legacy DH. This decrease of our net revenues was primarily due to a significant decrease in legacy DH's net revenues, as Deutsche Hospitality was severely hit by COVID-19 from March 2020 through the second quarter of 2020. The RevPAR, average daily room rate and occupancy rate of Deutsche Hospitality's hotels (excluding hotels temporary closed) slumped in March and has been recovering since May 2020. The decrease in legacy DH's net revenues was largely offset by the increase in net revenues of legacy Huazhu, because its business has been recovering since March 2020, as indicated by the increases in its RevPAR, average daily room rate and occupancy rate since then. Compared to the second quarter of 2019, our net revenues decreased by 31.7% in the same period of 2020, primarily due to the impact of COVID-19.

- Leased and Owned Hotels. Net revenues from our leased and owned hotels decreased by 18.5% from RMB1,516 million in the three months ended March 31, 2020 to RMB1,236 million (US$175 million) in the three months ended June 30, 2020. The decrease was primarily due to a significant decrease in legacy DH's net revenues from its leased hotels, as Deutsche Hospitality was severely hit by COVID-19 from March 2020 through the second quarter of 2020. This factor was partially offset by the revenue recovery of leased and owned hotels of legal Huazhu due to (i) the reopening of temporarily closed hotels in China and (ii) the increased RevPAR for legacy Huazhu's leased and owned hotels, which was RMB138 in the three months ended June 30, 2020 (excluding hotels under governmental requisition), compared to RMB92 in the three months ended March 31, 2020 (excluding hotels under governmental requisition or temporarily closed). Compared to the second quarter of 2019, our net revenues from our leased and owned hotels decreased by 38.2% in the same period of 2020, primarily due to the impact of COVID-19.

- Manachised and Franchised Hotels. Net revenues from our manachised and franchised hotels increased by 45.4% from RMB465 million in the three months ended March 31, 2020 to RMB676 million (US$96 million) in the three months ended June 30, 2020. This increase was primarily due to (i) the reopening of temporary closed hotels in China and (ii) the increased RevPAR for legacy Huazhu's manachised and franchised hotels, which was RMB125 in the three months ended June 30, 2020 (excluding those under governmental requisition), compared to RMB87 in the three months ended March 31, 2020 (excluding hotels under governmental requisition or temporarily closed). Compared to the second quarter of 2019, our net revenues from our manachised and franchised hotels decreased by 15.8% in the same period of 2020, primarily due to the impact of COVID-19.
- Other Revenues. Net other revenues increased by 28.1% from RMB32 million in the three months ended March 31, 2020 to RMB41 million (US$6 million) in the three months ended June 30, 2020. This increase was primarily attributable to the increase in other revenues of legacy DH. Compared to the second quarter of 2019, our other revenues decreased by 25.5% in the same period of 2020, primarily due to the impact of COVID-19.

Operating Costs and Expenses

Our operating costs and expenses decreased by 11.7% from RMB2,958 million in the three months ended March 31, 2020 to RMB2,611 million (US$369 million) (unaudited) in the three months ended June 30, 2020, comprising RMB2,057 million (unaudited) from legacy Huazhu and RMB554 million (unaudited) from legacy DH. Compared to the second quarter of 2019, legacy Huazhu's operating costs and expenses decreased by 7.8% to RMB2,057 million (unaudited) in the same period of 2020. Primarily due to our consolidation of Deutsche Hospitality, compared to the second quarter of 2019, our operating costs and expenses increased by 17.0% to RMB2,611 million (unaudited) in the same period of 2020.

- Hotel Operating Costs. Our hotel operating costs decreased by 10.2% from RMB2,377 million in the three months ended March 31, 2020 to RMB2,135 million (US$302 million) in the three months ended June 30, 2020. This decrease was primarily due to (i) rental reduction granted by lessors for legacy Huazhu's hotels and a decrease in variable rent based on hotel turnover or gross operating profit for legacy DH's hotels; (ii) our reduction of personnel costs by arranging hotel staff's furlough to adjust for the COVID-19 situation and salary compensation for the short-time contract employees received from the German government; and (iii) a decrease in utilities and consumables due to the lower occupancy rates and temporary closures of legacy DH's hotels as a result of COVID-19. Our hotel operating costs as a percentage of net revenues decreased from 118.1% in the three months ended March 31, 2020 to 109.3% in the three months ended June 30, 2020. Primarily due to our consolidation of Deutsche Hospitality, compared to the second quarter of 2019, our hotel operating costs increased by 22.5% in the same period of 2020.
- Selling and Marketing Expenses. Our selling and marketing expenses decreased by 26.7% from RMB146 million in the three months ended March 31, 2020 to RMB107 million (US$15 million) in the three months ended June 30, 2020. This decrease was mainly due to our cut-down of sales and marketing activities to mitigate the impact of COVID-19, as well as less sales commissions paid to third party agents of legacy DH. Our selling and marketing expenses as a percentage of net revenues decreased from 7.3% in the three months ended March 31, 2020 to 5.5% in the three months ended June 30, 2020. Primarily due to our consolidation of Deutsche Hospitality, compared to the second quarter of 2019, our selling and marketing expenses increased by 4.9% in the same period of 2020.
- General and Administrative Expenses. Our general and administrative expenses decreased by 16.8% from RMB316 million in the three months ended March 31, 2020 to RMB263 million (US$37 million) in the three months ended June 30, 2020, primarily due to our cut-down of salaries of some of our head office staff in light of COVID-19 and reversal of over-accrued bonus for the prior year. Our general and administrative expenses as a percentage of net revenues decreased from 15.7% in the three months ended March 31, 2020 to 13.5% in the three months ended June 30, 2020. Primarily due to our consolidation of Deutsche Hospitality, compared to the second quarter of 2019, our general and administrative expenses increased by 6.5% in the same period of 2020.
- Pre-opening Expenses. Our pre-opening expenses decreased by 10.8% from RMB111 million in the three months ended March 31, 2020 to RMB99 million (US$14 million) in the three months ended June 30, 2020 primarily because certain of our upscale leased and owned hotels had commenced operations in the second quarter of 2020. Our pre-opening expenses as a percentage of net revenues remained relatively stable at 5.5% in the three months ended March 31, 2020 and 5.1% in the three months ended June 30, 2020. For the above reason, compared to the second quarter of 2019, our pre-opening expenses decreased by 18.9% in the same period of 2020.

For the reporting unit of legacy Huazhu, we performed a qualitative assessment when performing the goodwill impairment analysis as of June 30, 2020, and concluded that it was not more likely than not that the fair value of the reporting unit was less than the carrying value because the business recovery of legacy Huazhu is consistent with the forecast used in the impairment testing at March 31, 2020. As such, no further quantitative analysis is needed pursuant to the guidance set forth in ASC 350-20-35-3D and no impairment was identified. For the reporting unit of legacy DH, we performed qualitative and quantitative assessment of goodwill as of June 30, 2020 and did not expect to record an impairment loss based on preliminary results from discounted cash flow testing, mainly because the business forecast as of June 30, 2020 does not further deteriorate as compared to that used in the impairment testing as of March 31, 2020.

Other Operating Income, Net

Our other operating income, net, increased by 86.4% from RMB88 million in the three months ended March 31, 2020 to RMB164 million (US$23 million) (unaudited) in the three months ended June 30, 2020, primarily related to the insurance compensation for hotel closure received by Deutsche Hospitality due to COVID-19. Our other operating income, net, increased significantly from RMB29 million in the three months ended June 30, 2019 to RMB164 million (unaudited) in the same period of 2020, primarily due the insurance compensation discussed above and our consolidation of Deutsche Hospitality.

Income (Losses) from Operations

As a result of the above, loss from operations of RMB857 million in the three months ended March 31, 2020 and income from operations of RMB657 million in the three months ended June 30, 2019 changed to loss from operations of RMB494 million (US$69 million) (unaudited) in the three months ended June 30, 2020. In the three months ended June 30, 2020, RMB208 million (unaudited), or 42.1%, of our loss from operations were attributed to legacy Huazhu and RMB286 million (unaudited), or 57.9%, were from legacy DH.

Interest Expense, Net

Our net interest expense increased by 7.4% from RMB108 million in the three months ended March 31, 2020 to RMB116 million (US$16 million) in the three months ended June 30, 2020. Our interest income was RMB26 million (US$4 million) and our interest expense was RMB142 million (US$20 million) in the three months ended June 30, 2020. Our interest income was RMB29 million and our interest expense was RMB137 million in the three months ended March 31, 2020. The increase in our net interest expense was primarily due to increased borrowings in the three months ended June 30, 2020 compared to the three months ended March 31, 2020. Compared to the second quarter of 2019, our net interest expenses increased significantly in the same period of 2020, primarily due to our increased borrowings.

Other Income (Expense), Net

We had other income, net, of RMB21 million (US$3 million) in the three months ended June 30, 2020, compared to other expense, net, of RMB102 million in the three months ended March 31, 2020. Other expense, net, in the three months ended March 31, 2020 was mainly related to impairment loss on investments totaling RMB92 million. Compared to the second quarter of 2019, our other income, net, decreased by 84.4% in the same period of 2020, primarily attributable to the dividends we received from Accor's shares in the second quarter of 2019.

Unrealized Gains (Losses) From Fair Value Changes of Equity Securities

Our unrealized losses from fair value changes of equity securities decreased significantly from RMB1,003 million in the three months ended March 31, 2020 to RMB34 million (US$5 million) in the three months ended June 30, 2020, primarily because the prices of Accor's shares decreased to a lesser extent than in the first quarter of 2020. In comparison with the three months ended June 30, 2020, we had unrealized gains from fair value changes of equity securities in the same period in 2019, primarily related to increases in the prices of Accor's shares.

Foreign Exchange Gain (Loss)

Our foreign exchange gain was RMB34 million (US$5 million) in the three months ended June 30, 2020, compared to foreign exchange loss of RMB58 million in the three months ended March 31, 2020. This change was primarily attributable to the exchange gain in the three months ended June 30, 2020 related to our investment in Accor in Euro as the Euro appreciated against the U.S. dollar. Our foreign exchange gain remained relatively stable in the three months ended June 30, 2019 and 2020.

Income Tax (Expense) Benefit

Our income tax benefit increased from RMB30 million in the three months ended March 31, 2020 to RMB68 million (US$10 million) in the three months ended June 30, 2020. Our income tax expense was RMB286 million in the three months ended June 30, 2019.

(Loss) from Equity Method Investments

Our loss from equity method investments was RMB33 million (US$5 million) in the three months ended June 30, 2020, compared to RMB60 million in the three months ended March 31, 2020. This change was primarily due to the recovery from COVID-19 of our investee companies' operating results. In the second quarter of 2019, our loss from equity method investments was RMB43 million.

Net (Loss) Attributable to Noncontrolling Interest

Net loss attributable to noncontrolling interest was RMB6 million (US$1 million) in the three months ended June 30, 2020, primarily due to losses from certain of our joint ventures. The net loss attributable to noncontrolling interest was RMB8 million and RMB23 million in the three months ended June 30, 2019 and the three months ended March 31, 2020, respectively.

Net (Loss) Income and Adjusted Net (Loss) Income Attributable to our Company (Non-GAAP)

As a result of the foregoing, net loss attributable to our Company was RMB548 million (US$76 million) in the three months ended June 30, 2020, compared to net loss attributable to our Company of RMB2,135 million in the three months ended March 31, 2020 and net income attributable to our Company of RMB613 million in the three months ended June 30, 2019. Excluding share-based compensation expenses and the unrealized losses from fair value changes of equity securities, the adjusted net loss attributable to our Company (non-GAAP) for the three months ended June 30, 2020 was RMB476 million (US$66 million), compared to adjusted net loss attributable to our Company (non-GAAP) of RMB1.1 billion in the three months ended March 31, 2020 and adjusted net income attributable to our Company (non-GAAP) of RMB495 million in the three months ended June 30, 2019.

EBITDA (Non-GAAP) and Adjusted EBITDA (Non-GAAP)

EBITDA (non-GAAP) was negative RMB169 million (US$23 million) in the three months ended June 30, 2020, compared to negative EBITDA (non-GAAP) of RMB1,736 million in the three months ended March 31, 2020 and EBITDA (non-GAAP) of RMB1,186 million in the three months ended June 30, 2019. Adjusted EBITDA (non-GAAP) was negative RMB97 million (US$13 million) in the three months ended June 30, 2020, compared to negative Adjusted EBITDA (non-GAAP) of RMB704 million in the three months ended March 31, 2020 and Adjusted EBITDA (non-GAAP) of RMB1,068 million in the three months ended June 30, 2019.

Cash Flow Data

The following table sets forth our consolidated cash flow data for the three months ended June 30, 2020:

	Three months ended June 30, 2020	
	(In millions of RMB)	(In millions of US$)
	(Unaudited)	
Net cash provided by operating activities	512	74
Net cash used in investing activities	(281)	(40)
Net cash provided by financing activities	1,349	191

Net cash provided by operating activities amounted to RMB512 million (US$74 million) in the three months ended June 30, 2020, primarily attributable to net loss of RMB554 million (US$77 million) mainly due to the impact of COVID-19, and (i) an add-back of RMB470 million (US$66 million) in changes in operating assets and liabilities and (ii) an add-back of RMB359 million (US$51 million) in depreciation and amortization.

Our cash used in investing activities of RMB281 million (US$40 million) in the three months ended June 30, 2020 was primarily related to RMB339 million (US$48 million) of capital expenditure, including purchase of property and equipment.

Net cash provided by financing activities of RMB1,349 million (US$191 million) in the three months ended June 30, 2020 primarily consisted of proceeds from debt of RMB4,291 million (US$607 million), including the convertible senior notes due 2026 in aggregate principal amount of US$500 million which we issued in May 2020, partially offset by our repayment of debt of RMB2,930 million (US$414 million).

Results of Hotel Operations of Legacy Huazhu

As of June 30, 2020, legacy Huazhu had 6,071 hotels in operation, including 690 leased and owned hotels and 5,381 manachised hotels and franchised hotels. In addition, as of the same date, legacy Huazhu had 575,911 hotel rooms in operation, including 89,599 under the lease and ownership model and 486,312 under the manachise and franchise models. Legacy Huazhu also had 2,335 hotels in the pipeline, including 27 leased and owned hotels and 2,308 manachised and franchised hotels.

As of June 30, 2020, while legacy Huazhu still had 139 hotels under governmental requisition due to the impact of COVID-19, approximately 96% of legacy Huazhu's hotels (excluding hotels under governmental requisition) had resumed operations. The following table sets forth legacy Huazhu's RevPAR, average daily room rate and occupancy rate for its leased and owned hotels as well as manachised and franchised hotels (excluding hotels under governmental requisition) for the periods indicated.

	Three months ended June 30,	
	2019	**2020**
RevPAR[(1)] (in RMB)		
Leased and owned hotels	252	138
Manachised and franchised hotels	194	125
Blended	206	127
Average daily room rate[(1)] (in RMB)		
Leased and owned hotels	281	205
Manachised and franchised hotels	225	181
Blended	236	185
Occupancy rate (as a percentage)		
Leased and owned hotels	89	67
Manachised and franchised hotels	86	69
Blended	87	69

(1) The RevPAR and average daily room rates for legacy Huazhu are based on the tax-inclusive room rates.

Assuming that the occupancy rate for hotels under governmental requisition were zero, the overall occupancy rate for all of legacy Huazhu's hotels (including those under governmental requisition) would be approximately 64% for the three months ended June 30, 2020.

The RevPAR, average daily room rate and occupancy rate of legacy Huazhu's hotels (excluding hotels under governmental requisition) in July 2020 were RMB162, RMB205 and 79%, respectively. The RevPAR, average daily room rate and occupancy rate of legacy Huazhu's hotels (excluding hotels under governmental requisition) in August 2020 were RMB187, RMB223 and 84%, respectively. These indicators in July and August 2020 all increased compared to June 2020, reflecting a recovery from the impact of COVID-19.

Results of Hotel Operations of Legacy DH

As of June 30, 2020, legacy DH had 116 hotels in operation, including 68 leased hotels and 48 manachised hotels and franchised hotels. In addition, as of the same date, legacy DH had 23,324 hotel rooms in operation, including 12,525 under the lease model and 10,799 under the manachise and franchise models. Legacy DH also had 40 hotels in the pipeline, including 27 leased hotels and 13 manachised and franchised hotels.

As of June 30, 2020, legacy DH still had 24 hotels temporarily closed due to the impact of COVID-19, including 5 leased hotels and 19 manachised and franchised hotels. The following table sets forth legacy DH's RevPAR, average daily room rate and occupancy rate for its leased as well as manachised and franchised hotels (excluding hotels temporarily closed) for the periods indicated.

	Three months ended June 30,	
	2019	2020
RevPAR[(1)] (in EUR)		
Leased hotels	81	15
Manachised and franchised hotels	59	17
Blended	71	16
Average daily room rate[(1)] (in EUR)		
Leased hotels	108	82
Manachised and franchised hotels	89	97
Blended	100	87
Occupancy rate (as a percentage)		
Leased hotels	74	19
Manachised and franchised hotels	67	17
Blended	71	18

(1) The RevPAR and average daily room rates for legacy DH are based on the tax-exclusive room rates.

The RevPAR, average daily room rate and occupancy rate of legacy DH's hotels (excluding hotels temporarily closed) in July 2020 were EUR33, EUR96 and 34%, respectively. The RevPAR, average daily room rate and occupancy rate of legacy DH's hotels (excluding hotels temporarily closed) in August 2020 were EUR39, EUR95 and 41%, respectively. These indicators in July and August 2020 all increased compared to June 2020, reflecting a recovery from the impact of COVID-19.

Regulatory Development

On May 20, 2020, the U.S. Senate passed S. 945, the Holding Foreign Companies Accountable Act (the "**Kennedy Bill**"). Legislation similar to the Kennedy Bill has also been introduced in the U.S. House of Representatives. On July 21, 2020, the House of Representatives passed its version of the National Defense Authorization Act, which included provisions similar to the Kennedy Bill. In addition to legislative action, on June 4, 2020, President Trump issued a memorandum directing the President's Working Group on Financial Markets, or PWG, to discuss and make recommendations regarding the risks faced by U.S. investors from Chinese companies and companies with significant operations in China that are listed on U.S. stock exchanges, which are imposed by the Chinese government's refusal to permit the PCAOB to conduct inspections of auditors in China. In a letter dated July 24, 2020, which was released on August 7, 2020, the PWG responded to the president's request with a report entitled "Protecting United States Investors from Significant Risks from Chinese Companies," which includes various recommendations to address issues from countries in which the PCAOB is unable to inspect auditors, which it refers to as "Non-Cooperating Jurisdictions," or NCJs. These developments could cause investor uncertainty for affected issuers, including us, the market price of our ADSs could be adversely affected, and we could be delisted from NASDAQ if we are unable to meet the Public Company Accounting Oversight Board inspection requirement in time. For additional information, see "Risk Factors—Risks Related to Our Business—The audit reports included in our annual reports on Form 20-F have been prepared by our independent registered public accounting firm whose work may not be inspected fully by the Public Company Accounting Oversight Board and, as such, you may be deprived of the benefits of such inspection."

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

"AAPC LUB"	AAPC Hotel Management Limited, a company incorporated in Hong Kong with limited liability on May 6, 2015, which is held by us as to approximately 28%
"Accountants' Report"	the report of the Company's reporting accountant, Deloitte Touche Tohmatsu, the text of which is set out in Appendix IA of this prospectus
"ADS"	American Depositary Shares (each representing one Share)
"affiliate"	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Amended and Restated 2007 Global Share Plan"	the 2007 Global Share Plan which was subsequently amended in December 2007
"Amended and Restated 2008 Global Share Plan"	the 2008 Global Share Plan which was subsequently amended in October 2008
"Amended 2009 Share Incentive Plan"	the 2009 Share Incentive Plan which was subsequently amended in October 2009, August 2010, March 2015 and May 2018
"Articles" or "Articles of Association"	the amended and restated articles of association of the Company conditionally adopted on March 12, 2010 and effective upon the consummation of the Company's initial public offering on NASDAQ, amended by a special resolution of the Company passed on November 21, 2012, and further amended by a special resolution of the Company passed on December 16, 2015 and effective on January 25, 2016, a summary of which is set out in Appendix IV to this prospectus
"Audit Committee"	the audit committee of our Board
"Blossom Hotel Management"	Blossom Hotel Investment Management (Kunshan) Co., Ltd. (布洛斯酒店投資管理(昆山)有限公司), a company incorporated in the PRC with limited liability on May 9, 2012, a subsidiary of our Company, previously named as Blossom Hotel Investment Management (Kunshan) Inc. (布洛斯酒店投資管理(昆山)股份有限公司)
"Board" or "Board of Directors"	the board of Directors

"business day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Cayman Companies Law"	the Companies Law (2020 Revision) of the Cayman Islands, Cap. 22 (Law 3 of 1961), as amended or supplemented or otherwise modified from time to time
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct participant or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"China" or "the PRC"	the People's Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"CMB International"	CMB International Capital Limited, a licensed corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
"Companies (WUMP) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time

"Company" or "our Company"	Huazhu Group Limited, an exempted company incorporated in the Cayman Islands with limited liability on January 4, 2007
"Compensation Committee"	the compensation committee of our Board
"Controlling Shareholders"	has the meaning ascribed thereto in the Hong Kong Listing Rules and, unless the context otherwise requires, refers to Mr. Ji Qi, Winner Crown, Sherman Holdings and East Leader
"Crystal Orange"	Crystal Orange Hotel Holdings Limited (桔子水晶酒店控股有限公司), a company incorporated in the British Virgin Islands with limited liability on March 16, 2006, a subsidiary of the Company
"Deutsche Hospitality"	Steigenberger Hotels AG and its subsidiaries
"Director(s)"	the director(s) of our Company
"DTC"	The Depository Trust Company, the central book-entry clearing and settlement system for equity securities in the United States and the clearance system for our ADSs
"East Leader"	East Leader International Limited, a company incorporated in the British Virgin Islands with limited liability on October 2, 2009, and one of our Controlling Shareholders
"EU"	European Union
"EUR" or "Euro"	the legal currency of European Union
"Extreme Conditions"	any extreme conditions or events, the occurrence of which will cause interruption to the ordinary course of business operations in Hong Kong and/or that may affect the Price Determination Date or the Listing Date
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an Independent Third Party
"Frost & Sullivan Report"	an industry report commissioned by us for a fee of RMB700,000, issued by Frost & Sullivan, a private independent research firm, containing an analysis of the hotel industries in China, Europe and globally and other relevant economic data, as referred in the section headed "Industry Overview" in this prospectus
"GDPR"	the general data protection regulation

"Global Offering"	the Hong Kong Public Offering and the International Offering
"2007 Global Share Plan"	the 2007 global share plan adopted by our Company in February 2007
"2008 Global Share Plan"	the 2008 global share plan adopted by our Company in June 2007
"Goldman Sachs"	Goldman Sachs (Asia) L.L.C., which is licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
"Green Application Form(s)"	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
"Group", "our Group", "we", "our" or "us"	our Company and its subsidiaries from time to time or, where the context so requires in respect of the period before our Company became the holding company of its present subsidiaries, the entities which carried on the business of the present Group at the relevant time
"HK$" or "Hong Kong dollar(s)"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Hong Kong Offer Shares"	the 2,042,300 Shares being initially offered for subscription in the Hong Kong Public Offering, subject to reallocation
"Hong Kong Public Offering"	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Public Offer Price on the terms and conditions described in this prospectus
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Hong Kong Takeovers Code" or "Takeover Codes"	the Code on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in the section headed "Underwriting—Hong Kong Underwriters" in this prospectus
"Hong Kong Underwriting Agreement"	the underwriting agreement dated September 10, 2020 relating to the Hong Kong Public Offering and entered into by, among others, our Company, the Joint Global Coordinators and the Hong Kong Underwriters
"IAS"	International Accounting Standards
"IFRS"	International Financial Reporting Standards issued by the International Accounting Standards Board
"Independent Third Party(ies)"	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors' knowledge, information and belief, having made all reasonable enquiries, is/are not connected with our Company
"International Offer Price"	the final offer price per International Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%)
"International Offer Shares"	the 18,379,850 Shares being initially offered in the International Offering together with, where relevant, any additional Shares which may be issued by us pursuant to the exercise of the Over-allotment Option, subject to reallocation
"International Offering"	the offer of the International Offer Shares at the International Offer Price outside pursuant to a prospectus supplement and the shelf registration statement on Form F-3ASR that was filed with the SEC and became effective on October 26, 2017
"International Underwriters"	a group of international underwriters, led by the Joint Global Coordinators, that is expected to enter in to the International Underwriting Agreement to underwrite the International Offering

"International Underwriting Agreement"	the international underwriting agreement relating to the International Offering, which is expected to be entered into by our Company, the Joint Global Coordinators and the International Underwriters on or about September 16, 2020, as further described in the section headed "Underwriting" in this prospectus
"Joint Bookrunners"	the joint bookrunners as named in the section headed "Directors and Parties Involved in the Global Offering" in this prospectus
"Joint Global Coordinators"	the joint global coordinators as named in the section headed "Directors and Parties Involved in the Global Offering" in this prospectus
"Joint Lead Managers"	the joint lead managers as named in the section headed "Directors and Parties Involved in the Global Offering" in this prospectus
"Joint Sponsors"	the joint sponsors of the listing of the Shares on the Main Board of the Hong Kong Stock Exchange, being Goldman Sachs and CMB International
"Kennedy Bill"	Holding Foreign Companies Accountable Act
"Latest Practicable Date"	September 2, 2020, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
"Leased hotels"	leased-and-operated hotels
"Listing"	the listing of the Shares on the Main Board of the Hong Kong Stock Exchange
"Listing Committee"	the listing committee of the Hong Kong Stock Exchange
"Listing Date"	the date, expected to be on or about September 22, 2020 on which the Shares are listed on the Hong Kong Stock Exchange and from which dealings in the Shares are permitted to commence on the Hong Kong Stock Exchange
"Main Board"	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
"major shareholders"	the major shareholders of the Company as set out in the section headed "Major Shareholders" in this prospectus
"Major Subsidiaries"	our subsidiaries as identified in "History and Corporate Structure—Major Subsidiaries"

"Memorandum" or "Memorandum of Association"	the amended and restated memorandum of association of the Company conditionally adopted on March 12, 2010 and effective upon the consummation of the Company's initial public offering on NASDAQ, a summary of which is set out in Appendix IV to this prospectus
"NASDAQ"	NASDAQ Global Select Market
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares which may be issued by us pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	the option expected to be granted by us to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters), pursuant to which we may be required to allot and issue up to an aggregate of 3,063,300 Shares at the International Offer Price to, among other things, cover over-allocations in the International Offering, if any
"OYO"	Oravel Stays Private Limited, a company incorporated in India with limited liability on February 21, 2012, which is held by us as to 0.8%
"Property Valuation Report"	the property valuation report prepared by D&P China (HK) Limited, an independent property valuer, the text of which is set out in Appendix III to this prospectus
"PRC Government" or "State"	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
"Preferred Share(s)"	Preferred shares in the capital of our Company with a par value of US$0.0001 each
"Price Determination Date"	the date, expected to be on or about September 16, 2020, on which the International Offer Price and Public Offer Price will be determined and, in any event, not later than September 21, 2020
"Principal Share Registrar"	Conyers Trust Company (Cayman) Limited
"Public Offer Price"	the final offer price per Hong Kong Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%)

"Qualifying Issuer"	has the meaning given to it under Chapter 19C of the Hong Kong Listing Rules
"Regulation S"	Regulation S under the Securities Act
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
"SEC"	the United States Securities and Exchange Commission
"Securities Act"	the United States Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"SGD" or "S$"	Singapore dollar, the lawful currency of Singapore
"Share(s)"	ordinary shares in the capital of our Company with a par value of US$0.0001 each
"Shareholder(s)"	holder(s) of the Shares
"Sherman Holdings"	Sherman Holdings Limited, a company incorporated in Bahamas with limited liability on August 10, 2007, and one of our Controlling Shareholders
"Share Incentive Plans"	the Amended and Restated 2007 Share Global Plan, the Amended and Restated 2008 Global Share Plan and the Amended 2009 Share Incentive Plan
"2009 Share Incentive Plan"	the 2009 share incentive plan adopted by our Company in September 2009
"Stabilizing Manager"	Goldman Sachs (Asia) L.L.C.
"Steigenberger Hotels AG"	Steigenberger Hotels Aktiengesellschaft, a company established under the laws of Germany on September 12, 1985, a subsidiary of our Company
"Stock Borrowing Agreement"	the stock borrowing agreement to be entered into between the Stabilizing Manager or its affiliates and Winner Crown on or around the Price Determination Date

"subsidiaries"	has the meaning ascribed thereto under the Hong Kong Listing Rules, unless the context otherwise requires
"Track Record Period"	the three financial years ended December 31, 2017, 2018 and 2019, and the three months ended March 31, 2020
"Trip.com"	Trip.com Group Limited, an exempted company incorporated in the Cayman Islands with limited liability on June 1999, and one of our Shareholders
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"US$", "USD" or "U.S. dollars"	United States dollars, the lawful currency of the United States
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. Exchange Act"	the United States Securities Exchange Act of 1934, as amended from time to time, and the rules and regulations promulgated thereunder
"U.S. GAAP"	the accounting principles generally accepted in the United States
"VAT"	value added tax
"White Form eIPO"	the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of White Form eIPO at **www.eipo.com.hk**
"White Form eIPO Service Provider"	Computershare Hong Kong Investor Services Limited
"Winner Crown"	Winner Crown Holdings Limited (永冠控股有限公司), a company incorporated in the British Virgin Islands with limited liability on October 11, 2004, and one of our Controlling Shareholders

In this prospectus, the terms "associate", "close associate", "connected person", "core connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

The English translation of the PRC entities, enterprises, nationals, facilities, regulations in Chinese included in this prospectus is for identification purposes only. To the extent there is any inconsistency between the Chinese names of the PRC entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them and figures rounded to the nearest thousand, million or billion may not be identical to figures that have been rounded differently to them.

This glossary contains explanations of certain terms used in this prospectus that relate to our business and the industry in which we operate. These terms and their meanings may not always correspond to standard industry meaning or usage of these terms.

"ADR"	average daily room rate, which means room revenue divided by the number of rooms in use
"hotel chain penetration rate"	the percentage of total hotel rooms operated by hotel chains and equals the number of rooms of hotel chains divided by the total number of hotel rooms and multiplied by 100%
"hotel turnover"	refers to the total transaction value of a hotel's room revenues (the rates of hotel rooms paid by hotel guests) and non-room revenues (food, beverage and other ancillary goods and services paid by hotel guests)
"manachised hotels"	franchised-and-managed hotels
"occupancy rate"	the number of rooms in use divided by the number of available rooms for a given period
"RevPAR"	revenue per available room, calculated by room revenue during a period divided by the number of available rooms of such hotel during the same period
"staff-to-room ratio"	a hotel's full-time employees divided by the total number of its available rooms
"take rate"	the ratio of net revenue recognized for a period in hotel turnover of that period

We have included in this prospectus forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

This prospectus contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. All statements other than statements of historical fact contained in this prospectus, including, without limitation, those regarding our future financial position, strategies, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate and any statements preceded by, followed by or that include the words "aim", "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "ought to", "plan", "potential", "predict", "project", "seek", "should", "will", "would", "vision", "aspire", "target", "schedules", "goal", "outlook" and the negative of these words and other similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain known and unknown risks, uncertainties and assumptions, including but not limited to the risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing us which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our anticipated growth strategies, including developing new hotels at desirable locations in a timely and cost-effective manner and launching a new hotel brand;
- our future business development, results of operations and financial condition;
- expected changes in our revenues and certain cost or expense items;
- our ability to attract customers and leverage our brand;
- trends and competition in the lodging industry; and
- health epidemics, pandemics and similar outbreaks, including COVID-19.

By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks, among others, materialize, actual results may vary materially from those estimated, anticipated or projected, as well as from historical results. Specifically but without limitation, sales could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realized.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to the cautionary statements in this section.

In this prospectus, statements of or references to our intentions or those of the Directors are made as of the date of this prospectus. Any such information may change in light of future developments.

All forward-looking statements contained in this prospectus are expressly qualified by reference to the cautionary statements set out in this section.

You should carefully consider all of the information set out in this prospectus before making an investment in the Shares, including the risks and uncertainties described below in respect of our business and our industry and the Global Offering. You should pay particular attention to the fact that we are a company incorporated in the Cayman Islands and that a substantial portion of our operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from what prevails in other countries. Our business could be affected materially and adversely by any of these risks.

RISKS RELATED TO OUR BUSINESS

The COVID-19 outbreak has adversely affected, and may continue to adversely affect, our financial and operating performance.

In December 2019, COVID-19 was reported to have surfaced in Wuhan, China, which subsequently spread throughout China. The travel industry has been severely affected by the outbreak of COVID-19 since the beginning of 2020 due to the reduced traveler traffic in China. In addition, after COVID-19 was declared by the World Health Organization as a Public Health Emergency of International Concern on January 31, 2020, many foreign countries issued travel bans to China which further harmed the travel industry in China. These measures could slow down the development of the Chinese economy and adversely affect global economic conditions and financial markets. The Chinese government has also implemented strict nationwide containment measures against COVID-19, including travel restrictions, lock-downs of certain cities and hotel closures. Such containment measures negatively affected our hotels' (both leased and owned hotels and manachised and franchised hotels) occupancy rate and revenue. For example, we had over 2,000 hotels temporarily closed at the peak in February and 369 hotels temporarily closed as of March 31, 2020 (out of a total of 5,838 hotels as of the same date), all of which were in China. As of June 30, 2020, approximately 96% of legacy Huazhu's hotels (excluding those under governmental requisition) had resumed operations. In the three months ended March 31, 2020, the Chinese governmental authorities requisitioned accumulatively 610 of our hotels (including approximately two million room-nights, approximately 12% of which were from our leased hotels) in various locations and during different periods for the accommodation of medical support workers and for quarantine purposes. As of June 30, 2020, we still had 139 hotels under such governmental requisition in China.

Since the outbreak of COVID-19, we have taken various preventative measures, such as the introduction of intelligent non-contact services, across our hotels to help protect our employees and customers. In addition to the timely delivery of hotel supplies arranged by our centralized procurement team, we have also offered temporary franchise fee reductions and have helped our franchisees to obtain low-interest bank loans to meet their short-term working capital needs. For example, we helped introduce our franchisees to the banks and provided the banks with monthly operating statements of the franchisees recorded in our information systems as an evidence of the franchisees' credit profiles. We do not bear any obligations under the loans that the banks extended to our franchisees. We have also taken various cost and cash flow mitigation measures to counter the negative impact of COVID-19 on our results of operations. Despite these efforts, our business operations and results in the first half of 2020 were adversely affected by COVID-19. We recorded a net loss and negative EBITDA (non-GAAP) in the first quarter of 2020. We had difficulty paying certain expenses from February to March

after the outbreak of COVID-19, because our cash balance is typically low around the Spring Festival after we make payments such as employee salaries and bonuses and suppliers' trade payables. We managed to solve this temporary liquidity issue by obtaining additional bank loans in China.

In addition, the closure of our hotels and lower occupancy rates in the first few months of 2020, as a result of the Chinese government's containment measures mentioned above, may result in our deteriorated financial performance and as a result trigger an event of default under certain of our banking arrangements. In December 2019, we entered into a EUR440 million term facility and US$500 million revolving credit facility agreement with several banks. On April 17, 2020, the lenders under the facility agreement agreed to release us from the original financial covenants until the six-month period ending June 30, 2021, subject to the satisfaction of certain amended covenants. The amended covenants mainly include: (i) a minimum EBITDA of RMB1 billion for the second half of 2020; (ii) no cash dividend and the aggregate of cash and cash equivalents and financing commitments from any bank or financial institution not less than RMB1.2 billion until June 30, 2021; and (iii) total borrowings not exceeding RMB15.7 billion and total equity more than zero until December 31, 2020. We also obtained a waiver on the EBITDA to interest coverage ratio covenant for an RMB1.2 billion loan from a Chinese bank on June 30, 2020, subject to similar amended covenants in respect of total borrowings, EBITDA and dividend restriction. For more information, see "Financial Information—Outstanding Indebtedness." While we do not need to obtain any additional waivers for our existing loans, if the need arises in the future, there is no guarantee that we will be able to obtain such waivers. In addition, our failure to comply with the conditions of any waiver could result in an event of default under the relevant debt and cross-default to our other debt and other agreements.

Moreover, we completed the acquisition of Deutsche Hospitality in January 2020. As COVID-19 spreads globally, the operations of Deutsche Hospitality in Europe have also been adversely affected since early March 2020. Local governments in Europe imposed travel restrictions and lockdowns to contain the spread of COVID-19 and, as a result, a number of our legacy DH's hotels were temporarily closed. For example, Deutsche Hospitality had temporarily closed 85 of its hotels as of March 31, 2020 (out of a total of 115 hotels), including 49 leased hotels and 36 manachised and franchised hotels. As of June 30, 2020, Deutsche Hospitality still had 24 hotels temporarily closed (out of a total of 116 hotels), including five leased hotels and 19 manachised and franchised hotels. As a result, Deutsche Hospitality could experience cash shortfalls and may need to increase borrowings to finance its operations. There is no assurance that we could obtain sufficient financing for our business needs on reasonable terms, or at all. The failure to obtain sufficient financing on reasonable terms or at all could materially and adversely affect our financial condition, results of operations and business.

In addition, if any of our employees or customers is suspected of having contracted or has contracted COVID-19 while he or she has worked or stayed in our hotels, we may under certain circumstances be required to quarantine our employees that are affected and the affected areas of our premises. The significant decline in revenues for most hotels also increases the probability that franchisees will be unable to fund working capital and to repay or refinance indebtedness, which may cause our franchisees to declare bankruptcy. Such bankruptcies may result in termination of our franchise agreements and eliminate our anticipated income and cash flows. Moreover, bankrupted franchisees may not have sufficient assets to pay termination fees, other unpaid fees, reimbursements or unpaid loans owed to us.

Our businesses have been significantly impacted by the global outbreak of COVID-19 and began to experience operating losses and negative operating cash flows in the first quarter of 2020. We plan to close down certain of our hotels in 2020 due to the pandemic. Also, we may

be required to test our property and equipment, intangible assets or goodwill for impairments due to reduced revenues or negative cash flows. As a result, significant non-cash impairment may be charged to our results of operations. As COVID-19 continues to spread, its overall impact on our business, liquidity and results of operations is unknown at this time. Moreover, COVID-19 may not be eliminated and such outbreak may recur. For example, in June 2020, Beijing experienced a resurgence of COVID-19 infections and had to reinstitute strict travel restrictions to curb the spread of COVID-19. As a result, our occupancy rate in Beijing and its nearby cities and provinces, such as Tianjin and Hebei, was adversely affected. The potential downturn brought by and the duration of the COVID-19 pandemic may be difficult to assess or predict where actual effects will depend on many factors beyond our control. To the extent COVID-19 adversely affects our business, financial condition and results of operations, it may also heighten some of the other risks described in this "Risk Factors" section.

Our operating results are subject to conditions affecting the lodging industry in general.

Our operating results are subject to conditions typically affecting the lodging industry, which include:

- changes and volatility in national, regional and local economic conditions in China, Europe and globally;
- competition from other hotels, the attractiveness of our hotels to customers, and our ability to maintain and increase sales to existing customers and attract new customers;
- adverse weather conditions, natural disasters or travelers' fears of exposure to contagious diseases and social unrest;
- changes in travel patterns or in the desirability of particular locations;
- increases in operating costs and expenses due to inflation and other factors;
- local market conditions such as an oversupply of, or a reduction in demand for, hotel rooms;
- the quality and performance of managers and other employees of our hotels;
- the availability and cost of capital to fund construction and renovation of, and make other investments in, our hotels;
- seasonality of the lodging business and national or regional special events;
- the possibility that leased properties may be subject to challenges as to their compliance with the relevant government regulations; and
- maintenance and infringement of our intellectual property.

Changes in any of these conditions could adversely affect our occupancy rates, average daily room rates and revenues generated per available room, or RevPAR, or otherwise adversely affect our results of operations and financial condition.

Our business is sensitive to Chinese, European and global economic conditions. A severe or prolonged downturn in the Chinese, European or global economy could materially and adversely affect our revenues and results of operations.

Our business and operations are primarily based in China as well as in Europe. We depend on domestic business and leisure travel customers in China for a significant majority of our revenues, and we also derive a relatively large portion of our revenues from Europe following our acquisition of Deutsche Hospitality on January 2, 2020. Accordingly, our financial results have been, and we expect will continue to be, affected by developments in the economies and travel industries primarily of China as well as those of Europe.

As the travel industry is highly sensitive to business and personal discretionary spending levels, it tends to decline during general economic downturns. The growth rate of China's GDP decreased from 2012 to 2016, and from 2018 to 2019. It is uncertain whether the growth of the Chinese economy will continue to slow down in the future. A prolonged slowdown in the Chinese economy could erode consumer confidence which could result in changes to consumer spending patterns for travel and lodging-related products and services. China's economic growth rate may materially decline in the near future, which may have adverse effects on our financial condition and results of operations. Risk of a material slowdown in China's economic growth rate is based on several current or emerging factors including: (i) overinvestment by the government and businesses and excessive credit offered by banks; (ii) a rudimentary monetary policy; (iii) excessive privileges to state-owned enterprises at the expense of private enterprises; (iv) the increases in labor costs; (v) a decrease in exports due to weaker overseas demand; (vi) failure to boost domestic consumption; and (vii) challenges resulting from international and geopolitical situations, especially the US-China trade war and the overall tension between such two nations. The European hotel industry is also significantly affected by European countries' economic growth. While the European hotel industry demonstrated stable growth from 2015 to 2019, its growth rate is forecast to slow down in 2020 due to the impact of COVID-19.

The global financial markets experienced significant disruptions in 2008 and the United States, Europe and other economies went into recession. The recovery from the lows of 2008 and 2009 was uneven and it is facing new challenges, including sanctions against Russia over the Ukraine crisis since 2014, shadows of international terrorism spread by Islamic State of Iraq and al-Sham, which have been particularly intensified since the Paris terror attacks in November 2015, the impact of the election of Donald Trump as President of the United States and the tax reform that he subsequently signed into law, the trade war between the United States and China, the Syrian airstrike in 2018, the tension between the United States and Iran in 2019, the impact of the United Kingdom leaving the EU and the outbreak of COVID-19. In addition, conflicts between the United States and China have extended to multiple areas, which could place further pressure on China's economic growth. On June 30, 2020, China passed the Hong Kong National Security Law. In response, the U.S. President Donald Trump signed into law the Hong Kong Autonomy Act and an executive order in July 2020 ending Hong Kong's special trading status and preferential economic treatment. All of these events have introduced uncertainties to the geopolitical situations and the global economic outlook.

There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including China's and those of the EU and its member states. There have also been concerns over unrest in the Middle East and Africa, which have resulted in significant market volatility, and over the possibility of a war involving Iran or North Korea.

In addition, there have been concerns about the economic effect of the earthquake, tsunami and nuclear crisis in Japan and the tensions between Japan and its neighboring countries. Economic conditions in China and Europe are sensitive to global economic conditions.

It is unclear whether the above challenges will be contained or resolved and what effects they may have. Any prolonged slowdown in the Chinese, European or global economy may have a negative impact on our business, results of operations and financial condition, and continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

The lodging industries in China and Europe are competitive, and if we are unable to compete successfully, our financial condition and results of operations may be harmed.

The lodging industries in China and Europe are highly fragmented. As a multi-brand hotel group, we believe that we compete primarily based on location, room rates, brand recognition, quality of accommodations, geographic coverage, service quality, range of services, guest amenities and convenience of the central reservation system. We primarily compete with other hotel groups as well as various independent hotels in each of the markets in which we operate, including Chinese hotel groups such as BTG Homeinns and Jinjiang, as well as international hotel groups such as Marriott, Intercontinental, Accor and OYO. We also face competitions from lodging products offered on platforms such as Airbnb and service apartments. New and existing competitors may offer more competitive rates, greater convenience, services or amenities or superior facilities, which could attract customers away from our hotels and result in a decrease in occupancy rates and average daily room rates of our hotels. Competitors may also outbid us for new leased hotel conversion sites, negotiate better terms for potential manachised or franchised hotels or offer better terms to our existing manachised or franchised hotel owners, thereby slowing our anticipated pace of expansion. Furthermore, our typical guests may change their travel, spending and consumption patterns and choose to stay in other kinds of hotels, especially given the increase in our hotel room rates to keep pace with inflation. Even if our peers cannot outcompete us, any increasing supply of hospitality assets in the areas we operate could negatively affect our operational and financial results. Any of these factors may have an adverse effect on our competitive position, results of operations and financial condition.

Seasonality of our business and national or regional special events may cause fluctuations in our revenues, cause our Share and/or ADS prices to decline, and adversely affect our profitability

The lodging industry is subject to fluctuations in revenues due to seasonality and national or regional special events. The seasonality of our business may cause fluctuations in our quarterly operating results. Generally, the first quarter, in which both the New Year and Spring Festival holidays fall, accounts for a lower percentage of our annual revenues than other quarters of the year. Our hotels in China typically have a lower RevPAR in the fourth quarter, as compared to the second and third quarters, due to reduced travel activities in the winter, though some of our European hotels may recognize higher sales in the fourth quarter as a result of more trade fairs and corporate events. In addition, national or regional special events that attract large numbers of people to travel may also cause fluctuations in our operating results in particular for the hotel locations where those events are held. Therefore, you should not rely on our operating or financial results for prior periods as an indication of our results in any future period. As our revenues may vary from quarter to quarter, our business performance is difficult to predict and our quarterly results could fall below investor expectations, which could cause our Share and/or ADS prices to decline. Furthermore, the ramp-up process of our new hotels can be delayed during the low season, which may negatively affect our revenues and profitability.

Our relatively limited operating history makes it difficult to evaluate our future prospects and results of operations.

Our operations commenced in 2005, when we launched our *HanTing Hotel* brand. See "History and Corporate Structure." Accordingly, you should consider our future prospects in light of the risks and challenges encountered by a company with a relatively limited operating history. These risks and challenges include:

- continuing our growth while trying to achieve and maintain our profitability;
- preserving and enhancing our competitive position in the lodging industry in China;
- offering innovative products to attract recurring and new customers;
- implementing our strategy and modifying it from time to time to respond effectively to competition and changes in customer preferences and needs;
- increasing awareness of our brands and products and continuing to develop customer loyalty;
- attracting, training, retaining and motivating qualified personnel; and
- renewing leases for our leased hotels on commercially viable terms after the initial lease terms expire.

If we are unsuccessful in addressing any of these risks or challenges, our business may be materially and adversely affected.

Our new leased and owned hotels typically incur significant pre-opening expenses during their development stages and generate relatively low revenues during their ramp-up stages or renovations, which may have a significant negative impact on our financial performance.

The operation of each of our leased and owned hotels goes through three stages: development, ramp-up and mature operations. During the development stage, our leased and owned hotels generate no revenue. In addition, we bear the pre-opening expenses for a substantial majority of our leased and owned hotels, which generally range from approximately RMB1.5 million to RMB20.0 million per hotel. For certain of our hotels (under Deutsche Hospitality), the landlords are responsible for renovating the hotels (other than soft finishing) and we are not required to pay rent until this renovation is completed. During the ramp-up stage, when the occupancy rate is relatively low, revenues generated by these hotels may be insufficient to cover their operating costs, which are relatively fixed in nature. As a result, these newly opened leased and owned hotels may not achieve profitability during the ramp-up stage. As we continue to expand our leased and owned hotel portfolio, the significant pre-opening expenses incurred during the development stage and the relatively low revenues during the ramp-up stage of our newly opened leased and owned hotels may have a significant negative impact on our financial performance. Moreover, we plan to develop more midscale and upscale leased and owned hotels in the future with relatively higher pre-opening expenses, especially rent, which may lead to a more evident negative impact on our financials. In addition, we must maintain our hotels' conditions and may upgrade certain of our hotels, which requires renovation and other improvements to our hotels from time to time. Hotels under renovation may need to be closed partially or entirely or otherwise be seriously disrupted due to the renovations, which could adversely affect the hotels' revenues.

A significant portion of our costs and expenses may remain at the same level or increase even if our revenues decline, which would adversely affect our net margins and results of operations.

A significant portion of our operating costs, including rent and depreciation and amortization, is fixed. Accordingly, a decrease in revenues could result in a disproportionately higher decrease in our earnings because our operating costs and expenses are unlikely to decrease proportionately. For example, the New Year and Spring Festival holiday periods generally account for a lower portion of our annual revenues than other periods. However, our expenses do not vary significantly with changes in occupancy and revenues, as we need to continue to pay rent and salary and to make regular repairs, maintenance and renovations and invest in other capital improvements throughout the year to maintain the attractiveness of our hotels. Our property development and renovation costs may increase as a result of increasing costs of materials. However, we have a limited ability to pass increased costs to customers through room rate increases. Therefore, our costs and expenses may remain constant or increase even if our revenues decline, which would adversely affect our net margins and results of operations.

We may not be able to manage our planned growth, which could adversely affect our operating results.

Our hotel group has been growing rapidly since we commenced our business of operating and managing a multi-brand hotel group. We launched our hotel product *HanTing Hotel* in 2005, our economy hotel brand *Hi Inn* in 2008 and our midscale hotel brand *JI Hotel* in 2010. In May 2012, we completed the acquisition of a 51% equity interest in Starway Hotels (Hong Kong) Limited, or Starway HK, and in December 2013, we acquired the remaining 49% equity interest of Starway HK from C-Travel. We have retained the *Starway Hotel* brand. In addition, we launched *Manxin Hotels & Resorts* in October 2013, which was subsequently rebranded as *Manxin Hotel*, an upper midscale hotel brand; *Joya Hotel*, a new hotel brand targeting the upscale market, in December 2013; and *Elan Hotel*, a new economy hotel brand, in September 2014. In January 2016, we completed strategic alliance transactions with Accor to join forces in the Pan-China region to develop Accor brands and to form an extensive and long-term alliance with Accor. In May 2017, we completed the acquisition of all of the equity interests in Crystal Orange, which operated hotels under the brands of *Crystal Orange Hotel* and *Orange Hotel*. In August 2018, we completed the acquisition of a majority stake in Blossom Hotel Management, which was engaged in the business of operating and managing hotels under the brand of *Blossom Hill Hotels & Resorts* (rebranded as *Blossom House* in April 2020) in the upscale market in the PRC. We launched *Madison Hotel* brand and *Grand Madison Hotel* brand in 2019. In 2020, we merged *Grand Madison Hotel* brand into *Madison Hotel* brand. In January 2020, we completed the acquisition of all of the equity interests in Steigenberger Hotels AG. Through such organic growth and acquisitions, we increased the number of our hotels in operation from 26 hotels as of January 1, 2007 to 6,187 hotels as of June 30, 2020.

We intend to continue developing and operating additional hotels in different geographic locations in China and overseas. Such expansions have placed, and will continue placing, substantial demands on our managerial, operational, technological and other resources. Our planned expansion will also require us to maintain the consistency of our products and the quality of our services to ensure that our business does not suffer as a result of any deviations, whether actual or perceived, in our quality standards. In order to manage and support our growth, we must continue improving our existing operational, administrative and technological systems and our financial and management controls, and recruit, train and retain qualified hotel management personnel as well as other administrative and sales and marketing personnel, particularly as we expand into new markets. We cannot assure you that we will be able to effectively and efficiently manage the growth of our operations, recruit and retain qualified

personnel and integrate new hotels into our operations. Our inability to anticipate the changing demands that expanding operations will impose on our management and information and operational systems, or our failure to quickly adapt our systems and procedures to the new markets, could result in declines of revenues and increases in expenses or otherwise harm our results of operations and financial condition.

In addition, our expansion within existing markets may cannibalize our existing hotels in those markets and, as a result, negatively affect our overall results of operations. While expansion into new geographic markets, especially overseas, and addition of new hotel products for which we have limited operating experience and brand recognition may present operating and marketing challenges that are different from those we currently encounter in our existing markets. Those new markets may have different regulatory requirements, competitive conditions, consumer preferences and discretionary spending patterns as compared to our existing markets. As a result, any new hotels we open in those markets may be less successful than hotels in our existing markets. Guests and franchisees in any new market may not be familiar with our brands and we may need more time to build brand awareness in that market through greater investments in advertising and promotional activities than we anticipated. We may find it more difficult in new markets to hire, motivate and retain qualified employees who share our vision, passion and culture. Hotels operated in new markets may also have lower average revenues or higher operating costs than hotels in existing markets. Revenues at hotels operated in new markets may take longer than expected to ramp up and reach expected revenues and profit levels, and may never do so, thereby affecting our overall profitability.

There can be no assurance that any expansion, new hotel products or brands we introduce will be well received by our customers and become profitable in a timely fashion, or at all. If a new product or brand is not well received by our customers and our expansion into new geographic markets is not successful, we may not be able to generate sufficient revenue to offset related costs and expenses, and our overall financial performance and condition may be adversely affected.

Our multi-brand business strategy exposes us to potential risks and its execution may divert management attention and resources from our established brands, and if any of the new hotel brands are not well received by the market, we may not be able to generate sufficient revenue to offset related costs and expenses, and our overall financial performance and condition may be adversely affected.

We launched our hotel brand *HanTing Hotel* in 2005, our economy hotel brand *Hi Inn* in 2008 and our midscale hotel brand *JI Hotel* in 2010. In 2012 we acquired the *Starway Hotel* brand. In addition, we launched *Manxin Hotels & Resorts* in October 2013, which was subsequently rebranded as *Manxin Hotel*, an upper midscale hotel brand; *Joya Hotel*, a new hotel brand targeting the upscale market, in December 2013; and *Elan Hotel*, a new economy hotel brand, in September 2014. We acquired Crystal Orange in May 2017, which holds hotels under the brands of *Crystal Orange Hotel* and *Orange Hotel*. In August 2018, we completed the acquisition of a majority stake in Blossom Hotel Management which holds hotels under the brand of *Blossom Hill Hotels & Resorts* (currently *Blossom House*). We launched the *Madison Hotel* brand and *Grand Madison Hotel* brand in 2019. In 2020, *Grand Madison Hotel* was merged into *Madison Hotel* brand. In January 2020, we completed the acquisition of Deutsche Hospitality, which operates in Europe, the Middle East, Asia and Africa, with hotels under brands of *Steigenberger Hotels & Resorts*, *MAXX by Steigenberger*, *Jaz in the City*, *IntercityHotel*, and *Zleep Hotels*. We are still in the process of developing our various brands, such as the *Elan Hotel*, *Joya Hotel*, *Manxin Hotel*, *Starway Hotel*, *Hi Inn*, *Crystal Orange*

Hotel, *Orange Hotel*, *Blossom House*, and *Madison Hotel* brands. In addition to the hotel brands owned by us, we entered into strategic alliance transactions with Accor in January 2016, and are developing Accor's certain hotel brands in PRC, Taiwan and Mongolia under our brand franchise agreements.

We cannot guarantee the size and profitability of the various market segments that each new brand is targeting. The business models of these new brands are not proven and we cannot guarantee that they can generate return comparable to the established brands. The process of developing new brands may divert management attention and resources from our established brands. We may not be able to find competent management staff to lead and manage the execution of the multi-brand business strategy. If we are unable to successfully execute our multi-brand strategy to target various market segments, we may be unable to generate revenues from these market segments in the amounts and by the times we anticipate, or at all, and our business, competitive position, financial condition and prospects may be adversely affected.

We may not be able to successfully identify, secure and develop in a timely fashion additional hotel properties under the lease and ownership model or develop hotel properties on a timely or cost-efficient manner, which may adversely affect our growth strategy and business.

We plan to open more hotels to grow our business. Under our lease and ownership model (other than Deutsche Hospitality) and the lease model of Deutsche Hospitality, we may not be successful in identifying and leasing or acquiring additional hotel properties at desirable locations on commercially reasonable terms or at all. Even if we are able to successfully identify and acquire new hotel properties, those new hotels may not generate the returns we expect. We may also incur costs in connection with evaluating hotel properties and negotiating with property owners, including properties that we are subsequently unable to lease or own. In addition, we may not be able to develop additional hotel properties in a timely fashion due to construction or regulatory delays. If we fail to successfully identify, secure or develop in a timely fashion additional hotel properties, our ability to execute our growth strategy could be impaired and our business and prospects may be materially and adversely affected.

We develop a substantial portion of our leased and owned hotels directly. Our involvement in the development of properties presents a number of risks, including construction delays or cost overruns, which may result in increased project costs or lost revenue. We may be unable to recover development costs we incur for projects that do not reach completion. Properties that we develop could become less attractive due to market saturation or oversupply, and as a result we may not be able to recover development costs at the expected rate, or at all. Furthermore, we may not have available cash to complete projects that we have commenced, or we may be unable to obtain financing for the development of future properties on favorable terms, or at all. If we are unable to successfully manage our hotel development to minimize these risks, our growth strategies and business prospects may be adversely affected.

Our leases could be terminated early, we may not be able to renew our existing leases on commercially reasonable terms and our rents could increase substantially in the future, which could materially and adversely affect our operations.

The lease agreements between our lessors and us typically provide, among other things, that the leases could be terminated under certain legal or factual conditions. If our leases were terminated early, our operation of such properties may be interrupted or discontinued and we may incur costs in relocating our operations to other locations. Furthermore, we may have to

pay losses and damages and incur other liabilities to our customers and other vendors due to our default under our contracts. As a result, our business, results of operations and financial condition could be materially and adversely affected.

We plan to retain the operation of our leased hotels upon lease expiration through (i) renewal of existing leases or (ii) execution of franchise agreements with the lessors. We cannot assure you, however, that we will be able to retain our hotel operation on satisfactory terms, or at all. In particular, we may experience an increase in our rent payments and cost of revenues in connection with renegotiating our leases. If we fail to retain our hotel operation on satisfactory terms upon lease expiration, our costs may increase and our profit generated from the hotel operation may decrease in the future. If we are unable to pass the increased costs on to our customers through room rate increases, our operating margins and earnings could decrease and our results of operations could be materially and adversely affected.

We may not be able to successfully compete for franchise agreements and, as a result, we may not be able to achieve our planned growth.

Our growth strategy includes expanding through manachising and franchising, by entering into franchise agreements with our franchisees. We believe that our ability to compete for franchise agreements primarily depends on our brand recognition and reputation, the results of our overall operations in general and the success of the hotels that we currently manachise and franchise. Other competitive factors for franchise agreements include marketing support, capacity of the central reservation channel and the ability to operate hotels cost-effectively. The terms of any new franchise agreements that we obtain also depend on the terms that our competitors offer for those agreements. In addition, if the availability of suitable locations for new properties decreases, or governmental planning or other local regulations change, the supply of suitable properties for our manachise and franchise models could be diminished. If the hotels that we manachise or franchise perform less successfully than those of our competitors or if we are unable to offer terms as favorable as those offered by our competitors, we may not be able to compete effectively for new franchise agreements. As a result, we may not be able to achieve our planned growth and our business and results of operations may be materially and adversely affected.

We may have disputes with our franchisees and they may early terminate the franchise agreements with us if the franchised hotels' performance is worse than they expected.

We may have disputes with our franchisees with respect to the performance of the franchise agreements. For example, we have in the past closed certain manachised and franchised hotels as a result of disputes with the franchisees. In 2017, 2018, 2019 and the three months ended March 31, 2020, 21, 72, 84 and 78, respectively, of our manachised and franchised hotels were closed because the operation results failed to meet the franchisees' expectation, the franchisees failed to cooperate with our branding initiatives or the franchisees failed to pay franchise related fees for a relatively long period, each probably involving a certain degree of disputes between us and the franchisees. The foregoing hotels included our various brands such as HanTing Hotel, Starway Hotel, Hi Inn, Elan Hotel, Ibis Hotel and Mercure Hotel. These hotels closed for the foregoing reasons accounted for an insignificant portion of our net revenues and net profit during the Track Record Period. Some of these hotels were closed because the franchisees were unsatisfied with our measures to avoid competition between the franchisees, including keeping appropriate distances between the manachised and franchised hotels. Some franchisees were not satisfied with the performance of the hotel managers we appointed for our manachised hotels or generally the manachised or franchised hotels' profitability or growth rates. Some franchisees complained that our loyalty program and other marketing efforts did not bring sufficient customers for their hotels. Our franchisees may also have disputes with us

regarding other matters, such as the amount and settlement of fees payable by them and the adequacy of our operational support to them. In addition, our franchise agreements with franchisees typically provide that the franchise agreements could be terminated under certain circumstances. If franchise agreements are terminated early, we lose the franchise fees and related management fees. Furthermore, we may have to pay losses and damages to our guests, and our brand image may be adversely impacted. As a result, our business and results of operations and financial conditions may be adversely affected by early termination of our franchise agreements.

We plan to renew our existing franchise agreements upon expiration. However, we may be unable to retain our franchisees on satisfactory terms, or at all. If a significant number of our existing franchise agreements are terminated early or are not renewed on satisfactory terms upon expiration, our revenue and profit may decrease in the future. If we cannot secure new franchisees to replace those expired or terminated franchises and compensate for the loss of business, our results of operations could be materially and adversely affected.

Acquisitions, financial investment or strategic investment may have an adverse effect on our ability to manage our business and harm our results of operations and financial condition.

If we are presented with appropriate opportunities, we may acquire or invest in businesses or assets. For example, we invested in Shanghai Founder Service Co., Ltd. and Beijing Qingpu Tourism Culture Development Co., Ltd. in 2015, in AAPC LUB, China Young Professionals Apartment Management Limited, Chengjia (Shanghai) Investment Co., Limited, or Cjia, and CREATER in 2016, and in Blossom Hotel Management, OYO and some securities in the hotel industry in 2017. We completed the acquisition of all of the equity interests in Crystal Orange in May 2017. In January 2018, we announced we have formed a joint venture with TPG Capital Asia. Hitone later also invested in this joint venture. In August 2018, we completed the acquisition of a majority stake in Blossom Hotel Management in steps. From 2017 to 2019, we also acquired shares of Accor and other companies from open market, and invested in certain hotel related funds. In January 2020, we completed the acquisition of all of the equity interests in Steigenberger Hotels AG.

The existing and future acquisitions or investments may expose us to potential risks, including risks associated with unforeseen or hidden liabilities, risks that acquired or invested companies will not achieve anticipated performance levels, diversion of management attention and resources from our existing business, difficulty in integrating the acquired businesses with our existing operational infrastructure, and inability to generate sufficient revenues to offset the costs and expenses of acquisitions or investments. In addition, following completion of an acquisition or investment, our management and resources may be diverted from their core business activities due to the integration process, which diversion may harm the effective management of our business. Furthermore, it may not be possible to achieve the expected level of benefits after integration and the actual cost of delivering such benefits may exceed the anticipated cost. Potential risk exposures associated with acquisition or investments, difficulties in business integration, requirements of cost, expenses and management attention may be more severe and unpredictable if international acquisitions and investments are involved. Any difficulties encountered in the acquisition or investment and integration process may have an adverse effect on our ability to manage our business and harm our results of operations and financial condition. In addition, if we purchase shares from the open market, we may experience volatility in our investments as the prices of such shares fluctuate frequently. For example, we incurred unrealized loss from fair value changes of equity securities associated with shares we purchased from the open market in the past. If a financial or strategic

investment is unsuccessful, then in addition to the diversion of management attention and resources from our existing business we may lose the value of our investment, which could have a material adverse effect on our financial condition and results of operations.

Our legal right to lease certain properties could be challenged or affected adversely by property owners or other third parties or subject to government regulation.

A substantial part of our business model relies on leases with third parties who either own or lease the properties from the ultimate property owners. We also grant franchisees to hotel operators who may or may not own their hotel properties. The land use rights and other property rights with respect to properties we currently lease, manachise or franchise for our existing hotels could be challenged. For example, based on a review of the properties occupied by our Major Subsidiaries and our other selected major hotels (the "Selected Properties"), as of the Latest Practicable Date, our lessors failed to provide the property ownership certificates and/or the land use rights certificates for approximately 12% of the Selected Properties. While we have performed due diligence to verify the rights of our lessors to lease such properties, including inspecting documentation issued by competent government authorities evidencing these lessors' land use rights and other property rights with respect to these properties, our rights under those leases could be challenged by other parties including government authorities in China. If the properties are deemed to be illegal constructions or the landlords do not have the rights to lease the properties to us for hotel operations purposes, the landlords (instead of us, as the lessee) may be subject to monetary penalties and the lease agreements may be invalidated. We may therefore be required to relocate our relevant hotels. We also cannot assure you that we can always keep good title of the properties we lease currently or will lease in the future, free and clear of all liens, encumbrances and defects. If the ultimate owner of the property changes after the original owner of such property mortgages such property to any third party, our legal rights under the lease agreement may be affected adversely and we may not rank senior in the right of continuing occupying the property.

Under PRC law, all lease agreements are required to be registered with the local housing bureau. While the majority of our standard lease agreements require the lessors to make such registrations, many of our leases have not been registered as required, which may expose both our lessors and us to potential monetary fines ranging from RMB1,000 to RMB10,000 for each non-registration. Some of our rights under the unregistered leases may also be subordinated to the rights of other interested third parties. In addition, in some instances where the immediate lessors (or we) are not the ultimate owners of hotel properties, no consents or permits have been obtained from the owners, the primary lease holders or competent government authorities, as applicable, for the subleases of the hotel properties to certain of our hotels, which could potentially invalidate our leases or lead to the renegotiation of such leases that result in terms less favorable to us or even relocation of our relevant hotels. As of the Latest Practicable Date, no more than 6% of the Selected Properties had this issue. Some of the properties we lease from third parties were also subject to mortgages at the time the leases were signed. Where consent to the lease has not been obtained from the mortgage holder in such circumstances, the lease may not be binding on the transferee of the property if the mortgage holder forecloses on the mortgage and transfers the property. Moreover, the property ownership or leasehold in connection with our manachised and franchised hotels could be subject to similar third-party challenges.

In Germany our hotels are operated on the legal basis of lease, management or franchise agreements. Some agreements for hotels located in Germany are concluded subject to conditions precedent or require a consent by a third party, such as authorities in case of local measurement areas (for example, re-development) or ground owners in case of a hereditary building right. There are no indications that these requirements have not been fulfilled;

however, if not met, failure to meet these requirements could potentially invalidate the respective agreements or lead to the renegotiation of these agreements which could result in less favorable terms. In addition, some of our leases, management or franchise agreements contain break rights and rescission rights entitling the landlords to terminate the agreements on a certain date or upon the occurrence of certain events. Further, in case of a fixed lease period of more than one year, German law provides for a written-form requirement regarding material terms of leases and therefore excludes an ordinary termination right prior to the lapse of the lease period. However, in case of a written-form defect, the lease agreement is not considered void but will be deemed to have an unlimited lease period with an ordinary termination right by law. Some of our leases may have a written-form defect, which effectively leads to a statutory termination right with a notice period. Similar issues, except for the written-form defect, may occur in connection with our managed and franchised hotels.

Any challenge to our legal rights to the properties used for our hotel operations, if successful, could impair the development or operations of our hotels in such properties. We are also subject to the risk of potential disputes with property owners or third parties who otherwise have rights to or interests in our hotel properties. Such disputes, whether resolved in our favor or not, may divert management's attention, harm our reputation or otherwise disrupt our business.

Any failure to comply with land- and property-related PRC laws and regulations may negatively affect our ability to operate our hotels and we may suffer significant losses as a result.

Our lessors are required to comply with various land- and property-related laws and regulations to enable them to lease effective titles of their properties for our hotel use. For example, before any properties located on state-owned land in China with allocated or leased land use rights or on land owned by collective organizations may be leased to third parties, lessors should obtain appropriate approvals from competent government authorities. In addition, properties used for hotel operations and the underlying land should be approved for commercial use purposes by competent government authorities. Some of the lessors of our executed lease agreements have not obtained the required governmental approvals, including approvals of the properties for commercial use purposes. As of the Latest Practicable Date, for approximately 33% of the Selected Properties the landlords had not obtained the governmental approvals for the properties to be used for commercial use purposes. Such failure may subject the lessors to monetary fines or other penalties and may lead to the invalidation or termination of our leases and relocation of our relevant hotels, and therefore may adversely affect our results of operations. While some lessors have agreed to indemnify us against our losses resulting from their failure to obtain the required approvals, we cannot assure you that we will be able to successfully enforce such indemnification obligations against our lessors or that such indemnification can cover losses from all the property defects. As a result, we may suffer significant losses resulting from our lessors' failure to obtain required approvals to the extent that we are not fully indemnified by our lessors.

Our success could be adversely affected by the performance of our manachised and franchised hotels and defaults or wrongdoings of our franchisees may affect our reputation, which would adversely affect our results of operations.

Our success could be adversely affected by the performance of our manachised and franchised hotels, over which we have less control compared to our leased and owned hotels. As of June 30, 2020, we manachised and franchised approximately 87.7% of our hotels, and we plan to further increase the number of manachised and franchised hotels to increase our national presence in China and our overseas markets. Our franchisees for both our manachised and franchised hotels may not be able to develop hotel properties on a timely basis, which could

adversely affect our growth strategy and may impact our ability to collect fees from them on a timely basis. Furthermore, given that our franchisees are typically responsible for the costs of developing and operating the hotels, including renovating the hotels to our standards, and all of the operating expenses, the quality of our manachised and franchised hotel operations may be diminished by factors beyond our control.

Our franchisees may not successfully operate hotels in a manner consistent with our standards and requirements. Our manachised and franchised hotels are also operated under our brand names. Misuses of our brands by any of our franchisees could adversely affect our business reputation and brand image. In addition, like any operators in service-oriented industries, we are subject to customer complaints and we may face complaints from unsatisfied customers who are unhappy with the standard of service offered by our franchisees. Any complaints, regardless of their nature and validity, may affect our reputation, thereby adversely affecting our results of operations. We may also have to incur additional costs in placating any customers or salvaging our reputation. For example, in the three months ended March 31, 2020, we closed 42 manachised and franchised hotels that did not comply with our brand and operating standards.

If any of our franchisees defaults or commits wrongdoing, such franchisee may not be in a position to sufficiently compensate us for losses which we have suffered as a result of such defaults or wrongdoings. While we ultimately can take action to terminate our franchisees that do not comply with the terms of our franchise agreements or commit wrongdoing, we may not be able to identify problems and make timely responses and, as a result, our image and reputation may suffer, which may have a material adverse effect on our results of operations.

If we are unable to access funds to maintain our hotels' condition and appearance, or if our franchisees fail to make investments necessary to maintain or improve their properties, the attractiveness of our hotels and our reputation could suffer and our hotel occupancy rates may decline.

In order to maintain our hotels' condition and appearance, ongoing renovations and other leasehold improvements, including periodic replacement of furniture, fixtures and equipment, are required. In particular, we manachise and franchise properties leased or owned by franchisees under the terms of franchise agreements, substantially all of which require our franchisees to comply with standards that are essential to maintaining the relevant product integrity and our reputation. We depend on our franchisees to comply with these requirements by maintaining and improving properties through investments, including investments in furniture, fixtures, amenities and personnel.

Such investments and expenditures require ongoing funding and, to the extent we or our franchisees cannot fund these expenditures from existing cash or cash flow generated from operations, we or our franchisees must borrow or raise capital through financing. We or our franchisees may not be able to access capital and our franchisees may be unwilling to spend available capital when necessary, even if required by the terms of our franchise agreements. If we or our franchisees fail to make investments necessary to maintain or improve the properties, our hotel's attractiveness and reputation could suffer, we could lose market share to our competitors and our hotel occupancy rates and RevPAR may decline.

Interruption or failure of our information systems or our business partners' systems could impair our ability to effectively provide our services, which could damage our reputation and subject us to penalties.

Our ability to provide consistent and high-quality services and to monitor our operations on a real-time basis throughout our hotel group depends on the continued operation of our information technology systems, including our web property management, central reservation and customer relationship management systems ("**CRM**"). Certain damage to or failure of our systems could interrupt our inventory management, affect the manner of our services in terms of efficiency, consistency and quality, and reduce our customer satisfaction.

Our technology platform plays a central role in our management of inventory, revenues, loyalty program and franchisees. We also rely on our website, call center and mobile application to facilitate customer reservations. Our systems remain vulnerable to damage or interruption as a result of power loss, telecommunications failures, computer viruses, fires, floods, earthquakes, interruptions in access to our toll-free numbers, hacking or other attempts to harm our systems, and other similar events. Our servers, which are maintained in Shanghai, may also be vulnerable to break-ins, sabotage and vandalism. Some of our systems are not fully redundant, and our disaster recovery planning does not account for all possible scenarios.

Furthermore, our systems and technologies, including our website and database, could contain undetected errors or "bugs" that could adversely affect their performance, or could become outdated and we may not be able to replace or introduce upgraded systems as quickly as our competitors or within budgeted costs for such upgrades. If we experience frequent, prolonged or persistent system failures, our quality of services, customer satisfaction, and operational efficiency could be severely harmed, which could also adversely affect our reputation. Steps we take to increase the reliability and redundancy of our systems may be costly, which could reduce our operating margin, and there can be no assurance that any increased reliability may be achievable in practice or would justify the costs incurred.

In addition, we collaborate with various business partners, such as airlines, in our day-to-day operations, and our ability to provide satisfactory services to customers also depends on the maintenance and efficacy of such business partners' systems, such as the maintenance of networks with necessary speed, bandwidth, and stability. If any of our business partners' systems encounter errors, "bugs" or other problems, our ability to effectively provide our services may be adversely affected, our reputation may be harmed, and we may also face customer complaints and be subject to fines and other penalties from competent authorities.

Failure to comply with data protection laws or maintain the integrity of internal or customer data could result in harm to our reputation or subject us to costs, liabilities, fines or lawsuits.

Our business involves collecting and retaining large volumes of internal and customer data, including personal information as our various information technology systems enter, process, summarize and report such data. We also maintain information about various aspects of our operations as well as regarding our employees. The integrity and protection of our customer, employee and company data is critical to our business. Our customers and employees expect that we will adequately protect their personal information. We are required by applicable laws to keep strictly confidential the personal information that we collect, and to take adequate security measures to safeguard such information.

The PRC regulatory and enforcement regime regarding privacy and data security is evolving. The PRC Criminal Law, as amended by its Amendment 7 (effective on February 28, 2009) and Amendment 9 (effective on November 1, 2015), prohibits institutions, companies and their employees from selling or otherwise illegally disclosing a citizen's personal information obtained during the course of performing duties or providing services or obtaining such information through theft or other illegal ways. On November 7, 2016, the Standing Committee of the PRC National People's Congress issued the Cyber Security Law of the PRC, which became effective on June 1, 2017. Pursuant to the Cyber Security Law of the PRC, network operators must not, without users' consent, collect their personal information, and may only collect users' personal information necessary to provide their services. Providers are also obliged to provide security maintenance for their products and services and shall comply with provisions regarding the protection of personal information as stipulated under the relevant laws and regulations. The Civil Code of the PRC (issued by the PRC National People's Congress on May 28, 2020 and to become effective on January 1, 2021), the General Rules on the Civil Law (effective since October 1, 2017) and the Tort Law (effective since July 1, 2010) provide main legal basis for privacy and personal information infringement claims under the Chinese civil laws. PRC regulators, including the Cyberspace Administration of China, MIIT, and the Ministry of Public Security have been increasingly focused on regulation in the areas of data security and data protection. We expect that these areas will receive greater and continued attention and scrutiny from regulators and the public going forward, which could cause us to incur substantial compliance costs and subject us to heightened risks and challenges associated with data security and protection. If we are unable to manage these risks, we could become subject to civil litigations brought by relevant individuals; administrative penalties, including fines, suspension of business, website closure, and revocation of prerequisite licenses; and our reputation and results of operations could be materially and adversely affected. As we further expand our operations into international markets, we will be subject to additional laws and regulations in other jurisdictions where our hotels, guests, employees and other participants are located. The laws, rules and regulations of those jurisdictions may be more comprehensive and detailed, and may impose requirements and penalties which are more stringent than, or even conflict with, those in China. In addition, these laws, rules and regulations may restrict the transfer of data across jurisdictions, which could impose additional and substantial operational, administrative and compliance burdens on us, and may also restrict our business activities and expansion plans. Complying with laws and regulations for an increasing number of jurisdictions could require significant resources, costs and our management attention. See "Regulatory Overview—PRC Regulations—Regulation on Information Protection on Networks."

After the acquisition of Deutsche Hospitality, the European Union has become an important region for our data protection compliance. European data protection laws, in particular the Regulation (EU) 2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (GDPR) (complemented by EU Member States law on data protection such as the German Federal Data Protection Act) include strict rules on the processing of personal data, including the transfer of data from the European Union to China. Under the GDPR, any personal data may be used only if there is a legal justification (which could be a consent or an express statutory justification set out in the GDPR or other applicable EU laws), and the use must be restricted to legitimate purposes. Deutsche Hospitality has taken various technical and organizational measures, which are regularly reviewed and updated, to stay compliant, including appointment of a data protection officer and a special data protection working group, regulation of data processes, risk management assessment, preparation of relevant documentation and training. We also put high emphasis on proper dealing with data subject rights requests, i.e. the requests of customers, employees and other natural persons regarding

our use of their data. We, including Deutsche Hospitality, take GDPR requirements and, in particular, data subject rights requests very seriously. However, we cannot guarantee that we are fully compliant in this complex area where many items are still unclear.

While we take various measures to comply with all applicable data privacy and protection laws and regulations, there is no guarantee that our current security measures and those of our third-party service providers may always be adequate for the protection of our customer, employee or company data; and like all companies, we have experienced data incidents from time to time. In addition, given the size of our customer base and the types and volume of personal data on our system, we may be a particularly attractive target for computer hackers, foreign governments or cyber terrorists. Unauthorized access to our proprietary internal and customer data may be obtained through break-ins, sabotage, breach of our secure network by an unauthorized party, computer viruses, computer denial-of-service attacks, employee theft or misuse, breach of the security of the networks of our third-party service providers, or other misconduct. Because the techniques used by computer programmers who may attempt to penetrate and sabotage our proprietary internal and customer data change frequently and may not be recognized until launched against a target, we may be unable to anticipate these techniques. Unauthorized access to our proprietary internal and customer data may also be obtained through inadequate use of security controls. For instance, in August 2018, online reports alleged that we had become the subject of a potential information leak and a proposed class action complaint was filed against us and our management, which was voluntarily dismissed by the plaintiffs in February 2019. For more information, please see "Business—Legal and Administrative Proceedings." We may face similar litigations in the future. Any of such proceedings may harm our reputation and adversely affect our business and results of operations. Besides proceedings, we may be subject to negative publicity about our security and privacy policies, systems, or measurements from time to time.

The laws and regulations applicable to security and privacy are becoming increasingly important globally. Complying with any additional or new regulatory requirements on a jurisdiction-by-jurisdiction basis would impose significant burdens and costs on our operations. Any failure to prevent or mitigate security breaches, cyber-attacks or other unauthorized access to our systems or disclosure of our customers' data, including their personal information, could result in loss or misuse of such data, interruptions to our service system, diminished customer experience, loss of customer confidence and trust, impairment of our technology infrastructure, and harm our reputation and business, resulting in significant legal and financial exposure and potential lawsuits.

If the value of our brand or image diminishes, it could have a material and adverse effect on our business and results of operations.

We offer multiple hotel products that are designed to target distinct segments of customers. Our continued success in maintaining and enhancing our brands and image depends, to a large extent, on our ability to satisfy customer needs by further developing and maintaining our innovative and distinctive products and maintaining consistent quality of services across our hotel group, as well as our ability to respond to competitive pressures. If we are unable to do so, our occupancy rates may decline, which could in turn adversely affect our results of operations. Our business may also be adversely affected if our public image or reputation were to be diminished by the operations of any of our hotels, whether due to unsatisfactory service, accidents or otherwise. If the value of our products or image is diminished or if our products do not continue to be attractive to customers, our business and results of operations may be materially and adversely affected.

Failure to protect our trade names and trademarks as well as other intellectual property rights could have a negative impact on our brands and adversely affect our business.

The success of our business depends in part upon our continued ability to use our brands, trade names and trademarks to increase brand awareness and to further develop our products. The unauthorized reproduction of our trademarks could diminish the value of our brands and their market acceptance, competitive advantages or goodwill. In addition, we consider our proprietary information systems and operational system to be key components of our competitive advantage and our growth strategy. As of June 30, 2020, we had received copyright registration certificates for 120 software programs developed by us and 13 patents for certain of our proprietary information systems. However, none of our other proprietary information systems have been patented, copyrighted or otherwise registered as our intellectual property.

Monitoring and preventing the unauthorized use of our intellectual property is difficult. The measures we take to protect our brands, trade names, trademarks and other intellectual property rights may not be adequate to prevent their unauthorized use by third parties. Furthermore, the application of laws governing intellectual property rights in the PRC and other jurisdictions is evolving and could involve substantial risks to us. In particular, the laws and enforcement procedures in the PRC are uncertain and do not protect intellectual property rights to the same extent as do the laws and enforcement procedures in the United States and other developed countries. If we are unable to adequately protect our brands, trade names, trademarks and other intellectual property rights, we may lose these rights and our business may suffer materially.

We may also be subject to claims for infringement, invalidity, or indemnification relating to third parties' intellectual property rights. Regardless of their merits, such third party claims may be time-consuming and costly to defend, divert management attention and resources, or require us to enter into licensing agreements, which may not be available on commercially reasonable terms, or at all.

If we are not able to retain, hire and train qualified managerial and other employees, our business may be materially and adversely affected.

Our managerial and other employees manage our hotels and interact with our customers on a daily basis. They are critical to maintaining the quality and consistency of our services as well as our established brands and reputation. In general, employee turnover, especially in lower-level positions, is relatively high in the lodging industry. As a result, it is important for us to retain as well as attract qualified managerial and other employees who are experienced in lodging or other consumer-service industries. There is a limited supply of such qualified individuals in cities where we have operations and other cities into which we intend to expand. In addition, we need to hire qualified managerial and other employees on a timely basis to keep pace with our rapid growth while maintaining consistent quality of services across our hotels in various geographic locations. We must also provide training to our managerial and other employees so that they have up-to-date knowledge of various aspects of our hotel operations and can meet our demand for high-quality services. If we fail to do so, the quality of our services may decrease, which in turn, may have a material and adverse effect on our business.

Our current employment practices may be adversely impacted under the applicable labor law.

The PRC National People's Congress promulgated the Labor Contract Law of the PRC (the "**Labor Contract Law**") in 2008, and amended it on December 28, 2012. The Labor Contract Law imposes requirements concerning, among others, the execution of written contracts between employers and employees, the time limits for probationary periods, and the length of

fixed-term employment contracts. Because the PRC governmental authorities have introduced various new labor-related regulations since the effectiveness of the labor contract law, and the interpretation and implementation of these regulations are still evolving, our employment practices could violate the Labor Contract Law and related regulations and could be subject to related penalties, fines or legal fees. If we are subject to severe penalties or incur significant legal fees in connection with labor law disputes or investigations, our business, financial condition and results of operations may be adversely affected. In addition, a significant number of our employees are dispatched from third-party human resources companies, which are responsible for managing, among others, payrolls, social insurance contributions and local residency permits of these employees. According to a new regulation on labor dispatch, which was promulgated in December 2013 to implement the provisions of the labor contract law, a company is permitted to use dispatched employees for only up to 10% of its labor force after February 29, 2016. To comply with the labor dispatch regulation, we have reduced the percentage of dispatched employees since December 2013 by using service outsourcing arrangements. Under the service outsourcing arrangement, we have entered into service outsourcing agreements with a service outsourcing firm and relevant employees are deemed as employees of this service outsourcing firm. However, since the current labor dispatch regulation does not clearly define the distinction of labor dispatch and service outsourcing, our service outsourcing arrangements may be considered as labor dispatch by the relevant PRC government.

In addition, according to the Labor Contract Law and its implementing rules, if we intend to enforce the non-compete provision with our employees in the employment contracts or confidentiality agreements, we have to compensate our employees on a monthly basis during the term of the restriction period after the termination or ending of the employment contract, which may cause extra expenses to us.

In Germany, our business is subject to various labor-related statutory regulations. For example, there are restrictions regarding the assignment and use of temporary agency workers under the German Temporary Agency Work Act (Arbeitnehmerüberlassungsgesetz) which was substantially amended with effect from April 1, 2017. As the interpretation of the amended regulations is still evolving and we are liable for non-compliant assignments of temporary-agency workers, even if the root cause of the non-compliance lies with the temporary-work agency engaged by us, we could be subject to related fines. If we are subject to severe fines or incur significant legal fees in connection with labor law disputes or investigations, our business, financial condition and results of operations may be adversely affected.

In addition, our employment practices in other jurisdictions are also subject to changes in applicable labor law. If we are found to have violated any other applicable labor law requirements, we may be subject to fines or other penalties, which could in turn negatively affect our reputation and results of operations, and disputes with our employees could interrupt our business operations.

Failure to retain our management team could harm our business.

We place substantial reliance on the experience and the institutional knowledge of members of our current management team. Mr. Ji Qi, our founder, executive chairman and chief executive officer, Mr. Jin Hui, our president, Ms. Liu Xinxin, our chief digital officer, Mr. Teo Nee Chuan, our chief financial officer, and other members of the management team are particularly important to our future success due to their substantial experiences in lodging and other consumer-service industries. Finding suitable replacements for Mr. Ji Qi, Mr. Jin Hui , Ms. Liu Xinxin, Mr. Teo Nee Chuan and other members of our management team could be difficult, and

competition for such personnel of similar experience is intense. The loss of the services of one or more members of our management team due to their departures or otherwise could hinder our ability to effectively manage our business and implement our growth strategies.

We are subject to various laws and regulations, including franchise, hotel industry, construction, hygiene, health and safety environmental and advertising laws and regulations that may subject us to liability.

Our business is subject to various compliance and operational requirements under PRC laws. For example, we are required to complete the filing and submit annual reports with, the PRC Ministry of Commerce, or the MOC, to engage in the hotel franchising business. In addition, each of our hotels in China is required to obtain a special industry license from and complete fire prevention safety inspection/commitment with the local public security bureau, to have hotel operations included in the business scope of its business license, to obtain hygiene permits and environmental impact assessment approvals, and to comply with license requirements and laws and regulations with respect to construction permits, zoning, fire prevention, public area hygiene, food safety, public safety and environmental protection. We are also subject to advertising and other laws and regulations. See "Regulatory Overview—PRC Regulations—Regulations on Hotel Operation." If we fail to comply with any applicable construction, hygiene, health and safety, environmental and advertising laws and regulations related to our business, we may be subject to potentially significant monetary damages and fines or the suspension of our operations or development activities. Furthermore, new regulations could also require us to retrofit or modify our hotels or incur other significant expenses.

New zoning plans or regulations applicable to a specific location may cause us to relocate our hotel(s) in that location, or require additional approvals and licenses that may not be granted to us promptly or at all, which may adversely affect our operating results. Any failure by us to control the use of, or to adequately restrict the discharge of, hazardous substances in our development activities, or to otherwise operate in compliance with environmental laws could also subject us to potentially significant monetary damages and fines or the suspension of our hotel development activities or hotel operations, which could materially adversely affect our financial condition and results of operations. Some of our hotels are not in full compliance with all of the applicable requirements. Such failure to comply with applicable construction permit, environmental, health and safety laws and regulations related to our business and hotel operation may subject us to potentially significant monetary damages and fines or the suspension of operations and development activities of our Company or related hotels. We could be subject to any challenges or other actions with respect to such noncompliance.

Owners of our manachised and franchised hotels are subject to these same permit and safety requirements. Although our franchise agreements require these owners to obtain and maintain all required permits or licenses, we have limited control over these owners. Any failure to obtain and maintain the required permits or licenses by any operator of a manachised or franchised hotel may require us to delay opening of the manachised or franchised hotel or to forgo or terminate our franchise agreement, which could harm our brand, result in lost revenues and subject us to potential indirect liability.

Our businesses in Europe and other jurisdictions are subject to similar requirements and the business activities have to comply with various compliance and operational requirements, including inter alia regulations for customer and data protection, as well as regulations with respect to health, safety and fire protection and hygiene requirements. Compliance with these regulations and adaptions to new regulations could potentially disturb our business and lead to additional expenses.

We could suffer impairment losses for our intangible assets.

We had net intangible assets of RMB1,644 million, RMB1,834 million, RMB1,662 million and RMB5,854 million (US$827 million) as of December 31, 2017, 2018 and 2019 and March 31, 2020, respectively. Our intangible assets consist primarily of brand names, master brand agreements, non-compete agreements, franchise agreements and favorable leases acquired in business combinations before the adoption of ASC Topic 842, Leases ("**ASC 842**") on January 1, 2019, and our purchased software.

Brand names and master brand agreements are considered to have indefinite lives. We test indefinite life intangible assets at least annually for impairment, and more frequently if events or changes in circumstances indicate that they might be impaired. Our other intangible assets are considered to be finite life intangible assets. We evaluate finite life intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such an adverse event occurs and has the effect of changing one of the critical assumptions or estimates related to the fair value of our intangible assets, an impairment charge could result.

Due to the COVID-19 outbreak worldwide, we suffered an operating loss for the first quarter of 2020. As the situation is not totally under control and future impacts of the COVID-19 pandemic are highly uncertain, we performed an impairment test regarding all the indefinite life intangible assets as of March 31, 2020 but did not recognize any impairment loss for intangible assets as a result. Neither did we recognize impairment loss for intangible assets in 2017, 2018 or 2019. However, the extent, magnitude and duration of COVID-19 may change the assumptions and estimates used in the indefinite life intangible assets valuation, which could result in future impairment charges. There can be no assurance that future reviews of intangible assets will not result in significant impairment charges. Although it does not affect cash flow, an impairment charge will have the effect of decreasing our earnings, assets and shareholders' equity.

We may suffer impairment losses for our goodwill.

We have acquired businesses from time to time, which have resulted in the recognition of goodwill on our financial statements. We had goodwill of RMB2,265 million, RMB2,630 million, RMB2,657 million and RMB5,339 million (US$754 million) as of December 31, 2017, 2018 and 2019 and March 31, 2020, respectively. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Factors that could lead to impairment of goodwill include significant adverse changes in the business climate, unanticipated changes in the competitive environment, adverse legal or regulatory actions or developments, changes in clients' perception and the reputation of our brands, changes in interest rates, unfavorable changes in our stock price and market capitalization, and deterioration in our financial condition.

We did not recognize any goodwill impairment in 2017, 2018 or 2019. Given the impact of COVID-19 on the hotel industry, we concluded that indicators of impairment existed as of March 31, 2020. However, we updated previous assumptions based on the current economic environment and concluded that the goodwill was not impaired as of March 31, 2020, as the fair values of our two reporting units were not less than their carrying values based on our management's projection of revenues, gross margin, operating costs and cash flows considering planned business and operational strategies over a long-term planning horizon of eight to 10 years along with a terminal value calculated based on discounted cash flows. However, as the extent, magnitude and duration of COVID-19 is still uncertain, we may need to change our assumption, which could result in future impairment charges.

If we acquire new businesses in the future, we may also record additional goodwill. The possible impairment of goodwill could negatively impact our future earnings and, as a result, the market price of our common stock could decline.

Inability to generate sufficient future taxable profits or adverse changes to tax laws or regulatory requirements could have a negative impact on the recoverability of our deferred tax assets.

We had deferred tax assets of RMB759 million (US$107 million) as of March 31, 2020. The deferred tax assets can be utilized only if, and to the extent that, our operating subsidiaries generate adequate levels of taxable income in future periods to offset the tax loss carry forwards and reverse the temporary differences prior to expiration of the carry forwards.

Our ability to generate taxable income is subject to general economic and financial conditions, duration of COVID-19, competitive landscape, legislative and regulatory development and other factors that are beyond our control. If we generate lower taxable income than the amount we have assumed in determining our deferred tax assets, then the value of deferred tax assets will be reduced. In addition, assumptions regarding the future recoverability of deferred tax assets depend on our management's estimates of future taxable income in accordance with the tax laws applicable to our subsidiaries in the countries in which they operate. If our management determines that the carrying amount of any of our deferred tax assets may not be recoverable pursuant to such prevailing tax laws, the recoverable amount of such deferred tax assets may be impaired.

Changes in fair value of our long-term investments may cause potential impairment, which will affect our financial condition and results of operations.

During the Track Record Period, our investments included equity-method investments, equity investments with readily determinable fair values, equity investments without readily determinable fair values and available-for-sale debt securities. In 2019, we reclassified certain equity investments that we purchased from the open market from long-term investments to short-term investments. As a result, our long-term investments decreased from RMB6,152 million as of December 31, 2018 to RMB1,929 million as of December 31, 2019 and RMB1,920 million (US$271 million) as of March 31, 2020.

Our long-term investments may expose us to potential risks, including risks associated with unforeseen or hidden liabilities, reduced expectations of future cash flows and risks that invested companies will not achieve anticipated performance levels. In addition, we may experience volatility for shares we purchase from the open market as their prices fluctuate frequently.

For our equity-method investments, our pro rata share of income (loss) from the investments is recognized in our consolidated statements of comprehensive income. Dividends received reduce the carrying amount of the investments. For our investments with readily determinable fair values, we estimate our investments at fair value using price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The market condition has, from time to time, experienced price fluctuations that are subject to uncertainty and beyond our control. Our investments in equity securities without readily determinable fair values are measured at cost minus impairment adjusted by observable price changes in orderly transactions for an identical or similar investment of the same issuer. These investments are measured at fair value on a nonrecurring basis when there are events or changes in circumstances that may have a significant adverse effect. We recorded impairment related to long-term investments of nil, nil,

RMB10 million and RMB92 million in 2017, 2018 and 2019 and the three months ended March 31, 2020, respectively. We would continue experience changes in fair value of our long-term investments, which may cause potential impairment and affect our financial condition and results of operations.

The adoption of ASC Topic 842 Leases could have negative impacted on our financial position.

After our adoption of ASC 842 on January 1, 2019, we have classified each of our leases at the inception date as either a capital lease or an operating lease. We recognize a lease liability for future fixed lease payments and variable lease payments that depend on an index or a rate, initially measured using the index or rate as of the commencement date. We also recognize a right-of-use asset representing the right to use the underlying asset for the lease term. As such, ASC 842 resulted in us having less current assets and more current liabilities, representing a worse liquidity position. For example, our net current assets decreased from RMB1,005 million as of December 31, 2018 to RMB969 million as of December 31, 2019, primarily due to the reclassification of our prepaid rent into right-of-use assets (non-current) and recognition of short-term lease obligations in operating lease liabilities (current), following our adoption of ASC 842. In addition, our right-of-use assets could be subject to impairment. For instance, we recognized an impairment loss of RMB10 million related to our right-of-use assets in the three months ended March 31, 2020.

Since we recognize lease payment obligations as liabilities on our balance sheet following the adoption of ASC 842, we have more liabilities compared to before. This resulted in a substantial increase in our gearing ratio (total liabilities divided by total equity) from 2.8 as of December 31, 2018 to 6.1 as of December 31, 2019. If we borrow loans that have financial covenants with a reference to the gearing ratio as defined above, increases in our leased hotels or other leases could trigger a breach of the financial covenants and accordingly our costs to monitor compliance with the financial covenants could increase.

Our financial and operating performance may be adversely affected by epidemics, adverse weather conditions, natural disasters and other catastrophes.

Our financial and operating performance may be adversely affected by epidemics, adverse weather conditions, natural disasters and other catastrophes, particularly in locations where we operate a large number of hotels.

Our business could be materially and adversely affected by the outbreak of swine influenza, avian influenza, severe acute respiratory syndrome, COVID-19 or other epidemics. In recent years, there have reports on the occurrences of avian influenza in various parts of China, including hundreds of confirmed human deaths. Since COVID-19 was reported in China in December 2019, the whole world has suffered from the impact of COVID-19. For more information related to the impact of COVID-19 on us, please see "—The COVID-19 outbreak has adversely affected, and may continue to adversely affect, our financial and operating performance." Any prolonged recurrence of such contagious disease or other adverse public health developments in China may have a material and adverse effect on our operations. For example, if any of our employees or customers are suspected of having contracted any contagious disease while he or she has worked or stayed in our hotels, we may under certain circumstances be required to quarantine our employees that are affected and the affected areas of our premises. Any contraction by our employees or customers could also affect the safety reputation of the relevant hotels, which in turn could undermine customers' willingness to stay in such hotels.

Losses caused by epidemics, adverse weather conditions, natural disasters and other catastrophes, including earthquakes or typhoons, are either uninsurable or too expensive to justify insuring against in China and Europe. In the event an uninsured loss or a loss in excess of insured limits occurs, we could lose all or a portion of the capital we have invested in a hotel, as well as the anticipated future revenues from the hotel. In that event, we might nevertheless remain obligated for any financial commitments related to the hotel.

Similarly, war (including the potential of war), terrorist activity (including threats of terrorist activity), social unrest and heightened travel security measures instituted in response, travel-related accidents, as well as geopolitical uncertainty and international conflict, will affect travel and may in turn have a material adverse effect on our business and results of operations. In addition, we may not be adequately prepared in contingency planning or recovery capability in relation to a major incident or crisis, and as a result, our operational continuity may be adversely and materially affected and our reputation may be harmed.

We had net current liabilities as of March 31 and June 30, 2020 and net cash used in operating activities in the three months ended March 31, 2020 and may continue to do so.

We had net current liabilities of RMB6,878 million (US$971 million) and RMB5,985 million (US$847 million) (unaudited) as of March 31 and June 30, 2020, respectively, and we recorded net cash used in operating activities of RMB1,346 million (US$190 million) in the three months ended March 31, 2020. These net current liability positions and operating cash outflow were primarily because we experienced declines in revenues in the first few months of this year due to the outbreak of COVID-19 since January 2020. If COVID-19 continues to spread or recur, our business and results of operations may be adversely affected and, as a result, we may continue to report net current liabilities and operating cash outflows. A net current liability position exposes us to liquidity risk. Our future liquidity and ability to make additional capital investments necessary for our operations and business expansion will depend primarily on our ability to maintain sufficient cash generated from operating activities. However, there can be no assurance that we will realize operating cash inflows in future given the uncertainties around COVID-19's spread. Operating cash outflows may reduce our financial flexibility, result in us breaching financial covenants, and affect our ability to obtain additional funding, which will also in turn deteriorate our financial results.

Our limited insurance coverage may expose us to losses, which may have a material adverse effect on our reputation, business, financial condition and results of operations.

We carry all mandatory and certain optional commercial insurance, including property, business interruption, construction, third-party liability, public liability, product's liability and employer's liability insurance for our leased and owned hotel operations. We also require our lessors and franchisees to purchase customary insurance policies. Although we require our franchisees to obtain the requisite insurance coverage through our franchisees management, we cannot guarantee that our lessors will adhere to such requirements. In particular, there are inherent risks of accidents or injuries in hotels. One or more accidents or injuries at any of our hotels could adversely affect our safety reputation among customers and potential customers, decrease our overall occupancy rates and increase our costs by requiring us to take additional measures to make our safety precautions even more visible and effective. In the future, we may be unable to renew our insurance policies or obtain new insurance policies without increases in cost or decreases in coverage levels. We may also encounter disputes with insurance providers regarding payments of claims that we believe are covered under our policies. Furthermore, if we are held liable for amounts and claims exceeding the limits of our insurance coverage or outside the scope of our insurance coverage, our reputation, business, financial condition and results of operations may be materially and adversely affected.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud.

We are subject to reporting obligations under the U.S. securities laws. The SEC as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring every public company to include in its annual report a management report on such company's internal control over financial reporting containing management's assessment of the effectiveness of its internal control over financial reporting. In addition, an independent registered public accounting firm must attest to and report on the effectiveness of such company's internal control over financial reporting except where the company is a non-accelerated filer. We currently are a large accelerated filer.

In connection with the preparation of our annual report on Form 20-F for the year ended December 31, 2019, we carried out an evaluation of the effectiveness of our internal control over financial reporting. Based on this assessment and evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2019. Our independent registered public accounting firm has issued an attestation report as of December 31, 2019. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting. This could in turn result in the loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs and Shares. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to continue to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

We, our Directors, management and employees may be subject to certain risks related to legal proceedings filed by or against us, and adverse results may harm our business.

We cannot predict with certainty the cost of defense, the cost of prosecution or the ultimate outcome of litigation and other proceedings filed by or against us, our Directors, management or employees, including remedies or damage awards, and adverse results in such litigation and other proceedings may harm our business or reputation. Such litigation and other proceedings may include administrative penalties and actions relating to intellectual property, commercial arrangements, leased properties, share transfer, employment, non-competition and labor law, fiduciary duties, personal injury, death, property damage or other harm resulting from acts or omissions by individuals or entities outside of our control, including franchisees and third-party property owners. For example, as of the Latest Practicable Date, we had some pending legal, administrative and arbitration proceedings, including property and equipment lease terminations and disputes, management agreement disputes, business acquisition and investment related disputes, construction contract disputes, insurance claim disputes and share transfer agreement disputes. Moreover, in the case of intellectual property litigation and proceedings, adverse outcomes could include the cancellation, invalidation or other loss of material intellectual property rights used in our business and injunctions prohibiting our use of business processes or technology that is subject to third-party patents or other third-party intellectual property rights.

We generally are not liable for the willful actions of our franchisees and property owners; however, there is no assurance that we would be insulated from liability from those actions in all cases.

The audit reports included in our annual reports on Form 20-F have been prepared by our independent registered public accounting firm whose work may not be inspected fully by the Public Company Accounting Oversight Board and, as such, you may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board, United States, or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards.

Because we have substantial operations within the PRC and the PCAOB is currently unable to conduct inspections of the work of our independent registered public accounting firm as it is conducted in a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our independent registered public accounting firm is not currently inspected fully by the PCAOB. The lack of PCAOB inspections in the PRC prevents the PCAOB from regularly evaluating our independent registered public accounting firm's audits and quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national law, in particular China's, in June 2019 a bipartisan group of lawmakers introduced bills in both houses of Congress that would require the SEC to maintain a list of issuers for which the PCAOB is not able to inspect or investigate an audit report issued by a foreign public accounting firm. The Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges (EQUITABLE) Act prescribes increased disclosure requirements for such issuers and, beginning in 2025, the delisting from national securities exchanges such as NASDAQ of issuers included for three consecutive years on the SEC's list. On May 20, 2020, the U.S. Senate passed S. 945, the Kennedy Bill, which includes requirements similar to those in the EQUITABLE Act for the SEC to identify issuers whose audit reports are prepared by auditors that the PCAOB is unable to inspect or investigate because of restriction imposed by non-U.S. authorities. The Kennedy Bill would also require public companies on this SEC list to certify that they are not owned or controlled by a foreign government and make certain additional disclosures in their SEC filings. In addition, for issuers on the SEC list for three consecutive years, the SEC would be required to prohibit the securities of these companies from being traded on a U.S. national securities exchange, such as NASDAQ, or in U.S. over-the-counter markets. Legislation similar to the Kennedy Bill has also been introduced in the U.S. House of Representatives. On July 21, 2020, the House of Representatives passed its version of the National Defense Authorization Act, which included provisions similar to the Kennedy Bill.

In addition to legislative action, on June 4, 2020, President Trump issued a memorandum directing the PWG on Financial Markets, which is chaired by the Secretary of the Treasury and includes the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the SEC and the Chairman of the Commodity Futures Trading Commission, to discuss and make recommendations regarding the risks faced by U.S. investors from Chinese companies and companies with significant operations in China that are listed on U.S. stock exchanges, which are imposed by Chinese government's refusal to permit the PCAOB to conduct inspections of auditors in China. In a letter dated July 24, 2020, which was released on August 7, 2020, the PWG responded to the president's request with a report entitled "Protecting United States Investors from Significant Risks from Chinese Companies," which includes various recommendations to address issues from countries in which PCAOB is unable to inspect

auditors, which it refers to as NCJs. One of the report's recommendation is to require U.S. exchanges to adopt enhanced listing standards that companies would be required to meet at the time of any new listing or by January 1, 2022 for continued listings. U.S. listed companies that fail to meet these proposed enhanced standards would be subject to delisting and trading suspensions. The recommended listing standards would require that PCAOB have access to work papers of the principal audit firm for the audit of the listed company or, for companies that are unable to satisfy this work papers access standard as a result of governmental restrictions in NCJs, they could instead provide a co-audit from a U.S. PCAOB registered audit firm where the PCAOB determines it has sufficient access to audit work papers and practices to conduct an appropriate inspection of the co-audit firm. One of the report's recommended requirements for such co-audits is that the government of the relevant NCJ would have to permit the U.S. accounting firm working on the co-audit to perform the work and retain the relevant work papers outside of the NCJ. However, because Chinese law prohibits audit firms that operate in China and Hong Kong from releasing certain documentation of Chinese companies without explicit government permission, it is unclear if these requirements would be consistent with Chinese law. The report also includes recommendations for enhanced disclosure requirements for China-based companies and funds exposed to China-based groups, requiring more due diligence on behalf of index providers, and guidance for investment advisers.

Future developments in respect of the issues discussed above are uncertain, including because the legislative developments are subject to the legislative process and the regulatory developments are subject to the rule-making process and other administrative procedures. However, if any of the administrative proceedings, legislative actions or regulatory changes discussed above were to proceed in ways that are detrimental to China-based issuers, it could cause us to fail to be in compliance with U.S. securities laws and regulations, we could cease to be listed on NASDAQ or another U.S. exchange, and U.S. trading of our shares and ADSs could be prohibited. Any of these actions, or uncertainties in the market about the possibility of such actions, could adversely affect our access to the U.S. capital markets and the price of our ADSs and ordinary shares and could result in adverse consequences under our outstanding borrowings.

Inspections of other firms that the PCAOB has conducted outside the PRC have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of the PCAOB to conduct full inspections of auditors in the PRC makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside the PRC that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

If the settlement reached between the SEC and the Big Four PRC-based accounting firms (including our independent registered public accounting firm), concerning the manner in which the SEC may seek access to audit working papers from audits in China of U.S.-listed companies, is not or cannot be performed in a manner acceptable to authorities in China and the U.S., we could be unable to timely file future financial statements in compliance with the requirements of the U.S. Exchange Act.

In late 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese affiliates of the "Big Four" accounting firms (including our independent registered public accounting firm). A first instance trial of the proceedings in July 2013 in the SEC's internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed

penalties on the Chinese accounting firms, including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioners had taken place, the Chinese accounting firms reached a settlement with the SEC whereby the proceedings were stayed. Under the settlement, the SEC accepted that future requests by the SEC for the production of documents would normally be made to the China Securities Regulatory Commission, or the CSRC. The Chinese accounting firms would receive requests matching those under Section 106 of the Sarbanes-Oxley Act of 2002, and would be required to abide by a detailed set of procedures with respect to such requests, which in substance would require them to facilitate production via the CSRC. The CSRC for its part initiated a procedure whereby, under its supervision and subject to its approval, requested classes of documents held by the accounting firms could be sanitized of problematic and sensitive content so as to render them capable of being made available by the CSRC to U.S. regulators.

Under the terms of the settlement, the underlying proceeding against the four PRC-based accounting firms was deemed dismissed with prejudice at the end of four years starting from the settlement date, which was on February 6, 2019. Despite the final ending of the proceedings, the presumption is that all parties will continue to apply the same procedures: i.e. the SEC will continue to make its requests for the production of documents to the CSRC, and the CSRC will normally process those requests applying the sanitization procedure. We cannot predict whether, in cases where the CSRC does not authorize production of requested documents to the SEC, the SEC will further challenge the four PRC-based accounting firms' compliance with U.S. law. If additional challenges are imposed on the Chinese affiliates of the "Big Four" accounting firms, we could be unable to timely file future financial statements in compliance with the requirements of the U.S. Exchange Act.

In a statement issued in December 2019, the SEC reiterated concerns over inability of the PCAOB to conduct inspections of the audit firm work papers with respect to United States-listed companies that have operations in China, and emphasized the importance of audit quality in emerging markets, such as China.

On April 21, 2020, the SEC and the PCAOB issued a new joint statement, reminding the investors that in many emerging markets, including China, there is substantially greater risk that disclosures will be incomplete or misleading and, in the event of investor harm, substantially less access to recourse, in comparison to United States domestic companies, and stressing again the PCAOB's inability to inspect audit work papers in China and its potential harm to investors. However, it remains unclear what further actions the SEC and PCAOB will take to address the problem.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the U.S. Exchange Act and ultimately lead to possible delisting. Moreover, any negative news about any such future proceedings against these accounting firms may cause investor uncertainty regarding China-based, United States-listed companies and the trading price of our ADSs may be adversely affected.

If our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the U.S.

Exchange Act. Such a determination could ultimately lead to the delisting of our ADSs from the NASDAQ Global Select Market or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

RISKS RELATED TO DOING BUSINESS IN CHINA

We are subject to many of the economic and political risks associated with emerging markets due to our operations in China. Adverse changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could adversely affect our business.

With global presence, we conduct a substantial portion of our business and operations in China, the world's largest emerging market. As the lodging industry is highly sensitive to business and personal discretionary spending levels, it tends to decline during general economic downturns. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to economic developments in China. China's economy differs from the economies of most developed countries in many respects, including with respect to fluctuation in GDP, unfavorable or unpredictable treatment in relation to tax matters, possible expropriation of private assets, regulatory proceedings, inflation, currency fluctuation, the absence of, or unexpected changes in, regulations and unforeseeable operational risks, the amount and degree of government involvement and influence on the level of development, growth rate, control of foreign exchange, restrictions affecting our ability to make cross-border transfer of funds and allocation of resources. The economies of emerging markets are also typically more vulnerable to market downturns and economic slowdowns elsewhere in the world. While the PRC economy has experienced significant growth in the past four decades, growth has been uneven across different regions and among various economic sectors of China. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. While some of these measures benefit the overall PRC economy, they may also have a negative effect on us. For example, our results of operations and financial condition may be adversely affected by government control over capital investments or changes in environmental, health, labor or tax regulations that are applicable to us.

As the PRC economy is increasingly intricately linked to the global economy, it is affected in various respects by downturns and recessions of major economies around the world, such as the global financial crisis and sovereign debt crisis in Europe. Stimulus measures designed to help China weather the global financial crisis may contribute to higher inflation, which could adversely affect our results of operations and financial condition. For example, certain operating costs and expenses, such as employee compensation and hotel operating expenses, may increase as a result of higher inflation. Measures to control the pace of economic growth may cause a decrease in the level of economic activity in China, which in turn could adversely affect our results of operations and financial condition. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies.

The PRC government also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or

companies. Certain measures adopted by the PRC government, such as changes of the People's Bank of China's statutory deposit reserve ratio and lending guideline imposed on commercial banks, may restrict loans to certain industries. The State Administration of Foreign Exchange, or "SAFE," and the relevant Chinese banks where our operating subsidiaries or variable interest entities ("**VIEs**") in China opened bank accounts may adopt restrictions on the cross-border payment obligations and dividends repatriation made by these subsidiaries or VIEs by way of "window guidance" measures. These actions, as well as future actions and policies of the PRC government, could materially affect our liquidity and access to capital and our ability to operate our business.

Inflation in China may disrupt our business and have an adverse effect on our financial condition and results of operations.

The Chinese economy has experienced rapid expansion together with rising rates of inflation and increasing salaries. Salary increases could potentially increase discretionary spending on travel, but general inflation may also erode disposable incomes and consumer spending. Furthermore, certain components of our operating costs, including personnel, food, laundry, consumables and property development and renovation costs, may increase as a result of an increase in the cost of materials and labor resulting from general inflation. However, we cannot guarantee that we can pass increased costs to customers through room rate increases. This could adversely impact our business, financial condition and results of operations.

Uncertainties with respect to the Chinese legal system could limit the legal protections available to us and our investors and have a material adverse effect on our business and results of operations.

The PRC legal system is a civil law system based on written statutes. Unlike in common law systems, prior court decisions may be cited for reference but have limited precedential value. Since the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we are entitled to either by law or contract. However, since PRC administrative and court authorities have significant discretion and no uniform way in interpreting and implementing statutory and contractual terms, it may be more difficult than in other legal systems to evaluate the outcomes of administrative and court proceedings and the level of legal protection we are entitled to. These uncertainties may impede our ability to enforce the contracts we have entered into. In addition, such uncertainties, including the inability to enforce our contracts, could materially and adversely affect our business. Accordingly, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

Rapid urbanization and changes in zoning and urban planning in China may cause our leased and owned hotels to be demolished, removed or otherwise affected and our franchise agreements to terminate.

China is undergoing a rapid urbanization process, and zoning requirements and other governmental mandates with respect to urban planning of a particular area may change from time to time. When there is a change in zoning requirements or other governmental mandates

with respect to the areas where our hotels are located, the affected hotels may need to be demolished or removed. We have experienced such demolition and relocation in the past and we may encounter additional demolition and relocation cases in the future. For example, in 2019, we were obligated to demolish one leased hotel due to local government zoning requirements, respectively. In addition, as of June 30, 2020, we were notified by local government authorities that we may have to demolish seven additional leased hotels due to local zoning requirements. Our franchise agreements typically provide that if the manachised or franchised hotels are demolished, the franchise agreements will terminate. Historically, certain of our manachised hotels were demolished due to local government zoning requirements. Similar demolitions, termination of franchise agreements or interruptions of our hotel operations due to zoning or other local regulations could occur in the future. Any such further demolition and relocation could cause us to lose primary locations for our hotels and we may not be able to achieve comparable operation results following the relocations. While we may be reimbursed for such demolition and relocation, we cannot assure you that the reimbursement, as determined by the relevant government authorities, will be sufficient to cover our direct and indirect losses. Accordingly, our business, results of operations and financial condition could be adversely affected.

Governmental control of currency conversion may limit our ability to pay dividends in foreign currencies to our shareholders and therefore adversely affect the value of your investment.

We are a company incorporated in the Cayman Islands. Our ability to pay dividends depends upon, among other things, our PRC subsidiaries' ability to obtain and remit sufficient foreign currency. Our PRC subsidiaries must present certain documents to SAFE, its authorized branch, or the designated foreign exchange bank before they can obtain and remit foreign currencies out of the PRC, including evidence that the relevant PRC taxes have been paid. If our PRC subsidiaries, for any reason, fail to satisfy any of the PRC legal requirements for remitting foreign currency, our ability to pay dividends would be adversely affected.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. See "Regulatory Overview—PRC Regulations—Regulations on Foreign Currency Exchange" for a discussions of the principal regulations and rules governing foreign currency exchange in China. We receive a substantial portion of our revenues in RMB. For most capital account items, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs and Shares, which would adversely affect the value of your investment.

Fluctuation in the value of the Renminbi may have a material adverse effect on your investment.

The value of the Renminbi against the U.S. dollar, Euro, Hong Kong dollar and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies.

A significant portion of our revenues, expenses and financial assets are denominated in RMB. Our reporting currency is Renminbi. The functional currencies of the entities within Deutsche Hospitality include Euro and other currencies such as Swiss Franc. Our exposure to foreign exchange risk primarily relates to cash and cash equivalents and loans denominated in U.S. dollars and Euro, and our investment in equity securities of Accor denominated in Euro. We rely substantially on dividends paid to us by our operating subsidiaries in China and Europe. Any significant depreciation of the Renminbi or Euro against the U.S. dollar may have a material adverse effect on our revenues, and the value of our ADSs and Shares, when translated into U.S. dollars. If we decide to convert our Renminbi or Euro into U.S. dollars or Hong Kong dollars for the purpose of making payments for dividends on our Shares or for other business purposes, depreciation of the Renminbi or Euro against the U.S. dollar or Hong Kong dollar would reduce the U.S. dollar or Hong Kong dollar amount available to us. On the other hand, to the extent that we need to convert U.S. dollars or Hong Kong dollars into Renminbi or Euro for our operations, appreciation of the Renminbi or Euro against the U.S. dollar or Hong Kong dollar would have an adverse effect on the Renminbi or Euro amount we receive from the conversion. See "Financial Information—Quantitative and Qualitative Financial Risks—Foreign Exchange Risk" for discussions of our exposure to foreign currency risks.

In addition, while our reporting currency is Renminbi, we also have operations in Europe (namely, Deutsche Hospitality) with the functional currencies of Euro and other currencies such as Swiss Franc. When the Renminbi appreciates (or depreciates) against these other functional currencies, such as Euro and Swiss Franc, our revenues from these operations could decrease (or increase) when translated into Renminbi. In summary, fluctuation in the value of the Renminbi in either direction could result in the fluctuation in the value of our Company and the value of your investment.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us, or otherwise adversely affect us.

On July 4, 2014, SAFE issued the Circular of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration of the Overseas Investment and Financing and Round-trip Investments by Domestic Residents through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), or Circular 37, which replaced the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles issued by SAFE in October 2005, or Circular 75. Pursuant to Circular 37, any PRC residents, including both PRC institutions and individual residents, are required to register with the local SAFE branch before making contribution to a company set up or controlled by the PRC residents outside of the PRC for the purpose of overseas investment or financing with their legally owned domestic or offshore assets or interests, referred to in this circular as a "special purpose vehicle." In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or spin-offs. In February 2015, SAFE promulgated the Notice on Further Simplifying and Improving the Foreign Exchange Management Policies on Direct Investment(《關於進一步簡化和改進直接投資外匯管理政策的通知》), which took effect on June 1, 2015. This notice has amended SAFE Circular 37, requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing, where banks are

required to review and carry out foreign exchange registration for offshore direct investments, and SAFE and its branches supervise foreign exchange registration for direct investments indirectly through the banks. See "Regulatory Overview—PRC Regulations—Regulations on Offshore Financing" for a discussions of the registration requirements and the relevant penalties.

We attempt to comply, and attempt to ensure that our shareholders and beneficial owners of our shares who are subject to these rules comply, with the relevant requirements. We cannot provide any assurance that our shareholders and beneficial owners of our shares who are PRC residents have complied or will comply with the requirements imposed by Circular 37 or other related rules. Any failure by any of our shareholders and beneficial owners of our shares who are PRC residents to comply with relevant requirements under this regulation could subject such shareholders, beneficial owners and us to fines or sanctions imposed by the PRC government, including limitations on our relevant subsidiary's ability to pay dividends or make distributions to us and our ability to increase our investment in China, or other penalties that may adversely affect our operations.

We rely principally on dividends and other distributions on equity paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.

We are a holding company, and we rely principally on dividends from our subsidiaries in China for our cash requirements, including any debt we may incur. Current PRC laws and regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our subsidiaries in China is required to set aside a certain percentage of its after-tax earnings each year, if any, to fund certain statutory reserves. These reserves are not distributable as cash dividends. As of March 31, 2020, a total of RMB604 million (US$87 million) was not distributable in the form of dividends to us due to these PRC regulations. Furthermore, if our subsidiaries in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. The inability of our subsidiaries to distribute dividends or other payments to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds from offerings of the ADSs, Shares or other securities to make loans or additional capital contributions to our PRC operating subsidiaries and VIEs.

As an offshore holding company, our ability to make loans or additional capital contributions to our PRC operating subsidiaries and VIEs is subject to PRC regulations and approvals. These regulations and approvals may delay or prevent us from using the proceeds we received in the past or will receive in the future from the offerings of ADSs, Shares or other securities to make loans or additional capital contributions to our PRC operating subsidiaries and VIEs, and impair our ability to fund and expand our business which may adversely affect our business, financial condition and result of operations. For example, SAFE promulgated the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement Under the Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), or Circular 16, on June 9, 2016. Under Circular 16, registered capital of a foreign-invested company settled in RMB converted from foreign currencies shall be subject to certain limitations prescribed under Circular 16. In

addition, foreign-invested companies may not change how they use such capital without SAFE's approval, and may not in any case use such capital to repay RMB loans if they have not used the proceeds of such loans.

Furthermore, any offshore funds that we use to finance our PRC entities, including the net proceeds from the offering of the ADSs, Shares or other securities, are subject to the foreign investment regulations and foreign exchange regulations in the PRC. We may make loans to our PRC entities, but they are subject to approval by or registration with relevant governmental authorities in the PRC. Furthermore, the application of the proceeds under the ADSs, Shares or other securities is subject to the foreign exchange regulations in the PRC. We may also decide to finance our entities by means of capital contributions. According to the relevant PRC regulations on foreign-invested enterprises in China, depending on the total amount of investment, capital contributions to our PRC operating subsidiaries and VIEs is no longer subject to the approval of the PRC Ministry of Commerce or its local branches. Instead, if we finance our PRC subsidiaries by means of additional capital contributions, these capital contributions must be filed and registered with relevant government authorities, including the MOFCOM or its local counterparts, SAMR through the Enterprise Registration System (企業登記系統) and the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統), and SAFE. However, we cannot assure you that the regulations will always remain favorable to us. If the regulations are revised in the future or we fail to complete such registration or obtain such approvals on time, our ability to use the proceeds of the ADSs, Shares or other securities and to capitalize our operations in PRC may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

We may be subject to fines and legal sanctions imposed by SAFE or other Chinese government authorities and our ability to further grant shares or share options to, and to adopt additional share incentive plans for, our Directors and employees may be restricted if we or the participants of our share incentive plans fail to comply with PRC regulations relating to employee shares or share options granted by offshore special purpose companies or offshore listed companies to PRC participants.

In February 2012, SAFE issued the Notice on Relevant Issues Concerning Foreign Exchange Control on Domestic Individuals Participating in the Stock Incentive Plan of An Overseas Listed Company (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》), or Circular 7, which requires PRC individual participants of stock incentive plans to register with the SAFE and to comply with a series of other requirements. See "Regulatory Overview—PRC Regulations—Regulations on Foreign Currency Exchange." We are an offshore listed company and as a result we and the participants of our share incentive plans who are PRC citizens or non-PRC citizens residing in China successively for at least one year, or, collectively, the PRC participants, are subject to Circular 7. While we completed the foreign exchange registration procedures and complied with other requirements according to Circular 7 in June 2012 and April 2019 respectively, we cannot provide any assurance that we or the PRC participants of our share incentive plans have complied or will comply with the requirements imposed by Circular 7. If we or the PRC participants of our share incentive plans fail to comply with Circular 7, we or the PRC participants of our share incentive plans may be subject to fines or other legal sanctions imposed by SAFE or other PRC government authorities and our ability to further grant shares or share options under our share incentive plans to, and to adopt additional share incentive plans for, our Directors and employees may be restricted. Such events could adversely affect our business operations.

It is unclear whether we will be considered as a PRC resident enterprise under the Enterprise Income Tax Law of the PRC, and depending on the determination of our PRC resident enterprise status, if we are not treated as a PRC resident enterprise, dividends paid to us by our PRC subsidiaries will be subject to PRC withholding tax; if we are treated as a PRC resident enterprise, we may be subject to 25% PRC income tax on our worldwide income, and holders of our ADSs or Shares that are non-PRC resident investors may be subject to PRC withholding tax on dividends on and gains realized on their transfer of our ADSs or Shares.

On March 16, 2007, the PRC National People's Congress passed the Enterprise Income Tax Law (《中華人民共和國企業所得税法》), and the PRC State Council subsequently issued the Implementation Regulations of the Enterprise Income Tax Law (《中華人民共和國企業所得税法實施條例》) (the "**Implementation Regulations**"). The Enterprise Income Tax Law (last amended on December 29, 2018) and its Implementation Regulations (amended on April 23 2019), collectively the "EIT Law," provides that enterprises established outside of China whose "de facto management bodies" are located in China are considered resident enterprises and are therefore subject to the PRC enterprise income tax at a uniform rate of 25% with respect to their income sourced from both within and outside of China. The Implementation Regulations define the term "de facto management body" as a management body that exercises substantial and overall control and management over the production and operations, personnel, accounting and properties of an enterprise.

On April 22, 2009, the State Taxation Administration (the "**STA**") (previously known as State Administration of Taxation, or the "SAT") issued the Notice on Issues Regarding the Determination of Chinese-Controlled Enterprise Registered Offshore as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), or Circular 82. Circular 82 provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore-incorporated enterprise is located in China. In addition, the Circular 82 was amended by SAT amended on January 29, 2014 by the Determination of Resident Enterprises Based on the Standards of Actual Management Institutions (《國家税務總局關於依據實際管理機構標準實施認定有關問題的公告》), and has been partially abolished on December 29, 2017 by the SAT pursuant to Decision of the State Administration of Taxation on Issuing the Catalogues of Tax Departmental Rules and Tax Regulatory Documents Which Are Invalidated (《國家税務總局關於公佈失效廢止的税務部門規章和税收規範性文件目錄的決定》) and the Administrative Measures on the Corporate Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial) (《境外註冊中資控股居民企業所得税管理辦法 (試行)》) issued on July 27, 2011, and amended on April 17 2015, June 15, 2018, and partially abolished on June 28, 2016 providing clarification for resident status determination and competent tax authorities. However, the above-mentioned tax circulars apply only to offshore enterprises controlled by PRC enterprises, not those invested in or controlled by PRC individuals, like our Company. Currently, there are no further detailed rules or precedents applicable to us regarding the procedures and specific criteria for determining "de facto management body" for a company like us. It is still unclear if the PRC tax authorities would determine that we should be classified as a PRC resident enterprise.

Although we have not been notified that we are treated as a PRC resident enterprise, we cannot assure you that we will not be treated as a resident enterprise under the EIT Law, any aforesaid circulars or any amended regulations in the future. If we are treated as a PRC resident enterprise for PRC enterprise income tax purposes, among other things, we would be subject to the PRC enterprise income tax at the rate of 25% on our worldwide taxable income. Furthermore, if we are treated as a PRC resident enterprise, payments of dividend by us may be regarded as derived from sources within the PRC and therefore we may be obligated to

withhold PRC income tax at 10% on payments of dividend on the ADSs or shares to non-PRC resident enterprise investors. In the case of non-PRC resident individual investors, the individual income tax may be withheld at a rate of 20%.

In addition, if we are treated as a PRC resident enterprise, any gain realized on the transfer of the ADSs and/or shares by non-PRC resident investors may be regarded as derived from sources within the PRC and accordingly may be subject to a 10% PRC income tax in the case of non-PRC resident enterprises or 20% in the case of non-PRC resident individuals. The PRC income tax on dividends and/or gains may be reduced or exempted under applicable tax treaties between the PRC and the ADS holder's home country. See "Regulatory Overview—PRC Regulations—Regulations on Taxation."

RISKS RELATED TO OUR ADSs, SHARES AND THE LISTING

As a company applying for listing under Chapter 19C, we adopt different practices as to certain matters as compared with many other companies listed on the Hong Kong Stock Exchange.

As we are applying for listing under Chapter 19C of the Hong Kong Listing Rules, we will not be subject to certain provisions of the Hong Kong Listing Rules pursuant to Rule 19C.11, including, among others, rules on notifiable transactions, connected transactions, share option schemes and content of financial statements as well as certain other continuing obligations. In addition, in connection with the Listing, we have applied for a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (WUMP) Ordinance, the Takeovers Codes and the SFO. As a result, we will adopt different practices as to those matters as compared with other companies listed on the Hong Kong Stock Exchange that do not enjoy those exemptions or waivers. For additional information, see "Waivers and Exemptions."

Our Articles of Association are specific to us and include certain provisions that may be different from the requirements under the Hong Kong Listing Rules and common practices in Hong Kong. For example, Rule 19C.07(7) of the Hong Kong Listing Rules provides that the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of a Qualifying Issuer, but our Articles of Association do not provide such a provision. We will put forth a resolution at or before our next annual general meeting to be held after the Listing to revise our Articles of Association to comply with Rule 19C.07(7) of the Hong Kong Listing Rules. The next annual general meeting after the Listing is expected to be held in the fourth quarter of this year.

Furthermore, if 55% or more of the total worldwide trading volume, by dollar value, of our ADSs and Shares over our most recent fiscal year takes place on the Hong Kong Stock Exchange, the Hong Kong Stock Exchange will regard us as having a dual primary listing in Hong Kong and we will no longer enjoy certain exemptions or waivers from strict compliance with the requirements under the Hong Kong Listing Rules, the Companies (WUMP) Ordinance, the Takeovers Codes and the SFO, which could result in our incurring of incremental compliance costs.

The trading price for our ADSs has been and may continue to be volatile and the trading price of the Shares may be volatile, which could result in substantial losses to holders of our ADSs and/or Shares.

The trading price for our ADSs has been volatile and has ranged from a low of US$25.01 to a high of US$41.5 on the NASDAQ Global Select Market in the six months ended June 30, 2020. The trading price for our Shares may also be volatile. The trading prices for our ADSs and Shares are subject to wide fluctuations in response to various factors, including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- conditions in the travel and lodging industries;
- changes in the economic performance or market valuations of other lodging companies;
- announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;
- addition or departure of key personnel;
- fluctuations of exchange rates among the RMB, U.S. dollar, Euro, Hong Kong dollar and other foreign currencies;
- potential litigation or administrative investigations;
- release of lock-up or other transfer restrictions on our outstanding ADSs or Shares or sales of additional ADSs or Shares;
- political or market instability or disruptions, and actual or perceived social unrest in the United States, Hong Kong or other jurisdictions; and
- general economic or political conditions primarily in China, as well as in Europe.

In addition, the market prices for companies with operations in China in particular have experienced volatility that might have been unrelated to the operating performance of such companies. The securities of some China-based companies that have listed their securities in the United States or Hong Kong have experienced significant volatility, including, in some cases, substantial declines in the market prices of their securities. The performance of the securities of these China-based companies after their offerings may affect the attitudes of investors toward Chinese companies listed in the United States or Hong Kong, which consequently may impact the performance of our ADSs and Shares, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other China-based companies may also negatively affect the attitudes of investors towards China-based companies in general, including us, regardless of whether we have engaged in any inappropriate activities.

The global financial crisis and the ensuing economic recessions in many countries have contributed and may continue to contribute to extreme volatility in the global stock markets, such as the large declines in share prices in the United States, mainland China, Hong Kong and other jurisdictions at various times since 2008. These broad market and industry fluctuations may adversely affect the prices of our ADSs and Shares, regardless of our operating performance.

The volatility resulting from any of the above factors may affect the price at which you could sell the ADSs or Shares.

We may need additional capital, and the sale of additional ADSs, Shares or other equity securities could result in additional dilution to our shareholders and the incurrence of additional indebtedness could increase our debt service obligations.

We believe that our current cash and cash equivalents, anticipated cash flow from operations, and funds available from borrowings under our bank facilities (including the undrawn bank facilities currently available to us and bank facilities we plan to obtain in 2020) will be sufficient to meet our anticipated working capital cash needs for at least the next 12 months. We may, however, require additional cash resources due to changed business conditions, strategic acquisitions or other future developments, including expansion through leased and owned hotels and any investments or acquisitions we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity and equity-linked securities could result in additional dilution to our shareholders. The sale of substantial amounts of our ADSs or Shares could dilute the interests of our shareholders and ADS holders and adversely impact the trading prices of our ADSs and Shares. As of June 30, 2020, we had approximately 165.8 million Shares outstanding held as ADSs, options to purchase 34,068 Shares (of which 34,068 were exercisable as of that date) and approximately 9.5 million nonvested restricted stocks outstanding. The conversion of some or all of our convertible senior notes due 2022 and our convertible senior notes due 2026 will dilute the ownership interests of existing shareholders and holders of the ADSs. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

In addition, due to the global outbreak of COVID-19, our business has been significantly impacted and we experienced operating losses and negative operating cash flows in the first quarter of 2020. If this trend continues, it may trigger breaches of financial covenants of the facility agreement for our syndicated loans. Furthermore, holders of our convertible senior notes due 2022 have the right to require us to repurchase their notes on November 2, 2020. If we are unable to achieve or maintain profitability and meet these financial obligations, the trading prices of our ADSs and Shares may significantly decrease.

Future sales or issuances, or perceived future sales or issuances, of substantial amounts of our Shares, or ADSs or convertible securities could adversely affect the prices of our ADSs and Shares.

If we or our existing shareholders sell, or are perceived as intending to sell, substantial amounts of our Shares, ADSs or convertible securities, including those issued upon the exercise of our outstanding stock options and conversion of our outstanding convertible notes, the trading prices of our ADSs and Shares could fall. Any sales, or perceived potential sales, by our existing shareholders might make it more difficult for us to issue new equity or equity-related securities in the future at a time and place we deem appropriate. Shares held by our existing

shareholders may be sold in the public market in the future subject to the restrictions contained in Rule 144, Rule 701 and Regulation S under the Securities Act and the applicable lock-up agreements. If any existing shareholders sell a substantial amount of ADSs and/or Shares after the expiration of the lock-up period, the prevailing trading prices for our ADSs and Shares could be adversely affected. In addition, certain of our shareholders or their transferees and assignees will have the right to cause us to register the sale of their shares under the Securities Act upon the occurrence of certain circumstances. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the public market could cause the price of our ADSs and/or Shares to decline.

Furthermore, we will be required to issue ADSs to holders of our convertible senior notes due 2022 upon their conversion of the notes. These ADS issuances' dilutive effect on our existing shareholders' interests in our Company may not be fully offset by the existing capped call transactions that we entered into in connection with our convertible senior notes due 2022. In addition, we have not entered into any hedging transactions to reduce the dilution to our existing shareholders upon the holders' conversion of our convertible senior notes due 2026. As a result, the prevailing trading prices of our ADSs and Shares could be adversely affected by conversions of these notes.

As our founder and co-founders collectively hold a controlling interest in us, they have significant influence over our management and their interests may not be aligned with our interests or the interests of our other shareholders.

As of the Latest Practicable Date, our founder, Mr. Ji Qi, who is also our executive chairman and our chief executive officer, and our co-founders, Ms. Zhao Tong Tong and Mr. John Wu Jiong, in total beneficially own approximately 36.1% of our outstanding Shares on an as-converted basis. See "Major Shareholders." The interests of these shareholders may conflict with the interests of our other shareholders. Our founder and co-founders have significant influence over us, including on matters relating to mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of us, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of us or of our assets and might reduce the prices of our ADSs and Shares. These actions may be taken even if they are opposed by our other shareholders, including holders of our ADSs and/or Shares.

Holders of our ADSs may not receive dividends or other distributions on our Shares and may not receive any value for them, if it is illegal or impractical to make them available to these holders.

The depositary of the ADSs has agreed that if it or the custodian receives any cash dividends or other distributions on our Shares or other deposited securities underlying the ADSs, it will pay them to the holders of ADSs after deducting its fees and expenses pursuant to the deposit agreement. The holders of ADSs will receive these distributions in proportion to the number of Shares their ADSs represent. However, the depositary or the custodian is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act, but that are not properly registered or distributed under an applicable exemption from registration. The depositary may also determine that it is not practicable to distribute certain property. In these cases, the depositary may determine not to distribute such property. We have no obligation to register

under U.S. securities laws any ADSs, Shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, Shares, rights or anything else to holders of ADSs. This means that the holders of ADSs may not receive distributions we make on our Shares or any value for them if it is illegal or impractical for us to make them available to these holders. These restrictions may cause a material decline in the value of the ADSs.

ADS holders may not have the same voting rights as the holders of our Shares and generally have fewer rights than our Shareholders, and must act through the depositary to exercise those rights.

Holders of ADSs do not have the same rights as our Shareholders and may only exercise voting and other shareholder rights with respect to the underlying Shares in accordance with the provisions of the deposit agreement. Except as described in the deposit agreement, holders of our ADSs may not be able to exercise voting rights attaching to the shares evidenced by our ADSs on an individual basis. Holders of our ADSs appoint the depositary or its nominee as their representative to exercise the voting rights attaching to the shares represented by the ADSs. ADS holders may not receive voting materials in time to instruct the depositary to vote, and it is possible that they may not have the opportunity to exercise a right to vote and/or may lack recourse if the ADSs are not voted as you requested.

Except in limited circumstances, the depositary will give us a discretionary proxy to vote our Shares underlying the ADSs if holders of these ADSs do not give voting instructions to the depositary, which could adversely affect the interests of holders of Shares and/or the ADSs.

Under the deposit agreement, the depositary will give us a discretionary proxy to vote the Shares underlying the ADSs at shareholders' meetings if holders of these ADSs do not give voting instructions to the depositary, unless:

- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting may adversely affect the rights of shareholders; or
- voting at the meeting is made on a show of hands.

The effect of this discretionary proxy is that, if holders of ADSs fail to give voting instructions to the depositary, they cannot prevent our Shares underlying their ADSs from being voted, except under the circumstances described above. This may make it more difficult for shareholders to influence our management. Holders of our Shares are not subject to this discretionary proxy.

ADS holders may not be able to participate in rights offerings and may experience dilution of his, her or its holdings as a result.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for the ADSs, the depositary will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act, or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a

registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings as a result.

ADS holders may be subject to limitations on transfer of their ADSs.

Our ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

As a foreign private issuer, we are permitted to, and we will, rely on exemptions from certain NASDAQ corporate governance standards applicable to U.S. issuers, including the requirement regarding the implementation of a nominations committee. This may afford less protection to holders of our Shares and ADSs.

The NASDAQ Marketplace Rules in general require listed companies to have, among other things, a nominations committee consisting solely of independent directors. As a foreign private issuer, we are permitted to, and we will, follow home country corporate governance practices instead of certain requirements of the NASDAQ Marketplace Rules, including, among others, the implementation of a nominations committee. The corporate governance practice in our home country, the Cayman Islands, does not require the implementation of a nominations committee. We currently intend to rely upon the relevant home country exemption in lieu of the nominations committee. As a result, the level of independent oversight over management of our Company may afford less protection to holders of our Shares and ADSs.

Our articles of association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our ordinary shares and ADSs.

Our amended and restated articles of association contain provisions that have potential to limit the ability of others to acquire control of our company or cause us to enter into change-of-control transactions. These provisions could have the effect of depriving our shareholders of opportunities to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction.

For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more classes or series and to fix their designations, powers, preferences, and relative participating, optional or other rights and the qualifications, limitations or restrictions, including, without limitation, dividend rights, conversion rights, voting rights, terms of redemption privileges and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares, in the form of ADSs or otherwise. In the event these preferred shares have better voting rights than our ordinary shares, in the form of ADSs or otherwise, they could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the prices of our ADSs and ordinary shares may decline and the voting and other rights of the holders of our ordinary shares and ADSs may be materially and adversely affected.

The provisions of our articles of association may encourage potential acquirers to negotiate with us and allow our board of directors the opportunity to consider alternative proposals in the interest of maximizing shareholder value. However, these provisions may also discourage acquisition proposals or delay or prevent a change in control that could be beneficial to holders of our ordinary shares and ADSs.

You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts or Hong Kong courts may be limited. The ability of U.S. or Hong Kong authorities to bring actions against us or our management may also be limited.

We are incorporated in the Cayman Islands, and conduct a substantial portion of our business and operations through our subsidiaries in China, the world's largest emerging market. With the acquisition of Deutsche Hospitality in January 2020, we also operate some of our business in Germany, among other jurisdictions. Most of our officers reside outside the United States and Hong Kong and some or all of the assets of those persons are located outside of the United States and Hong Kong. It may be difficult or impossible for you to bring an action against us or against these individuals in the Cayman Islands, China, Hong Kong or Germany in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind outside the Cayman Islands, China, Hong Kong or Germany, the laws of the Cayman Islands, China, Hong Kong and Germany may render you unable to effect service of process upon, or to enforce a judgment against our assets or the assets of our Directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, Hong Kong, China or Germany. A judgment obtained in such jurisdiction will be recognized and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment (a) is given by a foreign court of competent jurisdiction; (b) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given; (c) is final; (d) is not in respect of taxes, a fine or a penalty; and (e) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands.

A judgment of a court of another jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a treaty with China or if judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of other requirements. However, China does not have treaties providing for the reciprocal enforcement of judgments of courts with Japan, the United Kingdom, the United States and most other Western countries. There are also uncertainties as to the enforceability in Germany of civil liabilities based on the U.S. federal and state securities laws or Hong Kong laws, either in an original action or in an action to enforce a judgment obtained in U.S. courts or Hong Kong courts (as the case may be). Germany currently does not have a treaty with the U.S. or Hong Kong providing for the reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. German courts usually deny the recognition and enforcement of punitive damages as incompatible with the fundamental principles of German law. In addition, due to jurisdictional limitations, matters of comity and various other factors, the SEC, Department of Justice and other U.S. authorities may be limited in their ability to take enforcement actions, including in instances of fraud, against us or our Directors and officers in China. In addition, shareholder claims that are common in the United States, including class action securities law and fraud claims, are generally uncommon in China.

Our corporate affairs are governed by our Articles of Association and by the Cayman Companies Law and the common law of the Cayman Islands. The rights of shareholders to take legal action against our Directors and us, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our Directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States and Hong Kong. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States and Hong Kong, and provides significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States or the courts of Hong Kong. Furthermore, our Articles of Association are specific to us and include certain provisions that may be different from common practices in Hong Kong, such as the absence of requirements that the appointment, removal and remuneration of auditors must be approved by a majority of our shareholders. See "Information About the Listing" and "Waivers and Exemptions—Shareholder Protection Requirements" for further details. As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against our management, Directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States or in Hong Kong.

It may be difficult for overseas regulators to conduct investigations or collect evidence within China.

Shareholder claims or regulatory investigations that are common in the United States generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigation initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of mutual and practical cooperation mechanisms. Furthermore, according to Article 177 of the PRC Securities Law, or Article 177, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. While detailed interpretations of or implementation rules under Article 177 have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China may increase difficulties you may face in protecting your interests.

The different characteristics of the capital markets in Hong Kong and the U.S. may negatively affect the trading prices of our Shares and ADSs.

Upon the Listing, we will be subject to Hong Kong and NASDAQ listing and regulatory requirements concurrently. The Hong Kong Stock Exchange and the NASDAQ Global Select Market have different trading hours, trading characteristics (including trading volume and liquidity), trading and listing rules, and investor bases (including different levels of retail and institutional participation). As a result of these differences, the trading prices of our Shares and/or ADSs may not be the same, even allowing for currency differences and the ADS ratio. Fluctuations in the price of our ADSs due to circumstances peculiar to the U.S. capital markets could materially and adversely affect the price of the Shares, or vice versa. Certain events having significant negative impact specifically on the U.S. capital markets may result in a

decline in the trading price of our Shares notwithstanding that such event may not impact the trading prices of securities listed in Hong Kong generally or to the same extent, or vice versa. Because of the different characteristics of the U.S. and Hong Kong capital markets, the historical market prices of our ADSs may not be indicative of the trading performance of the Shares after the Global Offering.

Exchange between our Shares and our ADSs may adversely affect the liquidity and/or trading price of each other.

Our ADSs are currently traded on the NASDAQ Global Select Market. Subject to compliance with U.S. securities law and the terms of the deposit agreement, holders of our Shares may deposit Shares with the depositary in exchange for the issuance of our ADSs. Any holder of ADSs may also withdraw the Shares underlying the ADSs pursuant to the terms of the deposit agreement for trading on the Hong Kong Stock Exchange. In the event that a substantial number of Shares are deposited with the depositary in exchange for ADSs, or vice versa, the liquidity and trading prices of our Shares on the Hong Kong Stock Exchange and our ADSs on the NASDAQ Global Select Market may be adversely affected.

The time required for the exchange between Shares and ADSs may be longer than expected and investors may not be able to settle or effect any sale of their securities during this period, and the exchange of Shares into ADSs involves costs.

There is no direct trading or settlement route between the NASDAQ Global Select Market and the Hong Kong Stock Exchange on which our ADSs and the Shares are respectively traded. In addition, the time differences between Hong Kong and New York and unforeseen market circumstances or other factors may delay the deposit of Shares in exchange of ADSs or the withdrawal of Shares underlying the ADSs. Investors will be prevented from settling or effecting the sale of their securities during such periods of delay. In addition, there is no assurance that any exchange of Shares into ADSs (and vice versa) will be completed in accordance with the timelines investors may anticipate.

Furthermore, the depositary for the ADSs is entitled to charge holders fees for various services including for the issuance of ADSs upon deposit of Shares, the release of Shares upon cancelation of ADSs, distributions of cash dividends or other cash distributions, distributions of ADSs pursuant to share dividends or other free share distributions, distributions of securities other than ADSs and annual service fees. As a result, shareholders who exchange Shares into ADSs, and vice versa, may not achieve the level of economic return the shareholders may anticipate.

We are exposed to risks associated with the potential spin-off of one or more of our businesses

We are exposed to risks associated with the potential spin-off of one or more of our businesses. We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements in paragraph 3(b) of Practice Note 15 to the Hong Kong Listing Rules such that we are able to spin off a subsidiary entity and list it on the Hong Kong Stock Exchange within three years of the Listing. While we do not have any specific plans with respect to the timing or details of any potential spin-off listing on the Hong Kong Stock Exchange as at the date of this prospectus, we continue to explore the ongoing financing requirements for our various businesses and might consider a spin-off listing on the Hong Kong Stock Exchange for one or more of those businesses within the three year period subsequent to the Listing. As of the Latest Practicable Date, we have not identified any target for a potential spin-off; as a result we do not have any information relating to the identity of any

spin-off target or any other details of any spin off and accordingly, there is no material omission of any information relating to any possible spin-off in this prospectus. The waiver granted by the Hong Kong Stock Exchange is conditional upon us confirming to the Hong Kong Stock Exchange in advance of any spin-off that it would not render the Company, excluding the businesses to be spun off, incapable of fulfilling either the eligibility or suitability requirements under Rules 19C.02 and 19C.05 of the Hong Kong Listing Rules based on the financial information of the entity or entities to be spun-off at the time of the Company's Listing (calculated cumulatively if more than one entity is spun-off). We cannot assure you that any spin-off will ultimately be consummated, whether within the three-year period after the Listing or otherwise, and any such spin-off will be subject to market conditions at the time and approval by the Listing Committee. In the event that we proceed with a spin-off, the Company's interest in the entity to be spun-off (and its corresponding contribution to the financial results of our Group) will be reduced accordingly. For additional information, see "Waivers and Exemptions—Rules related to spin-off listings."

RISKS RELATED TO THE GLOBAL OFFERING

An active trading market for the Shares on the Hong Kong Stock Exchange might not develop or be sustained, their trading prices might fluctuate significantly and the effectiveness of the liquidity arrangements might be limited.

Following the completion of the Global Offering, we cannot assure you that an active trading market for our Shares on the Hong Kong Stock Exchange will develop or be sustained. The trading price or liquidity for our ADSs on the NASDAQ Global Select Market might not be indicative of those of our Shares on the Hong Kong Stock Exchange following the completion of the Global Offering, even allowing for currency differences and the ADS ratio. If an active trading market of our Shares on the Hong Kong Stock Exchange does not develop or is not sustained after the Global Offering, the market price and liquidity of our Shares could be materially and adversely affected.

In 2014, the Hong Kong, Shanghai and Shenzhen Stock Exchanges collaborated to create an inter-exchange trading mechanism called Stock Connect that allows international and mainland Chinese investors to trade eligible equity securities listed in each other's markets through the trading and clearing facilities of their home exchange. Stock Connect currently covers over 2,000 equity securities trading in the Hong Kong, Shanghai and Shenzhen markets. Stock Connect allows mainland Chinese investors to trade directly in eligible equity securities listed on the Hong Kong Stock Exchange, known as Southbound Trading. Without Stock Connect, mainland Chinese investors would not otherwise have a direct and established means of engaging in Southbound Trading. However, it is unclear whether and when the Shares of our Company, with a secondary listing in Hong Kong upon the Listing, will be eligible to be traded through Stock Connect, if at all. The ineligibility or any delay of our Shares for trading through Stock Connect will affect mainland Chinese investors' ability to trade our Shares and therefore may limit the liquidity of the trading of our Shares on the Hong Kong Stock Exchange.

We may be subject to securities litigation, which is expensive and could divert management attention.

Companies that have experienced volatility in the volume and market prices of their shares have been subject to an increased incidence of securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, and, if adversely determined, could have a material adverse effect on our business, financial condition and results of operations.

Our management has broad discretion over the use of proceeds from this offering, and may spend the proceeds in ways with which you may disagree or that may not be profitable.

Our management will have significant discretion in applying the net proceeds that we receive from this offering. Although we expect to use the net proceeds from this offering for the purposes described in "Use of Proceeds," our Board of Directors retains significant discretion with respect to the use of proceeds and may spend the proceeds in ways with which you may disagree or that may not be profitable. If an unforeseen event occurs or business conditions change, we may use these proceeds differently than as described in "Use of Proceeds." The proceeds from this offering may be used in a manner that does not generate favorable returns. In addition, if we use the proceeds for future acquisitions or investments, there can be no assurance that we would successfully integrate any such acquisition into our operations and/or that the entity acquired or the investment made would perform as expected.

If securities or industry analysts do not continue to publish research or publish inaccurate or unfavorable research about our business, the market prices and trading volume for our ADSs and/or Shares could decline.

The trading market for the ADSs and/or Shares relies in part on the research and reports that equity research analysts publish about us or our business. We do not control these analysts. If research analysts do not maintain adequate research coverage or if one or more of the analysts who covers us downgrades our ADSs and/or Shares or publishes inaccurate or unfavorable research about our business, the market price for the ADSs and/or Shares would likely decline. If one or more of these analysts cease coverage of our Company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for the ADSs and/or Shares to decline significantly.

Since there will be a gap of several days between pricing and trading of our Shares on the Hong Kong Stock Exchange, the price of our ADSs traded on the NASDAQ Global Select Market may fall during this period and could result in a fall in the price of our Shares to be traded on the Hong Kong Stock Exchange.

The pricing of the Offer Shares will be determined on the Price Determination Date. However, Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be several Hong Kong business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the trading price of our Shares could fall when trading commences as a result of adverse market conditions or other adverse developments that could occur between the Price Determination Date and the time trading begins. In particular, as our ADSs will continue to be traded on the NASDAQ Global Select Market and their price can be volatile, any fall in the price of our ADSs may result in a fall in the price of our Shares to be traded on the Hong Kong Stock Exchange.

There is uncertainty as to whether Hong Kong stamp duty will apply to the trading or conversion of our ADSs following our initial public offering in Hong Kong and listing of our Shares on the Hong Kong Stock Exchange.

In connection with our initial public offering of Shares in Hong Kong, or the Hong Kong IPO, we will establish a branch register of members in Hong Kong, or the Hong Kong share register. Our Shares that are traded on the Hong Kong Stock Exchange, including those to be issued in the Hong Kong IPO and those that may be converted from ADSs, will be registered on the Hong Kong share register, and the trading of these Shares on the Hong Kong Stock Exchange

will be subject to the Hong Kong stamp duty. To facilitate ADS-Share conversion and trading between the NASDAQ Global Select Market and the Hong Kong Stock Exchange, we also intend to move a portion of the issued Shares from our Cayman share register to our Hong Kong share register.

Under the Hong Kong Stamp Duty Ordinance, any person who effects any sale or purchase of Hong Kong stock, defined as stock the transfer of which is required to be registered in Hong Kong, is required to pay Hong Kong stamp duty. The stamp duty is currently set at a total rate of 0.2% of the greater of the consideration for, or the value of, shares transferred, with 0.1% payable by each of the buyer and the seller. See "Information About the Listing—Dealing and Settlement of Shares in Hong Kong."

To the best of our knowledge, Hong Kong stamp duty has not been levied in practice on the trading or conversion of ADSs of companies that are listed in both the United States and Hong Kong and that have maintained all or a portion of their Shares, including Shares underlying ADSs, in their Hong Kong share registers. However, it is unclear whether, as a matter of Hong Kong law, the trading or conversion of ADSs of these dual-listed companies constitutes a sale or purchase of the underlying Hong Kong-registered Shares that is subject to Hong Kong stamp duty. We advise investors to consult their own tax advisors on this matter. If Hong Kong stamp duty is determined by the competent authority to apply to the trading or conversion of our ADSs, the trading price and the value of your investment in our ADSs or Shares may be affected.

Purchasers of our Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The initial Public Offer Price of our Shares is higher than the net tangible assets per Share of the outstanding Shares issued to our existing shareholders immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in terms of the pro forma net tangible asset value. In addition, we may consider offering and issuing additional Shares or equity-related securities in the future to raise additional funds, finance acquisitions or for other purposes. Purchasers of our Shares may experience further dilution in terms of the net tangible asset value per Share if we issue additional Shares in the future at a price that is lower than the net tangible asset value per Share.

There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics contained in this prospectus, which were obtained from various independent third-party sources, including the industry expert reports.

This prospectus, particularly the sections headed "Business" and "Industry Overview," contain information and statistics relating to the lodging industry in China, Europe and globally. Such information and statistics have been derived from a third-party report commissioned by us and publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners and Joint Lead Managers or any other party involved in the Global Offering, and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics included in this prospectus being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we

cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. You should consider carefully the importance placed on such information or statistics.

Investors should read the entire prospectus carefully and should not consider any particular statements in this prospectus or in published media reports without carefully considering the risks and other information contained in this prospectus.

Prior or subsequent to the publication of this prospectus, there may have been press and media coverage regarding us and the Global Offering, which includes certain information about us that does not appear in, or is different from what is contained in, this prospectus. We have not authorized the disclosure of any such information in the press or media. The financial information, financial projection, valuation and other information about us contained in such unauthorized press or media coverage may not truly reflect what is disclosed in the prospectus or the actual circumstances. We do not accept any responsibility for such unauthorized press and media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information. To the extent that any information appearing in the press and media is inconsistent or conflict with the information contained in this prospectus, we disclaim it. Investors should rely only on the information contained in this prospectus in making investment decision.

In preparation for the Listing, we have sought the following waivers and exemptions from strict compliance with the relevant provisions of the Hong Kong Listing Rules, the SFO and the Companies (WUMP) Ordinance and have applied for a ruling under the Takeovers Codes:

Relevant requirement/rule(s) waived/exempted	Subject matter
Rule 2.07A of the Hong Kong Listing Rules	Printed corporate communications
Rule 4.03 of the Hong Kong Listing Rules	Qualifications of auditors
Rules 4.04(3)(a), 4.05 and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance	Disclosure requirements relating to the Accountants' Report
Rule 4.29 of the Hong Kong Listing Rules	Pro forma financial information
Rule 9.09(b) of the Hong Kong Listing Rule	Dealings in Shares prior to Listing
Rule 10.04 of, and Paragraph 5(2) of Appendix 6 to, the Hong Kong Listing Rules	Subscription for Shares by existing Shareholders
Rules 12.04(3), 12.07 and 12.11 of the Hong Kong Listing Rules	Availability of copies of the prospectus in printed form
Rule 13.25B of the Hong Kong Listing Rules	Monthly return
Rules 19C.07(3) and 19C.07(7) of the Hong Kong Listing Rules	Shareholder protection requirements in relation to approval, removal and remuneration of auditors and requisition of extraordinary general meeting by Shareholders
Practice Note 15 of the Hong Kong Listing Rules	Rules related to spin-off listings
Paragraphs 13 and 26 of Part A of Appendix 1 to the Hong Kong Listing Rules and Paragraphs 11, 14 and 25 of the Third Schedule to the Companies (WUMP) Ordinance	Particulars of any commissions, discounts and brokerages, alterations of capital and authorized debentures
Paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules	Disclosure of Offer Price
Paragraph 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules and Paragraph 29 of the Third Schedule to the Companies (WUMP) Ordinance	Disclosure of information on subsidiaries whose profits or assets make material contribution to our Company
Guidance Letter HKEX-GL37-12	Disclosure requirements in respect of indebtedness and liquidity

Relevant requirement/rule(s) waived/exempted	Subject matter
Paragraphs 33(2), 33(3), 46(2), 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules	Disclosure requirements of Directors' and five highest individuals' emolument
Paragraphs 41(4) and 45 of Part A of Appendix 1 to and Practice Note 5 of the Hong Kong Listing Rules	Disclosure of interests information
Section 4.1 of the Introduction to the Takeovers Codes	Determination of whether a company is a "public company in Hong Kong"
Part XV of the SFO	Disclosure of interests
Paragraph 10 of the Third Schedule to the Companies (WUMP) Ordinance	Disclosure of particulars of debenture holders
Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules	Clawback mechanism
Rule 13.48(1) of the Hong Kong Listing Rules	Publication of interim report for the six months ended June 30, 2020

Printed corporate communications

Rule 2.07A of the Hong Kong Listing Rules provides that a listed issuer may send or otherwise make available to the relevant holders of its securities any corporate communication by electronic means, provided that either the listed issuer has previously received from each of the relevant holders of its securities an express, positive confirmation in writing or the shareholders of the listed issuer have resolved in a general meeting that the listed issuer may send or supply corporate communications to shareholders by making them available on the listed issuer's own website or the listed issuer's constitutional documents contain provision to that effect, and certain conditions are satisfied.

Our ADSs have been listed on NASDAQ since March 26, 2010. We have ADS holders globally and has a diverse Shareholder base. We have also issued two series of convertible notes (convertible into our ADSs) in 2017 and 2020, respectively.

We typically publicly file or furnish various corporate communications with the SEC which are posted on the SEC's website and publish such communications through press releases. Our corporate communications publicly filed with the SEC are also available to Shareholders on our Company's website shortly after they are filed with the SEC. Further, we will post our proxy materials and notices to shareholders and holders of ADSs on a publicly accessible website. We do not currently produce or send out any corporate communications to our Shareholders or holders of ADSs in printed form unless requested or in limited circumstances as described below:

- the annual reports of our Company on Form 20-F are available to Shareholders on our website shortly after they are filed with the SEC and, upon request, a hard copy of our annual report will be made available to the Shareholders free of charge pursuant to Rule 5250(d)(1) of the NASDAQ Marketplace Rules;

- upon request by a Shareholder or a holder of ADSs, we will deliver printed copies of Form 20-F, proxy statements (including form of proxy) and notices to such Shareholder or holder of ADSs at our cost pursuant to Rule 5250(d)(1) of the NASDAQ Marketplace Rules and Rule 14a-16(j) under the U.S. Exchange Act;

- as a foreign private issuer, we are allowed, if we elect so, under Rule 5250(d)(5) of the NASDAQ Marketplace Rules to follow home country practice in lieu of the requirements of Rule 5250(d)(1) of the NASDAQ Marketplace Rules, subject to notification to NASDAQ; and

- the depositary bank which administers our ADS program will send a notice as well as an ADS voting instruction card to each of our ADS holders.

Apart from the Offer Shares that will be offered by us for subscription in Hong Kong, the Offer shares will also be placed to professional, institutional, corporate and other investors in Hong Kong and elsewhere in the world. Given our diverse Shareholder base and the potential number of countries in which our Shareholders are located, it would not be practicable for us to send printed copies of all our corporate communications to all of our Shareholders. Further, it would also not be practicable for us to approach our existing Shareholders individually to seek confirmation from them of their wish to receive corporate communications in electronic form, or to provide them with the right to request corporate communications in printed form instead.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 2.07A of the Hong Kong Listing Rules on the conditions that our Company will:

(a) issue all future corporate communications as required by the Hong Kong Listing Rules on our own website in English and Chinese, and on the Hong Kong Stock Exchange's website in English and Chinese;

(b) provide printed copies of proxy materials and notices in English and Chinese to our Shareholders at no costs upon request; and

(c) ensure that the "Investor Relations" page of our website (ir.huazhu.com) will direct investors to all of our future filings with the Hong Kong Stock Exchange.

Qualifications of auditors

Rule 4.03 of the Hong Kong Listing Rules provides that all accountants' reports must normally be prepared by certified public accountants who are qualified under the Professional Accountants Ordinance ("**PAO**") for appointment as auditors of a company and who are independent both of the issuer and of any other company concerned to the same extent as that required of an auditor under the Companies Ordinance and in accordance with the requirements on independence issued by the Hong Kong Institute of Certified Public Accountants.

We completed the acquisition of Steigenberger Hotels AG in January 2020. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft ("**PwC Germany**") was engaged to audit the consolidated financial statements of Steigenberger Hotels AG as of and for the year ended December 31, 2019 prepared under the IFRS issued by the International Accounting Standards Board in accordance with the auditing standards generally accepted in the United States of America (the "**Audited DH 2019 Financial Statements**"). The Audited

DH 2019 Financial Statements were furnished to the SEC on Form 6-K on a voluntary basis for commercial reasons in relation to a private offering of convertible notes by our Company in May 2020 (the "**Form 6-K May 2020**").

The Audited DH 2019 Financial Statements are reproduced in Appendix IB to this prospectus mainly for the following reasons:

- it is not a requirement under the Hong Kong Listing Rules to reproduce the Audited DH 2019 Financial Statements in this prospectus. However, we will conduct the International Offering and enable the fungibility between our Nasdaq-listed ADSs and Hong Kong listed Shares upon completion of the Global Offering, and therefore we will register the Global Offering with the SEC under the Securities Act, as amended, through a registration statement on Form F-3SAR and prospectus supplements thereto (the "**U.S. Prospectus**"). Consistent with disclosure practices and investor expectations, the disclosure in this prospectus is expected to be generally consistent with the disclosure in the U.S. Prospectus required by the U.S. securities laws, including rules of the SEC. According to Regulation S-X Rule 3-05 and Article 11, the acquisition of Steigenberger Hotels AG (the "**DH Acquisition**") was significant and the U.S. Prospectus would be required to include the Audited DH 2019 Financial Statements. For equality treatment of Shareholders and investing public, the Audited DH 2019 Financial Statements are appended to this prospectus; and

- reproducing the Audited DH 2019 Financial Statements in this prospectus is intended to provide investors with the historical financial information of Deutsche Hospitality for the year ended December 31, 2019. Reproduction of the Audited DH 2019 Financial Statements together with other financial disclosure will give investors a better overall picture of the financial performance of our Group as enlarged by the addition of Deutsche Hospitality.

As PwC Germany is not a certified public accountant qualified under the PAO, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 4.03 of the Hong Kong Listing Rules to permit our Company to appoint PwC Germany as independent auditors for the purpose of reproducing the Audited DH 2019 Financial Statements in this prospectus on the following grounds and conditions:

(a) the Accountants' Report was prepared in compliance with Rules 4.04(3)(a), 4.05 and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3) of the Third Schedule of the Companies (WUMP) Ordinance, save for those provisions in respect of which waivers or exemptions have been obtained. The reproduction of the Audited DH 2019 Financial Statements in this prospectus is not required under the Hong Kong Listing Rules or the Companies (WUMP) Ordinance;

(b) PwC Germany was appointed as independent auditors of the Audited DH 2019 Financial Statements. The Audited DH 2019 Financial Statements were incorporated by reference into our offering memorandum for a private offering of convertible notes in May 2020 on a voluntary basis for commercial reasons. Further, PwC Germany has been appointed by Steigenberger Hotels AG as its independent auditors since 2004. The Audited DH 2019 Financial Statements include the historical financial information for the year ended December 31, 2019 of Steigenberger Hotels AG and its 31 subsidiaries and affiliates organized and existing under the laws of Germany, Dubai UAE, Denmark and other jurisdictions, with 108 hotels located across 20 countries in Europe, the Middle East, South Asia and Africa and the appointment of other accountants in Hong Kong qualified

under the PAO to audit the financial information of Deutsche Hospitality for the year ended December 31, 2019 will involve such other accountants having to undertake a detailed review of Steigenberger Hotels AG's consolidated annual accounts afresh. It would be costly, time consuming and unduly burdensome to appoint other accountants qualified under the PAO to audit the financial information of Deutsche Hospitality for the year ended December 31, 2019 for inclusion in this prospectus;

(c) PwC Germany is a member firm of PricewaterhouseCoopers International Limited, an accounting network with an international name and reputation. All member firms of the PwC network adopt a consistent global audit approach which is designed to support consistency of service quality and adherence to the framework of audit methodology;

(d) PwC Germany is registered under the applicable laws of Germany and is a member of the Wirtschaftsprüferkammer ("**WPK**") and Institut der Wirtschaftsprüfer ("**IDW**"), which are members of the International Federation of Accountants ("**IFAC**"), a global organisation for the accountancy profession. PwC Germany is subject to the independent oversight of the Abschlussprüferaufsichtsstelle (APAS-Auditor Oversight Body ("**AOB**")) at the Federal Office for Economic Affairs and Export Control, a regulatory body of Germany. Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority ("**BaFin**")) in Germany is a signatory to the International Organization of Securities Commissions Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information;

(e) PwC Germany is independent from our Group and Deutsche Hospitality under the statements on independence issued by the IFAC; and

(f) PwC Germany is named as an expert in this prospectus and will be liable under the Companies (WUMP) Ordinance in the same way as reporting accountants qualified under the PAO.

Disclosure requirements relating to the Accountants' Report

Rules 4.04(3)(a), 4.05 and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance set out certain historical financial information to be included in a listing document that is not required to be disclosed under the U.S. GAAP, including, in particular:

- balance sheet at a company level;
- ageing analysis of accounts receivables;
- ageing analysis of accounts payables; and
- adjustments made to show profits of all periods in accordance with the relevant accounting standards in relation to the last financial year reported on.

In accordance with the U.S. GAAP, we have applied the full retrospective approach or modified retrospective transition approach to account for the impact of the adoption of the new accounting standards in the Track Record Period. Under the modified retrospective method adopted by our Group, comparative periods in the latest consolidated financial statements are not retrospectively adjusted.

During the Track Record Period, we adopted, among other new accounting standards that did not have a material impact on our consolidated financial statements, Accounting Standards Update 2014-09 "Revenue from Contracts with Customers (Topic 606)" and related amendments and implementation guidance ("**ASC 606**"), Accounting Standards Update 2016-01 "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities", including related technical corrections and improvements, ("**ASU 2016-01**"), and Accounting Standards Update 2016-02 "Leases (Topic 842)", including certain transitional guidance and subsequent amendments ("**ASC 842**"). The relevant accounting policies upon the adoption of these new accounting standards are disclosed in the Accountants' Report in Appendix IA to this prospectus.

ASC 606 was adopted by us on January 1, 2018 utilizing the full retrospective approach as of January 1, 2016.

ASU 2016-01, which amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments, was adopted on January 1, 2018. Our Group applied this update by a cumulative-effect adjustment to the retained earnings as of January 1, 2018. After the adoption of this new accounting update in 2018, our Group measured long-term investments other than equity method investments which has readily determinable fair values at fair value through earnings, which could vary significantly quarter to quarter. For those investments without readily determinable fair values, our Group elected to record these investments at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. Changes in the basis of these investments were reported in current earnings, whereas the fair value changes of these investments were recorded in other comprehensive income in previous financial years prior to the adoption. Upon the adoption of ASU 2016-01 on January 1, 2018, our Group recognizes a cumulative effect adjustment for the net unrealized gains/losses related to marketable equity securities of RMB41 million from accumulated other comprehensive income to the opening balance of retained earnings in the period of adoption. The adoption of other requirements of ASU 2016-01 does not have a material impact on the consolidated financial statements of our Group. The full retrospective application of ASU 2016-01 is not permitted under the U.S. GAAP. Any adjustments to the historical financial information in the comparative periods arising from the full retrospective application of ASU 2016-01 will create confusion to the existing investors in the United States market and it may be misleading to disclose such information in the Accountants' Report in Appendix IA to this prospectus.

ASC 842 was adopted on January 1, 2019 using the modified retrospective transition approach by applying the new lease standard to all leases existing as of January 1, 2019, the date of initial application, and no adjustments were made to the comparative periods. Adoption of the new lease standard resulted in the recognition of operating lease right-of-use assets and operating lease liabilities on the consolidated balance sheet as of January 1, 2019. The adoption of the new lease standard resulted in recognized right-of-use ("**ROU**") assets of RMB18,940 million and related lease liabilities of RMB19,438 million for operating leases. Our Company reclassified from assets and liabilities RMB498 million net to ROU assets. The adoption of ASU 2016-02 did not materially affect the consolidated statements of income or consolidated statements of cash flows and had no impact on the debt covenant compliance under the current agreements as our Company has obtained waiver of debt covenant for June 30, 2020 from banks.

Disclosure of the accounting policies for the adoption of ASC 606, ASU 2016-01 and ASC 842 as well as the impact of adoption, being alternative disclosures with respect to certain items identified above which are relevant to our Company, are included in the Accountants' Report in Appendix IA to this prospectus.

None of the new accounting standards that came into effect in the financial year of 2020 has a material impact upon adoption.

As this prospectus has included the above alternative disclosures and the current disclosure in this prospectus contains all information which is necessary for the investors to make an informed assessment of the business, asset and liability, financial position, trading position, management and prospect of our Group. We believe that it would be of no material value to the Hong Kong investors for the Accountants' Report in Appendix IA to this prospectus to include certain required information pursuant to Rules 4.04(3), 4.05(2) and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance and the non-disclosure of such information will not prejudice the interests of the investors and full compliance with the relevant requirements would be unduly onerous and burdensome to our Company.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 4.04(3), 4.05(2) and 4.13 of the Hong Kong Listing Rules. We have applied for, and the SFC has granted, an exemption from the requirements under Paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance, to the extent not strictly met by the current disclosure in this prospectus. The SFC has granted an exemption referred to above on the conditions that: (i) the particulars of such exemption are set out in this prospectus; and (ii) this prospectus will be issued on or before September 11, 2020.

Pro forma financial information

Rule 4.29(1) of the Hong Kong Listing Rules provides that, where an issuer includes pro forma financial information in any document (whether or not such disclosure of pro forma financial information is required under the Hong Kong Listing Rules), the pro forma financial information must provide investors with information about the impact of the transaction which is the subject of the document. Rule 4.29(6)(b) of the Hong Kong Listing Rules provides that any adjustments made in relation to any pro forma statement must be directly attributable to the transaction concerned and not relating to future events or decisions.

Given the significance of the DH Acquisition, the unaudited pro forma condensed combined financial information for the year ended December 31, 2019 combining the historical consolidated income statements of our Company (prepared in accordance with the U.S. GAAP) and Steigenberger Hotels AG (prepared in accordance with IFRS and reconciled into U.S. GAAP), giving effect to the DH Acquisition as if it had occurred on January 1, 2019 ("**DH Pro Forma**") is set out in Section C of Appendix II to this prospectus mainly for the following reasons:

- it is not a requirement under the Hong Kong Listing Rules to include the DH Pro Forma in this prospectus. Consistent with disclosure practices and investor expectations, the disclosure in this prospectus is expected to be generally consistent with the disclosure in the U.S. Prospectus required by the U.S. securities laws, including rules of the SEC. According to Regulation S-X Rule 3-05 and Article 11, the DH Acquisition was significant and the U.S. Prospectus would be required to include the DH Pro Forma. For equality treatment of Shareholders and investing public, the DH Pro Forma is disclosed in Section C of Appendix II to this prospectus;

- the DH Pro Forma in Section C of Appendix II to this prospectus is issued in substantially the same form as the unaudited pro forma condensed combined financial information combining the historical consolidated income statements of our Company and

Steigenberger Hotels AG that we furnished to the SEC on the Form 6-K May 2020. No substantial additional work will be required to be performed by us for including the DH Pro Forma in this prospectus; and

- the DH Pro Forma is intended to illustrate the measurable (based on historically determined amounts) effects of the DH Acquisition. Together with other financial disclosure in this prospectus, the DH Pro Forma would give investors a better overall picture of the financial performance of our Group as enlarged by the addition of Deutsche Hospitality.

The DH Acquisition is not the subject of this prospectus. Therefore, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 4.29(1) and 4.29(6)(b) of the Hong Kong Listing Rules for inclusion of the DH Pro Forma in this prospectus on the following grounds and conditions:

(a) the DH Acquisition is not the subject of this prospectus and the adjustments for the effects of the DH Acquisition made to the financial information set out in the DH Pro Forma is not directly attributable to the transaction concerned in this prospectus (i.e., the Global Offering), but for the reasons set out in above, it is disclosed in Section C of Appendix II to this prospectus;

(b) the DH Pro Forma is prepared based on (i) the audited financial information of our Group for the year ended December 31, 2019 which is set out in the Accountants' Report in Appendix IA to this prospectus, and (ii) the audited financial information of Deutsche Hospitality for the year ended December 31, 2019 which is set out in the Audited DH 2019 Financial Statements in Appendix IB to this prospectus and after having incorporated the unaudited pro forma adjustments which are described in the accompanying notes to the DH Pro Forma. Deloitte Touche Tohmatsu ("**Deloitte**"), our reporting accountants, have performed procedures in relation to the DH Pro Forma in accordance with Hong Kong Standard on Assurance Engagement 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in the Prospectus" issued by the Hong Kong Institute of Certified Public Accountants, including, but not limited to, obtaining evidence about the appropriateness of the source from which the unadjusted financial information has been extracted, the appropriateness of the pro forma adjustments and the calculations within the pro forma financial information. The DH Pro Forma is properly compiled on the basis stated; such basis is consistent with the accounting policies of our Group; and the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Hong Kong Listing Rules. Other than the fact that the transaction concerned under the DH Pro Forma is the DH Acquisition instead of the Global Offering (i.e. the subject of this prospectus), the unaudited pro forma financial information is compiled in accordance with Rule 4.29 of the Hong Kong Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**");

(c) we believe that the inclusion of the DH Pro Forma in this prospectus is not misleading as it constitutes part of our financial disclosure and illustrates the isolated and objectively measurable (based on historically determined amounts) effects of the DH Acquisition pursuant to the requirements under Regulations S-X Rule 3-05 and Article 11. The completion of the DH Acquisition took place on January 2, 2020. The DH Pro Forma consists of the consolidated balance sheet which illustrates the financial position of the enlarged group as at December 31, 2019 and the consolidated statement of comprehensive

income of the enlarged group for the year ended December 31, 2019. The audited financial information of our Group (including Deutsche Hospitality) for the three months ended March 31, 2020 includes the financial results of Deutsche Hospitality for the period commencing from the completion date, i.e. January 2, 2020 and ended on March 31, 2020. Non-inclusion of financial information of Deutsche Hospitality for January 1, 2020 will not affect the investors' ability in considering the overall performance of the enlarged group and in evaluating Deutsche Hospitality's results over a meaningful period of time; and

(d) the reporting accountants, Deloitte, have reported on the DH Pro Forma in accordance with Rule 4.29(7) of the Hong Kong Listing Rules.

Dealings in Shares prior to Listing

According to Rule 9.09(b) of the Hong Kong Listing Rules, there must be no dealing in the securities of a new applicant for which listing is sought by any core connected person of the issuer from four clear business days before the expected hearing date until listing is granted (the "**Relevant Period**").

As at the Latest Practicable Date, we have over 310 subsidiaries, and our ADSs are widely held, publicly traded and listed on NASDAQ. We are therefore not in a position to control the investment decisions of our Shareholders or the investors in the United States. Solely based on public filings with the SEC, as of the Latest Practicable Date, other than Mr. Ji Qi (our Controlling Shareholder, founder, executive chairman of our Board and chief executive officer) together with the other Controlling Shareholders and Invesco Ltd. ("**Invesco**"), there are no Shareholders who are entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of our Company. Invesco, our substantial shareholder, and other core connected persons of our Company may from time to time use their Shares as security (including charges and pledges) in connection with their respective financing activities.

For a company whose securities are listed and traded in the United States, it is a common practice for substantial shareholders and corporate insiders, including directors, executives and other members of management, to set up trading plans that meet the requirements of Rule 10b5-1 under the U.S. Exchange Act (the "**Rule 10b5-1 Plans**") to buy or sell the company's securities. A Rule 10b5-1 Plan is a written plan, set up with a broker, to trade securities that (a) is entered into at a time when the person trading the securities is not aware of any material non-public information; (b) specifies the amount of securities to be purchased or sold and the price at which and the date on which the securities were to be purchased or sold; and (c) does not allow the person trading the securities to exercise any subsequent influence over how, when or whether to effect purchases or sales. Persons who trade securities pursuant to a Rule 10b5-1 Plan have an affirmative defense against insider trading allegations under U.S. securities law.

On the basis of the above, the following categories of persons (collectively, the "**Permitted Persons**") should not be subject to the dealing restrictions set out in Rule 9.09(b) of the Hong Kong Listing Rules:

- our Controlling Shareholders and Invesco (and its subsidiaries and funds through which Invesco controls our ADSs prior to the Relevant Period (the "**Intermediate Entities**")), each being a substantial shareholder of our Company, in respect of (i) the use of their Shares as security (including, for the avoidance of doubt, using Shares as security in connection with entering into financing transactions during the Relevant Period as well as satisfying any requirements to top-up security under the terms of financing transactions entered into prior to the Relevant Period), provided that there will be no change in the

beneficial ownership of the Shares at the time of entering into any such transactions during the Relevant Period; (ii) any dealings by a close associate of Invesco (other than the Intermediate Entities) in the securities of our Company over which Invesco has no control, provided that such close associate does not have any influence over the Global Offering and does not possess any inside information from our Company; and (iii) any dealings by our Controlling Shareholders, Invesco (and the Intermediate Entities) or and their respective close associates pursuant to any Rule 10b5-1 Plans they have set up prior to the Relevant Period ("**Category 1**");

- the Directors and chief executive of our Company (other than Mr. Ji Qi), and directors and chief executives of our Major Subsidiaries, in respect of (i) their respective use of the Shares as security (including, for the avoidance of doubt, using Shares as security in connection with entering into financing transactions during the Relevant Period as well as satisfying any requirements to top-up security under the terms of financing transactions entered into prior to the Relevant Period), provided that there will be no change in the beneficial ownership of the Shares at the time of entering into any such transactions during the Relevant Period; and (ii) their respective dealings pursuant to Rule 10b5-1 Plans they have set up prior to the Relevant Period ("**Category 2**");

- directors, chief executives and substantial shareholders of our non-Major Subsidiaries and their close associates ("**Category 3**"); and

- any other person (whether or not an existing Shareholder) who may, as a result of dealings, become a substantial shareholder of our Company and who is not a Director or chief executive of our Company, or a director or chief executive of our subsidiaries, or their close associates ("**Category 4**").

For the avoidance of doubt,

- for the purpose of this waiver, Shares include ADSs;

- as the foreclosure, enforcement or exercise of other rights by the lenders in respect of a security interest over the Shares (including, for the avoidance of doubt, any security interest created pursuant to any top-up of security) will be subject to the terms of the financing transaction underlying such security and not within the control of the pledgor, any change in the beneficial owner of the Shares during the Relevant Period resulting from the foreclosure, enforcement or exercise of other rights by the lenders in respect of such security interest will not be subject to Rule 9.09(b) of the Hong Kong Listing Rules; and

- persons in Category 1 and Category 2 who (i) use their respective Shares other than as described in this sub-section headed "Dealings in Shares prior to Listing" or (ii) are not dealing in the securities of our Company according to Rule 10b5-1 Plans set up before the Relevant Period are subject to the restriction under Rule 9.09(b) of the Hong Kong Listing Rules.

As at the Latest Practicable Date, to our best knowledge after due and careful enquiry and save for 16,000,000 ADSs representing 16,000,000 Shares held by East Leader that have been pledged to a third party financial institution to secure a borrowing, no Permitted Person in Category 1 and Category 2 has used his Shares as security during the Relevant Period.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 9.09(b) of the Hong Kong Listing Rules in respect of any dealing during the Relevant Period by the Permitted Persons subject to the following conditions:

- Categories 1 and 2 of the Permitted Persons who entered into Rule 10b5-1 Plans have no discretion over dealings in our ADSs after the plans have been entered into. Where Categories 1 and 2 of the Permitted Persons use the Shares as security, other than as set out in the waiver above, there will be no change in the beneficial ownership of the Shares during the Relevant Period;

- Categories 3 and 4 of the Permitted Persons do not have any influence over the Global Offering and have not been provided with any inside information in relation to the Listing in accordance with our internal policy and rules in relation to the management of inside information. Further, Category 3 and 4 of the Permitted Persons are not expected to possess any non-public inside information from our Company given such persons are not provided with inside information by our Company and are not in a position with access to information that is considered material to our Company taken as a whole. Given the large number of our subsidiaries and the vast ADS holder base, our Company and our management do not have effective control over the investment decisions of Categories 3 and 4 of the Permitted Persons in our ADSs;

- we will promptly release any inside information to the public in the United States and in Hong Kong in accordance with relevant laws and regulations of the U.S. and Hong Kong. Accordingly, the Permitted Persons (other than Category 1 and Category 2 persons) are not in possession of any inside information of which we are aware;

- we will notify the Hong Kong Stock Exchange of any breach of the dealing restrictions by any of our core connected persons during the Relevant Period when we become aware of the same other than dealings by core connected persons who are Permitted Persons within the permitted scopes as set out above; and

- prior to the Listing Date, other than within the permitted scopes as set out above, the Directors and chief executive of our Company and directors and chief executives of our Major Subsidiaries and their close associates will not deal in the Shares or the ADSs during the Relevant Period. For the avoidance of doubt, such dealing in the Shares shall not include the granting, vesting, payment or exercise (as applicable) of restricted stock units, incentive and non-statutory options, restricted stock, dividend equivalents, share appreciation rights and share payments under the Share Incentive Plans.

Subscription for Shares by Existing Shareholders

Rule 10.04 of the Hong Kong Listing Rules requires that existing shareholders may only subscribe for or purchase any securities for which listing is sought which are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in Rule 10.03 of the Hong Kong Listing Rules are fulfilled.

Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules states that, without the prior written consent of the Hong Kong Stock Exchange, no allocations will be permitted to be made to directors, existing shareholders of a listing applicant or their close associates, unless the conditions set out in Rules 10.03 and 10.04 of the Hong Kong Listing Rules are fulfilled.

As at the Latest Practicable Date, we have over 310 subsidiaries and our ADSs are widely held, publicly traded and listed on the NASDAQ.

Categories 3 and 4 of the Permitted Persons (as defined in sub-section headed "Dealings in Shares Prior to Listing" above) have no influence over the Global Offering and are not in possession of any inside information in relation to the Listing and are effectively in the same positions as our public investors. Categories 3 and 4 of the Permitted Persons and other public investors who will subscribe or purchase Shares in the Global Offering are referred to as "**Permitted Existing Shareholders**".

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 10.04 of the Hong Kong Listing Rules and the consent under Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules in respect of the restrictions on Permitted Existing Shareholders to subscribe for or purchase Shares in the Global Offering, subject to the following conditions:

(a) each Permitted Existing Shareholder is interested in less than 5% of our Company's voting rights before the Listing;

(b) other than the Categories 3 and 4 of the Permitted Persons, each Permitted Existing Shareholder is not a core connected person of our Company or a close associate of a core connected person of our Company;

(c) the Permitted Existing Shareholders do not have the power to appoint Directors or any other special rights in our Company;

(d) the Permitted Existing Shareholders do not have influence over the offering process and will be treated the same as other applicants and placees in the Global Offering;

(e) the Permitted Existing Shareholder will be subject to the same book-building and allocation process as other applicants and placees in the Global Offering; and

(f) to the best of its knowledge and belief, each of our Company, the Joint Sponsors and the Joint Global Coordinators (based on (i) its discussions with our Company and the Joint Global Coordinators and (ii) the confirmations to be submitted to the Hong Kong Stock Exchange by our Company and the Joint Global Coordinators) confirms to the Hong Kong Stock Exchange in writing that no preferential treatment has been, or will be, given to the Permitted Existing Shareholders and their close associates as a placee in the International Offering by virtue of their relationship with our Company.

Save for any cornerstone investment by the Permitted Existing Shareholders and their close associates, allocation to the Permitted Existing Shareholders and/or their close associates will not be disclosed in the allotment results announcement of our Company as it would be unduly burdensome for our Company to disclose such information given that there is no requirement to disclose interests under the U.S. Exchange Act unless such person (including directors and officers of the company concerned) who acquires beneficial ownership of more than 5% of equity securities registered under Section 12 of the U.S. Exchange Act.

Availability of copies of the prospectus in printed form

We have adopted a fully electronic application process for the Hong Kong Public Offering and we will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering. We will adopt additional

communication measures as we consider appropriate to inform the potential investors that they can only subscribe for the Hong Kong Offer Shares electronically, such as (i) publishing a formal notice of the Global Offering on our website and in selected English and Chinese local newspapers describing the fully electronic application process including the available channels for share subscription; (ii) advertising through the White Form eIPO Service Provider the electronic methods for subscription of the Hong Kong Offer Shares; (iii) the enhanced support provided by our Hong Kong Share Registrar and White Form eIPO Service Provider in relation to the Hong Kong Public Offering (including providing additional enquiry hotlines for questions about the application for the Hong Kong Offer Shares and increasing its server capacity); and (iv) reminding investors that no printed prospectuses or application forms will be provided.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 12.04(3), 12.07 and 12.11 of the Hong Kong Listing Rules in respect of the availability of copies of the prospectus in printed form based on the specific and prevailing circumstances of our Company.

Monthly return

Rule 13.25B of the Hong Kong Listing Rules requires a listed issuer to publish a monthly return in relation to movements in its equity securities, debt securities and any other securitized instruments, as applicable, during the period to which the monthly return relates.

Pursuant to the Joint Policy Statement Regarding the Listing of Overseas Companies, companies applying for a secondary listing may seek a waiver from Rule 13.25B of the Hong Kong Listing Rules subject to satisfying the waiver condition that the SFC has granted a partial exemption from strict compliance with Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO) in respect of disclosure of shareholders' interests.

As we have obtained a partial exemption from the SFC, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 13.25B of the Hong Kong Listing Rules. We will disclose information about share repurchases, if material, in our quarterly earnings releases and annual reports on Form 20-F which are furnished or filed with the SEC in accordance with applicable U.S. rules and regulations

Shareholder protection requirements

For an overseas issuer seeking a secondary listing on the Hong Kong Stock Exchange, Rule 19.30(1)(b) of the Hong Kong Listing Rules requires the overseas issuer's primary listing is or is to be on an exchange where the standards of shareholder protection are at least equivalent to those provided in Hong Kong. Rule 19C.06 of the Hong Kong Listing Rules provides that Appendix 3 and Appendix 13 to the Hong Kong Listing Rules do not apply to an overseas issuer that is a Grandfathered Greater China Issuer (as defined in the Hong Kong Listing Rules) seeking a secondary listing under Chapter 19C of the Hong Kong Listing Rules. Rule 19C.07 of the Hong Kong Listing Rules provides that the Hong Kong Stock Exchange will consider that a Grandfathered Greater China Issuer seeking a secondary listing has met the requirements of Rule 19.30(1)(b) of the Hong Kong Listing Rules if it has met the shareholder protection standards by reference to the criteria set out in Rule 19C.07 of the Hong Kong Listing Rules. Our Company is a Grandfathered Greater China Issuer under Chapter 19C of the Hong Kong Listing Rules.

Approval, removal and remuneration of auditors

Rule 19C.07(3) of the Hong Kong Listing Rules requires the appointment, removal and remuneration of auditors must be approved by a majority of the members or other body of the Qualifying Issuer (as defined in the Hong Kong Listing Rules) that is independent of the issuer's board of directors (the "**Auditors Provision**"). However, our Articles of Association do not contain an equivalent Auditors Provision. We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from the strict compliance with Rule 19C.07(3) of the Hong Kong Listing Rules on the following conditions and basis:

(a) our Board has the power to appoint, remove and remunerate the auditors, and our Board has formally delegated this function to the Audit Committee since our listing on the NASDAQ in 2010. The Audit Committee is akin to an independent body of our Board on the basis of the independence requirements as set out in applicable U.S. securities laws and the NASDAQ rules. The Audit Committee comprises three members, all of whom are independent Directors as required by the U.S. Exchange Act and applicable NASDAQ rules, as well as independent non-executive Directors for the purpose of the Hong Kong Listing Rules;

(b) since 2010, our Company has put forth a resolution at each annual general meeting for Shareholders to ratify auditors' appointment. The resolutions to ratify the appointment of auditors were passed with over 99% of the total votes cast at our annual general meetings in 2017, 2018 and 2019. In the event that such resolution is not ratified at our general meetings, the Audit Committee will appoint another audit firm with the requisite qualifications and competence and such appointment will be ratified by our Shareholders at the next general meeting;

(c) to ensure that auditors are independent of their audit clients, Rule 10A-3 promulgated under the U.S. Exchange Act mandates that the audit committee, whose voting members must consist entirely of independent directors, be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged (including resolution of disagreements between management and the auditor regarding financial reporting). We believe that this legislative mandate effectively prohibits our Board from revoking the power delegated to the Audit Committee relating to the operation of the Auditors Provision;

(d) we are seeking a listing on the Hong Kong Stock Exchange under Chapter 19C of the Hong Kong Listing Rules; and

(e) the disclosure of the basis of the waiver is set out in this prospectus.

Requisition of extraordinary general meeting by Shareholders

Rule 19C.07(7) of the Hong Kong Listing Rules requires that members holding a minority shareholding in an issuer's total number of issued shares must be able to requisition an extraordinary general meeting and add resolutions to a meeting agenda (the "**Requisition Provision**"). The minimum stake required to do so must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of the issuer. However, our Articles of Association does not contain an equivalent Requisition Provision. We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from the strict compliance with Rule 19C.07(7) of the Hong Kong Listing Rules on the following conditions and basis:

(a) we will put forth a resolution at each of our annual general meetings after the Listing to revise our Articles of Association, until it provides that the minimum stake required to requisition an extraordinary general meeting and propose resolutions to the agenda of such meeting will be 10% of the voting rights, on a one vote per share basis, in the share capital of our Company;

(b) we have procured irrevocable undertakings from each of Mr. Ji Qi, Trip.com, AAPC Hong Kong Limited and Mr. John Wu Jiong to vote in favor of the proposed resolution outlined above at each of our annual general meetings after the Listing until our Articles of Association have been amended accordingly, with a view to ensuring that there may be adequate votes in favor of such resolution. As of the Latest Practicable Date, Mr. Ji Qi, Trip.com, AAPC Hong Kong Limited and Mr. John Wu Jiong controlled the voting rights of approximately 33.53%, 7.42%, 5.23% and 2.58% of our outstanding Shares; and

(c) our Directors undertaking to our Company that they will requisition a general meeting if Shareholders holding in aggregate not less than 10% of voting rights of our Company request to convene such a meeting after the Listing until the Articles of Association is amended to include the Requisition Provision.

Rules related to spin-off listings

Rule 19C.11 of the Hong Kong Listing Rules provides that, among other things, Paragraphs 1 to 3(b) and 3(d) to 5 of Practice Note 15 of the Hong Kong Listing Rules ("**Practice Note 15**") do not apply to a Qualifying Issuer within the meaning in Chapter 19C of the Hong Kong Listing Rules that has, or is seeking, a secondary listing on the Hong Kong Stock Exchange. Such exception is limited to circumstances where the spun-off assets or businesses are not to be listed on the Hong Kong Stock Exchange's markets and the approval of Shareholders is not required.

Paragraph 3(b) of Practice Note 15 provides that the Listing Committee would not normally consider a spin-off application within three years of the listing date of a company, given the original listing of the company will have been approved on the basis of the company's portfolio of businesses at the time of listing, and that the expectation of investors at that time would have been that the company would continue to develop those businesses.

While we not have any specific plans with respect to the timing or details of any potential spin-off listing on the Hong Kong Stock Exchange as at the Latest Practicable Date, in light of our Group's overall business scale, we may consider spinning off one or more of our mature business units through a listing on the Hong Kong Stock Exchange (each a "**Potential Spin-off**") within three years after the Listing, if there are clear commercial benefits both to our Company and the businesses to be potentially spun-off and there will be no adverse impact on the interests of Shareholders. As of the Latest Practicable Date, we have not identified any target for a potential spin-off; as a result we do not have any information relating to the identity of any spin-off target or any other details of any spin off and accordingly, there is no material omission of any information relating any possible spin-off in this prospectus.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements in Paragraph 3(b) of Practice Note 15 to the Hong Kong Listing Rules, on the following grounds:

- no Shareholders' approval with respect to a Potential Spin-off will be required under our Articles of Association, applicable U.S. regulations and NASDAQ rules. Further, as our Company is a Grandfathered Greater China Issuer within the meaning in Chapter 19C of the Hong Kong Listing Rules and therefore exempt from the requirements under Chapter 14 of the Hong Kong Listing Rules pursuant Rule 19C.11, no Shareholders' approval will be required under the Hong Kong Listing Rules as well;

- the effect of a spin-off to the Shareholders should be the same regardless of whether or not the businesses to be potentially spun-off are to be listed on the Hong Kong Stock Exchange (save with respect to any preferential rights to subscribe for shares that are commonly provided in spin-offs on the Hong Kong Stock Exchange). Given the fact that certain spin-offs by Grandfathered Greater China Issuers are allowed within three years after their listing in Hong Kong pursuant to Rule 19C.11 of the Hong Kong Listing Rules, we believe that the three-year restriction on spin-offs on the Hong Kong Stock Exchange should also be waived and shall not apply to a Potential Spin-off by our Company;

- in any event, our Company and any subsidiary in respect of which a Potential Spin-off is contemplated will be subject to compliance with all other applicable requirements under the Hong Kong Listing Rules, including the remaining requirements of Practice Note 15 and (in the case of the company to be spun-off) the listing eligibility requirements of Chapter 8 or 19C of the Hong Kong Listing Rules (as the case may be), unless otherwise waived by the Hong Kong Stock Exchange;

- under U.S. securities laws and NASDAQ rules, our Company is not subject to any restrictions similar to the three-year restriction under Paragraph 3(b) of Practice Note 15 in relation to the spin-offs of our businesses, nor is there any requirement for our Company to disclose any details of our potential spin-off entities when such information is not available because of the absence of any concrete spin-off plan; and

- our Directors owe fiduciary duties to our Company, including the duty to act in what they consider in good faith to be in the best interests of our Company; as such they will only pursue a potential spin-off if there are clear commercial benefits both to us and the entity or entities to be spun off; and our Directors will not direct our Company to conduct any spin-off if they believe it will have an adverse impact on the interests of our Shareholders.

The waiver was granted by the Hong Kong Stock Exchange on the following conditions:

(a) we undertake that prior to any spin-off of our business through a listing on the Hong Kong Stock Exchange within three years after the Listing, we will confirm to the Hong Kong Stock Exchange with basis that the spin-off would not render us, excluding the business to be spun off, incapable of fulfilling either the eligibility or suitability requirements under Rules 19C.02 and 19C.05 of the Hong Kong Listing Rules based on the financial information of the entity or entities to be spun-off at the time of the Listing (calculated cumulatively if more than one entity is spun-off);

(b) we will disclose in this prospectus the risks relating to the uncertainty and timing of potential spin-offs (see section headed "Risk Factors—Risks Related to Our ADSs, Shares and the Listing—We are exposed to risks associated with the potential spin-off of one or more of our businesses" in this prospectus);

(c) any potential spin-offs by our Company will be subject to the requirements of Practice Note 15 (other than Paragraph 3(b) thereof), including that each of our Company and the businesses to be spun off will satisfy the applicable listing eligibility requirements on a standalone basis; and

(d) disclosure of this waiver in this prospectus.

We cannot assure that any spin-off will ultimately be consummated, whether within the three-year period after the Listing or otherwise, and any such spin-off will be subject to market conditions at the time and approval by the Listing Committee. In the event that we proceed with a spin-off, our interest in the entity to be spun-off (and its corresponding contribution to the financial results of our Group) will be reduced accordingly.

Particulars of any commissions, discounts and brokerages, alterations of capital and authorized debentures

Paragraphs 13 and 26 of Part A of Appendix 1 to the Hong Kong Listing Rules and Paragraphs 11 and 14 of the Third Schedule to the Companies (WUMP) Ordinance require the listing document to include the particulars of any commissions, discounts, brokerages or other special terms granted within two years immediately preceding the issue of the listing document in connection with the issue or sale of any capital of any member of the group and the particulars of any alterations of capital within two years immediately preceding the issue of the listing document.

Paragraph 25 of the Third Schedule to the Companies (WUMP) Ordinance requires particulars of the authorized debentures of the company and its subsidiaries to be disclosed in the listing document.

As at the Latest Practicable Date, we have more than 310 subsidiaries. We believe it would be unduly burdensome for us to disclose this information in respect of all of our subsidiaries as we would have to incur additional costs and devote additional resources in compiling and verifying the relevant information for such disclosure, which would not be material or meaningful to the potential investors.

We have identified a list of operating entities which are responsible for the track record results of our Group as our Major Subsidiaries. For further details, see section headed "History and Corporate Structure—Major Subsidiaries" in this prospectus. The Major Subsidiaries include, amongst others, all significant operating subsidiaries under the financial threshold of Regulation S-X in the U.S. (i.e., contributing more than 10% of our Group's total assets or income before income taxes). By way of illustration, after intercompany eliminations, the audited aggregate revenue, net income and total assets of the Major Subsidiaries in respect of which the relevant information is disclosed represents over 73%, 95% and 70% of our Group's total revenue, net income and total assets for the year ended December 31, 2019, respectively, and over 89%, 91% and 63% of our Group's total revenue, net income and total assets for the three months ended March 31, 2020, respectively. Our remaining subsidiaries are individually insignificant to our overall results. As such, we have disclosed the particulars of the changes in the share capital of the Major Subsidiaries in the section headed "Statutory and General Information—A. Further Information about our Group—3. Changes in the share capital of our Major Subsidiaries" in Appendix V to this prospectus and the particulars of the commissions, discounts, brokerage fee and authorized debentures (if any) in respect of the Major Subsidiaries and our Company are set out in the sections headed "Financial Information—Indebtedness" and "Statutory and General Information—D. Other Information—9. Miscellaneous" in Appendix V to this prospectus.

We confirm that all information necessary for the public to make an informed assessment of business, asset and liability, financial position, trading position, management and prospect of our Group has been disclosed in this prospectus, and that, as such, the granting of the waiver and exemption from strict compliance with the relevant content requirements under the Companies (WUMP) Ordinance and the Hong Kong Listing Rules will not prejudice the interest of the investing public.

We have applied for, and the Hong Kong Stock Exchange has granted, waivers from the requirements under Paragraphs 13 and 26 of Part A of Appendix 1 to the Hong Kong Listing Rules. We have also applied for, and the SFC has granted, an exemption from the requirements under Paragraphs 11, 14 and 25 of the Third Schedule to the Companies (WUMP) Ordinance, to the extent not strictly met by the current disclosure in this prospectus. The SFC has granted an exemption referred to above on the conditions that: (i) the particulars of such exemption are set out in this prospectus; and (ii) this prospectus will be issued on or before September 11, 2020.

Disclosure of Offer Price

Paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules provides that the issue price or offer price of each security must be disclosed in the listing document.

We set out below the reasons for the waiver from strict compliance with Paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules:

- **the Public Offer Price will be determined by reference to the our ADS price**. Our ADSs are listed and traded on NASDAQ. With a view to aligning the interest of securities holders in both United States and Hong Kong, the Public Offer Price will be determined with reference to, among other factors, the closing price of our ADSs on NASDAQ on the last trading day on or before the Price Determination Date. The market price of our ADSs traded on NASDAQ is subject to various factors including the overall market conditions, the global economy, the industry updates, etc., and is not within our control;

- **Negative impact on the market price of our ADSs and Offer Shares.** Setting a fixed price or a price range with a low-end offer price per Offer Share may be regarded by the investors and Shareholders as an indication of the current market value of the Shares, which may adversely affect the market price of our ADSs and the Offer Shares; and

- **Compliance with Companies (WUMP) Ordinance.** Pursuant to Paragraph 10(b) of the Third Schedule to the Companies (WUMP) Ordinance, the price to be paid for shares subscribed for shall be specified in the prospectus. On this basis, disclosure of a maximum Public Offer Price complies with the requirements prescribed under Paragraph 10(b) of the Third Schedule to the Companies (WUMP) Ordinance, which provides clear indication of the maximum subscription consideration which a potential investor shall pay for Hong Kong Offer Shares.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules based on the reasons above, so that we have only disclosed the maximum Public Offer Price for the Hong Kong Offer Shares in this prospectus.

See section headed "Structure of the Global Offering—Pricing and Allocation" in this prospectus for (i) the time for determination of the Public Offer Price and form of its publication; (ii) the historical prices of our ADS and trading volume on NASDAQ; and (iii) the source for investor to access the latest market price of our ADS.

Disclosure of information on subsidiaries whose profits or assets make material contribution to our Company

Paragraph 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules and Paragraph 29 of the Third Schedule to the Companies (WUMP) Ordinance require the listing document to include information in relation to the name, date and country of incorporation, the public or private status and the general nature of the business, the issued capital and the proportion thereof held or intended to be held, of every company the whole of the capital of which or a substantial proportion thereof is held or intended to be held, or whose profits or assets make, or will make, a material contribution to the figures in the accountants' report or the next published financial statements of the company.

We believe that it would be unduly burdensome for us to procure this information for the reasons as set out in the sub-section headed "Particulars of any commissions, discounts and brokerages, alterations of capital and authorized debentures" above. As such, only the particulars in relation to the Major Subsidiaries are set out in this prospectus under the sections headed "History and Corporate Structure—Major Subsidiaries" in, and "Statutory and General Information—A. Further Information about our Group" in Appendix V to, this prospectus, which should be sufficient for potential investors to make an informed assessment of our Company in their investment decisions.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Paragraph 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules. We have also applied for, and the SFC has granted, an exemption from the requirements under Paragraph 29 of the Third Schedule to the Companies (WUMP) Ordinance, to the extent not strictly met by the current disclosure in this prospectus. The SFC has granted an exemption referred to above on the conditions that: (i) the particulars of such exemption are set out in this prospectus; and (ii) this prospectus will be issued on or before September 11, 2020.

Disclosure requirements in respect of indebtedness and liquidity

Paragraph 32 of Part A of Appendix 1 to the Hong Kong Listing Rules requires a listing document to include a statement (or an appropriate negative statement) of a new applicant's indebtedness as at a specified most recent practicable date (the "**Most Recent Practicable Date**"), and a commentary on its liquidity, financial resources and capital structure (together, the "**Liquidity Disclosure**"). In accordance with Hong Kong Stock Exchange Guidance Letter HKEX-GL37-12 ("**HKEX-GL37-12**"), the Hong Kong Stock Exchange normally expects that the Most Recent Practicable Date for the Liquidity Disclosure, including, among other things, commentary on liquidity and financial resources such as net current assets (liabilities) position and management discussion on this position, in a listing document to be dated no more than two calendar months before the final date of the listing document.

As this prospectus is published on September 11, 2020, we are required to make the relevant indebtedness and liquidity disclosures no earlier than July 11, 2020 pursuant to HKEX-GL37-12. Based on the expected timetable for the Listing, we will be required to publish our interim report for the six months ending June 30, 2020 shortly following the Listing. We have also included the relevant indebtedness and liquidity disclosures as of June 30, 2020 in this prospectus. It would be unduly burdensome for us to re-arrange information for similar Liquidity Disclosure on a consolidated basis shortly after the end of the second quarter of our financial year.

Strict compliance with the Liquidity Disclosure requirements would constitute additional one-off disclosure by us of our liquidity position on a date that would fall within the third quarter of our financial year (i.e., a date that would fall between June 30, 2020 and September 30, 2020), which would be otherwise not required to be disclosed to investors in the U.S. under applicable U.S. regulations and NASDAQ rules because we typically only announce quarterly results at the end and not in the middle of any quarter of our financial year. Such one-off disclosure is likely to confuse our existing investors and deviates from our customary practice and that of other NASDAQ listed companies.

We have an adequate liquidity to fund our working capital and meeting our capital expenditure requirements and other liabilities and commitments when due for the year 2020. We further raised US$500 million in May 2020 by issuing convertible senior notes due 2026. In any event, if there are any material change to the Liquidity Disclosures since June 30, 2020, we will be required to make an announcement pursuant to the U.S. regulations and NASDAQ rules and disclose relevant material facts in the listing document pursuant to the Hong Kong Listing Rules. We have disclosed our liquidity position as at June 30, 2020 in this prospectus and included a statement that since June 30, 2020 and up to the Latest Practicable Date, there has not been any material and adverse change in our indebtedness and contingent liabilities whilst any such material and adverse change would have been disclosed in this prospectus.

In the event that there has been no material change to the Liquidity Disclosures since June 30, 2020, any similar disclosures made pursuant to HKEX-GL37-12 would not give additional meaningful information to the potential investors.

We have also disclosed certain key financial performance for the three months ended or as of June 30, 2020 in the section headed "Summary—Recent Developments" of this prospectus which would assist the investors to have a better assessment of our financial position.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from compliance with the timing requirements for the Liquidity Disclosure in the listing document under HKEX-GL37-12, on the condition that the reported date of indebtedness and liquidity information in the listing document will not exceed the requirement under HKEX-GL37-12 by one calendar month (i.e., the time gap between the reported date of our indebtedness and liquidity information and the date of the listing document would be no more than three calendar months).

Disclosure requirements of Directors' and five highest individuals' emolument

Paragraph 33(2) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include information in respect of directors' emoluments during the three financial years ended December 31, 2017, 2018 and 2019. Paragraph 46(2) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include the aggregate of the remuneration paid and benefits in kind granted to the directors of the issuer in respect of the last completed financial year, and Paragraph 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules requires information in relation to an estimate of the aggregate remuneration and benefits in kind payable to directors in respect of the current financial year to be set out in the listing document.

Paragraph 33(3) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include information with respect to the five individuals whose emoluments were highest in the group for the year if one or more individuals whose emoluments were the highest have not been included under paragraph 33(2) of Part A of Appendix 1 to the Hong Kong Listing Rules.

The aggregate fees, salaries and benefits paid and accrued to our Directors and executive officers as a group are disclosed in the section headed "Directors and Senior Management—Remuneration of Directors and Senior Managements" of this prospectus. We confirm that the current disclosure complies with the US annual reporting requirements (unless individual disclosure is required by the Cayman Islands, the jurisdiction of incorporation of our Company or otherwise made public) and is in line with our disclosure in our annual report on Form 20-F.

We believe that additional disclosure required by Paragraphs 33(2), 33(3), 46(2) and 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules would be unduly burdensome and would not provide additional meaningful disclosure for potential Hong Kong investors.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Paragraphs 33(2), 33(3), 46(2) and 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules, to the extent not strictly met by the current disclosure in this prospectus.

Disclosure of interests information

Part XV of the SFO imposes duties of disclosure of interests in shares. Practice Note 5 and Paragraphs 41(4) and 45 of Part A of Appendix 1 to the Hong Kong Listing Rules require the disclosure of interests information in respect of shareholders' and directors' interests in the listing document.

We have applied for, and the SFC has granted, a partial exemption from strict compliance with Part XV of the SFO as set out above under sub-section headed "Disclosure of Interests" below.

The U.S. Exchange Act and the rules and regulations promulgated thereunder require disclosure of interests by shareholders that are broadly equivalent to Part XV of the SFO. Relevant disclosure in respect of the substantial shareholders' interests are disclosed in the section headed "Major Shareholders" in this prospectus.

We have applied for, and the Hong Kong Stock Exchange has granted, waivers from strict compliance with Practice Note 5 and Paragraphs 41(4) and 45 of Part A of Appendix 1 to the Hong Kong Listing Rules on the following conditions:

(a) the SFC granting our Company and our Shareholders a partial exemption from strict compliance with Part XV of the SFO;

(b) our Company undertaking to file with the Hong Kong Stock Exchange, as soon as practicable, any declaration of shareholding and securities transactions filed with the SEC; and

(c) our Company undertaking to disclose in present and future listing documents any shareholding interests as disclosed in an SEC filing and the relationship between our Directors, officers, members of committees and their relationship to any Controlling Shareholder.

Determination of whether a company is a "public company in Hong Kong"

Section 4.1 of the Introduction to the Takeovers Codes provides that the Takeovers Codes apply to takeovers, mergers and share buy-backs affecting, among others, public companies in Hong Kong and companies with a primary listing in Hong Kong. According to the Note to Section 4.2 of the Introduction to the Takeovers Codes, a Grandfathered Greater China Issuer within

the meaning of Rule 19C.01 of the Hong Kong Listing Rules with a secondary listing on the Hong Kong Stock Exchange will not normally be regarded as a public company in Hong Kong under Section 4.2 of the Introduction to the Takeovers Codes.

We have applied for, and the SFC has granted, a ruling that our Company will not be regarded as a "public company in Hong Kong" for the purposes of the Takeovers Codes. Therefore, the Takeovers Codes do not apply to our Company. In the event that the bulk of trading in the Shares migrates to Hong Kong such that our Company would be treated as having a dual-primary listing pursuant to Rule 19C.13 of the Hong Kong Listing Rules, the Takeovers Codes will apply to our Company.

Disclosure of interests

Part XV of the SFO imposes duties of disclosure of interests in Shares. Under the U.S. Exchange Act, which our Company is subject to, any person (including directors and officers of the company concerned) who acquires beneficial ownership, as determined in accordance with the rules and regulations of the SEC and which includes the power to direct the voting or the disposition of the securities, of more than 5% of a class of equity securities registered under Section 12 of the U.S. Exchange Act must file beneficial owner reports with the SEC, and such person must promptly report any material change in the information provided (including any acquisition or disposition of 1% or more of the class of equity securities concerned), unless exceptions apply. Therefore, compliance with Part XV of the SFO would subject our corporate insiders to a second level of reporting, which would be unduly burdensome to them, would result in additional costs and would not be meaningful, since the statutory disclosure of interest obligations under the U.S. Exchange Act that apply to our Company and our corporate insiders would provide our investors with sufficient information relating to the shareholding interests of our significant Shareholders.

We have applied for, and the SFC has granted, a partial exemption under section 309(2) of the SFO from the provisions of Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO), on the conditions that (i) the bulk of trading in the Shares is not considered to have migrated to Hong Kong on a permanent basis in accordance with Rule 19C.13 of the Hong Kong Listing Rules; (ii) all disclosures of interest filed with the SEC are also filed with the Hong Kong Stock Exchange as soon as practicable, which will then publish such disclosures in the same manner as disclosures made under Part XV of the SFO; and (iii) we will advise the SFC if there is any material change to any of the information which has been provided to the SFC, including any significant changes to the disclosure requirements in the U.S. and any significant changes in the volume of our worldwide share turnover that takes place on the Hong Kong Stock Exchange. This exemption may be reconsidered by the SFC in the event there is a material change in information provided to the SFC.

Disclosure of particulars of debenture holders

Paragraph 10 of the Third Schedule to the Companies (WUMP) Ordinance requires our Company to set out in the Prospectus, among other things, details of the number, description and amount of any of its shares or debentures which any person has, or is entitled to be given, an option to subscribe for, together with the certain particulars of the option, namely the period during which it is exercisable, the price to be paid for shares or debentures subscribed for under it, the consideration given or to be given (if any) and the names and addresses of the persons to whom it or the right to it was given.

In November 2017 and in May 2020, we issued US$475 million and US$500 million, respectively, in aggregate principal amounts of convertible senior notes (collectively, the "**Convertible Notes**") to a large number of investors that we believe are Independent Third Parties. Please refer to the section headed "Financial Information—Outstanding Indebtedness" for further details of the Convertible Notes.

Consistent with market practice, The Depository Trust Company ("**DTC**") (which is the clearing agency generally used for debt and equity security clearance in the U.S.), has acted as depositary with respect to the Convertible Notes. The global notes representing the Convertible Notes are registered in the name of Cede & Co. (as DTC's nominee) and deposited with the trustee as custodian for Cede & Co.

To our knowledge, (a) financial institutions, including broker-dealers, hold and trade the Convertible Notes through their participant accounts with DTC; (b) ultimate noteholders that do not have participant accounts with DTC typically hold and trade the Convertible Notes in the names of their brokers through their brokers' participant accounts with the DTC; (c) the Convertible Notes are frequently traded among investors and hence the identities of the ultimate noteholders may change constantly; and (d) the trustee does not have information on the identities of the ultimate noteholders and at most, would only be able to order a fee based report to ascertain the identities of the DTC participants/brokers through which the Convertible Notes are traded.

We have applied for, and the SFC has granted, a certificate of exemption from the requirements under Paragraph 10 of the Third Schedule to the Companies (WUMP) Ordinance, to the extent not strictly met by the disclosure in this prospectus on the following basis:

(a) since the identities of the ultimate noteholders are practically unavailable and given the expected frequent changes of the identities of the ultimate noteholders, it would be practically impossible for us to disclose the names and addresses of such ultimate noteholders (which are Independent Third Parties) in this prospectus. This disclosure, even if it can be made, would also not provide meaningful information to the potential investors of our Company;

(b) strict compliance with the applicable disclosure requirements under Paragraph 10 of the Third Schedule to the Companies (WUMP) Ordinance for each ultimate noteholder on an individual basis (including the disclosure of names and addresses of all noteholders) in this prospectus will be unduly burdensome on us in light of the practical impossibility in identifying the ultimate noteholders and the potentially significant increase in cost and time for information compilation, prospectus preparation and printing;

(c) material information relating to the Convertible Notes has been disclosed in the section headed "Financial Information—Outstanding Indebtedness" and Note 9 (Debt) to Appendix IA of this prospectus, including but not limited to the principal amounts, the maturity dates, the annual coupon rate, the conversion mechanism including the conversion rates and adjustments, the maximum number of Shares that could be converted from the Convertible Notes, the potential dilution effect upon full conversion of the Convertible Notes, the noteholders' rights to require our Company to repurchase the Convertible Notes, and redemption rights of our Company. Accordingly, information that should be reasonably necessary for potential investors to make an informed assessment of our Company in their investment decision process has been included in this prospectus; and

(d) non-compliance with the abovementioned disclosure requirements under Paragraph 10 of the Third Schedule to the Companies (WUMP) Ordinance would not prevent us from providing its potential investors with an informed assessment of the activities, assets, liabilities, financial position, management and prospects of our Company and would not prejudice the interests of the investing public.

The SFC has granted an exemption referred to above on the following conditions:

(a) in respect of the Convertible Notes issued by our Company, the following details are fully disclosed in this prospectus:

- the total principal amount of the Convertible Notes;
- the maximum number of Shares to be converted from the Convertible Notes;
- the conversion rate of the Convertible Notes; and
- the conversion period of the Convertible Notes;

(b) the potential dilution effect upon full conversion of the Convertible Notes issued is set out in this prospectus;

(c) the particulars of such exemption are set out in this prospectus; and

(d) this prospectus will be issued on or before September 11, 2020.

CLAWBACK MECHANISM UNDER PARAGRAPH 4.2 OF PRACTICE NOTE 18 OF THE HONG KONG LISTING RULES

Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. Subject to the Hong Kong Stock Exchange granting the waiver described as below, the Hong Kong Public Offering and the International Offering will initially account for 10% and 90% of the Global Offering, respectively, subject to the clawback mechanism described below.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirements of paragraph 4.2 of Practice Note 18 to the Hong Kong Listing Rules such that the allocation of the Offer Shares in the Hong Kong Public Offering will be adjusted as follows:

- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 13 times or more but less than 45 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 2,859,200 Offer Shares, representing approximately 14% of the Offer Shares initially available under the Global Offering (before exercise of the Over-allotment Option);

- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 45 times or more but less than 91 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 3,880,300 Offer Shares, representing approximately 19% of the Offer Shares initially available under the Global Offering (before exercise of the Over-allotment Option); and

- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 91 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 7,556,200 Offer Shares, representing approximately 37% of the Offer Shares initially available under the Global Offering (before exercise of the Over-allotment Option).

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

In addition, the Joint Global Coordinators may allocate Offer Shares from the International Offer Shares to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with the Guidance Letter HKEx-GL91-18 issued by the Hong Kong Stock Exchange, if such allocation is done other than pursuant to Practice Note 18 of the Hong Kong Listing Rules, the maximum total number of Offer Shares that may be allocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 4,084,600 Shares).

If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

See "Structure of the Global Offering — The Hong Kong Public Offering — Reallocation".

Publication of interim report for the six months ended June 30, 2020

Rule 13.48(1) of the Hong Kong Listing Rules requires an issuer to send an interim report or a summary interim report in respect of the first six months of the financial year within three months after the end of that period. Practice Note 10 of the Hong Kong Listing Rules requires newly listed issuers to prepare and publish interim reports in respect of the first six month period where the deadline for publishing the reports falls after the date on which dealings in the securities of the issuer commenced.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 13.48(1) of the Hong Kong Listing Rules in relation to the six months ended June 30, 2020 on, among others, the following grounds:

- as we have included the audited financial information of our Group in respect of the three months ended March 31, 2020 in this prospectus and other financial disclosure in (a) Appendix IC to this prospectus and (b) the sections headed "Summary—Recent Developments—Financial Results for the Second Quarter of 2020", "Summary—Recent Developments—Results of Hotel Operations of Legacy Huazhu" and "Summary—Recent Developments—Results of Hotel Operations of Legacy DH" of this prospectus, strict compliance with the requirements under Rule 13.48(1) of the Hong Kong Listing Rules would not provide our Shareholders and potential investors of our Company with additional material information not already contained in this prospectus; and

- to require our Company to prepare, publish and send to our Shareholders an interim report over a short period of time after the publication of this prospectus would incur unnecessary administrative cost and time on the part of our management and be unduly burdensome for us.

We confirm that our Company would not be in breach of its constitutional documents or laws or regulations of the Cayman Islands or any other regulatory requirements for not preparing, publishing and sending an interim report under the Hong Kong Listing Rules to the Shareholders for the six months ended June 30, 2020.

DIRECTORS' RESPONSIBILITY STATEMENT

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Hong Kong Listing Rules for the purpose of giving information to the public with regard to our Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors and any of the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to us and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) agreeing on the pricing of the Hong Kong Offer Shares. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or around the Price Determination Date.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

PROCEDURES FOR APPLICATION FOR THE HONG KONG OFFER SHARES

The procedures for applying for the Hong Kong Offer Shares are set forth in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in the section headed "Structure of the Global Offering" in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares (except for a registration of Shares on a registration statement on Form F-3ASR filed with the SEC) or the general distribution of this prospectus in any jurisdiction other than in Hong Kong or the United States. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on Tuesday, September 22, 2020. The Shares will be traded in board lots of 50 Shares each. The stock code of the Shares will be 1179.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisors if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or ADSs or exercising any rights attaching to the Shares. We emphasize that none of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the

Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, the Shares or ADSs or your exercise of any rights attaching to the Shares.

REGISTER OF SHAREHOLDERS AND STAMP DUTY

Our principal register of members will be maintained by our principal registrar, Conyers Trust Company (Cayman) Limited, in the Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited in Hong Kong.

Dealings in the Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice. To facilitate ADS-Share conversion and trading between the NASDAQ and the Hong Kong Stock Exchange, we also intend to move a portion of our issued Shares from our Cayman share register to our Hong Kong share register. It is unclear whether, as a matter of Hong Kong law, the trading or conversion of ADSs constitutes a sale or purchase of the underlying Hong Kong-registered Shares that is subject to Hong Kong stamp duty. We advise investors to consult their own tax advisors on this matter. Please see "Risk Factors—Risks Related to the Global Offering—There is uncertainty as to whether Hong Kong stamp duty will apply to the trading or conversion of our ADSs following our initial public offering in Hong Kong and listing of our Shares on the Hong Kong Stock Exchange."

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars.

Unless otherwise specified, amounts denominated in Hong Kong dollars and Renminbi have been translated, for the purpose of illustration only, into United States dollars in this prospectus at the exchange rates of:

HK$7.7513 to US$1.00; and

RMB7.0808 to US$1.00, the respective exchange rates on March 31, 2020 set forth in the H.10 statistical release of the Federal Reserve Board.

On August 28, 2020, the noon buying rate for Renminbi and Hong Kong dollars was RMB6.8647 to US$1.00 and HK$7.7502 to US$1.00, respectively.

No representation is made that any amounts in Renminbi, Hong Kong dollars or U.S. dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

ROUNDING

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

LANGUAGE

If there is any inconsistency between the English version of this prospectus and the Chinese translation of this prospectus, the English version of this prospectus shall prevail unless otherwise stated. However, if there is any inconsistency between the names of any of the entities mentioned in the English version of this prospectus which are not in the English language and their English translations, the names in their respective original language shall prevail.

OTHER

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the Global Offering assume that the Over-allotment Option is not exercised.

THE LISTING

We have applied for a listing of our Shares on the Main Board under Chapter 19C (Secondary Listings of Qualifying Issuers) of the Hong Kong Listing Rules.

We have a track record of good regulatory compliance of at least two full financial years on the NASDAQ as required by Rule 19C.04 of the Hong Kong Listing Rules for the purposes of our Listing.

We have applied to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of restricted stocks or other awards that have been or may be granted from time to time.

Our ADSs are currently listed and traded on the NASDAQ. Other than the foregoing, no part of our Shares or loan capital is listed on or traded on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All Offer Shares will be registered on the Hong Kong Share Registrar in order to enable them to be traded on the Hong Kong Stock Exchange.

Under section 44B(1) of the Companies (WUMP) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Shares on the Hong Kong Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to us by or on behalf of the Hong Kong Stock Exchange.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF SHARES

Our register of members holding a portion of our Shares represented by the ADSs will be maintained by our Principal Share Registrar in the Cayman Islands, and our register of members holding Shares listed on the Hong Kong Stock Exchange and a portion of our Shares represented by the ADSs will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

OWNERSHIP OF ADSs

An owner of ADSs may hold his or her ADSs either by means of an ADR (evidencing certificated ADSs) registered in his or her name, through a brokerage or safekeeping account, or through an account established by the depositary bank in his or her name reflecting the registration of uncertificated ADSs directly on the books of the depositary bank, commonly referred to as the "direct registration system," or DRS. The direct registration system reflects the uncertificated (book-entry) registration of ownership of ADSs by the depositary bank. Under the direct registration system, ownership of ADSs is evidenced by periodic statements issued by the depositary bank to the holders of the ADSs. The direct registration system includes automated transfers between the depositary bank and DTC. If an owner of ADSs decides to hold his or her ADSs through his or her brokerage or safekeeping account, he or she must rely on the procedures of his or her broker or bank to assert his or her rights as ADS owner. Banks and brokers typically hold securities such as the ADSs through clearing and settlement systems such as DTC. All ADSs held through DTC will be registered in the name of a nominee of DTC.

DEALING AND SETTLEMENT OF SHARES IN HONG KONG

Our Shares will trade on the Hong Kong Stock Exchange in board lots of 50 Shares. Dealings in our Shares on the Hong Kong Stock Exchange will be conducted in Hong Kong dollars.

The transaction costs of dealings in our Shares on the Hong Kong Stock Exchange include:

- Hong Kong Stock Exchange trading fee of 0.005% of the consideration of the transaction, charged to each of the buyer and seller;
- SFC transaction levy of 0.0027% of the consideration of the transaction, charged to each of the buyer and seller;
- trading tariff of HK$0.50 on each and every purchase or sale transaction. The decision on whether or not to pass the trading tariff onto investors is at the discretion of brokers;
- transfer deed stamp duty of HK$5.00 per transfer deed (if applicable), payable by the seller;
- ad valorem stamp duty at a total rate of 0.2% of the value of the transaction, with 0.1% payable by each of the buyer and the seller;
- stock settlement fee, which is currently 0.002% of the gross transaction value, subject to a minimum fee of HK$2.00 and a maximum fee of HK$100.00 per side per trade;
- brokerage commission, which is freely negotiable with the broker (other than brokerage commissions for IPO transactions which are currently set at 1% of the subscription or purchase price and will be payable by the person subscribing for or purchasing the securities); and
- the Hong Kong share registrar will charge between HK$2.50 to HK$20, depending on the speed of service (or such higher fee as may from time to time be permitted under the Hong Kong Listing Rules), for each transfer of Shares from one registered owner to another, each share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong.

Investors must settle their trades executed on the Hong Kong Stock Exchange through their brokers directly or through custodians. For an investor who has deposited his or her Shares in his or her stock account or in his or her designated CCASS participant's stock account maintained with CCASS, settlement will be effected in CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. For an investor who holds the physical certificates, settlement certificates and the duly executed transfer forms must be delivered to his or her broker or custodian before the settlement date.

CONVERSION BETWEEN SHARES TRADING IN HONG KONG AND ADSs

In connection with the Hong Kong Public Offering, we have established a branch register of members in Hong Kong, or the Hong Kong share register, which will be maintained by our Hong Kong share registrar, Computershare Hong Kong Investor Services Limited. Our principal register of members, or the Cayman share register, will continue to be maintained by our principal share registrar, Conyers Trust Company (Cayman) Limited.

All Shares offered in the Hong Kong Public Offering will be registered on the Hong Kong share register in order to be listed and traded on the Hong Kong Stock Exchange. As described in further detail below, holders of Shares registered on the Hong Kong share register will be able to convert these shares into ADSs, and vice versa.

In connection with the Hong Kong Public Offering, and to facilitate fungibility and conversion between ADSs and Shares and trading between NASDAQ and the Hong Kong Stock Exchange, we intend to move a portion of our issued Shares from our principal register of members maintained in the Cayman Islands to our Hong Kong share register.

Our ADSs

Our ADSs are traded on the NASDAQ. Dealings in our ADSs on the NASDAQ are conducted in U.S. Dollars.

ADSs may be held either:

- directly, by having a certificated ADS, or an ADR, registered in the holder's name, or by holding in the direct registration system, pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto; or

- indirectly, through the holder's broker or other financial institution.

The depositary for our ADSs is Citibank, N.A., whose office is located at 388 Greenwich Street, New York, New York 10013, United States.

Converting Shares Trading in Hong Kong into ADSs

An investor who holds Shares registered in Hong Kong and who intends to convert them to ADSs to trade on the NASDAQ must deposit or have his or her broker deposit the Shares with the depositary's Hong Kong custodian, Citibank, N.A., Hong Kong, or the custodian, in exchange for ADSs.

A deposit of Shares trading in Hong Kong in exchange for ADSs involves the following procedures:

- If Shares have been deposited with CCASS, the investor must transfer Shares to the depositary's account with the custodian within CCASS by following the CCASS procedures for transfer and submit and deliver a duly completed and signed conversion form to the depositary via his or her broker.

- If Shares are held outside CCASS, the investor must arrange to deposit, his or her Shares into CCASS for delivery to the depositary's account with the custodian within CCASS, submit and deliver a request for conversion form to the custodian and after duly completing and signing such conversion form, deliver such conversion form to the custodian.

- Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, the depositary will issue the corresponding number of ADSs in the name(s) requested by an investor and will deliver the ADSs to the designated DTC account of the person(s) designated.

For Shares deposited in CCASS, under normal circumstances, the above steps generally require two business days. For Shares held outside CCASS in physical form, the above steps may take 14 business days, or more, to complete. Temporary delays may arise. For example, the transfer books of the depositary may from time to time be closed to ADS issuances. The investor will be unable to trade the ADSs until the procedures are completed.

Converting ADSs to Shares Trading in Hong Kong

An investor who holds ADSs and who intends to convert his/her ADSs into Shares to trade on the Hong Kong Stock Exchange must cancel the ADSs the investor holds and withdraw Shares from our ADS program and cause his or her broker or other financial institution to trade such Shares on the Hong Kong Stock Exchange.

An investor that holds ADSs indirectly through a broker should follow the broker's procedure and instruct the broker to arrange for cancelation of the ADSs, and transfer of the underlying Shares from the depositary's account with the custodian within the CCASS system to the investor's Hong Kong stock account.

For investors holding ADSs directly, the following steps must be taken:

- To withdraw Shares from our ADS program, an investor who holds ADSs may turn in such ADSs at the office of the depositary (and the applicable ADR(s) if the ADSs are held in certificated form), and send an instruction to cancel such ADSs to the depositary.

- Upon payment or net of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, the depositary will instruct the custodian to deliver Shares underlying the canceled ADSs to the CCASS account designated by an investor.

- If an investor prefers to receive Shares outside CCASS, he or she must receive Shares in CCASS first and then arrange for withdrawal from CCASS. Investors can then obtain a transfer form signed by HKSCC Nominees Limited (as the transferor) and register Shares in their own names with the Hong Kong share registrar.

For Shares to be received in CCASS, under normal circumstances, the above steps generally require two business days. For Shares to be received outside CCASS in physical form, the above steps may take 14 business days, or more, to complete. The investor will be unable to trade the Shares on the Hong Kong Stock Exchange until the procedures are completed.

Temporary delays may arise. For example, the transfer books of the depositary may from time to time be closed to ADS cancellations. In addition, completion of the above steps and procedures is subject to there being a sufficient number of Shares on the Hong Kong share register to facilitate a withdrawal from the ADS program directly into the CCASS system. We are not under any obligation to maintain or increase the number of Shares on the Hong Kong share register to facilitate such withdrawals.

Depositary Requirements

Before the depositary issues ADSs or permits withdrawal of Shares, the depositary may require:

- production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and

- compliance with procedures it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depositary may refuse to deliver, transfer, or register issuances, transfers and cancelations of ADSs generally when the transfer books of the depositary or our Hong Kong share registrar are closed or at any time if the depositary or we determine it advisable to do so.

All costs attributable to the transfer of Shares to effect a withdrawal from or deposit of Shares into our ADS program will be borne by the investor requesting the transfer. In particular, holders of Shares and ADSs should note that the Hong Kong share registrar will charge between HK$2.50 to HK$20, depending on the speed of service (or such higher fee as may from time to time be permitted under the Hong Kong Listing Rules), for each transfer of Shares from one registered owner to another, each share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong. In addition, holders of Shares and ADSs must pay up to US$5.00 per 100 ADSs for each issuance of ADSs and each cancelation of ADSs, as the case may be, in connection with the deposit of Shares into, or withdrawal of Shares from, our ADS program.

Summary of exemptions as a foreign private issuer in the U.S.

As required by Rule 19C.14 of the Hong Kong Listing Rules, set forth below is a summary of the exemptions from obligations under U.S. securities laws and NASDAQ rules that we enjoy as a foreign private issuer in the U.S.

Exemptions from NASDAQ rules

Foreign private issuers are exempted from certain corporate governance requirements of the NASDAQ. Foreign private issuers are permitted to follow home country practice, i.e., for us, the practice of the Cayman Islands, in lieu of such corporate governance requirements, as long as they disclose any significant ways in which their corporate governance practices differ from those required under the NASDAQ listing standards and explain the basis for the conclusion that the exemption is applicable. Specifically, we currently enjoy the exemptions from the requirements to:

- have a majority of independent directors;

- regularly schedule executive sessions (at least twice a year) at which only independent directors are present;

- have an audit committee comprised of at least three members;
- have a nominating and corporate governance committee;
- disclose in our annual report on Form 20-F or our website the material terms of all agreements or arrangements between any director or nominee for director and any person or entity other than our Company relating to compensation or other payment in connection with that person's candidacy or services as a Director of our Company;
- give shareholders the opportunity to vote on:
    - the issuance of securities in connection with the acquisition of the stock or assets of another company if: (i) where, due to the present or potential issuance of common stock, including shares issued pursuant to an earn-out provision or similar type of provision, or securities convertible into or exercisable for common stock, other than a public offering for cash: (A) the common stock has or will have upon issuance voting power equal to or in excess of 20% of the voting power outstanding before the issuance of stock or securities convertible into or exercisable for common stock; or (B) the number of shares of common stock to be issued is or will be equal to or in excess of 20% of the number of shares of common stock outstanding before the issuance of the stock or securities; or (ii) any director, officer or Substantial Shareholder (as defined by Rule 5635(e)(3) of the NASDAQ rules) of the Company has a 5% or greater interest (or such persons collectively have a 10% or greater interest), directly or indirectly, in the company or assets to be acquired or in the consideration to be paid in the transaction or series of related transactions and the present or potential issuance of common stock, or securities convertible into or exercisable for common stock, could result in an increase in outstanding common shares or voting power of 5% or more;
    - an issuance that will result in a change of control of the listed company;
    - all equity-compensation plans and material revisions thereto, with limited exceptions;
    - private placements (other than a bona fide private placement), if the number of shares of common stock, or of securities convertible into or exercisable for common stock to be issued equals or exceeds 20% of the shares of common stock outstanding before the issuance.

Exemption from SEC rules and regulations under U.S federal securities laws

Foreign private issuers are exempted from Regulation FD under the U.S. Exchange Act. Regulation FD provides that when a domestic U.S. issuer, or someone acting on its behalf, discloses material nonpublic information to certain persons (including securities analysts, other securities market professionals, and holders of the issuer's securities who could reasonably be expected to trade on the basis of the information), it must make simultaneous public disclosure of that information (in the case of intentional disclosure) or prompt public disclosure (in the case of non-intentional disclosure). However, the SEC expects foreign private issuers to conduct themselves in accordance with the basic principles underlying Regulation FD.

Section 16 of the U.S. Exchange Act does not apply to foreign private issuers. Therefore, directors, executive officers and 10% beneficial owners of foreign private issuers are not required to file Forms 3, 4 and 5 with the SEC, and are not required to disgorge to the issuer any profits realized from any non-exempt purchase and sale, or non-exempt sale and purchase, of the issuer's equity securities or security-based swap agreements within a period of less than six months.

Foreign private issuers are exempt from the SEC's rules prescribing the furnishing and content of proxy statements under the U.S. Exchange Act, which specify the procedures and required documentation for soliciting shareholder votes. Accordingly, foreign private issuers are not required to disclose certain information in their annual proxy statements, such as whether the work of any compensation consultant has played any role in determining or recommending the form or amount of executive and director compensation has raised a conflict of interest, and, if so, the nature of the conflict and how it is being addressed.

Foreign private issuers are also not required under the U.S. Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as domestic U.S. issuers with securities registered under the U.S. Exchange Act. As a result, our shareholders may be afforded less protection than they would under the U.S. Exchange Act rules applicable to domestic U.S. issuers. Unlike domestic U.S. issuers, foreign private issuers are not required to file quarterly reports (including quarterly financial information) on Form 10-Q. They also are not required to use Form 8-K for current reports, and instead furnish (not file) current reports on Form 6-K with the SEC.

Annual reports on Form 10-K by domestic U.S. issuers are due within 60, 75, or 90 days after the end of the issuer's fiscal year, depending on whether the company is a "large accelerated filer," a "accelerated filer," or a "non-accelerated filer." By contrast, the deadline for foreign private issuers to file annual reports on Form 20-F is four months after the end of their fiscal year.

OUR ARTICLES

We are an exempted company incorporated in the Cayman Islands with limited liability and our affairs are governed by our Memorandum and Articles, the Cayman Companies Law and the common law of the Cayman Islands.

The laws of Hong Kong differ in certain respects from the Cayman Companies Law, and our Articles are specific to us and include certain provisions that may be different from common practices in Hong Kong. For example:

- Rule 19C.07 of the Hong Kong Listing Rules provides that the Hong Kong Stock Exchange will consider that an issuer such as us seeking a listing under Chapter 19C has met the requirements of Rule 19.30(1)(b) of the Hong Kong Listing Rules for standards of shareholder protection if it has met the shareholder protection standards by reference to eight criteria set out in Rule 19C.07.

- Rule 19C.07(3) of the Hong Kong Listing Rules requires the appointment, removal and remuneration of auditors must be approved by a majority of a Qualifying Issuer's members or other body that is independent of the issuer's board of directors), but our Articles do not contain this or a similar provision.

- Rule 19C.07(5) of the Hong Kong Listing Rules provides that the Qualifying Issuer must give its members reasonable written notice of its general meetings, and our Articles provide that any general meeting may be called by not less than five clear days. We undertake we will (i) provide 14 clear days' notice for any general meetings after the Listing and (ii) put forth a resolution at each of our annual general meetings after the Listing to revise our Articles, until it complies with Rule 19C.07(5) of the Hong Kong Listing Rules.

- Rule 19C.07(6) of the Hong Kong Listing Rules provides that members of the Qualifying Issuer must have the right to vote at a general meeting except where a member is required, by the Hong Kong Listing Rules, to abstain from voting to approve the matter under consideration. Our Articles does not include the exception that a Shareholder is required to abstain from voting, if such Shareholder has a material interest in the matter to be approved in a resolution at a general meeting. We will put forth a resolution at each of our annual general meetings after the Listing to revise our Articles, until it provides that where any Shareholder is, under applicable rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Shareholder in contravention of such requirement or restriction shall not be counted. Prior to the amendment to our Articles, we will stipulate in the proxy statement to be sent to our Shareholders for any general meeting to be held after the Listing that, where required by the Hong Kong Listing Rules, a Shareholder who has a material interest in the matter to be approved by a particular resolution will be required to abstain from voting on such resolution.

- Rule 19C.07(7) of the Hong Kong Listing Rules provides that the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of a Qualifying Issuer, but our Articles do not contain an equivalent provision. We will put forth a resolution at each of our annual general meetings after the Listing to revise our Articles, until it complies with Rule 19C.07(7) of the Hong Kong Listing Rules. Prior to the amendment to our Articles, only a majority of our Board or the chairman of our Board may call extraordinary general meetings. Our Directors undertake to requisition a general meeting if Shareholders holding in aggregate not less than 10% of the voting rights of our Company request to convene such a meeting, after the Listing until our Articles have been amended.

Our next annual general meeting after the Listing is expected to be held in the fourth quarter of 2020. We will seek irrevocable undertakings prior to the Listing from each of Mr. Ji Qi, Trip.com, AAPC Hong Kong Limited and Mr. John Wu Jiong to vote in favor of the proposed resolutions outlined above at each of our annual general meetings after the Listing until our Articles have been amended accordingly, with a view to ensuring that there may be adequate votes in favor of such resolutions. As of the Latest Practicable Date, Mr. Ji Qi, Trip.com, AAPC Hong Kong Limited and Mr. John Wu Jiong controlled the voting rights of approximately 33.53%, 7.42%, 5.23% and 2.58% of our outstanding Shares. Please refer to the section headed "Waivers and Exemptions" for further details and the section headed "Summary of the Constitution of our Company and the Cayman Companies Law" as set out in Appendix IV to this prospectus for further information on our Articles.

DIRECTORS

Name	Residential Address	Country of Nationality
JI Qi (季琦)	94 Cove Drive Singapore 098126	Singapore
ZHANG Min (張敏)	No.17, Lane 1068 Gaojing Road, Xujing Town Qingpu District, Shanghai PRC	China
Sébastien, Marie, Christophe BAZIN	126 Rue De La Faisanderie 75116 Paris 16	France
Gaurav BHUSHAN	Flat 1st Floor 14 Cornwall Gardens London, SW7 4AN United Kingdom	Australia
ZHANG Shangzhi (張尚稚)	Room 601, Building 13 Fangxingyuan Third Block Fengtai District, Beijing PRC	China
John WU Jiong (吳炯)	6 Battery Road #20-01, Singapore 049909	Singapore
ZHAO Tong Tong (趙彤彤)	Flat A 31/F & 32/F, Tower 1 8 Wai Yin Path Homantin Hillside Hung Hom, Kowloon Hong Kong	Canada
SHANG Jian (尚健)	Room 3001, No.7 Lane 1299, Dingxiang Road Pudong New Area, Shanghai PRC	China
HEE Theng Fong (許廷芳)	House 16 Greenleaf Grove Singapore 279500	Singapore
CAO Lei (曹蕾)	923 Bukit Timah Road #06-06 The Cascadia Singapore 589639	China

Please see the section headed "Directors and Senior Management" in this prospectus for further details.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors	**Goldman Sachs (Asia) L.L.C.** 68/F Cheung Kong Center 2 Queen's Road Central Hong Kong **CMB International Capital Limited** 45/F, Champion Tower 3 Garden Road Central Hong Kong
Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers	**Goldman Sachs (Asia) L.L.C.** 68/F Cheung Kong Center 2 Queen's Road Central Hong Kong **CMB International Capital Limited** 45/F, Champion Tower 3 Garden Road Central Hong Kong **Morgan Stanley Asia Limited** *(Joint Global Coordinator, and Joint Bookrunner and Joint Lead Manager in relation to the Hong Kong Public Offering only)* 46/F, International Commerce Centre 1 Austin Road West Kowloon Hong Kong **Morgan Stanley & Co. International plc** *(Joint Bookrunner and Joint Lead Manager in relation to the International Offering only)* 25 Cabot Square Canary Wharf London E14 4QA United Kingdom **J.P. Morgan Securities (Asia Pacific) Limited** *(Joint Global Coordinator, and Joint Bookrunner and Joint Lead Manager in relation to the Hong Kong Public Offering only)* 28/F, Chater House 8 Connaught Road Central Hong Kong

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United Kingdom

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(Joint Bookrunner and Joint Lead Manager in relation to the International Offering only)
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New York, New York 10179
United States of America

CLSA Limited
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88 Queensway
Hong Kong

Legal Advisors to Our Company

As to Hong Kong and U.S. laws:
Cleary Gottlieb Steen & Hamilton (Hong Kong)
37/F, Hysan Place
500 Hennessy Road
Causeway Bay
Hong Kong

As to PRC law:
JunHe LLP
26/F HKRI Centre One
HKRI Taikoo Hui,
288 Shimen Road (No. 1)
Shanghai, 200041
PRC

As to Cayman Islands law:
Maples and Calder (Hong Kong) LLP
26th Floor, Central Plaza
18 Harbour Road
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Hong Kong

Legal advisors to the Underwriters	*As to Hong Kong and U.S. laws:* **Freshfields Bruckhaus Deringer** 55th Floor, One Island East Taikoo Place, Quarry Bay Hong Kong *As to PRC law:* **Jingtian & Gongcheng** 34F, Tower 3 China Central Place 77 Jianguo Road Chaoyang District, Beijing
Auditor*	**Deloitte Touche Tohmatsu Certified Public Accountants LLP** 30/F Bund Center 222 Yan An Road East Shanghai 200002 PRC **Deloitte Touche Tohmatsu** *Certified Public Accountants* 35/F, One Pacific Place 88 Queensway Hong Kong
Reporting Accountants	**Deloitte Touche Tohmatsu** *Certified Public Accountants* 35/F, One Pacific Place 88 Queensway Hong Kong
Industry Consultant	**Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.** 1018, Tower B 500 Yunjin Road Shanghai, 200232 China
Independent Property Valuer	**D&P China (HK) Limited** Level 3, Three Pacific Place 1 Queen's Road East Hong Kong
Compliance Adviser	**China Everbright Capital Limited** 12/F, Everbright Centre 108 Gloucester Road Wanchai Hong Kong

Receiving Bank	**CMB Wing Lung Bank Limited** 16/F, CMB Wing Lung Bank Building 45 Des Voeux Road Central Hong Kong

Note:

* Deloitte Touche Tohmatsu Certified Public Accountants LLP is currently the auditor of the Company's consolidated financial statements that are prepared in conformity with U.S. GAAP. After the Listing, Deloitte Touche Tohmatsu in Hong Kong will be engaged by the Company to be the auditor of the Company's U.S. GAAP financial statements, which will be included in the annual report to be published in Hong Kong.

Registered office in Cayman Islands	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Principal place of business and head office in the PRC	No. 699 Wuzhong Road Minhang District Shanghai 201103 PRC
Principal place of business in Hong Kong	Unit 417, 4th Floor Tower Two Lippo Centre 89 Queensway Admiralty Hong Kong
Company's Website	**ir.huazhu.com** *(The information on the Company's website does not form part of this prospectus)*
Company Secretary	RONG Yuewu (榮躍武) No. 699 Wuzhong Road Minhang District Shanghai 201103 PRC
Authorized Representative	RONG Yuewu (榮躍武) No. 699 Wuzhong Road Minhang District Shanghai 201103 PRC
Audit Committee	SHANG Jian (Chairman) HEE Theng Fong CAO Lei
Compensation Committee	John WU Jiong SHANG Jian
Cayman Islands Principal Share Registrar and Transfer Agent	**Conyers Trust Company (Cayman) Limited** PO Box 2681 Cricket Square Hutchins Drive George Town Grand Cayman, KY1-1111 Cayman Islands

Hong Kong Share Registrar	**Computershare Hong Kong Investor Services Limited** Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Principal Banks	**JP Morgan Chase Bank N.A., Hong Kong Branch** 27/F, Chater House 8 Connaught Road Central Central, Hong Kong
	China Minsheng Bank Corp., Hong Kong Branch 40/F, Two IFC 8 Finance Street Central, Hong Kong
	Industrial and Commercial Bank of China 55 Fuxingmennei Avenue Xicheng District Beijing, PRC
	China Merchants Bank China Merchants Bank Tower No. 7088 Shennan Boulevard Shenzhen Guangdong, PRC

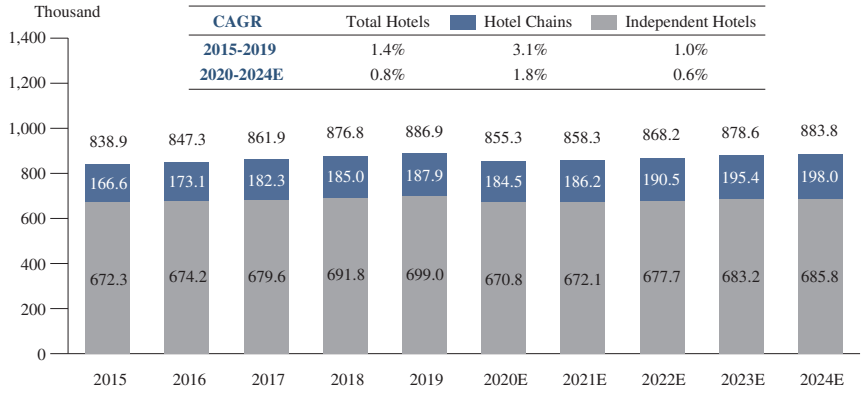
The information presented in this section is, including certain facts, statistics and data, derived from the market research report (the "Frost & Sullivan Report") prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. ("Frost & Sullivan"), which was commissioned by us, and from various official government publications and other publicly available publications, unless otherwise indicated. We believe that these sources are appropriate for the information in this section and we have taken reasonable care in extracting and reproducing this information. We have no reason to believe that this information is false or misleading in any material respect or that any fact has been omitted that would render this information false or misleading in any material respect. Our Directors confirm that, after making reasonable enquiries, there is no adverse change in the market information since the date of the Frost & Sullivan Report that may qualify, contradict or have a material impact on this information. The information presented in this section has not been independently verified by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or any of our or their respective directors, officers, representatives or advisers or any other person involved in the Global Offering (except Frost & Sullivan) and no representation is given as to its accuracy. Accordingly, the information from official and non-official sources contained herein may not be accurate and should not be unduly relied upon.

OVERVIEW OF THE GLOBAL HOTEL INDUSTRY

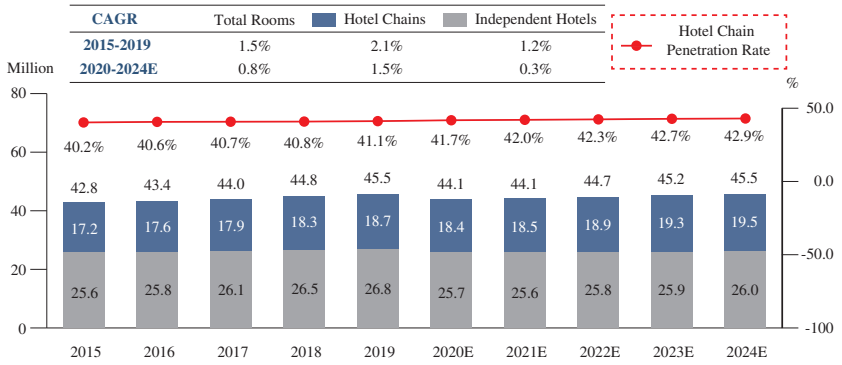
Global Hotel Industry

Global hotel industry is fragmented. Hotel chains accounted for approximately 41.1% of the number of hotel rooms in 2019. In particular, the hotel chain penetration rates in China and Europe are lower than the world average. The total number of hotels and hotel rooms in the world increased at CAGRs of 1.4% and 1.5%, respectively, from 2015 to 2019, primarily due to a sound macro environment and growth in the tourism market. The global hotel supply is forecast to largely stay stagnant due to the impact of COVID-19. After witnessing a decline in 2020, the total number of hotels in the world is expected to recover to 883.8 thousand by 2024. Chain hotels are expected to further gain market shares as a number of independent hotels are likely to exit the industry during the pandemic. The charts below set forth the breakdowns of number of hotels and number of hotel rooms by hotel chains and independent hotels, as well as the hotel chain penetration rate of relevant hotel markets for the periods indicated:

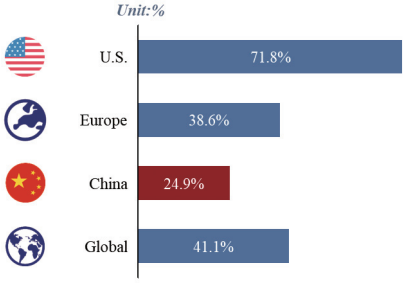
Number of Hotels Breakdown by Hotel Chains and Independent Hotels (Global), 2015-2024E



Number of Hotel Rooms Breakdown by Hotel Chains and Independent Hotels (Global), 2015-2024E



Hotel Chain Penetration Rate, 2019



Source: Frost & Sullivan Report

Note: Hotel chain penetration rate is calculated based on the number of hotel rooms. Hotel chain penetration rate equals to number of rooms of hotel chains divided by the total number of hotel rooms and multiplied by 100%

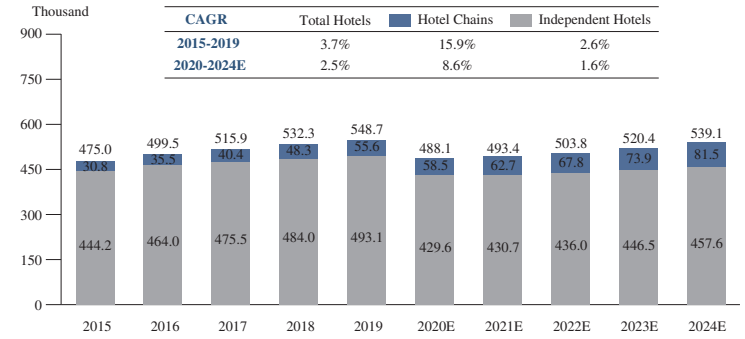
COVID-19 has had adverse impact on the demand for both business and leisure travel, and has in turn reduced the demand in the hotel industry. On the one hand, due to the pandemic, many firms have cancelled long-planned conferences, trade shows, business meetings, and imposed restrictions on personal and business travel during the epidemic period. Employees and other stakeholders are asked to work from home and conduct videoconferencing instead of meeting in person. On the other hand, as COVID-19 quickly escalated into a global pandemic, many countries have implemented restrictions for non-essential travel such as leisure trips. Frost & Sullivan estimates that once the pandemic is under effective control, demand for business activities and business trips will resume along with the lifting of travel restrictions and the economic recovery and development. In addition, as tourism is a major economic engine for many countries, the pick-up of leisure travel is expected to take place gradually from increased domestic leisure travel and then to the gradual recovery of international leisure travel. Although there are still uncertainties in the development and control of the COVID-19 pandemic, the pent-up demand for business and leisure travel is expected to eventually be released along with the resuming economic activities and individual demand for leisure and entertainment, which are also expected to help restore the demand for the hotel industry in the long run.

OVERVIEW OF CHINA'S HOTEL INDUSTRY

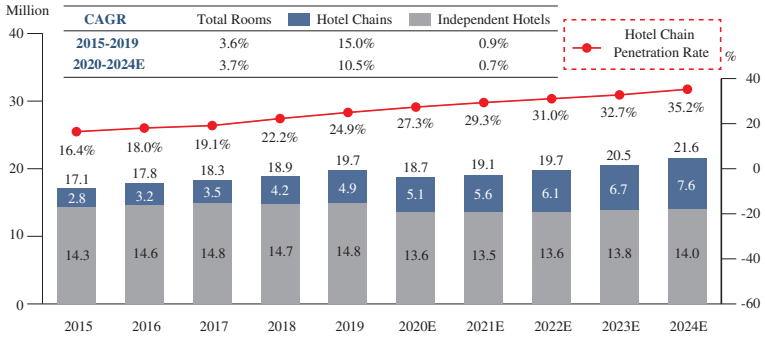
Moderating Growth in Hotel Supply and Increasing Hotel Chain Penetration Rate

China's hotel industry is still highly fragmented and is made up of a large number of independent hotels and a few hotel chains. As of December 31, 2019, hotel chains accounted for only 24.9% of the hotel rooms in China, much lower than the global average of approximately 41.1%. In particular, China's hotel industry in cities of tier three or below presents ample growth opportunities for hotel chains, with relatively low hotel chain penetration rate of approximately 21.1% in 2019. While the number of total hotel rooms is expected to grow at a moderate CAGR of 3.7% from 2020 to 2024, chain-affiliated room supply will increase at a significantly higher CAGR of 10.5% for the same period. Thus, the hotel chain penetration rate in China is expected to further increase to 35.2% in 2024. The charts below set forth the breakdowns by hotel chains and independent hotels for the numbers of hotels and hotel rooms in China, respectively, for the periods indicated:

Number of Hotels Breakdown by Hotel Chains and Independent Hotels (China), 2015-2024E



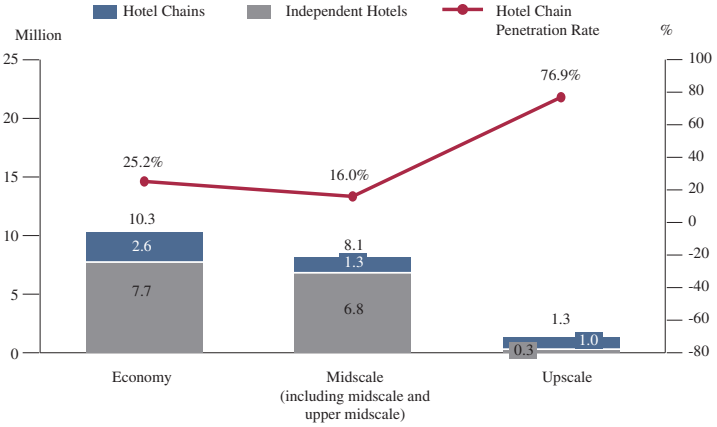
Number of Hotel Rooms Breakdown by Hotel Chains and Independent Hotels (China), 2015-2024E



Source: Frost & Sullivan Report

Hotels are typically classified into three segments in terms of price range: economy, midscale (including midscale and upper midscale) and upscale. By December 31, 2019, the hotel chain penetration rates of midscale and economy hotel segments were only 16.0% and 25.2%, respectively, which were much lower than that of the upscale hotel segment, suggesting great potential for hotel chain penetration and the resulting market consolidation opportunities. The charts below set forth the number of hotel rooms of each segment and a breakdown of hotel rooms by hotel chains and independent hotels as well as the hotel chain penetration rate of each hotel segment in China in 2019:

Number of Hotel Rooms Breakdown by Hotel Segment, (Hotel Chains vs. Independent Hotels), (China), 2019



Notes:

1. Economy hotels mainly refer to establishments that offer a limited number of on-site hotel amenities and often only offer basic accommodations with little to no services. In China, the ADR of economy hotels ranges from US$20 to US$30 in 2019.

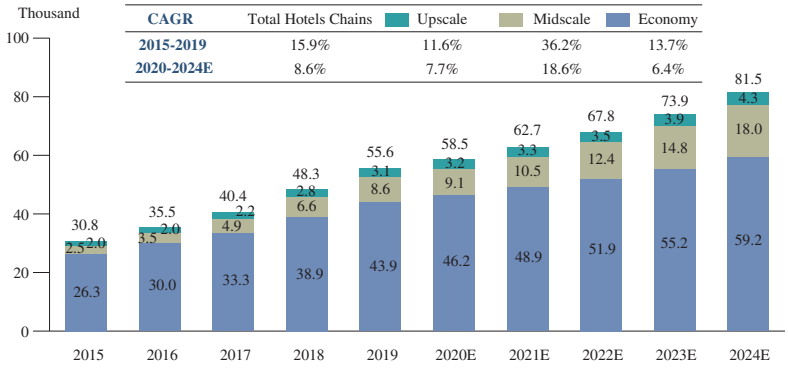
2. Midscale hotels mainly refer to the three- and four-star rated hotels according to China National Star Rating System, which is rated by China Tourism Hotel Association (the "**CNSRS**"), as well as the hotels with similar positioning and quality. In China, the ADR of midscale hotels ranges from US$40 to US$70 in 2019.

3. Upscale hotels mainly refer to five star-rated hotels according to the CNSRS, as well as hotels with similar positioning and quality. In China, the ADR of upscale hotels ranges from US$80 to US$150 in 2019.

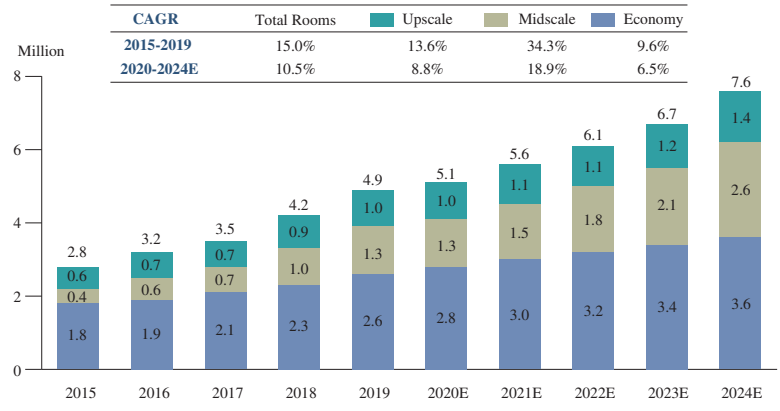
Source: Frost & Sullivan Report

Economy hotels constitute the largest segment of hotel chains in China, taking up approximately 79% of the hotels and 53% of the hotel rooms of China's hotel chains in 2019. Driven by hotel chains' shifting focus to capture the consumption upgrade, the midscale segment demonstrated significant growth at a CAGR of 34.3% from 2015 to 2019 in terms of number of hotel rooms. The charts below set forth the breakdowns by hotel level of the number of hotel chains and number of hotel chain rooms in China for the periods indicated:

Number of Hotel Chains Breakdown by Hotel Segment (China), 2015-2024E



Number of Hotel Chain Rooms Breakdown by Hotel Segment (China), 2015-2024E

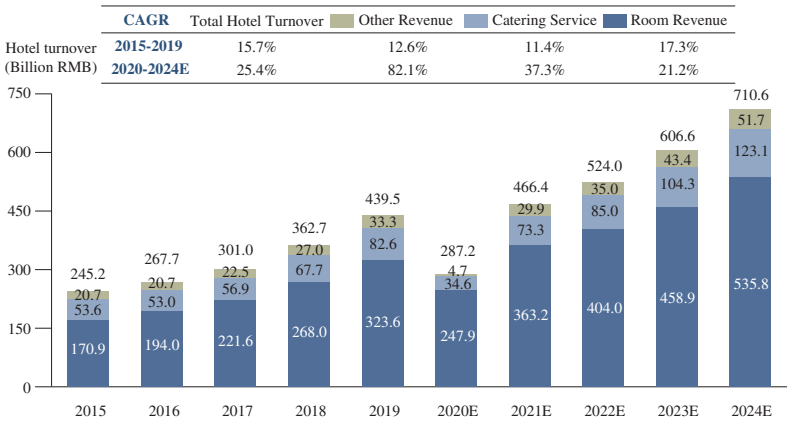


Source: Frost & Sullivan Report

Market Size of Hotel Chains

The total turnover of hotel chains in China increased from RMB245.2 billion in 2015 to RMB439.5 billion in 2019, representing a CAGR of 15.7%. The number of hotel rooms and RevPAR also increased during the same period. The turnover of hotel chains in China is forecast to plummet in 2020, with a year-on-year decline of 34.7% in 2020, mainly due to the COVID-19 outbreak. China's hotel industry has been recovering gradually from the second quarter of 2020 following the government's effective measures to contain the spread of the pandemic and the recovery of the tourism industry and consumer confidence. The turnover of hotel chains in China is expected to reach RMB710.6 billion in 2024, representing a CAGR of 25.4% from 2020 to 2024. The chart below sets forth the total turnover of hotel chains in China for the periods indicated:

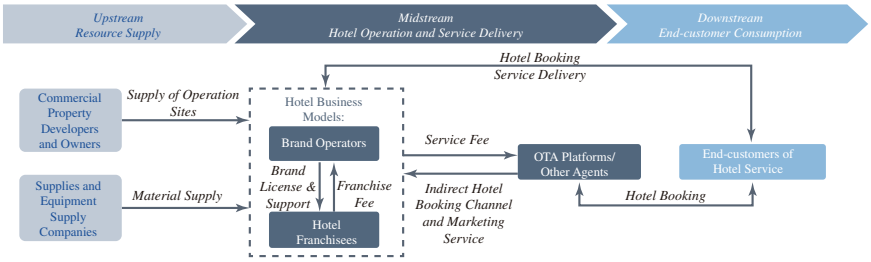
Total Turnover of Hotel Chains (China), 2015-2024E



Source: Frost & Sullivan Report

Note: Other revenue of hotel refers to hotel venue rental revenue, among others.

Value Chain of the Hotel Industry



In general, there are two typical business models, namely, asset-heavy and asset-light models. Under the asset-heavy model, brand operators operate hotels on leased or owned properties. Under the asset-light model, brand operators provide brand licenses and support to franchisees, and collect fees in return. Generally, hotel groups start with the asset heavy model for better quality control, and then further roll out their network rapidly under the asset-light model.

The upstream of the hotel industry consists of commercial property developers and owners who provide operation sites for hotel operators, as well as suppliers of facilities, equipment and essential materials for daily operations. End-customers of hotel services are the downstream consumers of hotel industry, generally including individual guests for business and tourism trips as well as corporate customers attending Meetings, Incentives, Conferences and Exhibitions (MICE).

End-customers nowadays can make direct hotel booking through hotel websites, applications, corporate accounts, direct phone calls and onsite "walk-in". Besides, indirect hotel booking channels such as online travel agency ("**OTA**") platforms and other intermediaries are also the common customer acquisition channels.

Market Drivers, Trends and Opportunities in China's Hotel Industry

Market Drivers

The following are the key growth drivers in China's hotel industry.

- *Economic development and increasing household wealth.* According to the International Monetary Fund, the Chinese economy is forecast to keep growing with nominal GDP increasing at a CAGR of 9.0% from 2020 to 2024. Due to China's continuous economic growth and urbanization, the average income level of Chinese households has increased steadily in recent years, with a corresponding increase in their purchasing power. China's per capita annual disposable income is expected to increase to RMB44.9 thousand in 2024, representing a CAGR of 8.9% from 2020 to 2024. The economic growth has triggered rising demand for business travel and leisure, which in turn boosted the hotel industry.

- *Rising demand for quality products and personalized experiences.* With increasing travel spending, more consumers are seeking quality accommodations beyond the basic needs of affordable prices and convenience locations. As a result, China's hotel industry has experienced a structural change with growth in midscale and upscale room supply outperforming that of economy. Midscale hotel brands are becoming more popular as more guests look for greater value-for-money options. Demand for personalized experiences generates diversified lodging needs and scenes of consumption, supporting the competitive advantages of the multi-brand strategy.
- *Better mobility and ongoing urbanization*. China's transportation industry has experienced solid development along with China's economic growth. Construction and utilization of major transportation infrastructure such as railways, highways and airports have recorded steady growth in China. Due to the rapid economic development of China and the influx of migrants from rural areas, China is undergoing rapid urbanization, and the urbanization rate is expected to reach 67.3% in 2024, representing a 6.1 percentage points increase from 2020. With the development of city clusters and transportation infrastructure, the consumers' mobility has been greatly improved, driving the demand for travel and hotel accommodation.

Market Trends and Opportunities

The following are the key trends and opportunities in China's hotel industry.

- *Industry consolidation and increasing hotel chain penetration rate*. Currently, China's hotel industry still has a relatively low hotel chain penetration rate. A trend of industry consolidation is likely to emerge as hotel chains expand their scale of operation through mergers and acquisitions. In addition, increasing numbers of independent hotel operators will likely choose to join hotel chains, through franchise or manachise arrangements, to enjoy greater customer traffic, brand reputation and risk resilience benefits that hotel chains offer. As a result, the number of small-scale independent hotel operators will decline. Accordingly, the hotel chain penetration rate in China's hotel industry is anticipated to further increase.
- *Increasingly digitalized hotel operation*. Technology-empowered hotel operation has become an emerging trend and has been gradually adopted by leading hotel groups in China in recent years. New technologies such as artificial intelligence and cloud computing can collect and analyze customers' preferences and help hotel operators enhance guests' experiences and attract revisits. Other new technologies such as self-check-in/-check-out system, AI-assistant-embedded hotel mobile apps and smart robots adopted by some leading hotel groups substantially improve their consumer experiences. Due to the demonstrable benefits experienced by those leading hotel groups, technology-empowered hotel operation is likely to be widely adopted throughout the industry.
- *More emphasis on loyalty program and direct sales.* More and more leading hotel chains are developing their own loyalty programs nowadays, which are considered as one of the most important hotel management tools to enhance hotel brand recognition and drive direct sales. In addition, loyalty programs enable hotel operators to establish their own user database with detailed and amplified profiles of customers, allowing hotel operators to analyze customers' preferences, interests and spending behavior. Insights into customers provided by loyalty programs also make data-driven optimization of hotel operation more feasible and reliable.

Impact of COVID-19 on China's hotel industry

COVID-19 represents one of the most significant challenges that the hotel industry has ever faced. Since COVID-19 was reported in January 2020, it has quickly escalated into a global pandemic, discouraging global business and leisure travel and negatively impacting the MICE tourism segment. The severe slowdown in domestic and global economic activities—especially in the travel and hospitality industries—makes the timing and extent of sustainable recovery uncertain. See "Risk Factors—Risks Related to Our Business—The COVID-19 outbreak has adversely affected, and may continue to adversely affect, our financial and operating performance."

The following are the major phenomena and changes brought by COVID-19 to China's hotel industry.

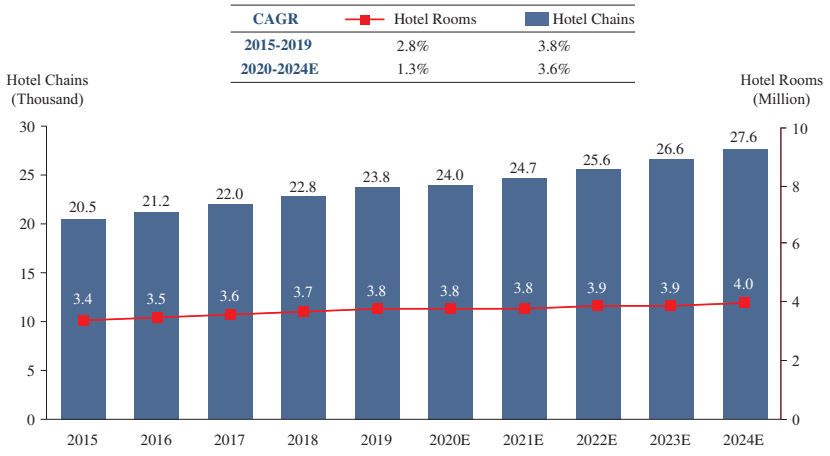
- *Hotel chains tend to be more resilient than independent hotels*. Hotel chains have better brand recognition and more capital resources, and thus are more resilient during the pandemic. The number of independent hotels is forecast to drop by 12.9% in 2020 compared with 2019, while the number of chained hotels is forecast to increase by 5.2%.
- *Rising demands on hygiene and safety measures*. COVID-19 has reinforced guests' awareness of and demand for safety and hygiene when choosing hotel brands. Leading hotel chains, which have better brand images, more stringent daily procedures for sanitation, and quicker response to guests' needs, are better positioned to gain trust from guests. In return, their occupancy rates tend to rebound faster.
- *Accelerated application of innovated technology in hotel industry.* In response to the demand for social distance, hotels with more advanced technologies (such as deployment of smart robot services and non-contact check-in/check-out services) have been increasingly appealing to guests and thus tend to recover more quickly from COVID-19.

OVERVIEW OF THE EUROPEAN HOTEL INDUSTRY

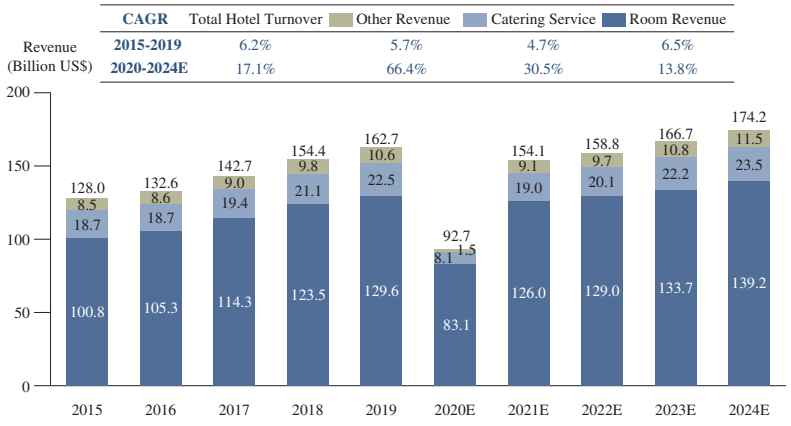
The hotel industry in Europe grew steadily from 2015 to 2019, with the numbers of hotel chains and hotel rooms increasing at CAGRs of 3.8% and 2.8%, respectively, during the same period. Although COVID-19 pandemic may negatively affect the hotel pipeline in 2020, the hotel supply in Europe is forecast to increasing further in the following years. The numbers of hotel chains and hotel rooms in Europe are expected to increase at CAGRs of 3.6% and 1.3%, respectively, from 2020 to 2024.

Together with the increasing RevPAR and hotel supply, the turnover of hotel chains in Europe increased at a CAGR of 6.2% from 2015 to 2019. Due to the global outbreak of COVID-19, the hotel market in Europe is expected to suffer a downturn in 2020, with an estimated decline of approximately 43% in 2020. The same market is likely to recover starting from 2021 and reach US$174.2 billion in 2024. The turnover of hotel chains in Europe is expected to reach US$174.2 billion in 2024, representing a CAGR of 17.1% from 2020 to 2024. The charts below set forth the number of chained hotels and rooms in Europe and the total turnover of hotel chains in Europe for the periods indicated:

Number of Chained Hotels and Rooms (Europe), 2015-2024E



Total Turnover of Hotel Chains (Europe), 2015-2024E



Source: Frost & Sullivan Report

Note: Other revenue of hotel refers to hotel venue rental revenue, among others.

Market Drivers in Europe's Hotel Industry

The following are the key growth drivers in the European hotel industry.

- *Economic Recovery*. Economic growth is closely related to tourism and the hotel industry. Although its growth is expected to decline in 2020 due to the global outbreak of COVID-19, the European economy is forecast to recover from the bottom beginning in 2021 and achieve a positive growth in the long-term along with the effective pandemic control. The nominal GDP of Europe is expected to increase from approximately US$21.4 trillion in 2020 to approximately US$25.0 trillion in 2024, representing a CAGR of approximately 4.0% during the same period. The gradual economic recovery is expected to further improve the income level in Europe and drive the demand for and spending on business trips and tourism, thereby further driving the hotel industry in Europe.
- *Upcoming Recovery of the Travel Industry in Europe.* According to the World Tourism Organization (UNWTO), Europe is one of the major tourism destinations in the world and attracted approximately over half of the world's tourists in 2019. Looking forward, along with the forecast effective control of COVID-19 and the recent measures adopted by European countries to restart tourism, the travel industry in Europe is expected to gradually recover from the COVID-19 outbreak and demonstrate sustained growth in the long run. Solid economic growth and upcoming recovery of the travel industry in Europe are expected to further drive the demand for and development of the European hotel industry.
- *Growth Potential for Hotel Chain Penetration in Europe.* The European hotel market is relatively fragmented with a relatively low hotel chain penetration rate of approximately 38.6% in 2019, as compared with the global average level of approximately 41.1%, indicating strong growth potential for hotel chains in the Europe. In addition, a large number of independent hotels in Europe are likely to be closed down due to insufficient capital and slumping demand as a result of the global outbreak of COVID-19, suggesting opportunities for hotel chains in Europe to achieve further market consolidation.

COMPETITIVE LANDSCAPE OF GLOBAL AND CHINA'S HOTEL INDUSTRY

Global and China Market Participants

The hotel rooms of the top ten hotel groups globally accounted for approximately 43.2% of the total hotel rooms of all hotel chains globally, while the hotel rooms of top ten hotel groups in China accounted for approximately 66.1% of the total hotel rooms of all hotel chains in China. We had 536,876 hotel rooms as of December 31, 2019 and as such were China's second largest hotel group and the world's ninth largest in terms of number of hotel rooms as of December 31, 2019. The tables below set forth the top ten hotel groups in terms of room number globally and in China, respectively:

Top 10 Global Hotel Groups in terms of Room Number (Global), 2019

Ranking	Hotel Group	Total Number of Rooms (2019)	Market Share (2019)
		Million Unit	*%*
1	Company A	1.4	7.5%
2	Company B	1.0	5.3%
3	Company C	1.0	5.3%
4	Company D	0.9	4.8%
5	Company E	0.8	4.3%
6	Company F	0.8	4.3%
7	Company G	0.7	3.7%
8	Company H	0.6	3.2%
9	**The Group**	**0.5**	**2.7%**
10	Company I	0.4	2.1%
Top 10		**8.1**	**43.2%**
Others		**10.6**	**56.8%**
Total Rooms of Hotel Chains		**18.7**	**100.0%**

Top 10 Global Hotel Groups in terms of Room Number (China), 2019

Ranking	Hotel Group	Total Number of Rooms (2019)	Market Share (2019)
		Thousand Unit	*%*
1	Company E	739.1	15.1%
2	**The Group**	**536.9**	**11.0%**
3	Company B	500.0	10.2%
4	Company I	414.8	8.5%
5	Company J	290.0	5.9%
6	Company K	175.0	3.6%
7	Company L	160.6	3.3%
8	Company F	154.6	3.2%
9	Company D	135.5	2.8%
10	Company A	122.0	2.5%
Top 10		**3,228.5**	**66.1%**
Others		**1,671.5**	**33.9%**
Total Rooms of Hotel Chains		**4,900.0**	**100.0%**

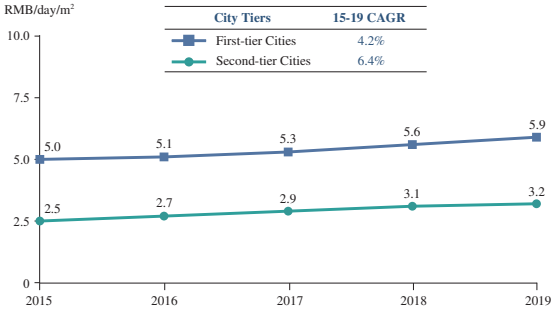
Source: Frost & Sullivan Report

Note: (1) Number of hotel rooms refers to hotel rooms of hotel chains; (2) Established in 1927 in the U.S., Company A is a listed company. (3) Established in 2013 in India, Company B is a non-listed company. (4) Established in 1919 in the U.S., Company C is a listed company. (5) Established in 2003 in UK, Company D is a listed company. (6) Established in 1993 in Shanghai China, Company E is a listed company. (7) Established in 1974 in the U.S., Company F is a listed company. (8) Established in 1967 in France, Company G is a listed company. (9) Established in 1939 in the U.S., Company H is a listed company. (10) Established in 1999 in Beijing, China, Company I is a listed company. (11) Established in 2004 in Shanghai China, Company J is a listed company. (12) Established in 2006 in Guangzhou, Guangdong Province, China, Company K is a non-listed company. (13) Established in 2010 in Qingdao, Shandong Province, China, Company L is a non-listed company.

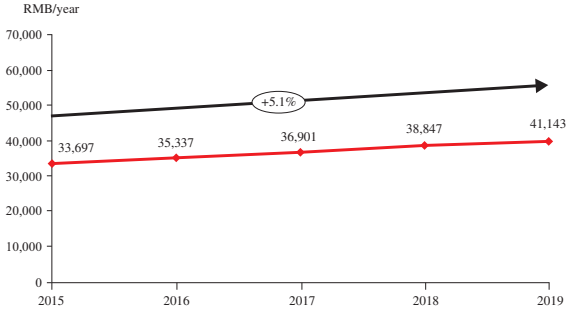
Cost Analysis of China's Hotel Industry

Increasing hotel operation costs have become one of the major challenges to hotel operators. Rental fee for hotel facilities and labor costs are the major costs for hotel operators. The average rental rate in first-and second-tier cities in China grew at CAGRs of 4.2% and 6.4%, respectively, from 2015 to 2019. Along with the economic growth and improving living standard, the labor costs in China also grew at a stable pace in recent years. The average annual salary of service personnel in China's hotel and catering industry recorded a CAGR of 5.1% from 2015 to 2019. The charts below set forth the average rental rate and the average salary of service personnel in the hotel and catering industry in China for the periods indicated:

Average Rental Rate for Commercial Properties (China), 2015-2019



Average Salary of Service Personnel in Hotel and Catering Industry (China), 2015-2019



Source: Frost & Sullivan Report

Entry Barriers

New market entrants to the hotel industry will encounter a number of barriers, especially along with their expansion in scale, including those relating to:

- *Brand awareness.* Brand awareness influences customers' choice of hotels as customers prefer an established and reputable brand for better staying experience. A brand's recognition is highly dependent on the quality of services and amenities, location, transportation accessibility, marketing strategies, and pricing, among others. New entrants to the hotel industry with little or no track record need to take time and costs to build up brand awareness, which sets up a high entry barrier.

- *Loyalty program*. Guests are in general strongly attracted by a loyalty program's benefits when selecting hotels to stay in. At the same time, loyalty programs also play an increasingly important role for hotel groups to drive direct sales and personalize guest experiences. New entrants to the hotel industry need to spend substantial time and capital to accumulate a large number of members and differentiate their loyalty programs.

- *Technology and R&D capabilities*. Technology infrastructure, such as a centralized reservation system, is designed to improve the operational efficiency and profitability of a hotel. Large-scale participants in the hotel industry can achieve economies of scale that are difficult for independent hotel operators to match. As significant investments and strong R&D capabilities are required, robust and scalable technology infrastructure sets a high barrier for new entrants to the hotel industry.

- *Hotel network and industry know-how.* New participants operating under the asset-heavy model require substantial upfront capital investments in facilities, renovation, procurement and recruitment. Expanding hotel network in an asset-light approach requires years of know-how and compelling value propositions to franchisees. Small-sized or independent hotels tend to lack sustainable financing resources and operational experience and would therefore find it difficult to gain market shares while delivering consistent quality and lodging experiences to their customers.

Customer Survey

From June 2020 to July 2020, we commissioned Frost & Sullivan to conduct street interceptions and face to face interviews with approximately 1,800 participants across 16 cities in China (covering all tiers of cities) to better understand the hotel preferences and hotel market from a consumer's perspective. Sets forth below are selected results of the consumer survey conducted by Frost & Sullivan.

Brand Awareness

- *HanTing Hotel* of Huazhu Group ranked first in terms of top of mind brand awareness among all hotel brands in China
- *HanTing Hotel* of Huazhu Group ranked first in terms of top of mind brand awareness among economy hotel brands in China
- *JI Hotel* of Huazhu Group ranked first in terms of top of mind brand awareness among midscale hotel brands in China

Customer Satisfaction and Brand Loyalty

- *HanTing Hotel* of Huazhu Group ranked first as respondents' most satisfying economy hotel brand in China
- *JI Hotel* of Huazhu Group ranked first as respondents' most satisfying midscale hotel brand in China

SOURCE OF INFORMATION, KEY BASES AND ASSUMPTIONS

We engaged Frost & Sullivan, an independent market research consultant, to conduct an analysis of, and to prepare the Frost & Sullivan Report about the hotel industries in China, Europe and globally for use in this prospectus, for which we paid a fee of RMB700,000. In preparing the Frost & Sullivan Report, Frost & Sullivan has conducted detailed primary research which involved in-depth discussions with leading industry participants and industry experts and conducted secondary research which involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own database. Frost & Sullivan's forecasting methodology integrates several forecasting techniques with its internal analytics of critical market elements that it investigated in connection with its market research work. These elements include expert opinion, integration of market drivers and restraints and integration of market challenges. In preparing its report, Frost & Sullivan assumed that (i) the COVID-19 pandemic is likely to impose short-term impact on the economies and hotel industries of China, Europe and globally, (ii) although the global economy, especially the economy of Europe, is expected to decline in 2020 due to the impact of COVID-19, the global economy, including China and Europe, is likely to gradually recover from the bottom beginning in 2021, (iii) the social, economic and political environment in China, Europe and globally is likely to remain stable from 2020 to 2024, and (iv) market drivers are likely to further drive the development of China's hotel industry. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report.

PRC REGULATIONS

The hotel industry in China is subject to a number of laws and regulations, including laws and regulations relating specifically to hotel operation and management and commercial franchising, as well as those relating to environmental and consumer protection. The principal regulations governing foreign ownership of hotel businesses in the PRC are the *Special Administrative Measures (Negative List) for the Access of Foreign Investment (Edition 2020)(《外商投資准入特別管理措施》(負面清單) (2020年版))* issued on June 23, 2020, which became effective on July 23, 2020 and the *Industry Guidelines on Encouraged Foreign Investment (Edition 2019) (《鼓勵外商投資產業目錄》(2019年版))* issued on June 30, 2019, which became effective as of July 30, 2019, both of which were promulgated by the PRC Ministry of Commerce, or the MOC, and the National Development and Reform Commission, or the NRDC. Pursuant to these regulations, there are no restrictions on foreign investment in limited service hotel businesses in China aside from business licenses and other permits that every hotel must obtain. Similar with other industries in China, regulations governing the hotel industry in China are still developing and evolving. As a result, most legislative actions consist of general measures such as industry standards, rules or circulars issued by different ministries rather than detailed legislations. This section summarizes the principal PRC regulations currently relevant to our business and operations.

Regulations on Hotel Operation

The Ministry of Public Security issued the *Measures for the Control of Security in the Hotel Industry (《旅館業治安管理辦法》)* in November 1987 and amended it in 2011, and the State Council promulgated the *Decision of the State Council on Establishing Administrative License for Necessarily Retained Items Requiring Administrative Examination and Approval (《國務院對確需保留的行政審批項目設定行政許可的決定》)* in June 2004 and amended it in January 2009 and August 2016, respectively. Under these two regulations, anyone who applies to operate a hotel is subject to examination and approval by the local public security authority and must obtain a special industry license. The *Measures for the Control of Security in the Hotel Industry (《旅館業治安管理辦法》)* impose certain security control obligations on the operators. For example, the hotel must examine the identification card of any guest to whom accommodation is provided and make an accurate registration. The hotel must also report to the local public security authority if it discovers anyone violating the law or behaving suspiciously or an offender wanted by the public security authority. Pursuant to the *Measures for the Control of Security in the Hotel Industry (《旅館業治安管理辦法》)*, hotels failing to obtain the special industry license may be subject to warnings or fines of up to RMB200. In addition, pursuant to the *Law of the PRC on Penalties for the Violation of Public Security Administration (《中華人民共和國治安管理處罰法》)* promulgated in August, 2005 and amended in October 2012, and various local regulations, hotels failing to obtain the special industry license may be subject to warnings, orders to suspend or cease continuing business operations, confiscations of illegal gains or fines. Operators of hotel businesses who have obtained the special industry license but violate applicable administrative regulations may also be subject to revocation of such licenses in serious circumstances.

The State Council promulgated the *Administrative Regulations on Sanitation of Public Places (《公共場所衛生管理條例》)* in April 1987 and amended it in February 2016 and in April 2019, according to which, a hotel must obtain a public area hygiene license before opening for business. Pursuant to this regulation, hotels failing to obtain a public area hygiene license may be subject to the following administrative penalties depending on the seriousness of their respective activities: (i) warnings; (ii) fines; or (iii) orders to suspend or cease continuing business operations. In March 2011, the Ministry of Health promulgated the *Implementation Rules of the Administrative Regulations on Sanitation of Public Places (《公共場所衛生管理*

條例實施細則》), which was amended in January 2016 and December 2017, according to which, starting from May 1, 2011, hotel operators shall establish sanitation management system and keep records of sanitation management. The Standing Committee of the National People's Congress, or the SCNPC enacted the *Food Safety Law of the PRC (《中華人民共和國食品安全法》)* in February 2009, which was most recently amended in December 2018, according to which any hotel that provides food must obtain a license. China Food and Drug Administration, or the CFDA, enacted the *Administrative Measures on Administration of Food Business Licensing (《食品經營許可管理辦法》)* in August 2015 and amended it in November 2017, according to which any entity involving sales of food or food services must obtain a food business license, and any food service license which had been obtained prior to October 1, 2015 will be replaced upon expiry by the food business license. Pursuant to the *Food Safety Law of the PRC*, hotels failing to obtain the food business license (or formerly the food service license) may be subject to: (i) confiscation of illegal gains, food illegally produced for sale, and tools, facilities and raw materials used for illegal production; or (ii) fines between RMB50,000 and RMB100,000 if the value of food illegally produced is less than RMB10,000, or fines equal to 10 to 20 times of the value of food if such value is equal to or more than RMB10,000.

The *Fire Prevention Law of the PRC (《中華人民共和國消防法》)*, promulgated in April 1998 and amended in October 2008 and in April 2019 by the SCNPC, and the *Provisions on Supervision and Inspection on Fire Prevention and Control (《消防監督檢查規定》)*, promulgated on April 30, 2009 and effective as of May 1, 2009 and amended on November 1, 2012 by the Ministry of Public Security, require that (i) the fire prevention design documents of special construction projects, such as hotels with overall floor area of more than 10,000 square meters, shall be reviewed and inspected by local housing and urban-rural development authorities before construction; (ii) the construction of specific construction projects, such as hotels with overall floor area of more than 10,000 square meters be inspected and accepted by local housing and urban-rural development authorities from a fire prevention perspective before completion; and (iii) the public gathering places, such as hotels, shall complete fire prevention safety inspection with the local fire and rescue department, which is a prerequisite for business opening. Pursuant to these regulations, related hotels failing to obtain approval of fire prevention inspection and acceptance or failing fire prevention safety inspections (including acceptance check and safety check on fire prevention) may be subject to: (i) orders to suspend the construction of projects, use or operation of business; and (ii) fines between RMB30,000 and RMB300,000.

In January 2006, the State Council promulgated the *Regulations for Administration of Entertainment Places (《娛樂場所管理條例》)*, which was amended in February 2016. The Ministry of Culture issued *the Administrative Measures for Entertainment Places (《娛樂場所管理辦法》)* in February 2013 and amended it in December 2017. Under these regulations, hotels that provide entertainment facilities, such as discos or ballrooms, are required to obtain a license for entertainment business operations.

On November 9, 2010, the General Administration of Quality Supervision, Inspection and Quarantine and Standardization Administration approved and issued *Classification and Accreditation for Star-rated Tourist Hotels* (GB/T14308-2010) *(《旅遊飯店星級的劃分與評定》)*, which became effective on January 1, 2011. On November 19, 2010, the National Tourist Administration promulgated the *Implementation Measures of Classification and Accreditation for Star-rated Tourist Hotels (《旅遊飯店星級的劃分與評定實施辦法》)*, which became effective on January 1, 2011. Under these regulations, all hotels with operations of over one year are eligible to apply for a star rating assessment. There are five ratings from one star to five stars for tourist hotels, assessed based on the level of facilities, management standards and quality of service. A star rating, once granted, is valid for three years.

On September 21, 2012, the Ministry of Commerce promulgated the *Provisional Administrative Measures for Single-purpose Commercial Prepaid Cards (《單用途商業預付卡管理辦法(試行)》)*, which was amended in August 18, 2016. Pursuant to this regulation, if an enterprise engaged in retail, accommodation and catering, or residential services issues any single-purpose commercial prepaid card to its customers, it shall undergo a record-filing procedure. For a hotel primarily engaged in the business of accommodation, the aggregate balance of the advance payment under the single-purpose commercial prepaid cards it issued shall not exceed 40% of its income from its primary business in the previous financial year.

On April 25, 2013, the Standing Committee of the National People's Congress issued the *Tourism Law of the PRC (《中華人民共和國旅遊法》)*, which became effective on October 1, 2013 and was most recently amended on October 26, 2018. According to this law, the accommodation operators shall fulfill their obligations under the agreements with customers. If the accommodation operators subcontract part of their services to any third party or involve any third party to provide services to customers, the accommodation operators shall assume the joint and several liabilities with the third parties for any damage caused to the customers.

Regulations on Leasing

Under the *Law of the PRC on Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》)* promulgated by the SCNPC, which took effect as of January 1995 and was amended in August 2007, August 2009 and January 2020, respectively, and the *Administrative Measures on Leasing of Commodity House (《商品房屋租賃管理辦法》)* promulgated by the Ministry of Housing and Urban-rural Construction, which took effect as of February 1, 2011, when leasing premises, the lessor and lessee are required to enter into a written lease contract, prescribing such provisions as the leasing term, use of the premises, rental and repair liabilities, and other rights and obligations of both parties. Both lessor and lessee are also required to go through registration procedures to record the lease with the real estate administration department. Pursuant to these laws and regulations and various local regulations, if the lessor and lessee fail to go through the registration procedures, both lessor and lessee may be subject to fines, and the leasing interest will be subordinated to an interested third party acting in good faith.

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

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

Regulations on Consumer Protection

In October 1993, the SCNPC promulgated the *Law of the PRC on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》)*, or the *Consumer Protection Law (《消保法》)*, which became effective on January 1, 1994 and was amended on March 15, 2014. Under the *Consumer Protection Law (《消保法》)*, a business operator providing a commodity or service to a consumer is subject to a number of requirements, including the following:

- to ensure that commodities and services meet with certain safety requirements;
- to protect the safety of consumers;
- to disclose serious defects of a commodity or a service and to adopt preventive measures against damage occurrence;
- to provide consumers with accurate information and to refrain from conducting false advertising;
- to obtain consents of consumers and to disclose the rules for the collection and/or use of information when collecting data or information from consumers; to take technical measures and other necessary measures to protect the personal information collected from consumers; not to divulge, sell, or illegally provide consumers' information to others; not to send commercial information to consumers without the consent or request of consumers or with a clear refusal from consumers;
- not to set unreasonable or unfair terms for consumers or alleviate or release itself from civil liability for harming the legal rights and interests of consumers by means of standard contracts, circulars, announcements, shop notices or other means;
- to remind consumers in a conspicuous manner to pay attention to the quality, quantity and prices or fees of commodities or services, duration and manner of performance, safety precautions and risk warnings, after-sales service, civil liability and other terms and conditions vital to the interests of consumers under a standard form of agreement prepared by the business operators, and to provide explanations as required by consumers; and
- not to insult or slander consumers or to search the person of, or articles carried by, a consumer or to infringe upon the personal freedom of a consumer.

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

In December 2003, *the Supreme People's Court's Interpretation of Certain Issues Concerning the Application of Law for the Trial of Cases on Compensation for Personal Injury (《最高人民法院關於審理人身損害賠償案件適用法律若干問題的解釋》)*, which further increases the liabilities of business operators engaged in the operation of hotels, restaurants, or entertainment facilities and subjects such operators to compensatory liabilities for failing to fulfill their statutory obligations to a reasonable extent or to guarantee the personal safety of others.

Regulations on Environmental Protection

In February 2012, the SCNPC issued the newly amended *Law of the PRC on Promoting Clean Production (《中華人民共和國清潔生產促進法》)*, which regulates service enterprises such as restaurants, entertainment establishments and hotels and requires them to use technologies and equipment that conserve energy and water, serve other environmental protection purposes, and reduce or stop the use of consumer goods that waste resources or pollute the environment.

According to the *Environmental Protection Law of the PRC (《中華人民共和國環境保護法》)* promulgated by the SCNPC on December 26, 1989 and last amended on April 24, 2014, the *Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》)* promulgated by the SCNPC on October 28, 2002 and last amended on December 29, 2018, the *Administrative Regulations on Environmental Protection for Construction Projects (《建設項目環境保護管理條例》)* promulgated by the State Council on November 29, 1998 and amended on July 16, 2017, and the *Administrative Measures on Completion Acceptance of Environmental Protection in Construction Projects (《建設項目竣工環境保護驗收管理辦法》)* promulgated by the Ministry of Environmental Protection on December 27, 2001 and amended on December 22, 2010, hotels shall submit a Report/Form on Environmental Impact Assessment and an Application Letter for Acceptance of Environmental Protection Facilities in Construction Projects to competent environmental protection authorities for approvals before commencing the operation. Pursuant to the *Administrative Measures on Completion Acceptance of Environmental Protection in Construction Projects (《建設項目竣工環境保護驗收管理辦法》)*, any hotel failing to obtain the approval of the Report/Form of Environmental Impact Assessment may be ordered to cease construction and restore the property to its original state, and according to the violation activities committed and the harmful consequences thereof, be subject to fines of no less than 1% but no more than 5% of the total investment amount for the construction project of such hotel. The person directly responsible for the project may be subject to certain administrative penalties. Pursuant to the *Regulations Governing Completion Acceptance of Environmental Protection in Construction Projects (《建築工程項目環境保護接受完工條例》)*, any hotel failing to obtain an Acceptance of Environmental Protection Facilities in Construction Projects may be subject to fines and an order to obtain approval within a specified time limit.

Regulations on Commercial Franchising

Franchise operations are subject to the supervision and administration of the MOC, and its regional counterparts. Such activities are currently regulated by the *Administrative Regulations on Commercial Franchising (《商業特許經營管理條例》)*, which was promulgated by the State Council on February 6, 2007 and became effective on May 1, 2007. The *Administrative Regulations on Commercial Franchising (《商業特許經營管理條例》)* were subsequently supplemented by the *Administrative Measures on Filing of Commercial Franchises (《商業特許經營備案管理辦法》)*, which was newly amended and promulgated by the MOC on December 12, 2011 and became effective on February 1, 2012, and the newly amended

Administrative Measures on Information Disclosure of Commercial Franchises (《商業特許經營信息披露管理辦法》), which was promulgated by the MOC on February 23, 2012 and became effective on April 1, 2012.

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

Franchisors are generally required to file franchise contracts with the MOC or its local counterparts. Failure to report franchising activities may result in penalties such as fines up to RMB100,000. Such noncompliance may also be bulletined. In the first quarter of every year, franchisors are required to report to the MOC or its local counterparts any franchise contracts they executed, canceled, renewed or amended in the previous year.

The term of a franchise contract shall be no less than three years unless otherwise agreed by franchisees. The franchisee is entitled to terminate the franchise contract in his sole discretion within a set period of time upon signing of the franchise contract.

Pursuant to the *Administrative Measures on Information Disclosure of Commercial Franchises (《商業特許經營信息披露管理辦法》)*, 30 days prior to the execution of franchise contracts, franchisors are required to provide franchisees with copies of the franchise contracts, as well as written true and accurate basic information on matters including:

- the name, domiciles, legal representative, registered capital, scope of business and basic information relating to its commercial franchising;
- basic information relating to the registered trademark, logo, patent, know-how and business model;
- the type, amount and method of payment of franchise fees (including payment of deposit and the conditions and method of refund of deposit);
- the price and conditions for the franchisor to provide goods, service and equipment to the franchisee;
- the detailed plan, provision and implementation plan of consistent services including operational guidance, technical support and business training provided to the franchisee;
- detailed measures for guiding and supervising the operation of the franchisor;
- investment budget for all franchised hotels of the franchisee;
- the current numbers, territory and operation evaluation of the franchisees within China;
- a summary of accounting statements audited by an accounting firm and a summary of audit reports for the previous two years;

- information on any lawsuit in which the franchisor has been involved in the previous five years;
- basic information regarding whether the franchisor and its legal representative have any record of material violation; and
- other information required to be disclosed by the MOC.

In the event of failure to disclose or misrepresentation, the franchisee may terminate the franchise contract and the franchisor may be fined up to RMB100,000. In addition, such noncompliance may be bulletined.

According to the *Manual of Guidance on Administration for Foreign Investment Access (Edition 2008) (《外商投資准入管理指引手冊》(2008年版))* promulgated by the MOC in December 2008, if an existing foreign-invested company wishes to operate a franchise in China, it must apply to the MOC or its local counterparts to expand its business scope to include "engaging in commercial activities by way of franchise."

Regulations on Trademarks

Both the *Trademark Law of the PRC (《中華人民共和國商標法》)* adopted by the SCNPC on August 23, 1982 and revised on August 30, 2013 and November 1, 2019, and the *Implementation Regulation of the Trademark Law of the PRC (《中華人民共和國商標法實施條例》)* adopted by the State Council on August 3, 2002 and revised on April 29, 2014 give protection to the holders of registered trademarks and trade names. The National Intellectual Property Administration (Trademark Office) handles trademark registrations. Trademarks can be registered for a term of ten years and can be extended for another ten years if requested upon expiration of any ten-year term. Trademark license agreements must be filed with the Trademark Office.

Regulations on Taxation

According to the *Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》)*, or the EIT Law, which was promulgated on March 16, 2007, and came into effect on January 1, 2008 and was amended by the SCNPC on February 24, 2017 and December 29, 2018, and the *Implementation Regulations on the Enterprise Income Tax Law (《中華人民共和國企業所得稅法實施條例》)*, which was promulgated by the State Council on December 6, 2007 and came into effect on January 1, 2008, and was amended by the State Council on April 23, 2019 and came into effect on the same date, a uniform income tax rate of 25% will be applied to domestic enterprises, foreign-invested enterprises. These enterprises are classified as either resident enterprises or non-resident enterprises. Besides enterprises established within the PRC, enterprises established in accordance with the laws of other judicial districts whose "de facto management bodies" are within the PRC are considered "resident enterprises" and subject to the uniform 25% enterprise income tax rate for their global income. A non-resident enterprise refers to an entity established under foreign law whose "de facto management bodies" are not within the PRC but which have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income sourced within the PRC. An income tax rate of 10% will normally be applicable to dividends declared to or any other gains realized on the transfer of shares by non-PRC resident enterprise investors that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

According to the *Arrangement for the Avoidance of Double Taxation and Tax Evasion between Mainland of China and Hong Kong (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》)* entered into between Mainland China and the Hong Kong Special Administrative Region on August 21, 2006, if the non-PRC parent company of a PRC enterprise is a Hong Kong resident which directly owns 25% or more of the equity interest of the PRC foreign-invested enterprise which pays the dividends and interests, the 10% withholding tax rate applicable under the EIT Law may be lowered to 5% for dividends and 7% for interest payments if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws. However, according to the Notice on the Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties *(《國家稅務總局關於執行稅收協定股息條款有關問題的通知》)*, which was promulgated by the State Administration of Taxation or the SAT on February 20, 2009 and which came into effect on the same date, if the relevant PRC tax authorities determine, in their discretion, that a company benefits unjustifiably from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and based on the Announcement of the Certain Issues with Respect to the "Beneficial Owner" in Tax Treaties *(《國家稅務總局關於稅收協定中"受益所有人"有關問題的公告》)*, issued by the SAT on February 3, 2018 and effective on April 1, 2018, if an applicant's business activities do not constitute substantive business activities, it could result in the negative determination of the applicant's status as a "beneficial owner", and consequently, the applicant could be precluded from enjoying the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

The *Provisional Regulations on Value-added Tax (《增值稅暫行條例》),* which was promulgated on December 13, 1993, came into effect on January 1, 1994, and last amended on November 19, 2017, and the *Detailed Implementing Rules of the Provisional Regulations on Value-added Tax (《增值稅暫行條例實施細則》)*, which was promulgated on December 25, 1993 and came into effective on the same date, and was amended on December 15, 2008 and October 28, 2011, came into effect on November 1, 2011 set out that all taxpayers selling goods or providing processing, repairing or replacement services, sales of services, intangible assets and immovable assets and importing goods in China shall pay a value-added tax.

On November 19, 2017, the State Council promulgated the Decisions on Abolishing the *Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of the PRC on Value-added Tax* (*《關於廢止<中華人民共和國營業稅暫行條例>和修改<中華人民共和國增值稅暫行條例>的決定》*), according to which, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, sales of services, intangible assets, real property and the importation of goods within the territory of the PRC are the taxpayers of value-added tax. The value-added tax rates generally applicable are simplified as 17%, 11%, 6% and 0%, and the value-added tax rate applicable to the small-scale taxpayers is 3%. According to the *Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates* (*《財政部、國家稅務總局關於調整增值稅稅率的通知》*) issued on April 4, 2018 and became effective on May 1, 2018, the deduction rates of 17% and 11% applicable to the taxpayers who have value added tax, taxable sales activities, or imported goods are adjusted to 16% and 10%, respectively. According to the *Announcement on Policies for Deepening the Value-added Tax Reform(《關於深化增值稅改革有關政策的公告》)* issued by the Ministry of Finance, the SAT and the General Administration of Customs on March 20, 2019 and became effective on April 1, 2019, the value added tax rate was reduced to 13% and 9%, respectively.

Regulations on Foreign Currency Exchange

The principal regulations governing foreign currency exchange in China are the *Foreign Exchange Control Regulations of the PRC (《中華人民共和國外匯管理條例》)* promulgated by the State Council, as amended on August 5, 2008, or the Foreign Exchange Regulations. Under the Foreign Exchange Regulations, the RMB is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless the prior approval of the State Administration of Foreign Exchange, or the SAFE, is obtained and prior registration with the SAFE is made.

The Circular on Reforming the Management Method regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (*《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》*) ("**Circular 19**"), promulgated on March 30, 2015 and last amended on December 30, 2019, allows foreign-invested enterprises to make equity investments by using RMB funds converted from foreign exchange capital. Under the Circular 19, the foreign exchange capital in the capital account of foreign-invested enterprises upon the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operation needs of the enterprises. The proportion of willingness-based foreign exchange settlement of capital for foreign-invested enterprises is temporarily set at 100%. The SAFE can adjust such proportion in due time based on the circumstances of the international balance of payments. However, the Circular 19 and the *Circular on Reforming and Regulating the Management Policies on the Settlement of Capital Projects* (*《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》*) continues to prohibit foreign-invested enterprises from, among other things, using RMB fund converted from its foreign exchange capitals for expenditure beyond its business scope, investment and financing in securities and other investments except for bank's principal-secured products, providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use.

On October 23, 2019, the SAFE promulgated the *Circular on Further Promoting the Facilitation of Cross-border Trade and Investment (《關於進一步促進跨境貿易投資便利化的通知》)* ("**Circular 28**"). Pursuant to Circular 28, on the basis of allowing investment-oriented foreign-invested enterprise (including foreign-invested investment companies, foreign-invested venture capital enterprises and foreign-invested equity investment enterprises) to use capital funds for domestic equity investment in accordance with laws and regulations, non-investment foreign-invested enterprises shall be allowed to use capital funds for domestic equity investment in accordance with the laws under the premise of not violating the Negative List and the authenticity and compliance of their domestic invested projects.

According to the *Circular on Optimizing Administration of Foreign Exchange to Support the Development of Foreign-related Business (《關於優化外匯管理支持涉外業務發展的通知》)* issued by the SAFE on April 10, 2020, eligible enterprises are allowed to make domestic payments by using their capital funds, foreign credits and the income under capital accounts of overseas listing, with no need to provide the evidentiary materials concerning authenticity of such capital for banks in advance, provided that their capital use shall be authentic and in line with provisions, and conform to the prevailing administrative regulations on the use of income under capital accounts. The concerned bank shall conduct spot checking in accordance with the relevant requirements.

On December 25, 2006, the People's Bank of China issued the *Administration Measures on Individual Foreign Exchange Control (《個人外匯管理辦法》)* and its Implementation Rules were issued by the SAFE on January 5, 2007, both of which became effective on February 1, 2007. The Implementation Rules was later amended on May 29, 2016. Under these regulations, all foreign exchange matters involved in the employee stock ownership plan, stock option plan and other similar plans, participated by onshore individuals shall be transacted upon approval from the SAFE or its authorized branch. On February 25, 2012, the SAFE promulgated the *Notice on Relevant Issues Concerning Foreign Exchange Control on Domestic Individuals Participating in the Stock Incentive Plan of An Overseas Listed Company (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》)*, or Circular 7, to replace the *Operating Procedures for Administration of Domestic Individuals Participating in the Employee Stock Option Plan or Stock Option Plan of An Overseas Listed Company (《境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程》)*. Under Circular 7, the board members, supervisors, officers or other employees, including PRC citizens and foreigners having lived within the territory of the PRC successively for at least one year of a PRC entity, who participate in stock incentive plans or equity compensation plans by an overseas publicly listed company, or the PRC participants, are required, through a PRC agent or PRC subsidiaries of such overseas publicly-listed company, to complete certain foreign exchange registration procedures with respect to the plans upon the examination by, and approval of, the SAFE. We and our PRC participants who have been granted stock options are subject to Circular 7. If our PRC participants who hold such options or our PRC subsidiary fail to comply with these regulations, such participants and their PRC employer may be subject to fines and legal sanctions.

Regulations on Foreign Investment

The SCNPC enacted the *Foreign Investment Law of the PRC (《中華人民共和國外商投資法》)* on March 15, 2019 and the State Council promulgated the *Implementation Regulations of Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》)* on December 26, 2019, both of which came into force on January 1, 2020. On December 30, 2019, the MOC and the SAMR jointly promulgated the *Measures on Reporting of Foreign Investment Information (《外商投資信息報告辦法》)*, which also became effective on January 1, 2020. Under these laws and regulations, foreign investors or foreign-invested enterprises shall report and update investment information to the competent department for commerce through the Enterprise Registration System and the Enterprise Credit Information Publicity System. Any foreign investor or foreign-invested company found to be non-compliant with these reporting obligations may potentially be subject to fines and legal sanctions.

The *Foreign Investment Law of the PRC (《中華人民共和國外商投資法》)*, together with its Implementation Regulations replaced, in their entirety, the trio of previous laws regulating foreign investment in China, namely, the *Sino-foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》)*, the *Sino-foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》)* and the *Wholly Foreign-invested Enterprise Law (《外資企業法》)*, together with their implementation rules and ancillary regulations. Generally speaking, the *Company Law of the PRC (《中華人民共和國公司法》)* or the *Partnership Law of the PRC (《中華人民共和國合伙企業法》)* (promulgated by the SCNPC in February 1997 and amended in August 2006) shall apply with respect to the organization of foreign-invested enterprises. The *Foreign Investment Law of the PRC (《中華人民共和國外商投資法》)* provides that foreign invested enterprises established according to the previous laws regulating foreign investment may maintain their current structure and corporate governance during the five-year transition period. This infers that we may be required to adjust the structure and corporate governance of certain of our PRC subsidiaries in the transition period. Failure to take timely

and appropriate measures to cope with any of these or similar regulatory compliance requirements may lead to regulatory incompliance and hence materially and adversely affect our current corporate structure, corporate governance and business operations.

Regulations on Share Capital

In October 2005, the SCNPC issued the amended *Company Law of the PRC (《中華人民共和國公司法》)*, which became effective on January 1, 2006 and was amended in October 2018. In April 2006, the State Administration for Industry and Commerce, or the SAIC (predecessor of the State Administration for Market Regulation or the SAMR), the MOC, the General Administration of Customs and the SAFE jointly issued the *Implementation Opinions on Several Issues regarding the Laws Applicable to the Administration of Approval and Registration of Foreign-invested Companies (《關於外商投資的公司審批登記管理法律適用若干問題的執行意見》)*. Pursuant to the above regulations, shareholders of a foreign-invested company are obligated to make full and timely contribution to the registered capital of the foreign-invested company. On June 17, 2014, the MOC issued the *Notice of the Ministry of Commerce on Improving the Administration of Foreign Investment Review (《商務部關於改進外資審核管理工作的通知》)*, pursuant to which, restrictions or requirements on the percentage of initial capital contribution, the percentage of cash contribution and the period of contribution imposed on foreign-invested companies (including companies invested by investors from Taiwan, Hong Kong and Macao regions) are abolished. A company which proposes to reduce its registered capital shall prepare a balance sheet and a list of assets. The company shall notify its creditors within ten days from the date of resolution on reduction of registered capital and publish an announcement in the newspapers within 30 days. The creditors may, within 30 days from receipt of the notice or within 45 days from the announcement date, require the company to settle the debts or provide a corresponding guarantee. Shareholders of certain of our PRC subsidiaries have mandatory preemptive rights.

Regulations on Dividend Distribution

The principal regulations governing distribution of dividends of foreign-invested enterprises include the *Company Law of the PRC (《中華人民共和國公司法》)* (the "**Company Law**").

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

Regulations on Offshore Financing

On October 21, 2005, the SAFE issued *Notice on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》)*, or Circular 75, which became effective as of November 1, 2005. Under Circular 75, if PRC residents use assets or equity interests in their PRC entities as capital contributions to establish offshore companies or inject assets or equity interests of their PRC entities into offshore companies to raise capital overseas, they are required to register with local SAFE branches with respect to their overseas investments in offshore companies. PRC residents are also required to file amendments to their registrations if their offshore companies experience material events involving capital variation, such as changes in share capital, share transfers, mergers and acquisitions, spin-off transactions, long-term equity or debt investments or uses of assets in China to guarantee offshore obligations.

Moreover, Circular 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC in the past were required to complete the relevant registration procedures with the local SAFE branch by March 31, 2006. Under the relevant rules, failure to comply with the registration procedures set forth in Circular 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. PRC residents who control our company are required to register periodically with the SAFE in connection with their investments in us.

The SAFE issued a series of guidelines to its local branches with respect to the operational process for SAFE registration, including the *Notice of the State Administration of Foreign Exchange on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》)*, or Circular 59, which came into effect as of December 17, 2012. The guidelines standardized more specific and stringent supervision on the registration required by Circular 75. For example, the guidelines impose obligations on onshore subsidiaries of an offshore entity to make true and accurate statements to the local SAFE authorities in case any shareholder or beneficial owner of the offshore entity is a PRC citizen or resident. Untrue statements by the onshore subsidiaries will lead to potential liability for the subsidiaries, and in some instances, for their legal representatives and other individuals.

On July 4, 2014, the SAFE issued the *Circular of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration of the Overseas Investment and Financing and Round-trip Investments by Domestic Residents through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》)*, or Circular 37, which became effective and suspended Circular 75 on the same date, and Circular 37 shall prevail over any other inconsistency between itself and relevant regulations promulgated previously. Pursuant to Circular 37, any PRC residents, including both PRC institutions and individual residents, are required to register with the local branch of the SAFE before making a contribution to an enterprise directly established or indirectly controlled by the PRC residents outside of the PRC for the purpose of overseas investment or financing with their legally owned domestic or offshore assets or equity interests, referred to in this circular as a "special purpose vehicle". Under Circular 37, the term "PRC institutions" refers to entities with legal person status or other economic organizations established within the territory of the PRC. The term "PRC individual residents" includes all PRC citizens (also including PRC citizens abroad) and foreigners who habitually reside in the PRC for economic benefit. A registered special purpose vehicle is required to amend its SAFE registration or file with respect to such vehicle in connection with any change of basic information including PRC individual resident shareholder, name, term of operation, or PRC individual resident's increase or decrease of capital, transfer or exchange of shares, merger, division or other material changes. In addition, if a non-listed special purpose vehicle grants any equity incentives to directors, supervisors or employees of domestic companies under its direct or indirect control, the relevant PRC individual residents could register with the local branch of the SAFE before exercising such options. The SAFE simultaneously issued guidance to its local branches with respect to the implementation of Circular 37. Under Circular 37, failure to comply with the foreign exchange registration procedures may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including restrictions on the payment of dividends and other distributions to its offshore parent company and the capital inflow from the offshore entity, and may also subject the relevant PRC residents and onshore company to penalties under the PRC foreign exchange administration regulations.

See "Risk Factors—Risks Related to Doing Business in China—PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us, or otherwise adversely affect us."

On September 14, 2015, the National Development and Reform Commission issued the *Circular of the National Development and Reform Commission on Promoting the Administrative Reform of the Record-filing and Registration System for the Issuance of Foreign Debts by Enterprises (《國家發展和改革委員會關於推進企業發行外債備案登記制管理改革的通知》)* to remove the quota review and approval system for the issuance of foreign debts (including bonds and loans for more than 1 year) by enterprises, reform and innovate the ways that foreign debts are managed, and implement the administration of record-filing and the registration system.

Regulations on Merger and Acquisition and Overseas Listing

On August 8, 2006, six PRC regulatory agencies, namely the MOC, the State Assets Supervision and Administration Commission, the State Administration of Taxation, the SAIC, the China Securities Regulatory Commission, or the CSRC, and the SAFE, jointly adopted the *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》)*, or the New M&A Rule, which became effective on September 8, 2006. This New M&A Rule, as amended on June 22, 2009, purports, among other things, to require offshore special purpose vehicles, or SPVs, formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC published a notice on its official website specifying documents and materials required to be submitted to it by SPVs seeking the CSRC approval of their overseas listings.

While the application of this new regulation remains unclear, we believe, based on the advice of our PRC counsel, that CSRC approval is not required in the context of our Listing because we established our PRC subsidiaries by means of direct investment other than by merger or acquisition of domestic companies, and we started to operate our business in the PRC through foreign invested enterprises before September 8, 2006, the effective date of the New M&A Rule. However, we cannot assure you that the relevant PRC government agency, including the CSRC, would reach the same conclusion as our PRC counsel. If the CSRC or other PRC regulatory body subsequently determines that CSRC's approval was required for our Listing, we may face sanctions by the CSRC or other PRC regulatory agencies, which could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs.

The New M&A Rule also established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the MOC be notified in advance of any change of control transaction in which a foreign investor takes control of a PRC domestic enterprise.

On July 30, 2017, for the purpose of promoting the reform of the foreign investment administrative system and simplifying the administrative procedures, the MOC amended the *Interim Measures for the Record-filing Administration of the Incorporation and Change of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》)* which was promulgated in October 2016 and further amended in June 2018. According to the amended interim measures, a record-filing administration system shall apply to foreign investors'

mergers and acquisitions of domestic non-foreign-invested enterprises and strategic investments in listed companies, provided that they do not involve the implementation of special access administrative measures prescribed by the PRC government or involve the mergers and acquisitions of affiliates.

On December 30, 2019, for the purpose of further promoting the foreign investment administration and simplifying the administrative procedures, the MOC and the SAMR promulgated the *Measures on Reporting of Foreign Investment Information (《外商投資信息報告辦法》)*, which became effective on January 1, 2020 and suspended the *Interim Measures for the Record-filing Administration of the Incorporation and Change of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》)* on the same date. Under this regulation, an information reporting system shall apply to foreign investors' mergers and acquisitions of domestic non-foreign-invested enterprises and strategic investments in listed companies, provided that they comply with the implementation of special access administrative measures prescribed by the PRC government and do not involve the mergers and acquisitions of affiliates. To be specific, under the information reporting system, where a new foreign-invested enterprise is incorporated or a non-foreign invested enterprise changes to a foreign-invested enterprise through acquisition, merger or other means, such incorporation or change no longer requires approval or record-filing of MOC, but shall be reported online to the commerce administrative authorities through the Enterprise Registration System and the National Enterprise Credit Information Publicity System, together with the registration with the relevant department of the SAMR through the same systems.

Regulation on Security Review

In August 2011, the MOC promulgated the *Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《商務部實施外國投資者併購境內企業安全審查制度有關事項的規定》)*, or the MOC Security Review Rule, which came into effect on September 1, 2011, to implement the *Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知》)* promulgated on February 3, 2011. Under these regulations, a security review is required for foreign investors' mergers and acquisitions having "national defense and security" implications and mergers and acquisitions by which foreign investors may acquire "de facto control" of domestic enterprises having "national security" implications. In addition, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to a security review, the MOC will look into the substance and actual impact of the transaction. The MOC Security Review Rule further prohibits foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions.

Regulations on Labor Contracts and Social Security

The *Labor Law of the PRC (《中華人民共和國勞動法》)*, which was promulgated by the SCNPC on July 5, 1994, came into effect on January 1, 1995, and was amended on August 27, 2009 and December 29, 2018, the *Labor Contract Law of the PRC (《中華人民共和國勞動合同法》)* that became effective on January 1, 2008, as amended on December 28, 2012, and the *Implementation Regulations on Labor Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》)* which was promulgated and came into effect on September 18, 2008 by the State Council seek to clarify the responsibilities of both employers and employees and codifies certain basic rights and protections of employees. Among others, the *Labor Contract Law of the PRC (《中華人民共和國勞動合同法》)* provides that after completing two fixed-term

employment contracts, an employee that desires to continue working for an employer is entitled to require a non-fixed-term employment contract. In addition, employees who have been employed for more than ten years by the same employer are entitled to require a non-fixed-term contract. The *Labor Contract Law of the PRC (《中華人民共和國勞動合同法》)* also requires that the employees dispatched from human resources outsourcing firms or labor agencies be limited to temporary, auxiliary or substitute positions. Furthermore, an employer may be held jointly liable for any damages to its dispatched employees caused by its human resources outsourcing firm or labor agency if it hired such employees through these entities. According to the *Interim Provisions on Labor Dispatch (《勞務派遣暫行規定》)*, which was promulgated in December 2013 to implement the provisions of the *Labor Contract Law of the PRC (《中華人民共和國勞動合同法》)* regarding labor dispatch, a company is permitted to use dispatched employees for up to 10% of its labor force and the companies currently using dispatched employees are given a two-year grace period after March 1, 2014 to comply with this limit.

According to the *Individual Income Tax Law of the PRC* (*《中華人民共和國個人所得稅法》*), which was promulgated on September 10, 1980 by the National People's Congress, last amended by the SCNPC on August 31, 2018 and came into effect on January 1, 2019, companies operating in China are required to withhold individual income tax on employees' salaries based on the actual salary of each employee upon payment.

According to the *Law on Social Insurance of the PRC (《中華人民共和國社會保險法》)*, which was promulgated by the SCNPC on October 28, 2010, came into effect on July 1, 2011, and was amended on December 29, 2018, the Provisional Regulations on the *Collection and Payment of Social Insurance Premium (《社會保險費徵繳暫行條例》)*, which was promulgated by the State Council on January 22, 1999 and amended on March 24, 2019, and the *Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》)*, which was promulgated by the State Council on April 3, 1999 and came into effective on the same date, and was amended on March 24, 2002 and March 24, 2019, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity insurance and housing provident funds. Employers who fail to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

Considering the PRC governmental authorities have continued to introduce various new labor-related regulations since the effectiveness of the labor contract law, and the interpretation and implementation of these regulations are still evolving, we cannot assure you that our employment practice will at all times be deemed in compliance with the new regulations. If we are subject to severe penalties or incur significant liabilities in connection with labor disputes or investigations, our business and results of operations may be adversely affected. See "Risk Factors—Risks Related to Our Business—Our current employment practices may be adversely impacted under the applicable labor law."

Regulation on Information Protection on Networks

On December 28, 2012, SCNPC issued *Decision of the Standing Committee of the National People's Congress on Strengthening Information Protection on Networks (《全國人民代表大會常務委員會關於加強網絡信息保護的決定》)*, pursuant to which network service providers and other enterprises and institutions shall, when gathering and using electronic personal information of citizens in business activities, publish their collection and use rules and adhere to the principles of legality, rationality and necessarily, explicitly state the purposes, manners and scopes of collecting and using information, and obtain the consent of those from whom

information is collected, and shall not collect and use information in violation of laws and regulations and the agreement between both sides; and the network service providers and other enterprises and institutions and their personnel must strictly keep such information confidential and may not divulge, alter, damage, sell, or illegally provide others with such information.

On July 16, 2013, the Ministry of Industry and Information Technology, or the MIIT, issued the *Provisions on the Protection of Personal Information of Telecommunication and Internet User (《電信和互聯網用戶個人信息保護規定》)*. The requirements under this order are stricter and wider compared to the above decision issued by the National People's Congress. According to the provisions, if a network service provider wishes to collect or use personal information, it may do so only if such collection is necessary for the services it provides. Furthermore, it must disclose to its users the purpose, method and scope of any such collection or usage, and must obtain consent from the users whose information is being collected or used. Network service providers are also required to establish and publish their protocols relating to personal information collection or usage, keep any collected information strictly confidential and take technological and other measures to maintain the security of such information. Network service providers are required to cease any collection or usage of the relevant personal information, and provide services for the users to de-register the relevant user account, when a user stops using the relevant Internet service. Network service providers are further prohibited from divulging, distorting or destroying any such personal information, or selling or providing such personal information unlawfully to other parties. In addition, if a network service provider appoints an agent to undertake any marketing or technical services that involve the collection or usage of personal information, the network service provider is required to supervise and manage the protection of the information. The provisions state, in broad terms, that violators may face warnings, fines, public exposure and, criminal liability whereas the case constitutes a crime.

On June 1, 2017, the *Cybersecurity Law of the PRC (《中華人民共和國網絡安全法》)* promulgated in November, 2016 by SCNPC became effective. This law also absorbed and restated the principles and requirements mentioned in the aforesaid decision and order, and further provides that, where an individual finds any network operator collects or uses his or her personal information in violation of the provisions of any law, regulation or the agreement of both parties, the individual shall be entitled to request the network operator to delete his or her personal information; if the individual finds that his or her personal information collected or stored by the network operator has any error, he or she shall be entitled to request the network operator to make corrections, and the network operator shall take measures to do so. Pursuant to this law, the violators may be subject to: (i) warning; (ii) confiscation of illegal gains and fines equal to one to ten times of the illegal gains; or if without illegal gains, fines up to RMB1,000,000; or (iii) an order to shut down the website, suspend the business operation for rectification, or revoke business license. Besides, responsible persons may be subject to fines between RMB10,000 and RMB100,000.

OTHER REGULATIONS

Regulation on Information Protection on Networks in Europe

The Regulation (EU) 2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (GDPR), complemented by EU Member States law on data protection (e.g. in Germany the German Federal Data Protection Act), imposes certain requirements on the processing of personal data relating to natural persons. GDPR requirements will apply both to companies established in the EU and to companies, such as us, that are not established in the EU but process personal data of individuals who are in the EU (and in the EEA subject to the

enactment of implementation procedures), where the processing activities relate to: (a) the offering of goods or services, irrespective of whether a payment of the data subject is required, to such data subjects in the EU; or (b) the monitoring of their behavior as far as their behavior takes place within the EU. Therefore, the GDPR applies to our EU entities as well as the offering of services by our non-EU entities when EU guests are targeted. The GDPR imposes on subject companies a large number of obligations, which relate for example, but are not limited, to (i) the principles applying to the processing of personal data, for example, lawfulness, fairness, transparency, purpose limitation, data minimization and "privacy by design", accuracy, storage limitations to process and store personal data only as long as necessary, access restrictions on a "need to know basis", and ensuring security and confidentiality of personal data by technical and organizational measures; (ii) the ability of the controller to demonstrate compliance with such principles (accountability); (iii) the obligation to identify a legal basis before the processing (special requirements apply to certain specific categories of data such as sensitive data); and (iv) data subjects rights (for example, transparency, right of information about personal data processed, right of access/receive copies, right to rectification, right to erasure, right to restrict processing, right to data portability, and right to object to a processing under certain circumstances). This leads to companies being under the obligation to implement a number of formal processes and policies reviewing and documenting the privacy implications of the development, acquisition, or use of all new products and services, technologies, or types of data. The GDPR provides for substantial fines for breaches of data protection requirements, which, depending on the infringed provisions of the GDPR, can go up to either (thresholds depending on the obligations which have been breached): (i) 2% of the annual worldwide turnover of the preceding financial year or EUR10 million, whichever is greater, or (ii) 4% of the annual worldwide turnover of the preceding financial year or EUR20 million, whichever is greater. The fine may be imposed instead of, or in addition to, measures that may be ordered by supervisory authorities (for example, request to cease the processing). The GDPR and EU Member States law also provide for private enforcement mechanisms and, in the most severe cases, criminal liability.

The Directive (EC) 2002/58 of 12 July 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector imposes restrictions on the use of cookies and similar means as well as on website tracking, including the requirement to obtain informed consent for storage or access to information stored on a user's terminal equipment in the EU in certain cases (in particular for cookies which track for marketing purposes). The forthcoming Regulation on privacy and electronic communications, aiming at repealing the Directive 2002/58, will update the current rules (it is not yet known when this will be enacted). Sanctions may be imposed on companies not fully compliant with all practices in relation to the implementation of the regulation on e-privacy; the relation to the GDPR is not fully clear, but in the worst case, the same sanctions as which under the GDPR may apply.

German Taxation

Income Taxation

German-based corporations (AG and GmbH) are subject to corporate income tax (CIT) and in general also to trade tax, which is a profit tax levied by the municipalities (TT). CIT is charged at a rate of 15% on the taxable income. A 5.5% solidarity surcharge is charged on the CIT, resulting in an effective tax rate of 15.825%. Trade tax is also charged on the taxable income by the local municipalities whereas the tax rates depends on the local multiplier of each municipality. Thus, TT rates vary from town to town. Typically, TT is levied at an effective rate of 7% – 17.5% (though up to 31.5% in some municipalities). For Frankfurt, the TT rate amounts to 16.1% and for Munich to 17.15%.

Partnerships themselves (GmbH & Co. KG) that qualifies as so-called entrepreneurial partnerships for tax purposes (*Mitunternehmerschaft*en) are subject to TT but not subject to CIT. For CIT purposes, a partnership is tax transparent; i.e., the taxable income of a partnership is determined at the level of the partnership itself and then allocated to the partners in proportion to their interest in the partnership, irrespective of an actual distribution. In case a partner of a partnership is a corporation, the income is subject to CIT at the level of the partners. If the conditions are fulfilled, expenses of the partner that arise in connection with its partnership participation are tax deductible from the taxable income of the partnership subject to general rules that may be applicable in relation to deduction of expenses and further provided that the expenses are included in the tax-filing at the level of the partnership.

German branches/permanent establishments of foreign corporations are subject to CIT and TT. In case of permanent establishments, the German double tax treaties generally assign the taxation right to Germany. The participation of a foreign corporation (China Lodging Holdings Singapore Pte. Ltd.) in a German partnership (Huazhu GmbH & Co. KG) as limited partner can create a permanent establishment of the foreign corporation in Germany for CIT and TT purposes.

Participation exemption

Dividends received by a German corporation are generally exempt from CIT if in particular a participation quota of at least 10% at the beginning of the year is fulfilled and the distributed dividend have not reduced the taxable income of the distributing entity; 5% of the dividends are deemed as non-deductible business expenses. Consequently, dividends are effectively 95% tax exempt. The effective CIT on dividends therefore amounts to approximately 0.8% (= 5% x 15% x 1.055%). This participation exemption applies regardless of a minimum holding period or the residence of the subsidiary (German or foreign). The participation exemption inter alia does not apply if the shares are held as a trading stock of banks and financial institutions.

The 95% exemption applies to TT under additional requirements. For dividends from German corporations which are not exempt from taxation, the minimum shareholding at the beginning of the year must be at least 15%; Otherwise, the dividends are fully taxable for TT purposes. Furthermore, dividends are also taxable for TT purposes if and to the extent business expenses exist that are directly connected with the dividends (for example, interest expenses incurred in connection with the acquisition of the underlying shares). The same hold principally true with regard to the TT-treatment of dividends from foreign corporations, whereby certain additional substance requirements may apply.

The 95% participation exemption also applies to capital gains from the disposal of shares in corporations. Exceptions only applies in case of certain tax neutral restructurings made in the past and in case of past effective write-downs. The 95% participation exemption for capital gains applies to both CIT and TT. Again, the participation exemption for capital gains inter alia does not apply if the shares are held as a trading stock of banks and financial institutions.

Tax group for CIT and TT purposes

A tax group in Germany allows a set-off of taxable income (positive and negative) for CIT and TT purposes at the level of the entity heading the tax group (parent company).

Such tax group requires in particular the holding of majority in votes (financial integration) as well as the implementation and proper execution of a profit and loss transfer agreement for a fixed minimum period of at least five calendar years. Accordingly, all profits made as well as all losses suffered at the level of the subsidiary/ies as determined pursuant to German accounting rules (HGB) have to be transferred or need to be compensated by the head of the tax group in Germany. One advantage of the tax group is that profits can be transferred from the subsidiary to the parent company totally exempt from CIT and TT due to the fact that there is no taxation of the 5% non-deductible expenses. Only corporations can be subsidiaries in a tax group.

Withholding Taxes

Dividends paid by German corporations are subject to withholding tax (Kapitalertragsteuer) at a rate of 25% plus 5.5% solidarity surcharge thereupon. A German resident shareholder may reclaim the paid withholding tax in the course of its tax return. For shareholders which are non-resident in Germany, the withholding tax may generally become a final tax cost unless exemptions apply.

In this regard, for example, a 40% refund on the withholding tax is granted upon application at the Federal Central Tax Office (Bundeszentralamt für Steuern). Therefore, an effective withholding tax rate of 15.825% on dividends for German non-resident shareholders applies. However, this refund is subject to enhanced substance requirements pursuant to German anti-treaty shopping provisions.

According to the EU Parent-Subsidiary Directive as implemented in Germany pursuant to domestic law, the withholding tax can upon prior application and issuance of a respective tax exemption certificate (Freistellungsbescheinigung) be reduced to zero, if the dividends are paid by a German subsidiary to its EU shareholder corporation that has held a 10% minimum participation in the German subsidiary for at least 12 months and respective substance requirements pursuant to German anti-treaty shopping provisions are met.

Furthermore, based on double tax treaties between Germany and the shareholder's country of residence, the withholding tax may be (upon application) reduced to 5% or 15%. Also in these cases, substance requirements have to be met and proven by the foreign shareholders and respective reduction requires prior application and issuance of a tax exemption certificate.

By contrast, profit distributions paid by a partnership (for example, GmbH &Co. KG) are not subject to withholding tax because they are qualified as "withdrawals" rather than dividends from a German income tax perspective.

If a partnership receives dividends from its corporate subsidiaries and if these corporate subsidiaries are to be actually attributable to the permanent establishment of the German partnership, the dividend withholding tax cannot be reclaimed at the level of a partnership but only at the level of its partners. This also applies to foreign partners of the German partnership which creates a permanent establishment due to the participation in a partnership in Germany and are therefore subject to limited CIT and thus have to file a CIT return in Germany.

However, reclaiming of the dividend withholding tax in such German CIT return of the foreign partner can only be made in case the corporate subsidiaries of the partnership are actually attributable to the permanent establishment of the German partnership. As a German partnership is a semi-transparent entity, the corporate subsidiaries must be in a functional relationship with the partnership in order to be attributed to the German permanent establishment a foreign partner might have because of his participation in a German

partnership. If the corporate subsidiaries are not attributable to the permanent establishment of the German partnership, they would be directly attributed to the foreign partner of the partnership. In this case, the dividends from such corporations would be seen as directly received by the foreign partner and not by the German partnership, leading to the application of the general refund procedure explained above (including the prove of substance).

Singapore Taxation

Corporate Tax

The prevailing corporate tax rate in Singapore is 17% with effect from Year of Assessment 2010. In addition, the partial tax exemption scheme for Year of Assessment 2019 and before applies on the first S$300,000 of normal chargeable income; specifically 75% of up to the first S$10,000 of a company's normal chargeable income, and 50% of up to the next S$290,000 is exempt from corporate tax. Starting from Year of Assessment 2020, the partial tax exemption scheme applies on the first S$200,000 of a company's normal chargeable income; specifically 75% of up to the first S$10,000 of a company's normal chargeable income, and 50% of up to the next S$190,000 is exempt from corporate tax. The remaining chargeable income (after the partial tax exemption) will be taxed at 17%. For the Years of Assessment 2018, 2019 and 2020, companies will be granted a corporate income tax rebate of 40%, 20% and 25% respectively of the tax payable for the year of assessment, subject to a cap of S$15,000, S$10,000 and S$15,000 respectively per year of assessment.

Singapore has a tax exemption scheme for new start-up companies that was introduced in Year of Assessment 2005 to support entrepreneurship and help the growth of local enterprises. For the Year of Assessment 2019 and before, there will be a full exemption on the first S$100,000 of normal chargeable income, and a further 50% exemption on the next S$200,000 of normal chargeable income. From Year of Assessment 2020 onwards, there will be a 75% exemption on the first S$100,000 of normal chargeable income, and a further 50% exemption on the next S$100,000 of normal chargeable income.

Our subsidiaries in Singapore are subject to Singapore corporate income tax at a rate of 17%.

Dividend Distributions

Singapore adopts a one-tier corporate tax system under which the tax collected from corporate profits is a final tax and the after-tax profits of a company resident in Singapore can be distributed to its shareholders as tax-exempt dividends. Such dividends are tax-exempt in the hands of the shareholders, irrespective of whether the shareholder is a company or an individual and whether or not the shareholder is a Singapore tax resident. Singapore does not currently impose withholding tax on dividends paid to resident or non-resident shareholders.

Goods and Services Tax

Goods and services tax in Singapore is a consumption tax that is levied on the import of goods into Singapore, as well as nearly all supplies of goods and services in Singapore at a prevailing rate of 7%.

OVERVIEW

We are a leading, fast-growing multi-brand hotel group in China with international operations and were the second largest hotel group in China and the ninth largest in the world both in terms of number of hotel rooms operated as of the end of December 2019, according to Frost & Sullivan.

Founded by Mr. Ji Qi, a renowned entrepreneur who also co-founded Trip.com (Nasdaq: TCOM, previously known as Ctrip), one of the largest online travel service providers in China, in 1999, and Homeinns (former Nasdaq ticker: HMIN), another leading hotel group in China, in 2002, our Group commenced operation in December 2005. Under the leadership of Mr. Ji Qi, we have since effectively grown into a world leading hotel group, operating and managing multi-brand hotels through consistent technological innovation and business modernization and significant investment in research and development. For further details of our business and innovative business models, please refer to the section headed "Business" of this prospectus.

Our Company was incorporated on January 4, 2007 and our ADSs have been primary listed on the NASDAQ since March 26, 2010.

MILESTONES

The following table illustrates the key milestones of our history and business development:

Year	Milestone
2005	We launched the first *HanTing Hotel* in Kunshan, Suzhou.
2008	We launched our budget hotel product, *HanTing Hi Inn*, which was subsequently rebranded as *Hi Inn*.
2010	Our ADSs were listed on the NASDAQ.
	We launched the first *JI Hotel* in Shanghai.
2012	We acquired a 51% equity interest in Starway Hotels (Hong Kong) Limited ("**Starway HK**"), a midscale hotel chain, and expanded our offering to four hotel brands.
	We changed our Chinese trade name from "HanTing Hotel Group" to "HuaZhu Hotel Group".
2013	We acquired the remaining 49% equity interest in *Starway HK* from C-Travel International Limited.
	We adopted the first proprietary cloud-based property management system in China.

Year	Milestone
2014	We entered into agreements with Accor S.A. ("**Accor**") to join forces in the Pan-China region to develop Accor brand hotels and to form an extensive and long-term alliance with Accor. We offered the first automated self-check-in or check-out kiosks in China, featuring advanced technologies such as facial recognition.
2016	We completed our transaction with Accor. For further details, please refer to the sub-sections headed "Major Acquisitions" and "Strategic Alliance with Accor" in this section.
2017	We completed the acquisition of all of the equity interests in Crystal Orange, which operated hotels under the brands *Crystal Orange Hotel* and *Orange Hotel*. We issued US$475 million of 0.375% convertible senior notes due 2022.
2018	We changed our name to Huazhu Group Limited, or Huazhu. We completed the acquisition in steps of a majority stake in Blossom Hotel Management, which was engaged in the business of operating and managing hotels under *Blossom Hill Hotels & Resorts* (currently *Blossom House*) brand in the upscale market in the PRC.
2019	We were a winner of the "2019 CIO 100 Award", which recognized us as one of the 100 most innovative organizations worldwide that use information technology in innovative ways to deliver business value. Our H Rewards loyalty program surpassed 150 million members. We opened our first overseas hotel in Singapore under *JI Hotel* brand, which we directly operate.
2020	We completed the acquisition of all equity interest in Steigenberger Hotels AG, which was engaged in the business of operating and managing hotels under five brands, namely *Steigenberger Hotels & Resorts*, *MAXX by Steigenberger*, *Jaz in the City*, *InterCityHotel* and *Zleep Hotels*, primarily in Europe. We issued US$500 million of 3% convertible senior notes due 2026.

STRATEGIC ALLIANCE WITH ACCOR

Accor is a world-leading augmented hospitality group which owns and leases, manages and franchises more than 5,000 hotels, resorts and residences across 110 countries under a portfolio of brands, spanning from luxury to economy. It is governed by a board of directors comprising 11 directors including our Director, Mr. Sébastien BAZIN. Accor is listed on both the London Stock Exchange and Euronext Paris and is a constituent of the CAC 40 index in Euronext Paris.

Since December 2014, we have joined forces with Accor in the Pan-China region to develop Accor brand hotels and formed an extensive and long-term alliance with Accor. As at the Latest Practicable Date, Accor (through its subsidiary AAPC Hong Kong Limited ("**AAPC**")) beneficially owned approximately 5.2% of our total outstanding Shares and as at June 30, 2020, we owned approximately 2.9% of Accor. Please refer to Note 6 of the shareholding table in the section headed "Major Shareholders" for further details of Accor's shareholding in our Company. Our collaborations include:

- certain of our wholly-owned subsidiaries engaged in the business of owning, leasing, franchising, operating and managing hotels under Accor brands in the midscale and economy market in the PRC, Taiwan and Mongolia;

- AAPC LUB, a Hong Kong subsidiary of Accor of which we own approximately 28%, engages in the business of owning, leasing, franchising, operating and managing hotels under Accor brands (x) in the luxury and upscale market in Hong Kong, Macau, Taiwan, the PRC and Mongolia, and (y) in the midscale and economy market in Hong Kong and Macau and, pursuant to certain arrangements for specified brands, the PRC, Mongolia and Taiwan;

- Accor granted to us exclusive franchise rights in respect of "*Mercure Hotel*", "*Ibis Hotel*" and "*Ibis Styles Hotel*" in the PRC, Taiwan and Mongolia, and non-exclusive franchise rights in respect of "*Grand Mercure*" and "*Novotel Hotel*" in the PRC, Taiwan and Mongolia (AAPC LUB being the only other entity with non-exclusive franchise rights in respect of "*Grand Mercure*" and "*Novotel Hotel*" in the same territories); all hotels under these brands will continue to be managed under Accor's brand standards and have all benefits of Accor's international distribution and loyalty platforms, and will also participate in our loyalty and distribution platforms and benefit from our on-the-ground support subject to exceptions;

- we granted a subsidiary of Accor, AAPC, a right to, subject to certain conditions and qualifications, designate one Director to our Board of Directors;

- we and Accor entered into an amended and restated non-competition agreement that sets out certain business restrictions on us and Accor, and imposes certain lockup and standstill restrictions on Accor with respect to our equity securities, including:

    - **Restrictive covenants applicable to us**: we will not operate, license, manage or franchise and/or own and/or purchase any rights in or to, in each case, any brands of a competitor of Accor in PRC, Mongolia, Hong Kong, Macau and Taiwan ("**Target Territories**") in a hotel business; or grant or sell a significant interest to any competitor of Accor;

  - **Restrictive covenants of Accor**: Accor will not, and shall procure that no members of its group will, directly or indirectly, acquire or hold equity securities that would result in Accor, directly or indirectly, owning a significant interest in any of our competitors;

  - **Creation of new hotel brand**: if Accor launches any new brand in the Target Territories positioned by Accor to target (i) the midscale and economy market segments, or (ii) the luxury and upscale market segments ("**Newly Created Hotel Brand**"), then Accor shall procure that the relevant member of its group offer a right of first refusal to, (x) in the case of a brand targeting the midscale and economy market segments, us, an exclusive franchise for such Newly Created Hotel Brand within the PRC, Taiwan and Mongolia; or (y) in the case of a brand targeting the luxury and upscale market segments, AAPC LUB, an exclusive franchise for such Newly Created Hotel Brand within the Target Territories; and

- a deed of voting and ROFR entered into between, among others, AAPC, Mr. Ji Qi and our Company (the "**Deed of Voting and ROFR**"), pursuant to which, among other things, (x) AAPC has a right of first refusal in respect of transfers of our securities by Mr. Ji Qi or his affiliates, which AAPC has not exercised, and (y) we and Mr. Ji Qi agreed to procure the appointment of a designee of Accor to our Board of Directors, subject to certain conditions. At any general meeting of our Company, Mr. Ji Qi is required to, among other things, nominate AAPC's designee to be a member of our Board and vote in favour of any Shareholders' resolution to appoint AAPC's designee to our Board.

We and Accor have been operating independently of each other and each of us has been listed on the NASDAQ (in the case of the Company), and the London Stock Exchange and Euronext Paris (in the case of Accor), for more than 10 years. Further, for the same reasons as disclosed under the sub-sections headed "Management Independence", "Operational Independence" and "Financial Independence" in the section headed "Relationship with our Controlling Shareholders" in this prospectus, we are capable of carrying on our business independently of, and at arm's length from the business of Accor.

MAJOR ACQUISITIONS

As a complement to our organic growth, we have accumulated extensive experience in mergers and acquisitions as well as post-acquisition integration. Since 2012, we have successfully completed the following major acquisitions:

Acquisition of Starway HK

In May 2012, we completed the acquisition of a 51% equity interest in Starway HK, and in December 2013, we acquired the remaining 49% equity interest in Starway HK from C-Travel International Limited, a subsidiary of Trip.com. We currently own the *Starway Hotel* brand. For further details of Starway HK, please refer to the section headed "Business—Our Brands" and "Business—Our Competitive Strengths and Strategies".

Acquisition of Crystal Orange

On February 25, 2017, we acquired from several Independent Third Parties all of the equity interests in Crystal Orange, which holds hotels under the brands *Crystal Orange Hotel* and *Orange Hotel* for a consideration of RMB3,765,000,000. The consideration was determined after arm's length negotiations between the parties, primarily based on discounted cash flow valuation method. The acquisition was legally completed and the consideration was settled on May 25, 2017. For further details of Crystal Orange, please refer to the sections headed "Business—Our Brands" and "Business—Our Competitive Strengths and Strategies".

Acquisition of Blossom Hotel Management

Between 2017 and 2019, we subscribed for and acquired from several Independent Third Parties in steps a total of approximately 99.33% equity interest in Blossom Hotel Management, which was engaged in the business of operating and managing hotels under *Blossom Hill Hotels & Resorts* (currently *Blossom House*) brand in the upscale market in the PRC, for an aggregate consideration of approximately RMB632,875,000. The consideration was determined after arm's length negotiations between the parties, primarily based on the valuation method using enterprise value to EBITDA ratio. The last acquisition was legally completed and settled on September 12, 2019.

As of the Latest Practicable Date, we owned an aggregate of 99.33% equity interest in Blossom Hotel Management. *Blossom House* is our upscale lifestyle and resort band targeting affluent travelers. Most of *Blossom House's* hotels are located near typical scenic spots. For further details of *Blossom House*, please refer to the sections headed "Business—Our Brands" and "Business—Our Competitive Strengths and Strategies".

Acquisition of Deutsche Hospitality

On November 4, 2019, the Company entered into a share purchase agreement to acquire 100% of the equity interest in Steigenberger Hotels AG, a company established under the laws of Germany, from an Independent Third Party for a consideration of approximately EUR720 million. The consideration was determined after arm's length negotiations between the parties, primarily based on discounted cash flow valuation method. The acquisition was legally completed and settled on January 2, 2020. As of June 30, 2020, Deutsche Hospitality had 116 hotels operating under five separate hotel brands, primarily in Europe. For further details of Deutsche Hospitality, please refer to the sections headed "Business—Our Brands", "Business—Our Competitive Strengths and Strategies" and "Business—Technology Infrastructure and Digitalization".

Save as disclosed above, we did not conduct any major acquisitions, disposals or mergers during the Track Record Period.

MAJOR SUBSIDIARIES

The principal business activities and date of establishment of our Major Subsidiaries, are shown below:

Name of Major Subsidiary	Date of incorporation	Issued or registered share capital	Equity interest attributable to our Group	Place of incorporation	Principal business activities
China Lodging Holdings (HK) Limited	October 22, 2008	USD144,000,000 HKD1	100%	Hong Kong	Investment holding and franchise management
China Lodging Holdings Singapore Pte. Ltd.	April 14, 2010	USD20,000,000 SGD1	100%	Singapore	Hotels with restaurant, business and management consultancy services
HanTing Xingkong (Shanghai) Hotel Management Co., Ltd.	March 3, 2006	USD138,000,000	100%	PRC	Hotels and property management, technical development and support
HanTing (Shanghai) Enterprise Management Co., Ltd.	December 14, 2010	USD2,200,000	100%	PRC	Investment holding and related training services
HanTing (Tianjin) Investment Consulting Co., Ltd	January 16, 2008	USD48,000,000	100%	PRC	Hotel management
HanTing Technology (Suzhou) Co., Ltd.	December 3, 2008	RMB201,346,500	100%	PRC	Software development and sales, hotel management training and consulting
Starway Hotel Management (Shanghai) Co., Ltd.	July 29, 2008	USD300,000	100%	PRC	Hotel management and consultancy services
Huazhu Hotel Management Co., Ltd.	August 16, 2012	RMB297,000,000	100%	PRC	Hotel and property management
Jizhu Information Technology (Shanghai) Co., Ltd.	February 26, 2014	RMB12,000,000	100%	PRC	Information technology development and related consultancy services
ACL Greater China Limited	October 28, 2014	HKD197,028,198	100%	Hong Kong	Investment holding
Huazhu Investment I Limited	November 10, 2017	HKD1	100%	Hong Kong	Investment
Yagao Meihua Hotel Management Co., Ltd.	February 16, 2015	USD8,500,000	100%	PRC	Hotel management
Orange Hotel Management (China) Co., Ltd.	April 4, 2006	RMB269,000,000	100%	PRC	Hotel and property management, food and beverages services
Beijing Crystal Orange Hotel Management Consulting Co., Ltd.	October 27, 2011	USD64,500,000	100%	PRC	Hotel and property management and consultancy service
Huazhu Hotel Management (Ningbo) Co., Ltd.	July 20, 2018	RMB200,000,000	100%	PRC	Hotel management and property service and consultancy service

Name of Major Subsidiary	Date of incorporation	Issued or registered share capital	Equity interest attributable to our Group	Place of incorporation	Principal business activities
H-World Information and Technology Co., Ltd.	November 7, 2013	RMB51,127,500	85.92%	PRC	Information technology services and related consultancy services, software and hardware development
Beijing Dongnian Hotel Co., Ltd.	September 12, 2012	RMB3,000,000	100%	PRC	Hotel and property management, food and beverage services, meeting services
Shanghai Changting Hotel Management Co., Ltd.	September 25, 2008	RMB1,000,000	100%	PRC	Hotel and property management, investment consultancy
Steigenberger Hotels Aktiengesellschaft	September 12, 1985	EUR12,480,000	100%	Germany	Hotels and restaurants operation and provision of other related services
IntercityHotel GmbH	November 24, 1987	EUR1,500,000	100%	Germany	Hotel operation and development

LISTING ON NASDAQ

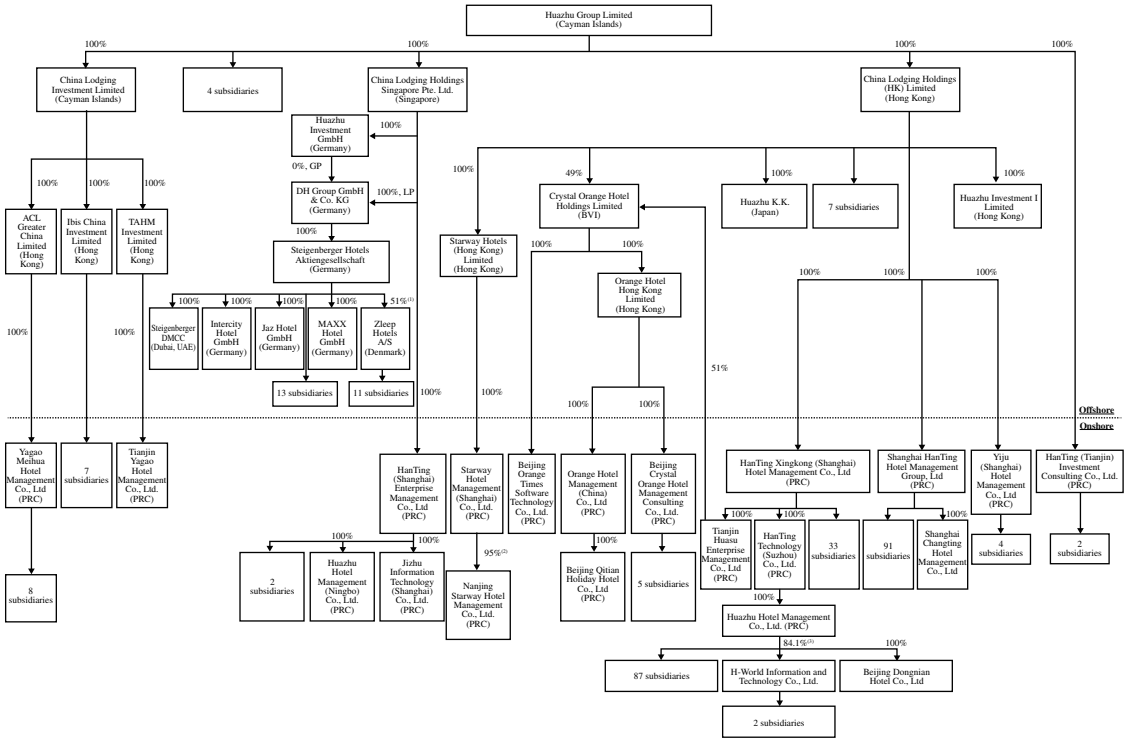
Our ADSs have been listed on the NASDAQ since March 26, 2010 under the ticker symbol "HTHT", and we have a track record of good regulatory compliance of at least two full financial years on the NASDAQ.

Reasons for seeking the Listing on the Hong Kong Stock Exchange

We believe that the Listing would be in the interests of our Group's business development strategies, and would be beneficial to us and our Shareholders as a whole, as it will afford us greater access to capital markets in Asia, and further raise our profile which is of significant importance in the hotel industry and enhance our ability to attract new customers, talents, business partners and strategic investors.

CORPORATE STRUCTURE

As at the Latest Practicable Date, we have over 310 subsidiaries. Set forth below is the simplified corporate structure of our Group as at the Latest Practicable Date:



Notes:

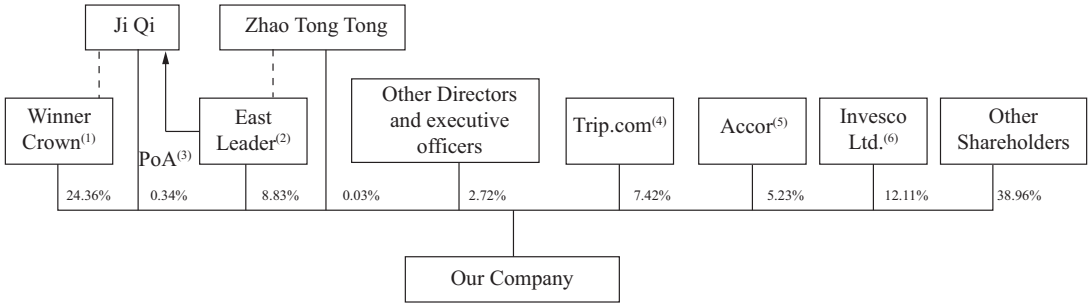
(1) Zleep Hotels A/S is held as to 49% by Hotel Holding ApS, which is not an Independent Third Party.

(2) Nanjing Starway Hotel Management Co., Ltd. is held as to 5% by Ji Zichun (汲自春), who is an Independent Third Party.

(3) H-World Information and Technology Co., Ltd. is held as to (i) approximately 11.74% by Shanghai Mengguang Enterprises Management LLP (上海盟廣企業管理合夥企業(有限合夥)), which is one of our subsidiaries; (ii) approximately 1.96% by Shanghai Huaban Hotel Management LLP (上海華伴酒店管理合夥企業(有限合夥)), the general partner of which is a member of our Group; (iii) approximately 0.25% by Yu Ping (俞萍), who is an Independent Third Party; and (iv) approximately 1.96% by Ningbo Meishan Bonded Port District Yiyang Investment Limited Partnership (寧波梅山保税港區軼洋投資合夥企業(有限合夥)), the majority interest of which is owned by Mr. Zhang Shangzhi, one of our Directors.

SHAREHOLDING STRUCTURE

The following diagram illustrates our shareholding structure as of the Latest Practicable Date:



Notes:

(1) Winner Crown is wholly owned by Sherman Holdings, which is in turn wholly owned by Credit Suisse Trust Limited ("**CS Trustee**"). CS Trustee acts as trustee of the Ji Family Trust, of which Mr. Ji Qi and his family members are the beneficiaries. Ji Family Trust is a discretionary trust in respect of which, Mr. Ji Qi is the settlor.

(2) East Leader is wholly owned by Perfect Will Holdings Limited ("**Perfect Will**"), a British Virgin Islands company, which is in turn wholly owned by Asia Square Holdings Ltd. ("**Asia Square**"), as nominee for J. Safra Sarasin Trust Company (Singapore) Ltd. ("**Sarasin Trust**"). Sarasin Trust acts as trustee of the Tanya Trust, of which Ms. Zhao Tong Tong and her family members are the beneficiaries. The Tanya Trust is a discretionary trust in respect of which, Ms. Zhao Tong Tong is the settlor.

(3) Pursuant to a power of attorney dated November 27, 2014, Mr. Ji Qi has voting power over 16,000,000 ADSs representing 16,000,000 Shares, which have been pledged to a third party financial institution to secure a borrowing, and 10,224,652 Shares held by East Leader.

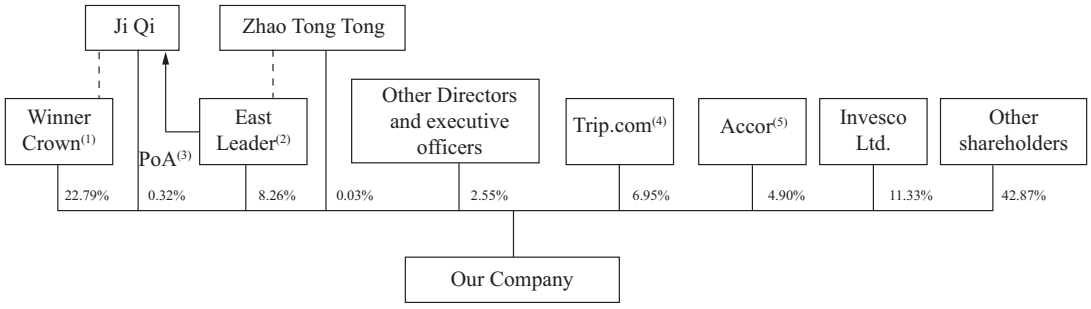
(4) Mr. Ji Qi is a director of Trip.com. Pursuant to a support agreement between Trip.com and Mr. Ji Qi dated December 16, 2016, Trip.com will appear at any shareholder meeting of our Company and vote (or cause to be voted) all of the Shares that Trip.com has the power to vote or to direct the vote of against any resolution put to such meeting in connection with certain acquisition proposal in the event Mr. Ji Qi takes the position to vote against such resolution.

(5) Accor holds the Shares via its indirect wholly owned subsidiary, AAPC. Pursuant to a support agreement between AAPC and Mr. Ji Qi dated February 28, 2017, AAPC and Mr. Ji agree to notify each other of and discuss certain acquisition proposal involving us of which each party may become aware. In such case, each such party agreed to use its commercially reasonable efforts to reach a common decision with respect to such acquisition proposal. AAPC further agrees to appear at any of our general meetings and to vote (or cause to be voted) all of the Shares that it has the power to vote or to direct the vote of in the manner designated by Mr. Ji against any resolution supporting or seeking to assist certain acquisition proposal that our Board has adopted a resolution to oppose or reject.

(6) Based on Amendment No. 1 to Schedule 13G filed with the SEC by Invesco Ltd. on February 7, 2020, Invesco Ltd. is deemed to beneficially own our Shares through its subsidiaries and/or funds controlled by it.

(7) Details of outstanding convertibles and options are set out in the sub-sections headed "Financial Information—Outstanding Indebtedness" and "Statutory and General Information—A. Further Information about our Group—4. Share Incentive Plans" respectively in this prospectus.

The following diagram illustrates our shareholding structure immediately upon the completion of the Global Offering (assuming all major shareholders' shareholding in our Company remain unchanged as of the Latest Practicable Date and the Over-allotment Option is not exercised, and without taking into account the Shares which may be issued pursuant to the Share Incentive Plans):



Note:

Please refer to the notes to the previous shareholding structure chart.

Contractual Arrangements

As at the Latest Practicable Date, we have four subsidiaries that are under VIE structures in the PRC, with contractual arrangements that allow our Group to control these entities (the "**Contractual Arrangements**"), namely Huanmei Information Technology (Shanghai) Co., Ltd. (環美信息技術(上海)有限公司) ("**Huanmei IT**"), Huanmei International Travel Service (Shanghai) Co., Ltd. (環美國際旅行社(上海)有限公司) ("**Huanmei Travel**"), Tianjin Mengguang Information Technology Co., Ltd. (天津盟廣信息技術有限公司) ("**Tianjin Mengguang**") and Ningbo Futing Enterprise Management Co., Ltd. (寧波福庭企業管理有限公司) ("**Ningbo Futing**") (collectively, the "**VIE Entities**"), which were established due to foreign investment restrictions on specific industries or commercial reasons.

These four VIE Entities are collectively or on an individual basis immaterial to our Group in terms of revenue contribution and innovativeness. Huanmei IT, which has not commenced business, is the holding company of Huanmei Travel, which engages in the business of international travel agency. Tianjin Mengguang holds an ISP licence and provides internet service to various hotel branches of the Group. Ningbo Futing has no material business and it has shareholding interest in an entity which engages in hotel operation. The VIE Entities are not involved in designing or implementing any innovative features of our Group's business and the businesses of the VIE Entities are also not related to such innovative features. The aggregate revenues of the VIE Entities and their subsidiaries collectively contributed to 0.04%, 0.30%, 0.36% and 0.53% of our consolidated total net revenues for the years ended December 31, 2017, 2018 and 2019, and for the three months ended March 31, 2020 respectively. As such, the revenue contribution by the VIE Entities to our Group is very immaterial.

As stated in the opinion provided by our PRC legal adviser, JunHe LLP:

(a) the ownership structures of the VIE Entities in China do not and will not violate any applicable PRC laws and regulations currently in effect;

(b) each of the Contractual Arrangements governed by PRC laws and regulations is valid, legal and binding, and does not and will not violate any applicable PRC laws and regulations or the respective articles of association of the VIE Entities currently in effect;

(c) each of the Contractual Arrangements governed by PRC laws and regulations will not be deemed as "concealment of illegal intentions with a lawful form" and void under the PRC Contract Law by reason of the Contractual Arrangements (i) are established due to foreign investment restrictions on specific industries or commercial reasons, (ii) will not infringe the interests of the state or any other third party, and (iii) are not explicitly prohibited by PRC laws and regulations in relation to the value-added telecommunication services and international travel agency business; and

(d) there are substantial uncertainties regarding the interpretation and application of current PRC laws on the Contractual Arrangements. Accordingly, PRC regulatory authorities or arbitral tribunal or courts may take a view that is contrary to the opinion of our PRC legal adviser. It is uncertain whether any new PRC laws, regulations or policies relating to contractual arrangements will be adopted, or if adopted, what the laws, regulations or policies would provide. If we or any of our VIE Entities are found to be in violation of existing or future PRC laws, regulations or policies, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authority would have broad discretion to take action in dealing with the violation or failure, in which case, we could be subject to severe penalties, including being prohibited from continuing our operations or unwinding the Contractual Arrangements.

SAFE REGISTRATION

Pursuant to the *Notice on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》)*, or the Circular 75 promulgated by the SAFE on November 1, 2005, a PRC resident shall apply to the local SAFE branch for foreign exchange registration of overseas investment before setting up or taking control of any overseas special purpose vehicle.

The *Circular of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration of the Overseas Investment and Financing and Round-trip Investments by Domestic Residents through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》)*, or the Circular 37, which was promulgated by SAFE on July 4, 2014, replaced the Circular 75 but continued to implement registration and administration by the SAFE and its branches for setting up special purpose vehicles by the PRC residents.

According to the Foreign Exchange Registration Form for Overseas Investment by Chinese Resident Individuals and the statement of the Company, Mr. Ji Qi, Mr. John Wu Jiong, Ms. Zhao Tong Tong, who are Shareholders of the Company, have completed the foreign exchange registration formalities under the Circular 75 with the SAFE, Tianjin branch for the incorporation of overseas special purpose vehicle, the Company, and holding the equity interests in the same. It is therefore not necessary for such individuals to complete the foreign exchange registration formalities pursuant to the Circular 37.

OVERVIEW

We are a leading, fast-growing multi-brand hotel group in China with international operations. As of the end of 2019, we were China's second largest hotel group and the world's ninth largest, both in terms of number of hotel rooms operated, according to Frost & Sullivan. Our hotels are operated under three different models: leased and owned, franchised, and franchised hotels that we operate under management contracts, which we refer to as "manachised." We expanded our hotel network from 3,746 hotels as of December 31, 2017 to 5,618 hotels as of December 31, 2019, representing a CAGR of 22.5%. The net increase of 1,872 hotels over this period was the largest among all publicly listed hotel groups globally, according to Frost & Sullivan. As of June 30, 2020, we had 6,187 hotels in operation, including 758 leased and owned hotels and 5,429 manachised and franchised hotels, with an aggregate of 599,235 hotel rooms. As of the same date, we were developing an additional 2,375 hotels, including 54 leased and owned hotels and 2,321 manachised and franchised hotels.

Brands are the bedrock of our success. In over a decade, we grew from an economy hotel chain to a multi-brand hotel group covering the full spectrum of market segments. Leveraging our consumer insights and our capability to deliver innovative and trend-setting products, we now operate a portfolio of over 20 distinct hotel brands. As an example of our success in brand-building, our mainstay *HanTing Hotel* brand has become a household name in China, synonymous with a comfortable stay and an affordable price. *HanTing Hotel* had the largest number of hotels among all economy hotel brands of publicly listed hotel groups globally as of December 31, 2019, according to Frost & Sullivan. Our *JI Hotel*, another established brand, ranked first among all midscale hotel brands in China in terms of top-of-mind brand awareness, according to the F&S Survey. Since launching *Joya Hotel*, our first upscale brand, in 2013, we have further expanded into the upscale market. We have also enlarged our portfolio with international midscale to upscale brands through our strategic alliance with Accor in 2016 and acquisition of Deutsche Hospitality in January 2020. By expanding our brand portfolio, we now offer not only products targeting business travelers, but also brands catering to emerging market trends and customer needs—from weekend getaways to life-enriching experiences. Our lifestyle and resort brand, *Blossom House*, is particularly popular among leisure travelers.

The table below presents our major hotel brands by category as of the date of this prospectus.

Economy	Midscale	Upper Midscale	Upscale
HANTING HOTEL	JI HOTEL	CRYSTAL	JOYA
Ni HAO	ORANGE	IntercityHotel	BLOSSOM HOUSE
Hi INN	STARWAY HOTEL	MAN XIN HOTEL	STEIGENBERGER HOTELS & RESORTS
ELAN HOTEL		Mercure HOTELS	Maxx by STEIGENBERGER
ibis		MADISON	

Notes:

(1) Number of hotels in operation as of June 30, 2020: HanTing Hotel (2,638), Ni Hao Hotel (0), Hi Inn (464), Elan Hotel (838), Ibis Hotel (187), JI Hotel (926), Orange Hotel (265), Starway Hotel (392), Crystal Orange Hotel (99), IntercityHotel (42), Manxin Hotel (53), Mercure Hotel (80), Madison Hotel (18), Joya Hotel (9), Blossom House (25), Steigenberger Hotels & Resorts (50), and MAXX by Steigenberger (5).

(2) Number of hotels in the pipeline as of June 30, 2020: HanTing Hotel (523), Ni Hao Hotel (17), Hi Inn (102), Elan Hotel (417), Ibis Hotel (64), JI Hotel (478), Orange Hotel (180), Starway Hotel (288), Crystal Orange Hotel (57), IntercityHotel (19), Manxin Hotel (34), Mercure Hotel (76), Madison Hotel (23), Joya Hotel (3), Blossom House (24), Steigenberger Hotels & Resorts (8), and MAXX by Steigenberger (1).

(3) We enjoy exclusive franchise rights in respect of Accor's Mercure Hotel, Ibis Hotel and Ibis Styles Hotel brands and non-exclusive franchise rights in respect of its Grand Mercure and Novotel Hotel brands in certain regions. In addition, we have exclusive rights to operate, manage, franchise and license hotels under the Jaz in the City brand in certain regions.

We have developed a vast base of loyal and engaged customers under our H Rewards loyalty program. H Rewards covers all of our brands and had approximately 153 million members as of December 31, 2019, making it the largest hotel loyalty program in China, according to Frost & Sullivan. We engage with program members through multiple online and offline touch points to personalize their lodging experiences and foster strong and long-lasting relationships that inspire loyalty to our brands. H Rewards is a powerful distribution platform, enabling us to conduct lower-cost, targeted marketing campaigns and maintain a high percentage of direct sales to customers. In 2019, approximately 76% of our room-nights were sold to customers who were individual or corporate H Rewards members, which was the highest percentage of room-nights sold to loyalty program members among top ten largest hotel groups globally in terms of room number as of December 31, 2019, according to Frost & Sullivan.

We have developed industry-leading, proprietary technology infrastructure that enhances customer experience, increases our operational efficiency, and supports our fast growth. The core of this infrastructure is a comprehensive suite of modularized applications, including a cloud-based property management system and centralized reservation, procurement and revenue management systems. Leveraging our operational experience and technological capabilities, we have built a centralized shared service center and realized the economies of scale made possible through our enormous hotel operations. For example, our RMS is the first and only RMS in China's hotel industry that can automatically adjust room rates, according to Frost & Sullivan. In the fourth quarter of 2019, approximately 58% of the price adjustments for our hotels in operation for more than 18 months were made automatically by our RMS. We have also undertaken a series of industry-first digitalization initiatives to optimize our hotels' operational efficiency and cost structure and operate "smart" hotels. Our digital transformation initiative, the "Easy" series, has increased the speed and efficiency of our hotels' entire business processes, from the moment a reservation is made until a guest checks out. Largely attributable to our advanced technology infrastructure, we have achieved a low staff-to-room ratio (defined as a hotel's full-time employees divided by the total number of its available rooms) of 0.17 as of December 31, 2019.

Leveraging our strong brand recognition, massive member traffic, and robust technology infrastructure, we have pioneered a business operating system designed to enhance hotel operations across all fronts. Our business operating system is the result of our years of industry know-how, and it includes innovative ideas that are first tested and refined by our leased and owned business. Subsequently, these ideas can be "plugged-and-played" by our franchisees with confidence, thus allowing us to effectively expand our hotel network in an asset-light manner. We added a net 1,872 hotels from December 31, 2017 to December 31, 2019, 99.1%

of which were manachised and franchised hotels. Apart from receiving franchise fees for these hotels, we also share our technology infrastructure and our vast customers base with our franchisees. As a result, our manachised and franchised hotels enjoyed a high take rate (meaning the ratio of net revenue recognized in hotel turnover) of 12.2% in 2019. In addition to extending our expertise to our manachised and franchised hotels, we can also monetize our core competencies by offering standardized and tailored SaaS and IT solutions to other hotel operators, real estate companies and service apartment providers. We believe that our distinct approach to hospitality has helped us establish a highly differentiated business model that balances scale, quality and returns.

We have recorded outstanding financial performance in recent years. Our net revenue grew from RMB8,229 million in 2017 to RMB10,063 million in 2018, and further to RMB11,212 million in 2019. We had net income attributable to our company of RMB1,228 million, RMB716 million and RMB1,769 million in 2017, 2018 and 2019, respectively. Our adjusted EBITDA (non-GAAP) amounted to RMB2,379 million, RMB3,269 million and RMB3,349 million, and our net cash provided by operating activities amounted to RMB2,453 million, RMB3,049 million and RMB3,293 million in these respective periods.

Beginning from the first quarter of 2020, we have been negatively impacted by COVID-19. However, we have experienced recovery outperforming the industry since March 2020. As of June 30, 2020, approximately 96% of legacy Huazhu's hotels (excluding hotels under governmental requisition) had resumed operations with an occupancy rate of approximately 83% in early June 2020, while approximately 79% of legacy DH's hotels had resumed operations with an occupancy rate of approximately 29% as of June 30, 2020. We believe that our core competencies and proven business model well-position us to increase our share in the expanding global lodging industry and continue to deliver encouraging financial performance.

OUR COMPETITIVE STRENGTHS AND STRATEGIES

Competitive Strengths

We believe that the following competitive strengths have contributed significantly to our success and differentiate us from our competitors:

A World Leading and Fast-Expanding Hotel Group, Well-Positioned for Continuing Rapid Growth

As of the end of 2019, we were China's second largest hotel group and the world's ninth largest, both in terms of number of hotel rooms operated, according to Frost & Sullivan. As of June 30, 2020, we had 6,071 hotels in operation under legacy Huazhu (namely, our Group excluding Deutsche Hospitality), which were primarily in China, and 116 hotels under our subsidiary Deutsche Hospitality, primarily in Europe. As of the same date, we had a robust new hotel pipeline of 2,375 hotels, to be located primarily in China.

China's hotel chains are expected to continue their rapid growth, benefitting from the consolidation opportunities presented by the under-penetration of branded hotels, as well as consumers' demand for quality, personalized lodging experiences. According to Frost & Sullivan, as of the end of 2019, the hotel chain penetration rate (defined as the percentage of total hotel rooms operated by hotel chains) in China was only 24.9%, significantly lower than the global average of approximately 41.1%, presenting an ample opportunity for industry consolidation. This rate was approximately 21.1% in 2019 for China's third and lower-tier cities, which presents even greater growth potential. In addition, according to Frost & Sullivan, increasing numbers of independent hotel operators will likely choose to join hotel chains,

through franchise or manachise arrangements, to enjoy greater customer traffic, brand reputation and risk resilience benefits that hotel chains offer. Frost & Sullivan expects the hotel chain penetration rate for China's hotel industry to increase to 35.2% in 2024. Moreover, due to increases in disposable income, Chinese customers are increasingly sophisticated and demand higher service quality and better overall lodging experiences. According to Frost & Sullivan, as a result of this structural change in China's hotel industry, midscale and upscale hotel chains' room numbers recorded double-digit growth from 2015 to 2019, with CAGRs of 34.3% and 13.6%, respectively. China's hotel industry is expected to see concurrent consumption upgrade from the economy segment and consumers in the upscale segment becoming increasingly price-conscious in spending, both of which are expected to drive the continuous growth of the midscale segment. As such, Frost & Sullivan forecasts midscale hotel chains' room number to grow at a CAGR of 18.9% from 2020 to 2024—the highest among all market segments. Given our market-leading position, vast customer and franchisee bases, and strong operational efficiency, we believe that we are well positioned to capture these favorable trends in the China market.

A Highly Differentiated Development Approach Balancing Scale, Quality and Returns

Our success is rooted in our distinct approach to business development: we build and strengthen our core competencies and refine our products through our leased and owned operations, and efficiently expand our hotel network and elevate our brand awareness through our manachise and franchise models. We believe that this approach has helped us establish a highly differentiated business model that balances scale, quality and returns.

Our manachise and franchise models allow us to benefit from the recurring cash inflows from franchise and service fees with minimal upfront costs and capital expenditures, thus allowing us to expand rapidly in an asset-light manner. We believe that these models also provide us greater flexibility to adapt to evolving market conditions and mitigate the impact of potential business downturns. Our manachised and franchised hotels as a percentage of our total hotels increased from approximately 46% as of the end of 2011 to approximately 88% as of the end of 2019, and their revenue contribution increased from approximately 9% in 2011 to approximately 30% in 2019.

We apply consistent operational and quality standards across all of our hotels to ensure great customer experiences for our guests. We have established Huazhu University to systematically train our workforce with customized courses across all aspects of hotel operations. We provide training for hotel managers, including managers of manachised and franchised hotels, to ensure consistent quality and create a talent pool for our rapid expansion. We also directly manage our manachised hotels through managers that we appoint for those hotels. According to the F&S Survey, clean hotel rooms, well-maintained facilities, strong brand awareness and good location are among the impressions that customers have of our hotels and 95.0% of the survey's respondents would recommend our hotels to their friends.

We add new hotels to our network through a disciplined and systematic approach, considering factors such as the relevant city's market size, brand layout and competitive landscape, property conditions and location. This approach has helped to maintain the profitability of our hotels. For example, we achieved a 3.4% average year-on-year growth in 2017, 2018 and 2019 of our same-hotel RevPAR for legacy Huazhu's hotels in operation for at least 18 months. We also provide timely and effective support to our manachised and franchised hotels, augmenting value propositions to them. According to Frost & Sullivan, the investment payback period for the franchisees of our manachised and franchised hotels was approximately three to five years.

Brand of Choice, Boosting a Massive, Loyal Customer Base

We have developed a full suite of distinct brands, which enables us to continue growing our already large and loyal customer base and capitalize on revenue growth opportunities across all market segments. Our current brands range from our well-established economy brand *HanTing Hotel* and midscale brand *JI Hotel* to our upscale brand *Blossom House*, *Steigenberger Hotels & Resorts* and *Joya Hotel*—each of which targets a distinct group of customers. Our hotels in the mid-to-upscale markets as a percentage of our total hotels increased from approximately 3% as of December 31, 2011 to approximately 38% as of March 31, 2020, enabling us to capture the significant growth in these particularly promising market segments. By expanding our brand offerings, we now offer not only hotel brands for business customers, but also brands catering to emerging market trends and customer needs—from weekend getaways to life-enriching experiences.

We believe that our multi-brand strategy provides us with a competitive advantage in capturing a wider range of customers with evolving lodging preferences and needs. The success of our multi-brand strategy is supported by our H Rewards loyalty program's massive member base, with approximately 153 million members as of the end of 2019. H Rewards allows us to continuously, efficiently and cost-effectively grow our membership base and enhance member loyalty. We engage with program members through multiple online and offline touch points to personalize their lodging experiences and foster strong and long-lasting relationships that inspire loyalty to our brands. We are able to leverage H Rewards' vast customer base to increase the percentage of sales through our own sales channels rather than through intermediaries, thereby improving our profitability. In 2019, approximately 76% of our room-nights were sold to customers who were individual or corporate H Rewards members.

Robust Technology Infrastructure Built on Data Insights and Industry Know-how

We have consistently been at the forefront of reinventing customer experiences and creating the next generation of smart hotels by applying innovative technologies to our business operations. We have been the indisputable pioneer of China's hotel industry in terms of technological innovation and business modernization, having independently developed various "industry first" systems that have effectively disrupted the technology landscape of China's hotel industry, according to Frost & Sullivan. We were the only Chinese hotel group that was a winner of the "2019 CIO 100 Award" by IDG Communications, Inc., demonstrating our capability of using information technology in innovative ways to deliver business value.

We have developed our proprietary and scalable technology infrastructure with modules covering every key aspect of hotel operation, which we deploy across all of our hotels. This robust technology infrastructure has enabled us to continuously expand our hotel network and enhance our operating efficiency and profitability. For example, our RMS is the first and only revenue management system in China that can automatically adjust room rates, according to Frost & Sullivan. In the fourth quarter of 2019, approximately 58% of the price adjustments for our hotels in operation for more than 18 months were made automatically by our RMS.

We have also developed in-house, or through R&D collaborations, a full suite of hotel-level digital transformation initiatives and innovative service offerings in every step of customer interactions, from booking to check-out. For example, our most comprehensive series of digital transformation initiatives, the "Easy" series, have increased the speed and efficiency of our hotels' entire business processes, from the moment when a reservation is made until a guest checks out.

Our best-in-class technology infrastructure has enabled us to operate hotels at a large scale. Substantially due to the effective support of our technology infrastructure and digital transformation initiatives, we maintained a low staff-to-room ratio of 0.17 as of December 31, 2019. In addition, through these technology capabilities, our hotels have achieved exceptionally high customer satisfaction: according to the F&S Survey, 98.7% of the survey respondents would like to stay at our hotels again.

Proven Track Record of Successful Acquisition and Integration

We have accumulated extensive experience in mergers and acquisitions, including post-acquisition integration. Since 2012, we have successfully completed the acquisitions of four companies—Starway Hotels, Crystal Orange, Blossom Hotel Management and Deutsche Hospitality, and entered into a strategic alliance with Accor. These transactions have not only allowed us to expand our brand portfolio and hotel network efficiently, but also have yielded great synergies derived from our existing platform and resources. For example, we acquired Crystal Orange, a leading design hotel operator in China, in May 2017 and fully integrated its operations within one quarter. By integrating Crystal Orange hotels' systems with our H Rewards loyalty program, our customer relationship management system and our centralized reservation system ("**CRS**"), Crystal Orange hotels could offer its guests a more user-friendly and personalized booking, room selection and payment experience. From March 2017 to August 2017, Crystal Orange hotels' booking via CRS increased from 1-2% to 18.6%, the average RevPAR of Crystal Orange's hotels in operation for at least six months increased from RMB319 to RMB395, and Crystal Orange's staff-to-room ratio decreased from 0.35 to 0.21. In addition, leveraging our business development capabilities and franchisee network, the number of Crystal Orange hotels grew significantly, increasing from 140 as of June 30, 2017 to 350 as of March 31, 2020.

Powerful and Self-Reinforcing Market Position

Our vast branded hotel network enables us to deliver products with compelling value propositions to our guests, increase our customer reach and awareness, and capture enormous numbers of repeat customers. This in turn translates into increased brand value and significantly amplifies our brands' appeal to potential franchisees. We believe that this virtuous circle has helped entrench our market leading position and establish competition barriers, protecting our sustainable growth.

Our vast network of over 6,000 hotels provides us with significant advantages in economies of scale, which is magnified by our technology infrastructure. For example, our IoT technology-based centralized procurement system ("**CPS**") enables us to secure favorable terms from suppliers we use for large quantities and efficiently deploy resources and manage operating costs. Our CRS allows our loyalty program members to make reservations for all our hotels through multiple channels. In 2019, approximately 55.0% of our hotel room-nights were sold through our CRS, which enables us to achieve higher efficiency and profitability compared to hotels that rely heavily on travel intermediaries that charge high commission.

As we have grown in scale, we have gradually centralized certain hotel operational functions, and we now operate a powerful shared service center at the group level. This shared service center substantially centralizes, standardizes, digitalizes and automates human resources, accounting and procurement management processes and IT systems for all of our hotels, further streamlining our hotels' cost structure.

Visionary and Seasoned Management Team Committed to Innovation

Our management team has extensive experience in the travel and hospitality industries, with expertise in both strategy formulation and execution. Our executive chairman Mr. Ji Qi re-assumed his role as our chief executive officer in November 2019. Mr. Ji was a co-founder of both Trip.com (previously known as Ctrip), one of China's largest online travel services providers, and Home Inns & Hotels Management Inc., or Home Inns, another leading hotel group in China. These two companies are industry leaders, with proven track records and leadership positions. From Trip.com, to Home Inns to our Company, Mr. Ji is a firm believer in technology and innovation with an engineering background, and has demonstrated his commitment to bringing innovations to China's hotel and travel industry.

We have a senior management team who shares our value and has impressive backgrounds and extensive experience in lodging or related industries. Mr. Jin Hui was a member of our founding team and, since joining us in 2005, has served as director of our development department and our vice president, executive vice president and president, and is primarily responsible for overseeing our China business. Our chief digital officer Ms. Liu Xinxin joined us in 2012 from Alcatel-Lucent Shanghai Bell as their head of IT, and is mainly responsible for our sales, loyalty program and information technology platform. Our chief financial officer Mr. Teo Nee Chuan joined us in 2015 and has more than 20 years of financial and accounting experience in multinational companies.

Strategies

Our objective is to become a world-leading hotel group. We expect to achieve our objective by pursuing the following strategies:

Rapid Expansion of Quality Hotel Network

Building upon the success of our asset-light manachise and franchise models, we expect to further expand our network to over 10,000 hotels in the mid-term. We plan to solidify our competitive strengths by opening more hotels in the highly fragmented and underpenetrated market in China's lower tier cities, where we believe that the strength of our brands will find a market, both from customers' and franchisees' perspectives. We believe that our operational efficiency will add tremendous value to the brand operators. We also expect to rapidly expand the reach of our relatively new brands, as they become more established after years of refinement and operational efficiency optimization.

We believe that our self-reinforcing network effect, created by our vast hotel network, will not only serve as an entry barrier to competitors, but also forge our win-win relationships with all of our stakeholders, including our customers, franchisees and business partners, which in turn will accelerate our expansion. While continuing our rapid expansion, we will maintain our high standards for franchisee selection and consistently maintain strict quality control over our manachised and franchised hotels to ensure that our expansion is achieved without sacrificing quality or brand image.

Strengthening Multi-brand Portfolio

We have developed a full suite of distinct brands across all market segments. In the economy and midscale segments, we will continue product upgrades and innovations to strengthen our competitive advantages. We will continue reinforcing the recognition and trust in our core economy and midscale brands by expanding in China's underpenetrated markets and providing our customers with consistently high quality services at affordable prices.

We will also expand our brand portfolio's presence in the upper midscale and upscale as well as the leisure and resort markets to capture evolving customer needs and broaden our customer base. We plan to continue cultivating our own brands or acquire established brands that we believe will enrich our portfolio. For example, we plan to promote Deutsche Hospitality's iconic brands, such as *Steigenberger Hotels & Resorts* and *IntercityHotel*, to our Chinese customers. Through our H Rewards program, we will continuously engage with our valued customers to uncover new opportunities to personalize their experiences and foster strong and long-lasting relationships.

Bolstering Multi-channel Direct Sales

Strong direct sales capabilities have been pivotal to the growth and resilience of our business. We employ multi-channel strategies to drive our direct sales efforts, spanning from offline sales through our group-level key accounts ("**KA**") team, regional sales teams and hotel-level sales staff to our online sales platform H Rewards.

Through our KA team, we have covered hundreds of top corporate clients, to many of whom we have provided customized, digital services including direct booking and settlement solutions. We plan to invest more resources in key accounts coverage to further expand our corporate client base and deepen our relationships with them.

Through regional sales teams, we have approached regional or local corporate clients by targeted sales and marketing activities, and channeled the traffic into our hotels. These teams were especially valuable to the resilience of our business while travel was restricted due to the COVID-19 outbreak, as they generated continuous sales contribution from local communities and enterprises. We will continue expanding our regional direct sales teams to enhance our local sales coverage.

More importantly, our hotel-level staff recruit members into our H Rewards loyalty program, which provides guests the best prices and exclusive benefits. As of March 31, 2020, approximately 90% of our hotels had designated hotel staff responsible for covering the customers within certain distance. We plan to continue training and encouraging our hotel staff to promote sales of our hotel rooms.

Through H Rewards, we keep direct, digital engagement with our members and strengthen their stickiness to our network. Going forward, we will continue enhancing revenue contributions from our H Rewards loyalty program by incentivising our offline sales staff to convert customers into our H Rewards members.

Rollout of Global Technology Platform

We are committed to continuous upgrade of our technology infrastructure and improvements of our digitalization innovations, thereby driving the enhanced performance of our hotels as well as our global expansion. In particular, we plan to invest in advanced technologies, such as big data analytics, AI and machine learning. We will also promote our digital transformation initiatives to a greater number of our hotels to optimize their operational efficiency.

As the first part of Deutsche Hospitality's integration, we identified Deutsche Hospitality's existing IT infrastructure as "traditional, outsourced, single-hotel based," which is common among European hotel operators. We have developed a 500-day road map to build ONE

integrated digital platform for Deutsche Hospitality, which is aimed to strengthen the scalability, improve the operational efficiency and enhance customer experiences across our hotel network. The system will be our step-stone for future expansion and consolidation in the global market.

Global Expansion

Travel is global, so is the hotel business. The increasing outbound flow of Chinese travelers has provided us with great opportunities to bring our established brands abroad, especially China's adjacent geographical markets. We opened our first international hotel—JI Hotel in Singapore in October 2019.

In addition to organic growth, our Deutsche Hospitality acquisition provides us with an excellent platform to replicate our success in China to the fragmented but high-consumption European markets. We plan to combine Deutsche Hospitality's rich heritage and reputable brands with our operational excellence honed through our efficient China operations and accordingly enhance our competitive position and help us drive the European hotel industry's consolidation. We also plan to make selective acquisitions in other global markets where our operational efficiency will create significant synergies.

OUR HOTEL NETWORK

We operate hotels under lease and ownership, manachise and franchise models. Under the lease and ownership model, we directly operate hotels located primarily on leased properties, as well as on owned properties. Under the manachise model, we manage manachised hotels through the on-site hotel managers we appoint and collect fees from franchisees. Under the franchise model, we collect fees from franchisees but do not appoint on-site hotel managers. We have adopted a disciplined return-driven development model aimed at achieving high growth and profitability and applied consistent operational and quality standards across all of our hotels.

Our hotel network has grown rapidly. The following table sets forth the number of hotels we operated as of the dates indicated.

	As of December 31,										As of March 31,	As of June 30,
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020[1]	2020[2]
Leased and owned hotels	243	344	465	565	611	616	624	671	699	688	756	758
Manachised hotels	195	295	516	835	1,376	2,067	2,471	2,874	3,309	4,519	4,820	5,087
Franchised hotels	–	–	54	25	8	80	174	201	222	411	377	342
Total	438	639	1,035	1,425	1,995	2,763	3,269	3,746	4,230	5,618	5,953	6,187

(1) Include 67 leased hotels, 27 manachised hotels and 21 franchised hotels operated by Deutsche Hospitality.

(2) Include 68 leased hotels, 27 manachised hotels and 21 franchised hotels operated by Deutsche Hospitality.

As of March 31, 2020, our hotel network covered 5,953 hotels spanning 444 cities in 32 provinces and municipalities across the greater China region (including Taiwan) and 15 other countries, and we also had a pipeline of hotels in these countries and regions. As of March 31, 2020, we had an additional 2,375 leased and owned as well as manachised and franchised hotels under development.

The following table sets forth a summary of all of our hotels by geographic region as of March 31, 2020.

	Leased and Owned Hotels[2]	Manachised Hotels[3]	Franchised Hotels[3]	Leased and Owned Hotels Under Development[4]	Manachised and Franchised Hotels Under Development[4]
Greater China:					
Shanghai, Beijing, Guangzhou, Shenzhen and Hangzhou	243	1,151	104	15	393
Others (including Taiwan)[5]	445	3,641	253	20	1,906
Subtotal	688	4,792	357	35	2,299
Outside Greater China:					
Europe	67	14	12	28	4
Other countries[6]	1	14	8	–	9
Subtotal	68	28	20	28	13
Total	756	4,820	377	63	2,312

(1) The data in this table include hotels under governmental requisition and hotels temporarily closed following the outbreak of COVID-19. As of March 31, 2020, we had 374 hotels under governmental requisition in China, as well as 454 hotels temporarily closed (including 85 hotels of Deutsche Hospitality, which we acquired in January 2020).

(2) Include 67 leased hotels operated by Deutsche Hospitality and 689 leased and owned hotels operated by the rest of our Group.

(3) Include 48 manachised and franchised hotels operated by Deutsche Hospitality and 5,149 manachised and franchised hotels operated by the rest of our Group.

(4) Include hotels for which we have entered into binding leases, purchase agreements of land use right or property, or franchise agreements but that have not yet commenced operations. The inactive projects are excluded from this list according to management judgment.

(5) For our hotels in operation, include 439 cities across 30 provinces (including Taiwan); for our hotels under development, include 330 cities across 30 provinces (including Taiwan).

(6) For our hotels in operation, include Tunisia, Egypt, the UAE, Oman, Saudi Arabia, Singapore and Mongolia; for our hotels under development, include Qatar, Cape Verde, Thailand, Oman, the UAE, Egypt and India.

The following table sets forth the status of our hotels under development as of March 31, 2020.

	Pre-conversion Period[1]	Conversion Period[2]	Total
Leased and owned hotels	34	29	63
Manachised and franchised hotels	767	1,545	2,312
Total	801	1,574	2,375

(1) Includes hotels for which we have entered into binding leases or franchise agreements but of which the property has not been delivered by the respective lessors or property owners, as the case may be. The inactive projects are excluded from this list according to management judgment.

(2) Includes hotels for which we have commenced conversion activities but that have not yet commenced operations. The inactive projects are excluded from this list according to management judgment.

Among the 63 leased and owned hotels under development as of March 31, 2020, we had 34 leased and owned hotels during the pre-conversion period, for which we have entered into binding leases but of which the property has not been delivered by the respective lessors, and we had 29 leased and owned hotels during the conversion period, for which we have commenced conversion activities but that have not yet commenced operations. The anticipated completion dates for these leased and owned hotels during the conversion period range from April 2020 to October 2020. Total budgeted development costs for these leased and owned hotels during conversion period, which primarily include construction costs for leasehold improvement and the furniture and equipment for hotel operation, were RMB1,064 million (US$150 million), of which RMB473 million (US$67 million) was incurred as of March 31, 2020. The average development costs per square meter for completed leased and owned hotels in the three months ended March 31, 2020 were approximately RMB3,000 (US$424). The franchisees are responsible for development costs for our manachised hotels and franchised hotels.

The following table sets forth the changes in the number of our hotels for the periods indicated:

	Year ended December 31,			Three months ended March 31, 2020	
	2017	2018	2019	Legacy Huazhu[(1)]	Legacy DH[(2)]
Leased and owned hotels at the beginning of the period	624	671	699	688	66
Add:	86	53	43	10	3
Less:	(39)	(25)	(54)	(9)	(2)
At the end of the period	671	699	688	689	67
Manachised and franchised hotels at the beginning of the period	2,645	3,075	3,531	4,930	53
Add:	579	670	1,672	286	2
Less:	(149)	(214)	(273)	(67)	(7)
At the end of the period	3,075	3,531	4,930	5,149	48

(1) Legacy Huazhu in this prospectus refers to our Group excluding our newly acquired Deutsche Hospitality.

(2) Legacy DH in this prospectus refers to Deutsche Hospitality.

The reasons for hotel closures typically include property-related matters (such as rezoning and expiry of leases), hotel operation quality or results not meeting our requirements, and other commercial reasons.

In addition to hotels permanently closed as presented in the table above, due to the impact of COVID-19, we also had a large number of hotels in China temporarily closed in the first quarter of 2020. The number of these temporarily-closed hotels declined from the peak of over 2,000 hotels in February 2020 to 369 hotels as of March 31, 2020 (out of a total of 5,838 hotels as of the same date), all of which were in China. As of June 30, approximately 96% of legacy Huazhu's hotels (excluding hotels under governmental requisition) had resumed operations. During the first quarter of 2020, Chinese governmental authorities also requisitioned accumulatively 610 of our hotels in various locations for the accommodation of medical support workers and for quarantine purposes in relation to COVID-19. As of June 30, 2020, we still had 139 hotels under governmental requisition in China, compared to 374 hotels as of March 31, 2020. As COVID-19 spreads globally, the hotel operations of Deutsche Hospitality in Europe have also been adversely affected since early March 2020. Local governments in Europe imposed travel restrictions and lockdowns to contain the spread of COVID-19, and as a result, a number of our Deutsche Hospitality hotels were temporarily closed. As of June 30, 2020, 24 of the 116 hotels of Deutsche Hospitality were temporarily closed, compared to 85 hotels out of its 115 hotels as of March 31, 2020.

Leased and owned hotels

As of March 31, 2020, we had 749 leased hotels and 7 owned hotels, accounting for approximately 12.6% and 0.1%, respectively, of our hotels in operation. As of June 30, 2020, we had 751 leased hotels and 7 owned hotels, accounting for approximately 12.1% and 0.1%, respectively, of our hotels in operation. We manage and operate each aspect of these hotels and bear all of the accompanying expenses. We are responsible for recruiting, training and supervising the hotel managers and employees, paying for leases and costs associated with construction and renovation of these hotels, and purchasing all supplies and other required equipment.

Our leased hotels are located on leased properties. The terms of our leases typically range from ten to 30 years. We generally enjoy an initial two- to six-month rent-free period. For certain of our hotels (under Deutsche Hospitality), the landlords are responsible for renovating the hotels (other than soft furnishing) and we are not required to pay rent until this renovation is completed. We generally pay fixed rent on a monthly, quarterly or biannual basis for the first three to five years of the lease term, after which we are generally subject to a 3% to 5% increase on rent every three to five years or, for Deutsche Hospitality's hotels, generally annual adjustments based on consumer price index levels. Our leases usually allow extensions by mutual agreement. In addition, our lessors are typically required to notify us in advance if they intend to sell or dispose of their properties, in which case we have a right of first refusal to purchase the properties on equivalent terms and conditions. To mitigate the impact of COVID-19, we have been negotiating with landlords to reduce or delay our rental payment.

31 of our leases expired in 2019, among which 13 were renewed, three were converted to manachised and franchised hotels and 15 were terminated. As of March 31, 2020, 37 of our leases were expected to expire in 2020. Among these 37 leases, four had been renewed, four had been or were expected to be converted to manachised and franchised hotels, five had been or were expected to be terminated and the rest were subject to negotiation as of June 30, 2020. The following table sets forth the number of our leases for hotels in operation and under development that were expected to expire in the periods indicated as of March 31, 2020.

	Number of Leases
2020	37
2021	41
2022	68
2023	57
2024	63
2025-2027	183
2028-2030	147
2031 and onward	214
Total	810

Manachised and Franchised Hotels

As of March 31, 2020, we had 4,820 manachised hotels and 377 franchised hotels, accounting for approximately 81.0% and 6.3%, respectively, of our hotels in operation. As of June 30, 2020, we had 5,087 manachised hotels and 342 franchised hotels, accounting for approximately

82.2% and 5.5%, respectively, of our hotels in operation. Our franchisees lease or own their hotel properties and are responsible for the costs of developing and operating the manachised or franchised hotels, including constructing and renovating the hotels according to our standards, and all of the hotel operating expenses. We impose the same standards on all of our manachised and franchised hotels to ensure product quality and consistency across our hotel network. Our franchisees are not allowed to sub-franchise hotels under our brands to any third party. We collect fees from the franchisees of our manachised and franchised hotels and do not bear any loss incurred or otherwise share any profit realized by our franchisees. We believe that the manachise and franchise models have enabled us to quickly and effectively expand our geographical coverage and market share in a less capital-intensive manner through leveraging the local knowledge and relationships of our franchisees.

Manachised hotels

We manage our manachised hotels and impose the same standards on all manachised hotels as our other hotels to ensure product quality and consistency across our hotel network. For our manachised hotels under legacy Huazhu, our manachise agreements typically have the following terms:

Scope of service: We authorize a manchised hotel to use our relevant brand name, logo and relevant trademarks. The franchisee is responsible for the hotel's construction, renovation and maintenance. We provide guidance to the franchisee on the construction or renovation of the hotel and require the hotel to meet our standards before approving it to commence operations. We appoint and train hotel managers who are responsible for hiring hotel staff and managing daily operations of our manachised hotels. We also provide our franchisees with services such as central reservation, sales and marketing support, technology support, quality assurance inspections and other operational support and information.

Fees collected: we generally charge our franchisees an upfront franchise fee typically ranging between RMB80,000 and RMB500,000 per hotel, as well as a monthly franchise fee of approximately 3% to 6.5% of the gross revenues generated by each manachised hotel. In addition, we collect from franchisees a reservation fee (typically 8% of the room rates, subject to a cap equal to 3.5% of the hotel's gross revenue) for using our central reservation system and a membership registration fee (typically ranging from RMB15 to RMB135 per member depending on the membership level) for customers who join our H Rewards (previously known as HUAZHU Rewards) loyalty program at the manachised hotels. We also charge system maintenance and support fees and other IT service fees from our franchisees for sharing our technology infrastructure with our manachised hotels. For example, we charge our franchisees typically RMB2,500-RMB3,500 per month for sharing our "Easy" series digital system with a manachised hotel. Furthermore, we employ and appoint hotel managers for the manachised hotels and charge the franchisees a monthly management service fee depending on the brand and city tier of the manachised hotel; for example, this fee typically ranges from RMB8,000 to RMB20,000 for our economy brand manachised hotels.

Term of service: our franchise and management agreements for our manachised hotels typically run for an initial term of eight to ten years, and may be extended upon mutual agreement between us and the franchisee three months prior to the expiration of the franchise and management agreements.

Termination: we typically have the right to early terminate the franchise and management agreements immediately, if the franchisee commences operations without our approval, goes bankrupt, suspends operation for a specified period, interferes in our appointed manager's management of the hotel, or violates applicable laws and regulations that result in harm to our brand, among others. We are also entitled to terminate these agreements in case of material breaches of the agreements by the franchisee, if the franchisee fails to rectify within a grace period. In all of these circumstances, we can keep the franchise fee and franchise deposit collected and claim liquidated damages from the franchisee.

For our manachised hotels under Deutsche Hospitality, the franchisees have historically been required to pay Deutsche Hospitality a management fee consisting of a base fee of 0.5% to 3.5% of the hotel's turnover and an incentive fee of 6% to 10% of the hotel's adjusted gross operating profit. Deutsche Hospitality participates in the distribution of the manachised hotel's profit after the franchisee's guaranteed return in rare cases, and charges a marketing fee of 1.0% to 5.0% of the turnover for a few manachised hotels. General manager compensation of a manachised hotel, including salaries, social security contribution, and various benefits and bonuses, is borne by the manachised hotel. For some manachised hotels outside Germany, Deutsche Hospitality further charges a license fee of approximately 0.5% to 1% of the hotel's turnover. The term of service for our manachised hotels under Deutsche Hospitality is typically 15 to 20 years. We are gradually adapting the terms of Deutsche Hospitality's franchise and management agreements to be similar to those of our other manachised hotels.

Franchised hotels

We do not appoint hotel managers for our franchised hotels and do not manage their daily operations. We apply the same standards to our franchised hotels as our other hotels. For our franchised hotels under legacy Huazhu, the terms of the franchise agreements are subject to negotiation with individual hotel owners, while they generally have the following terms:

Scope of service: the services that we provide to franchised hotels are similar to those we provide to manachised hotels, except that we do not appoint managers and do not provide management services to the franchised hotels.

Franchise fee: we charge our franchised hotels fees on generally the same terms as our manachised hotels, except that we do not appoint hotel managers to our franchised hotels and thus do not charge these hotels a monthly management service fee.

Term of service: our franchise agreements for our franchised hotels typically run for an initial term of eight to ten years, and may be extended upon mutual agreement between us and the franchisee three months prior to the expiration of the franchise agreements.

Termination: our rights to terminate the franchise agreements for our franchised hotels are similar to those for our manachised hotels.

For our franchised hotels under Deutsche Hospitality, the franchisees have historically been required to pay Deutsche Hospitality a franchise fee of approximately 0.5% to 4.0% of the hotel's gross room revenue or turnover. Some hotels outside Germany are charged a fixed franchise fee ranging from EUR4,000 to EUR100,000 per year. Most franchised hotels are also charged a central service fee (or marketing fee in older contracts) of approximately 0.5% to 2.5% of the hotel's gross room revenue or turnover and a license fee of 1.0% to 5.0% of the hotel's turnover. The term of service for our franchised hotels under Deutsche Hospitality is typically 10 to 15 years. We are gradually adapting the terms of Deutsche Hospitality's franchise agreements to be similar to those of our other franchised hotels.

OUR BRANDS

As of the date of this prospectus, we have hotels in operation or under development under the following brands, which are designed to target distinct groups of customers:

- Economy hotel brands: *HanTing Hotel, Ni Hao Hotel, Hi Inn, Elan Hotel, Zleep Hotels* and *Ibis Hotel*;
- Midscale hotel brands: *JI Hotel, Orange Hotel, Starway Hotel* and *Ibis Styles Hotel*;
- Upper midscale hotel brands: *Crystal Orange Hotel, IntercityHotel, Manxin Hotel, Mercure Hotel, Madison Hotel* and *Novotel Hotel*; and
- Upscale hotel brands: *Joya Hotel, Blossom House, Steigenberger Hotels & Resorts, MAXX by Steigenberger, Jaz in the City* and *Grand Mercure*.

In addition to our own brands, we have also entered into brand franchise agreements with Accor and enjoyed exclusive franchise rights in respect of *Mercure Hotel*, *Ibis Hotel* and *Ibis Styles Hotel* in the PRC, Taiwan and Mongolia and non-exclusive franchise rights in respect of *Grand Mercure* and *Novotel Hotel* in the PRC, Taiwan and Mongolia. Through our acquisition of Deutsche Hospitality, we have also obtained exclusive rights to construct, operate, manage, franchise and license hotels under the *Jaz in the City* brand in China, South East Asia, Japan, South Korea and Europe subject to certain exceptions, and non-exclusive rights to operate, manage, franchise and license certain hotels under the *Jaz in the City* brand in certain other countries and regions, such as Tunisia, Cape Verde, the UAE and Egypt.

We believe that our multi-brand strategy provides us with a competitive advantage to open more hotels in attractive markets, capture a wider range of customers with evolving lodging preferences and needs, and achieve greater economies of scale through shared platforms.

Economy Hotel Brands

HanTing Hotel

Launched in 2005, *HanTing Hotel* is our economy hotel product with the value proposition of "Quality, Convenience and Value." HanTing Hotels also includes hotels we previously marketed under the name of *Hanting Premium Hotels*. These hotels are typically located in areas close to major business and commercial districts. The *HanTing Hotel* targets knowledge workers and value- and quality-conscious travelers. These hotels are equipped with complimentary wireless Internet access and laser printers, and a cafe serving breakfast and simple meals. As of June 30, 2020, we had 2,638 HanTing Hotels in operation and an additional 523 HanTing Hotels under development.

Ni Hao Hotel

Ni Hao Hotel is our economy hotel product targeting young customers. By digitalizing and standardizing independent hotels, it helps improve their operational efficiency while maintaining their individual features. Ni Hao Hotels provide clean and comfortable lodging experiences to the guests at affordable prices. As of June 30, 2020, we had 17 Ni Hao Hotels under development and did not have any Ni Hao Hotel in operation.

Hi Inn

Launched in late 2008 and originally marketed under the name of *HanTing Hi Inn, Hi* Inns target rational and price-conscious travelers. These hotels offer compact rooms with comfortable beds and shower facilities and complimentary wireless Internet access throughout the premises. These hotels provide basic and clean accommodations. As of June 30, 2020, we had 464 Hi Inns in operation and an additional 102 Hi Inns under development.

Elan Hotel

In September 2014, we launched *Elan Hotel*. *Elan Hotel* is our economy hotel product committed to improving the operating efficiency of individual micro, small- and medium-sized economy hotels. With the continuing upgrades of accommodations and services, these hotels provide high quality experience for young customers. As of June 30, 2020, we had 838 Elan Hotels in operation and an additional 417 Elan Hotels under development.

Ibis Hotel

Ibis Hotel is an economy hotel brand that is recognized across the world for its quality, reliability and commitment to the environment. It created the revolutionary bedding concept *Sweet Bed by Ibis Hotel*, and features welcoming, designer common areas and ibis kitchen, the modern food and beverage offer. As of June 30, 2020, we had 187 Ibis Hotels in operation and an additional 64 Ibis Hotels under development.

Zleep Hotels

Zleep Hotels, our economy hotel brand, is a well-known and successful hotel brand in Scandinavia offering service and design at a great rate. As of June 30, 2020, we had 13 Zleep Hotels in operation and an additional nine Zleep Hotels under development.

Midscale Hotel Brands

JI Hotel

JI Hotel is a midscale brand that we launched in 2010, typically located in city centers or central business districts. These hotels target travelers who seek a quality experience in hotel stays. JI Hotels offer rooms with quality comparable to three- to four-star rated hotels, but are priced at competitive rates. In addition, these hotels offer complimentary wireless Internet access throughout the premises, spacious lobbies with laser printers, computers, free drinks, and a cafe serving breakfast and simple meals. As of June 30, 2020, we had 926 JI Hotels in operation and an additional 478 JI Hotels under development.

Orange Hotel

Orange Hotel, previously marketed under two brand names: *Orange Hotel* and *Orange Select Hotel*, is our midscale hotel brand. These hotels are mini versions of our Crystal Orange Hotels with advanced sound-proof design. As of June 30, 2020, we had 265 Orange Hotels in operation and an additional 180 Orange Hotels under development.

Starway Hotel

Starway Hotel, our midscale brand, varies in the hotels' designs and targets middle class travelers who seek a spacious room, reasonable price and guaranteed quality. Starway Hotels offer rooms with quality comparable to three- to four-star rated hotels, but are priced at competitive rates. In addition, these hotels typically offer complimentary Internet access throughout the premises, spacious lobbies and meeting areas with complimentary tea and coffee. As of June 30, 2020, we had 392 Starway Hotels in operation and an additional 288 Starway Hotels under development.

Ibis Styles Hotel

Ibis Styles Hotel is a midscale brand that offers comfortable, designer hotels typically located in city centers or close to activity centers. The brand's distinctive all-inclusive package includes the room, all-you-can-eat breakfast buffet and broadband Internet connection, plus a host of little extras. As of June 30, 2020, we had 60 Ibis Styles Hotels in operation and an additional 30 Ibis Styles Hotels under development.

Upper Midscale Hotel Brands

Crystal Orange Hotel

Crystal Orange Hotel is our upper midscale hotel brand featuring boutique design hotels. These hotels are equipped with advanced, four-star standard facilities, including free high-speed wireless internet access, intelligent lighting system, wireless speakers and sound-proof design. As of June 30, 2020, we had 99 Crystal Orange Hotels in operation and an additional 57 Crystal Orange Hotels under development.

IntercityHotel

IntercityHotel is our upper midscale urban hotel brand targeting business travelers. The hotels of *IntercityHotel* are usually located within walking distance of train stations or airports. As of June 30, 2020, we had 42 IntercityHotels in operation and an additional 19 IntercityHotels under development.

Manxin Hotel

Manxin Hotel was launched as an upper midscale brand of resorts in October 2013, and was previously branded as *Manxin Hotel & Resorts*. Nowadays *Manxin Hotel* has become a brand with city hotels and resorts. These hotels are typically located in city centers or business districts and holiday resort areas. Manxin Hotels offer high quality rooms, intelligent service system, rich breakfast, lunch, afternoon tea, dinner and even coffee and drinks. Moreover, *Manxin Hotel* is aimed at bringing the guests a distinct experience by presenting amazing space design and offering attractive activities. Live Lively is *Manxin Hotel*'s proposition. As of June 30, 2020, we had 53 Manxin Hotels in operation and an additional 34 Manxin Hotels under development.

Mercure Hotel

Mercure Hotel is an upper midscale hotel brand that combines the strength of an international network with a strong quality commitment with the warm experiences of hotels that are rooted in their local community, targeting business and leisure travelers around the world. These hotels are typically located in city centers, by the sea or in the mountains. As of June 30, 2020, we had 80 Mercure Hotels in operation and an additional 76 Mercure Hotels under development.

Madison Hotel

We launched our new upper midscale hotel brands *Madison Hotel* and *Grand Madison Hotel* in 2019, which are committed to offering guests a classic lodging experience. In 2020, we merged the *Grand Madison Hotel* brand into the *Madison Hotel* brand. These hotels target business and leisure guests with high lodging standards and desire to understand more of the cities they are traveling in, and offer comfortable accommodations, functional furnishings and facilities, and high-quality services. As of June 30, 2020, we had 18 Madison Hotels in operation, and an additional 23 Madison Hotels under development.

Novotel Hotel

Novotel Hotel is an upper midscale brand that provides a multi-service offering for both business and leisure guests, with spacious, modular rooms, 24/7 catering offers with balanced meals, meeting rooms, attentive and proactive staff, kid areas, multi-purpose lobbies and fitness centers. These hotels are typically located at the heart of major international cities, business districts and tourist destinations. As of June 30, 2020, we had 11 Novotel Hotels in operation and an additional 11 Novotel Hotels under development.

Upscale Hotel Brands

Joya Hotel

In December 2013, we launched our upscale brand *Joya Hotel*. These hotels are typically located in areas close to major business and commercial districts in first- and second-tier cities and target affluent travelers and corporate events. *Joya Hotel* is designed for guests to enjoy all-inclusive services, including complimentary breakfast, afternoon tea, healthy snacks, mini bar free drinks, gym, automatic massage cabins and other premium services. The rooms are equipped with high-speed fiber access, full wireless coverage and Bluetooth speakers. As of June 30, 2020, we had nine Joya Hotels in operation and an additional three Joya Hotels under development.

Blossom House

Blossom House, previously branded *Blossom Hill Hotels & Resorts*, is our upscale lifestyle and resort band targeting affluent travelers. Most of Blossom House hotels are located near typical scenic spots. As of June 30, 2020, we have 25 Blossom House hotels in operation and an additional 24 Blossom House hotels under development.

Steigenberger Hotels & Resorts

Steigenberger Hotels & Resorts is our upscale lifestyle and resort brand targeting affluent travelers. The *Steigenberger Hotels & Resorts* hotels are typically located in historic traditional buildings and lively city residences, and offer health and beauty oases set at the very heart of nature. As of June 30, 2020, we had 50 Steigenberger Hotels & Resorts in operation and an additional eight Steigenberger Hotels & Resorts under development.

MAXX by Steigenberger

MAXX by Steigenberger, our upscale conversion hotel brand, is a new, charismatic concept and focuses on creating a warm, feel-good atmosphere in all destinations. As of June 30, 2020, we had five MAXX by Steigenberger hotels in operation and one MAXX by Steigenberger hotel under development.

Jaz in the City

Jaz in the City is our upscale lifestyle brand. *Jaz in the City* branded hotels reflect metropolitan lifestyle and draw upon the local music and cultural scene. As of June 30, 2020, we have two Jaz in the City hotels in operation and an additional two Jaz in the City hotels under development.

Grand Mercure

Grand Mercure is a brand that offers an upscale network of hotels and apartments that combine local culture with world-class services. With hotels that are uniquely adapted to each market, the brand helps guests "discover a new authentic." As of June 30, 2020, we had six Grand Mercure Hotels in operation and an additional eight Grand Mercure Hotels under development.

The following table sets forth a summary of the number of hotels for all of our hotel brands by geographic region as of June 30, 2020.

	Hotels in operation			Hotels under development		
	Greater China (including Taiwan)	Europe	Other countries	Greater China (including Taiwan)	Europe	Other countries
Economy hotels	**4,127**	**13**	**–**	**1,123**	**9**	**–**
HanTing Hotel	2,638	–	–	523	–	–
Hi Inn	464	–	–	102	–	–
Ni Hao Hotel	–	–	–	17	–	–
Elan Hotel	838	–	–	417	–	–
Ibis Hotel	187	–	–	64	–	–
Zleep Hotel	–	13	–	–	9	–
Midscale and upscale hotels	**1,943**	**81**	**23**	**1,212**	**22**	**9**
Ibis Styles Hotel	59	–	1	30	–	–
Starway Hotel	392	–	–	288	–	–
JI Hotel	925	–	1	478	–	–
Orange Hotel	265	–	–	180	–	–
Crystal Orange Hotel	99	–	–	57	–	–
Manxin Hotel	53	–	–	34	–	–
Madison Hotel	18	–	–	23	–	–
Mercure Hotel	80	–	–	76	–	–
Novotel Hotel	11	–	–	11	–	–
Joya Hotel	9	–	–	3	–	–
Blossom House	25	–	–	24	–	–
Grand Mercure Hotel	6	–	–	8	–	–
Steigenberger Hotels & Resorts	–	35	15	–	3	5
IntercityHotel	1	38	3	–	17	2
Maxx by Steigenberger	–	5	–	–	1	–
Jaz in the City	–	2	–	–	1	1
Other partner hotels[(1)]	–	1	3	–	–	1
Total	**6,070**	**94**	**23**	**2,335**	**31**	**9**

(1) Refer to hotels that Deutsche Hospitality manages for third parties not under our hotel brands.

HOTEL DEVELOPMENT

We mainly use the manachise and franchise models to expand our network in a less capital-intensive manner. We also lease the properties of the hotels we operate. Other than the properties we acquired as part of our strategic alliance with Accor in 2016, and from our acquisition of Blossom Hotel Management, we typically do not acquire properties ourselves,

as owning properties is generally much more capital intensive. We have adopted a systematic process with respect to the planning and execution of new development projects. Our development department analyzes economic data by city, field visit reports and market intelligence information to identify target locations in each city and form a three-year development plan for new hotels on a regular basis. The plan is subsequently reviewed and approved by our investment committee. Once a property is identified in the targeted location, staff in our development department analyzes the business terms and formulates a proposal for the project. In the case of a lease opportunity, the investment committee evaluates each proposed project based on several factors, including the length of the investment payback period, the rate of return on the investment, the amount of net cash flow projected during the operating period and the impact on our existing hotels in the vicinity. When evaluating potential manachising and franchising opportunities, the investment committee considers the attractiveness of the location as well as additional factors such as quality of the prospective franchisee and product consistency with our standards. Our investment committee weighs each investment proposal carefully to ensure that we can effectively expand our coverage while concurrently improving our profitability.

The following is a description of our hotel development process.

Leased and owned hotels

We seek properties that are in central or highly accessible locations in economically more developed cities in order to maximize the room rates that we can charge. In addition, we typically seek properties that will accommodate 80 to 300 hotel rooms.

After identifying a proposed site, we conduct thorough due diligence and typically negotiate leases concurrently with the lessors. All leases and development plans are subject to the final approval of our investment committee. Once a lease agreement has been executed, we then engage independent design firms and construction companies to begin work on leasehold improvement. Our construction management team works closely with these firms on planning and architectural design. Our contracts with construction companies typically contain warranties for quality and requirements for timely completion of construction. Contractors or suppliers are typically required to compensate us in the event of delays or poor work quality. A majority of the construction materials and supplies used in the construction of our new hotels are purchased by us through a centralized procurement system.

Manachised and franchised hotels

We open manachised and franchised hotels to expand our geographical coverage or to further penetrate in our existing markets. Manachised and franchised hotels provide us valuable operating information in assessing the attractiveness of new markets, and supplement our coverage in areas where the potential franchisees can have access to attractive locations by leveraging their own assets and local network. As is the case with leased and owned hotels, we generally look to establish manachised and franchised hotels near popular commercial and office districts that tend to generate stronger demand for hotel accommodations. Manachised and franchised hotels must also meet specified criteria in connection with the infrastructure of the building, such as adequate water, electricity and sewage systems.

We typically source potential franchisees through word-of-mouth referrals, applications submitted via our website and industry conferences. We have a department responsible for franchisee sourcing. Once a candidate is spotted, the proposal will be reviewed and reported level by level, and needs to be final approved by a committee at group level. Three months

before termination of the franchisee agreement, we will re-assess the franchisee and determine whether he/she is qualified for agreement renewal. Some of our franchisees operate several of our manachised and franchised hotels. In general, we seek franchisees who share our values and management philosophies.

We typically supervise the franchisees in designing and renovating their properties pursuant to the same standards required for our leased and owned hotels, and provide assistance as required. We also provide technical expertise and recommend pre-selected qualified suppliers to our franchisees. In addition, we appoint or train hotel managers and help train other hotel staff for our manachised hotels to ensure that high quality and consistent services are provided throughout all our hotels.

HOTEL MANAGEMENT

Our management team has accumulated significant experience with respect to the operation of hotels. Building on this experience, our management team has developed a robust operational platform for our nationwide operations, implemented a rigorous budgeting process, and utilized our real-time information systems to monitor our hotel performance. We believe these systems are critical in maximizing our revenues and profitability. The following are some of the key components of our hotel management infrastructure:

Budgeting. Our budget and analysis team prepares a detailed annual cost and revenue budget for each of our leased and owned hotels, and an annual revenue budget for each of our manachised and franchised hotels. The hotel budget is prepared based on, among other things, the historical operating performance of each hotel, the performance of comparable hotels and local market conditions. We may adjust the budget upon the occurrence of unexpected events that significantly affect a specific hotel's operating performance. In addition, our compensation scheme for managers in each hotel is directly linked to its performance against the annual budget.

Pricing. The room rates of our leased and owned hotels as well as manachised hotels are determined using a centralized RMS. We adjust room rates regularly based on seasonality and market demand. We also adjust room rates for certain events, such as the China Import and Export Fair held twice a year in Guangzhou and the World Expo in Shanghai in 2010. Room rates for our franchised hotels are determined by the franchisees based on local market conditions.

Monitoring. Through our cloud-based property management system, we are able to monitor each hotel's occupancy status, average daily room rates, RevPAR and other operating data on a real-time basis. Real-time hotel operating information allows us to adjust our sales efforts and other resources to rapidly capitalize on changes in the market and to maximize operating efficiency.

Centralized cash management. Our leased and owned hotels deposit cash into our central account several times a week. We also generally centralize all payments for expenditures. Our manachised and franchised hotels manage their cash separately.

Centralized procurement. We have implemented a centralized procurement system to cope with our large procurement requirements. Given the scale of our hotel network and our centralized procurement system, we have the purchasing power to secure favorable terms from suppliers for all of our hotels.

Quality assurance. We have formed detailed brand standards on hotel facilities and interior decoration for us and our franchisees to follow. We have also developed an operating manual to which our staff closely adhere to ensure the consistency and quality of our customer experience. We conduct periodic internal quality checks of our hotels to ensure that our operating policies and procedures are followed. We also engage "mystery guests" from time to time to ensure that we are providing consistent quality services. Furthermore, we actively solicit customer feedback by conducting outbound e-mail surveys and monitor comments posted on our website and third-party websites.

Training. We view the quality and skill sets of our employees as essential to our business and thus have made employee training one of our top priorities. Our HuaZhu University, previously known as HanTing College, together with our regional management teams, offers structured training programs for our hotel managers, other hotel-based staff and corporate staff. Our hotel managers are required to attend a three-week intensive training program, covering topics such as our corporate culture, team management, sales and marketing, customer service, hotel operation standards and financial and human resource management. A substantial number of our hotel managers have received training completion certificates. Our HuaZhu University has prepared a new-hire training package to standardize the training for hotel-based staff across our hotel group. In addition, we provide our corporate staff with various training programs, such as managerial skills, office software skills and corporate culture. In 2019, our hotel-based staff and corporate staff on average received approximately 60 and 48 hours of training, respectively.

TECHNOLOGY INFRASTRUCTURE AND DIGITALIZATION

We have successfully developed and implemented an advanced proprietary and scalable group-level technology infrastructure, as well as a complete suite of hotel-level digital transformation initiatives. They cover our hotel operations by leveraging advanced technologies such as algorithms, big data analytics, data mining, AI, machine learning and IoT. These facilities enable us to improve the efficiency of our operations, make timely decisions and enhance our profitability.

Following our acquisition of Deutsche Hospitality, we rolled out a 500-day IT integration plan to empower the digitalization of Deutsche Hospitality and will ultimately deploy our in-house developed applications to Deutsche Hospitality to improve its operational efficiency and enrich its customer experiences. As part of the integration plan, we also extended our H Rewards loyalty program to Deutsche Hospitality's hotels in July 2020.

The following discusses certain key aspects of our technology infrastructure as well as our digitalization initiatives:

Technology Infrastructure

Customer relationship management system (CRM). Our integrated CRM system maintains information of our H Rewards members, including their reservation and consumption history and pattern, points accumulated and redeemed, and prepayment and balance. By closely tracking and monitoring member information and behavior, we are able to better serve the members of our loyalty program and offer targeted promotions to enhance customer loyalty. The CRM system also allows us to monitor the performance of our corporate client sales representatives.

Central reservation system (CRS). We have an around-the-clock, real-time central reservation system available 24 hours a day, seven days a week. Our central reservation system allows reservations through multiple channels including our website, mobile apps, call center, third-party travel agents and online reservation partners. The real-time inventory management capability of the system improves the efficiency of reservations, enhances customer satisfaction and maximizes our profitability. In 2019, 55.0% of our room-nights were sold through our CRS. Such a high percentage of booking through our CRS not only enables us to achieve higher efficiency and profitability compared to hotels that rely heavily on travel intermediaries, but also allows us to earn a CRS usage fee from, and maintain better control over, our manachised and franchised hotels.

Centralized revenue management system (RMS). Our RMS is the first and only in-house developed, large scale, fully automated RMS in China's hotel industry, according to Frost & Sullivan. Powered by in-house developed algorithms and AI, our RMS automatically adjusts room rates of all hotels within our hotel network (including directly operated hotels, manachised hotels and franchised hotels) in a centralized manner at the group level or the business unit level, based on the historical operating performance of each hotel, our competitors' room rates and local market conditions within minutes, effectively optimizing the hotel's average daily room rates and occupancy levels. We believe our centralized pricing system enhances our ability to adjust room rates in a timely fashion with a goal of optimizing average daily room rates and occupancy levels across our network.

Centralized procurement system (CPS). Leveraging Internet of Things ("**IoT**") technology, our CPS is one of the first and is the largest centralized procurement systems in China's lodging industry in terms of total purchase in 2019, according to Frost & Sullivan. Our CPS has enabled us to efficiently manage our operating costs, especially with respect to supplies used in large quantities, and allows all hotels across our network to make bulk purchases of over 15,000 SKUs of hotel supplies from over 600 suppliers at the same time. The total purchase made through this platform in 2019 was approximately RMB4 billion.

Digitalization Initiatives

Cloud-based property management system (Cloud-PMS). A property management system, or PMS, is a hotel management software suite that hotel managers and front desk staff use to manage every hotel's daily business operations. Our Cloud-PMS is a cloud-based, hotel-level application that is empowered by, and seamlessly integrated with, our centralized technology infrastructure (which is comprised of our RMS and other group-level modules). Unlike onsite-PMSs which require significant upfront hardware investment and are costly and time-consuming to upgrade, our cloud-based PMS is highly scalable and enables the simultaneous launch of new services across all of our hotels. This system enables each hotel within our network to efficiently and cost-effectively manage its room inventory, reservations and pricing on its own on a real-time basis through an Internet browser, which in turn optimizes each hotel's occupancy rate, average daily room rates and revenues generated per available room, or RevPAR. The system is designed to enable us to enhance our profitability and compete more effectively by integrating with our CRS and CRM. We believe our Cloud-PMS has enabled our management to more effectively assess the performance of our hotels on a timely basis and to efficiently allocate resources and effectively identify specific market and sales targets.

"Easy" series. We have implemented an "Easy" series digital system to improve our hotel's operating efficiency. For example, our "Easy House Keeping" digital system, which is the first of its kind in the industry according to Frost & Sullivan, streamlines and digitizes various hotel housekeeping processes, including room cleaning, room status update and maintenance, which

in turn reduces the time between check-out and check-in of a hotel room, increasing hotel room turnover efficiency. This system features an in-house developed, designated mobile application which automatically assigns cleaning or maintenance staff to a room that requires cleaning or repairs. In addition, our "Easy Invoicing" digital system greatly simplifies the check-out process for business travelers.

Self-check-in/out kiosks. Our user-friendly, patented self-check-in/out kiosks, featuring advanced technologies such as facial recognition, offer a completely automated replacement of the standard check-in/out services. As of June 30, 2020, over 2,200 of our hotels had been equipped with self-check-in/out kiosks, which is the largest in China, according to Frost & Sullivan.

Digital payment initiatives. We currently offer a variety of convenient digital payment options for our hotel guests, including online credit card payment, Alipay, WeChat Pay and Apple Pay. In 2019, 55.0% of our room-nights were paid using online payment.

Smart robots. We are one of the first hotel groups in China that have achieved large-scale deployment of smart robots, according to Frost & Sullivan. As of June 30, 2020, over 330 of the our hotels were equipped with smart robots. These AI-powered smart robots, which we co-developed with a third-party technology company, can travel the entire hotel to make deliveries of snacks, toiletries and other hotel amenities, greet guests and lead them to their rooms, improving both the hotel's operating efficiency and guest experience.

AI assistant. Our intelligent AI assistant, which we co-developed with a well-known third-party intelligent speech and AI service provider, is the first AI assistant in China's hotel industry. Embedded in our mobile apps, our intelligent AI assistant can engage in conversation with hotel guests and answer their queries, thereby enhancing guest experience.

Smart rooms. A number of other smart features of our hotel rooms also help enhance the quality of guests' stay. For example, one of our AI initiatives, "Hello Huazhu," also enables voice control of room facilities such as lights, TV, air-conditioning and window shades.

Complimentary Wi-Fi. We were one of the first in China to offer complimentary Wi-Fi to all hotel guests in 2013, according to Frost & Sullivan. This initiative has greatly contributed to the growth of our customer base and has become mainstream in the industry.

Leveraging China's largest membership base, robust technology infrastructure and digital transformation capabilities across the entire customer lifecycle, we are able to provide our group- and hotel-level capabilities covering every key aspect of hotel operation to every new hotel in our network, and even third parties, in an efficient and cost-effective manner. In 2017, we launched our self-developed SaaS and IT offerings, H-WORLD, which can be sold as standardized or tailored SaaS and IT solutions catering to industry participants' varying property management needs and requirements. These solutions provide other hotel groups, real estate companies and service apartment providers with core property operating capabilities efficiently and cost-effectively at both the group (such as CRM and CRS systems) and hotel (such as self-check-in/out) levels. We are the first and only hotel group worldwide that offers self-developed SaaS and IT solutions to other industry participants, according to Frost & Sullivan. To date, we have primarily offered tailored IT solutions to other hotel groups in China. As of June 30, 2020, H-WORLD had over 120 corporate customers.

PRIVACY AND DATA SECURITY

We place a strong emphasis on data security. We have established an information security committee, which focuses on ensuring the security of customer data and preventing data leakage by formulating policies and procedures and providing us with data protection related guidance. We also have a dedicated information security center equipped with personnel specialized in data security, compliance and risk management. This center is involved in key aspects of our business operations and provides other departments with professional data security and risk management services.

We have in place extensive policies, processes, network architecture, and software to protect customer data. Our major systems, including those regarding property management, customer relationship management, as well as our website and mobile apps, have passed the Level III information security protection assessment conducted by the China National Accreditation Service for Conformity Assessment. Our payment system has passed the payment card industry ("**PCI**") data security standard ("**DSS**") requirements and security assessment procedures assessment. In addition, we collaborate with renowned consulting companies to strengthen the infrastructure of our information technologies and systems and to ensure compliance with data protection laws and regulations in the EU and China, such as the EU's GDPR (as complemented by the German Federal Data Protection Act).

We collect personal information of our guests customarily required for their hotel booking, check-ins and check-outs, including their names, ID numbers, mobile phone numbers and email addresses. All of the guests' personal information is classified as the most confidential data in our data security system. We have implemented stringent protocols to keep these data strictly confidential. We generally prohibit the storage of these data on movable devices and, if storage on a movable device is necessary, we encrypt the data and require the designated staff to personally safeguard the device and remove the data from the device after the use. Access to these data must be for justifiable business purposes, requires approval from the data security officer of our information security center, head of the department where the data is generated, responsible officer of the data, and head of the department requesting for access to the data, and will be recorded in our system. Printing and copying of these data can only be done to the extent necessary and by the data's responsible officer, and copies of the data must be returned to the department providing the data for destruction after the authorized use. Where the data are asked for by persons who are not our employees, (i) a guest's own data will be provided to such guest and other than this, no data will be provided to any other individual, (ii) relevant data will be provided to a company that we have business cooperation with to the extent that such data disclosure has been consented to by the customers in advance, and only minimum necessary data will be provided to such company in accordance with applicable laws and regulations, and (iii) relevant data will be provided to competent governmental authorities to the extent required by them in accordance with applicable laws, regulations and procedures and after we confirm the authorization and the relevant officials' identities and report to the relevant governmental authorities. Our manachised and franchised hotels use our operation systems to collect the guests' data, and the data are then stored on our servers alone. Only authorized staff of our manachised and franchised hotels can read and record the data, and our systems keep records of their access to the data. We have also implemented measures restricting data access and prohibiting data exporting for those hotels. In addition, our information security center has issued an information security manual and staff information security guidelines for our staff and staff of our manachised and franchised hotels to follow.

We have a dedicated team of professionals who conduct regular security testing on our systems and address system errors and bugs; and a dedicated maintenance team for the maintenance of our systems, servers and databases. We also collaborate with renowned information security companies regarding 24/7 system monitoring, emergency response, and other expert consultation, to further strengthen our data security.

SALES AND MARKETING

Our marketing strategy is designed to enhance our brand recognition and customer loyalty. Building and differentiating the brand image of each of our hotel products is critical to increasing our brand recognition. We focus on targeting the distinct guest segments that each of our hotel products serves and adopting effective marketing measures based on thorough analysis and application of data and analytics. In 2019, approximately 85% of our room-nights were sold through our own sales channels and the remaining 15% of our room-nights through intermediaries.

We use our RMS and Cloud-PMS system to conduct pricing management for all of our hotels except for our franchised hotels. We review our hotel pricing regularly and adjust room rates as needed based on local market conditions and the specific location of each hotel, focusing mainly on three factors: (i) optimum occupancy rate of the hotel and our other hotels nearby, (ii) seasonal demand for the hotel and (iii) event-driven demand for the hotel.

A key component of our marketing efforts is the H Rewards, our loyalty program, which covers all of our brands. We believe the H Rewards loyalty program allows us to build customer loyalty and conduct lower-cost, targeted marketing campaigns. As of December 31, 2019, our H Rewards had more than 153 million members, which was the largest hotel loyalty program in China according to Frost & Sullivan. In 2019, approximately 76% of our room-nights were sold to our H Rewards members, the highest percentage of room-nights sold to loyalty program members among top ten largest hotel groups globally in terms of room number as of December 31, 2019, according to Frost & Sullivan. Leveraging our technology infrastructure, we are able to optimize our internal operations at various levels to better serve our H Rewards members. As a result, our hotels have achieved exceptionally high customer satisfaction: according to the F&S Survey, 98.7% of the respondents would like to stay at our hotels again and 95.0% of the respondents would recommend our hotels to their friends.

We provide our H Rewards members and the general public with convenient, friendly and updated services through our Internet service system consisting of our website (**www.huazhu.com**), our mobile website (**m.huazhu.com**), our mobile apps for smart phones running iOS, Android or other systems, and our WeChat mini program. The system provides information and search services for our hotels, such as location, amenities and pricing, reservation services, online payment and online room selection functions, membership registration and management and member community services. H Rewards' mobile application had approximately 53 million accumulated downloads as of June 30, 2020. As of December 31, 2019, H Rewards' WeChat mini program had approximately 26 million users.

Members of the H Rewards are provided with discounts on room rates, free breakfasts (for gold and platinum members), more convenient check-out procedures and other benefits. H Rewards members can also accumulate points through stays in our hotels or by purchasing products and services provided at our hotels. These points can be used to offset the room charges in our hotels, buy products in Hua Zhu mall, book transportations and tickets through our platform or be redeemed for various coupons. H Rewards is the first loyalty program in China that is able to offer its members convenient online selection of any hotel room of any floor from any hotel within its network, and is one of the first loyalty programs in China that offers its members the

flexibility to pay for their rooms with a combination of cash and H Rewards points, according to Frost & Sullivan. Our members can top-up their individual account. We also have joint promotional programs with leading financial institutions and airlines to recruit new members for our loyalty program.

Our H Rewards loyalty program is capable of processing a massive amount of member behavioral data from various online and offline data sources in a short period of time and presenting a 360 degree profile for each member. H Rewards was the first loyalty program in China's lodging industry to use the semantic technology to analyze member feedbacks across various online channels, according to Frost & Sullivan. It enables us to optimize our internal operations to offer personalized services and targeted promotions to meet the varying preferences and needs of H Rewards members and in turn further enhance our members' loyalty.

The H Rewards includes five levels of membership: star, silver, rose gold, gold and platinum. Star membership is the entry level and can be obtained from online registration for free. We charge RMB49 as the one-time membership fee for the silver membership. The one-time membership fee for the gold membership is RMB120 to RMB219, based on the member's existing level of membership. Individual members, who are employees of our corporate members and have lower membership level than their corporate membership card, can update their membership level to their corporate membership card level by binding their respective corporate membership cards. Rose gold membership is also available for employees of the corporate members of the H Rewards and can be obtained by binding their respective corporate membership cards. Memberships can be upgraded to the next level or renewed upon the satisfaction of certain conditions. H Rewards was previously known as HanTing Club and HuaZhu Club. As part of our plan of integrating Deutsche Hospitality, we also extended our H Rewards loyalty program to Deutsche Hospitality's hotels in July 2020.

We have also established dedicated corporate-customer development teams, including our KA team and regional sales teams, covering various provinces and regions in China and have established business-to-business technology based direct system connections with many corporate customers, enabling the connection of the customers' office automation systems with our central reservation system.

In addition, our marketing activities also include internet advertising, press and sponsored activities held jointly with our corporate partners and advertisements in travel and business magazines.

COMPETITION

The hotel industry in China is highly fragmented. A significant majority of the room supply has come from independent hotels, guest houses and other lodging facilities. In recent years, hotel groups emerged and began to consolidate the market by converting independent hotels into hotel chains. As a multi-brand hotel group, we believe that we compete primarily based on location, room rates, brand recognition, quality of accommodations, geographic coverage, service quality, range of services, guest amenities and convenience of the central reservation system. We primarily compete with other hotel chains as well as various independent hotels in each of the markets in which we operate, including Chinese hotel groups such as BTG Homeinns and Jinjiang, as well as international hotel groups such as Marriott, Intercontinental, Accor and OYO. We also face competition from Airbnb and service apartments.

RESEARCH AND DEVELOPMENT

Our technology innovation and business modernization is driven by our significant investment in research and development ("**R&D**") activities and personnel over the years.

We had an R&D team of 407 personnel as of March, 31 2020. Among these personnel, approximately 77.6% have a bachelor's degree or above, and approximately 66.6% have at least five years' of experience in the IT and technology industry. We also engage a small number of outsourced R&D personnel to supplement our R&D efforts on an as needed basis.

As our R&D efforts continue, our R&D expenses (including primarily staff costs, as well as capital expenditures related to purchase of IT equipment and software) increased from RMB79.8 million in 2017 to RMB101.4 million in 2018 and further to RMB174.2 million in 2019. Our R&D expenses were RMB6.9 million (US$1.0 million) in the three months ended March 31, 2020.

INTELLECTUAL PROPERTY

We regard our trademarks, copyrights, domain names, trade secrets and other intellectual property rights as critical to our business. We rely on a combination of copyright and trademark law, trade secret protection and confidentiality agreements with our employees, lecturers, business partners and others, to protect our intellectual property rights. In particular, we protect our intellectual properties, including trademarks for our brand names, primarily through the following measures: (i) we timely apply for registration of trademarks we use and a broad range of defensive trademarks for each of our brands in jurisdictions where we operate as well as in other targeted markets, (ii) we engage intellectual property service agencies to monitor third-party trademark applications and timely challenge their applications that could adversely affect our trademarks, and (iii) we continuously monitor third parties' infringements of our intellectual property rights, including our brand names and trademarks, and file claims with market regulation authorities and bring intellectual property infringement lawsuits to protect our rights.

As of June 30, 2020, we registered 834 trademarks and logos with the China Trademark Office. The trademarks and logos used in our current hotels are under protection of the registered trademarks and logos. As of June 30, 2020, an additional 223 trademark applications were under review by the authorities. As of the same date, we also registered 758 trademarks and filed 272 trademark applications outside China. As of June 30, 2020, we received 13 patents; another 7 patents were applied and under review by relevant PRC authority. We also received copyright registration certificates for 120 software programs developed by us as of June 30, 2020. In addition, we registered 795 national and international top-level domain names, including www.huazhu.com, as of June 30, 2020. Our intellectual property is subject to risks of theft and other unauthorized use, and our ability to protect our intellectual property from unauthorized use is limited. In addition, we may be subject to claims that we have infringed the intellectual property rights of others. See "Risk Factors—Risks Related to Our Business—Failure to protect our trade names and trademarks as well as other intellectual property rights could have a negative impact on our brands and adversely affect our business."

PROPERTIES

Our headquarters are located in Shanghai, China and occupy nearly 20,000 square meters of office space, about 1,500 square meters of which is owned by us and the rest is leased.

Property Valuation

D&P China (HK) Limited, an independent property valuer, has valued ten of our owned properties as at June 30, 2020. For the valuation report of our owned properties, please refer to "Appendix III—Property Valuation Report."

No single owned or leased property interest of our Group (which all form part of non-property activities) has a carrying amount of 15% or above of our total assets as of March 31, 2020. The carrying amount of the value of the most valuable single property interest is approximately RMB680 million, accounting for 1.1% of our total assets as of March 31, 2020.

Owned Properties

As of June 30, 2020, we owned a total of ten properties, with eight properties (including one property under construction) for hotel operations, and two properties (including one property under construction) for headquarters. The gross floor area of owned properties range from 1,572 square meters to 84,115 square meters. All our owned properties are located in the PRC.

Leased Properties

As of June 30, 2020, we had leased a total of 782 properties, with 758 properties for hotel operations and 24 properties for other uses, such as headquarters and office premises. The gross floor area of our leased properties range from approximately 15 square meters to 50,612 square meters. A small portion of these properties have been subleased to third parties mainly for ancillary services (such as convenient stores, retail shops, spa and wellness centers, and restaurants). Our leased properties are located primarily in Austria, Belgium, Germany, Hong Kong, Japan, Netherlands, the PRC, Singapore, Switzerland, Taiwan, Tunisia and United Arab Emirates.

INSURANCE

We believe that our hotels are covered by adequate property and liability insurance policies with coverage features and insured limits that we believe are customary for similar companies in China. We also require our franchisees to carry adequate property and liability insurance policies. We carry property insurance that covers the assets that we own at our hotels. Although we require our franchisees to purchase customary insurance policies, we cannot guarantee that they will adhere to such requirements. If we were held liable for amounts and claims exceeding the limits of our insurance coverage or outside the scope of our insurance coverage, our business, results of operations and financial condition may be materially and adversely affected. See "Risk Factors—Risks Related to Our Business—Our limited insurance coverage may expose us to losses, which may have a material adverse effect on our reputation, business, financial condition and results of operations."

LEGAL AND ADMINISTRATIVE PROCEEDINGS

In the ordinary course of our business, we, our Directors, management and employees may be subject to periodic legal or administrative proceedings. Although we cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against us, our Directors, management and employees, we do not believe that any currently pending legal or administrative proceeding to which we, our Directors, management or employees are a party will have a material adverse effect on our business or reputation. See "Risk Factors—Risks Related to Our Business—We, our Directors, management and employees may be subject to certain risks related to legal proceedings filed by or against us, and adverse results may harm our business."

In October 2018, a proposed class action complaint was filed with the United States District Court in the Central District of California against us and our management alleging violations of the U.S. securities laws in relation to a possible data breach in August 2018. This case was voluntarily dismissed by the plaintiffs on February 27, 2019.

As of the Latest Practicable Date, we had some pending legal, administrative and arbitration proceedings, including property and equipment lease terminations and disputes, management agreement disputes, business acquisition and investment related disputes, construction contract disputes, insurance claim disputes and share transfer agreement disputes. As of March 31, 2020, our accrued contingencies that remained was RMB20 million (US$3 million).

CUSTOMERS AND SUPPLIERS

Our customers are primarily franchisees, corporate customers and guests at our hotels. For each of the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, our five largest customers in aggregate accounted for less than 30% of our net revenues.

Our suppliers are primarily lessors and vendors that provide hotel supplies such as food and beverages and bath products. For each of the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, our top five suppliers in aggregate accounted for less than 30% of our purchases.

EMPLOYEES

We had 13,525, 15,699, 18,352 and 27,174 employees as of December 31, 2017, 2018 and 2019 and March 31, 2020, respectively. As of March 31, 2020, a vast majority of our employees were based in the PRC, with the rest in Europe and other jurisdictions.

The following table sets out the breakdown of our full-time employees by function as of March 31, 2020:

Functions	Number of Employees
Hotel Management and Administration	6,985
Sales and Marketing	1,008
Hotel Services Staff	18,045
Information, Engineering and Technology	695
Finance and Audit	441
Total	27,174

We recruit staff according to our business needs through various methods, including using headhunters for senior management positions. We recruit our hotel managers externally, as well as foster and promote our staff to become hotel managers. In addition to on-the-job training, such as offered by our Huazhu University, we also provide our employees with internal mobility opportunities to work for other brands or in other cities. In accordance with PRC laws, we make social security and housing fund contributions for our employees in China. We also provide performance-based remuneration, bonus, share-based compensation, and other benefits to our employees. Some of our employees are represented by unions, with a variety of collective bargaining agreements in place. Generally, we consider the relationships between us and the unions that represent our employees to be respectful. We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes.

HEALTH, OCCUPATIONAL SAFETY AND ENVIRONMENTAL IMPACT

Our operations are subject to regulation and periodic monitoring by local work safety authorities. If we fail to comply with present or future laws and regulations, we would be subject to fines, suspension of business or cessation of operations. As such, we emphasize occupational health and safety and have established work safety policies and procedures to ensure that our operations are in compliance with applicable safety laws and regulations. During the Track Record Period and up to the Latest Practicable Date, none of our employees had been involved in any major workplace accident in the course of their employment, and we had not been subject to any material disciplinary actions with respect to labor protection issues.

We are committed to reducing our environmental footprint through various energy saving initiatives. For example, some of our hotels use LED lights and are equipped with eco-friendly air source heat pump systems and solar energy systems. We also encourage customers staying for more than one night to reuse towels and bed sheets.

In addition, we have established an online energy consumption management system to timely and accurately track our hotels' energy consumption, including electricity, water and gas consumption. This system helps us monitor the consumption level and cost per room-night and detect abnormal energy usage patterns. By analyzing data collected by this system, we are able to come up with energy-saving solutions and improve the overall energy efficiency of our hotels. In order to improve product performance and reduce environmental impact, we have also been upgrading the disposable items used in our hotels (such as slippers, toothbrushes, combs and paper cups) to environmentally friendly ones.

We believe that our operations do not produce material industrial waste and have a relatively limited impact on the environment compared to companies that directly engage in production. During the Track Record Period and up to the Latest Practicable Date, we were not subject to any administrative penalty for violating the applicable PRC or other environmental laws and regulations that are material to our Group.

COMPLIANCE WITH LAWS AND REGULATIONS

We require our employees to follow our employee manual and code of business conduct and ethics. We also carry out regular on-the-job compliance training to our management and employees to maintain a healthy corporate culture and enhance their compliance perception and responsibility. Our legal advisors are not aware of any non-compliance incidents of our Major Subsidiaries during the Track Record Period and up to the Latest Practicable Date that would, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations. As of the Latest Practicable Date, our Major Subsidiaries had obtained all material licenses, approvals and permits necessary from competent regulatory authorities for our business operations in the jurisdictions in which we operate. We renew all such permits and licenses from time to time to comply with the relevant laws and regulations. As of the Latest Practicable Date, we were not aware of any facts that will prevent us from renewing permits or licenses material to our Group.

RISK MANAGEMENT AND INTERNAL CONTROLS

We have adopted risk management and internal control policies and procedures designed to provide reasonable assurance for achieving our business objectives, including efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our risk management and internal control system include the following:

Board of Directors, Audit Committee and Internal Audit. Our Board of Directors and Audit Committee are responsible for our overall risk management and internal controls. We also maintain an internal control and internal audit department, which is responsible for reviewing the effectiveness of our internal controls and submits internal audit reports to our Board of Directors and Audit Committee annually. Our internal audit department, with the help of our business division managers, prepares and updates questionnaires for our various business departments to conduct self-assessment of internal control and risk management each year, and our internal audit department will follow up with the business personnel to timely rectify any deficiencies so identified.

Compliance advisor. We have appointed China Everbright Capital Limited as our compliance advisor upon the Listing to advise us on compliance with the Listing Rules.

Regulatory compliance. We have adopted and implemented various internal control and risk management policies, including insider trading, whistleblowing, related party transaction, anti-corruption, anti-money laundering and sanctions related policies, as well as code of

business conduct and ethics. We provide regular training to our employees on these policies. We also engage outside counsel to provide training to our legal department and other senior personnel from time to time to keep them abreast of recent regulatory developments.

Licenses and approvals. We maintain policies to ensure that we and our hotels have required licenses and approvals in place. Our legal department reviews the licenses obtained before we open new hotels, and our internal control department conducts annual reviews to monitor the status and effectiveness of those licenses and approvals. We also regularly review and update all policies and measures related to licenses and approvals of hotel operations.

Data security. We have adopted measures to protect our customer data and other confidential information. In particular, we have established an information security committee to formulate data protection-related policies and procedures. We also have a dedicated information security center, a dedicated team of IT professionals and a dedicated maintenance team to carry out our data and system related risk management. In addition to other renowned information security companies, we have collaborated with consulting companies to ensure our compliance with the GDPR. We collect personal information of our guests customarily required for their hotel booking, check-ins and check-outs, and take strict measures to keep these data's confidentiality.

Investment committee. We have established an investment committee consisting of our chairman and chief executive officer, chief financial officer, president, and our vice president in charge of our strategic investment and capital markets department. Our investment committee is responsible for reviewing and approving investment proposals made by our strategic investment and capital markets department, including issuances or disposals of equity or debt securities and investments in, joint ventures or alliances with, or acquisitions of other companies. Our legal department and outside counsel provide legal risk analysis and execution support for our investments.

We continually review the implementation of our risk management and internal control policies and procedures to enhance their effectiveness and sufficiency.

The following discussion should be read in conjunction with our audited consolidated financial information, together with the accompanying notes, as set forth in the Accountants' Report in Appendix IA to this prospectus. We have prepared our consolidated financial statements in accordance with the U.S. GAAP.

The following discussion and analysis contain certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors we believe are appropriate under the relevant circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. Factors that could cause or contribute to such differences include those disclosed in "Risk Factors" and "Forward-looking Statements."

OVERVIEW

We are a leading, fast-growing multi-brand hotel group in China with international operations. As of the end of 2019, we were China's second largest hotel group and the world's ninth largest, both in terms of number of hotel rooms operated, according to Frost & Sullivan. Our hotels are operated under three different models: leased and owned, franchised, and franchised hotels that we operate under management contracts, which we refer to as "manachised." We expanded our hotel network from 3,746 hotels as of December 31, 2017 to 5,618 hotels as of December 31, 2019, representing a CAGR of 22.5%. The net increase of 1,872 hotels over this period was the largest among all publicly listed hotel groups globally, according to Frost & Sullivan. As of June 30, 2020, we had 6,187 hotels in operation, including 758 leased and owned hotels and 5,429 manachised and franchised hotels, with an aggregate of 599,235 hotel rooms. As of the same date, we were developing an additional 2,375 hotels, including 54 leased and owned hotels and 2,321 manachised and franchised hotels. On January 2, 2020, we completed the acquisition of Deutsche Hospitality and have consolidated its financial information since then. As a result, our financial information for the three months ended March 31, 2020 and for future periods are not comparable with our financial information for the prior periods. Please see "Appendix IB—Steigenberger Hotels AG Consolidated Financial Statements as of and for the twelve months ended December 31, 2019" and "Appendix II—Unaudited Pro Forma Financial Information."

Our net revenues grew from RMB8,229 million in 2017 to RMB10,063 million in 2018, and further to RMB11,212 million in 2019. We had net income attributable to our Company of RMB1,228 million, RMB716 million and RMB1,769 million in 2017, 2018 and 2019, respectively. We had net cash provided by operating activities of RMB2,453 million, RMB3,049 million and RMB3,293 million in 2017, 2018 and 2019, respectively. Primarily due to the impact of COVID-19, our net revenue decreased by 15.7% from RMB2,387 million in the three months ended March 31, 2019 to RMB2,013 million (US$284 million) in the same period of 2020; net income attributable to our Company of RMB106 million in the three months ended March 31, 2019 changed to a net loss attributable to our Company of RMB2,135 million (US$301 million) in the same period of 2020; and net cash provided by operating activities of RMB147 million in the three months ended March 31, 2019 changed to net cash used in operating activities of RMB1,346 million (US$190 million) in the same period of 2020. Despite the impact of COVID-19, as of June 30, 2020 approximately 96% of legacy Huazhu's hotels (excluding hotels under governmental requisition) had resumed operations with an occupancy rate of approximately 83% in early June 2020, while approximately 79% of legacy DH's hotels had resumed operations with an occupancy rate of approximately 29% as of June 30, 2020.

SPECIFIC FACTORS AFFECTING OUR RESULTS OF OPERATIONS

While our business is affected by factors relating to general economic conditions and the lodging industry in China and other jurisdictions in which we operate, including business and leisure travel of the customers and market competition (see "Risk Factors—Risks Related to Our Business—Our operating results are subject to conditions affecting the lodging industry in general" and "Risk Factors—Risks Related to Our Business—The lodging industries in China and Europe are competitive, and if we are unable to compete successfully, our financial condition and results of operations may be harmed"), we believe that our results of operations are also affected by company-specific factors, including, among others:

- *The total number of hotels and hotel rooms in our hotel network.* Our revenues largely depend on the size of our hotel network. Furthermore, we believe that the expanded geographic coverage of our hotel network will enhance our brand recognition. Whether we can successfully increase the number of hotels and hotel rooms in our hotel group is largely affected by our ability to effectively identify and lease, own, manachise or franchise additional hotel properties at desirable locations on commercially favorable terms and the availability of funding to make necessary capital investments to open these new hotels.

- *The fixed-cost nature of our business*. A significant portion of our operating costs and expenses, including rent and depreciation and amortization, is relatively fixed. As a result, an increase in our revenues achieved through higher RevPAR generally will result in higher profitability. Vice versa, a decrease in our revenues, in particular with respect to hotels temporarily closed during the COVID-19 outbreak, could result in a disproportionately larger decrease in our earnings because our operating costs and expenses are unlikely to decrease proportionately.

- *The number of new leased and owned hotels under development*. Generally, the operation of each leased and owned hotel goes through three stages: development, ramp-up and mature operations. During the development stage, our leased and owned hotels generate no revenue. In addition, we bear the pre-opening expenses for a substantial majority of our leased and owned hotels, which generally range from approximately RMB1.5 million to RMB20.0 million per hotel. For certain of our hotels (under Deutsche Hospitality), the landlords are responsible for renovating the hotels (other than soft furnishing) and we are not required to pay rent until this renovation is completed. During periods when a large number of new leased and owned hotels are under development, the pre-opening expenses incurred may have a significant negative impact on our financial performance.

- *The mix of mature and new leased and owned hotels, manachised hotels and franchised hotels*. When a new hotel starts operation and goes through the ramp-up stage, the occupancy rate is relatively low and the room rate may be subject to discount. Revenues generated by these hotels are lower than those generated by mature hotels and may be insufficient to cover their operating costs, which are relatively fixed in nature and are similar to those of mature hotels. The lower profitability during the ramp-up stage for leased and owned hotels may have a significant negative impact on our financial performance. The length of the ramp-up stage may be affected by factors such as hotel size, seasonality and location. New hotels opened in lower-tier cities generally have longer ramp-up period. On average, it takes our hotels approximately six months to ramp up. We define mature leased and owned hotels as those that have been in operation for more than six months. Our mature leased and owned hotels have been and will continue to be the main contributor to our revenues in the foreseeable future.

Under the manachise and franchise models, we generate revenues from franchise and service fees we charge to each manachised and franchised hotel, while the franchisee bears substantially all the capital expenditures, pre-opening and operational expenses. The hotel operating costs relating to manachised hotels are mainly costs for hotel managers as we hire and send them to manachised hotels. An increasing proportion of manachised and franchised hotels in our hotel mix will allow us to benefit from the recurring cash inflows from franchise and service fees with minimal upfront costs and capital expenditures.

The following table sets forth the number of our hotels under development as of the dates indicated.

	As of December 31,			As of March 31,
	2017	2018	2019	2020
Economy hotels	266	279	826	1,128
Midscale to upscale hotels	430	826	1,436	1,206

The following table sets forth the numbers of our ramp-up hotels (hotels in operation for not more than six months) and mature hotels (hotels in operation for more than six months) as of the dates indicated.

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Ramp-up	Mature	Ramp-up	Mature	Ramp-up	Mature	Ramp-up	Mature
Economy hotels	194	2,780	142	2,750	656	2,829	578	3,426
Midscale to upscale hotels	138	634	330	1,008	539	1,594	335	1,614

Key Performance Indicators

We utilize a set of non-financial and financial key performance indicators which our senior management reviews frequently. The review of these indicators facilitates timely evaluation of the performance of our business and effective communication of results and key decisions, allowing our business to react promptly to changing customer demands and market conditions.

Non-financial Key Performance Indicators

Our non-financial key performance indicators consist of (i) change in the total number of hotels and hotel rooms in our hotel group, (ii) RevPAR, especially RevPAR achieved by our leased and owned hotels and (iii) same-hotel RevPAR change.

Change in the total number of hotels and hotel rooms. We track the change in the total number of hotels and hotel rooms in operation to monitor our business expansion. Our total number of hotels in operation increased from 3,746 as of December 31, 2017 to 5,618 as of December 31, 2019 and further to 5,953 as of March 31, 2020 (including hotels under Deutsche Hospitality).

Our total number of hotel room-nights available for sale increased from 128.8 million as of December 31, 2017 to 171.7 million as of December 31, 2019. Due to the impact of COVID-19, we had a large number of hotels in China temporarily closed in the first quarter of 2020. The number of these temporarily-closed hotels declined from the peak of over 2,000 hotels in February 2020 to 369 hotels as of March 31, 2020 (out of a total of 5,838 hotels as of the same date), all of which were in China. During this quarter, Chinese governmental authorities also requisitioned a total of 610 of our hotels (including approximately two million room-nights, approximately 12% of which were from our leased hotels) in various locations and during different periods for the accommodation of medical support workers and for quarantine purposes in relation to COVID-19. As of March 31, 2020, we still had 374 hotels under governmental requisition in China. As a result, as of March 31, 2020, excluding hotels under governmental requisition or temporarily closed, the total room-nights available for sale was 40.3 million for our Group other than Deutsche Hospitality, or legacy Huazhu.

As COVID-19 spread globally, the hotel operations of Deutsche Hospitality in Europe have also been adversely affected since early March 2020. Local governments in Europe imposed travel restrictions and lockdowns to contain the spread of COVID-19, and as a result, a number of our Deutsche Hospitality hotels were temporarily closed. As of March 31, 2020, 85 of the 115 hotels of Deutsche Hospitality were temporarily closed. As a result, as of March 31, 2020, excluding hotels temporarily closed, the total room-nights available for sale was 1.9 million for Deutsche Hospitality, or legacy DH.

The following table sets forth various measures of changes in the total number of hotels and hotel rooms (excluding room-nights of hotels under governmental requisition or temporarily closed) as of the dates indicated.

	As of December 31,			As of March 31, 2020	
	2017	2018	2019	Legacy Huazhu[(1)]	Legacy DH[(2)]
Total hotels in operation	3,746	4,230	5,618	5,838	115
Leased and owned hotels	671	699	688	689	67
Manachised hotels	2,874	3,309	4,519	4,793	27
Franchised hotels	201	222	411	356	21
Total hotel rooms in operation	379,675	422,747	536,876	552,362	23,126
Leased and owned hotels	85,018	86,787	87,465	88,355	12,327
Manachised hotels	275,065	314,932	418,700	437,219	5,709
Franchised hotels	19,592	21,028	30,711	26,788	5,090
Total hotel room-nights available for sale	128,761,738	144,497,182	171,660,048	40,311,390	1,890,071
Leased and owned hotels	30,198,307	31,448,206	32,018,639	7,410,073	1,048,451
Manachised hotels	92,582,541	105,917,757	130,860,614	30,995,965	458,600
Franchised hotels	5,980,890	7,131,219	8,780,795	1,905,352	383,020
Number of cities	378	403	437	446	78

(1) Legacy Huazhu in this prospectus refers to our Group excluding our newly acquired Deutsche Hospitality.

(2) Legacy DH in this prospectus refers to Deutsche Hospitality.

RevPAR. RevPAR is a commonly used operating measure in the lodging industry and is defined as the product of average occupancy rates and average daily room rates achieved. Occupancy rates of our hotels mainly depend on the locations of our hotels, product and service offering, the effectiveness of our sales and brand promotion efforts, our ability to effectively manage hotel reservations, the performance of managerial and other employees of our hotels, as well as our ability to respond to competitive pressure. From year to year, occupancy of our portfolio may fluctuate as a result of changes in the mix of our mature and ramp-up hotels, as well as special events such as the Shanghai Expo in 2010 and public health events such as COVID-19. We set the room rates of our hotels primarily based on the location of a hotel, room rates charged by our competitors within the same locality, and our relative brand and product strength in the city or city cluster. From year to year, average daily room rates of our portfolio may change due to our yield management practice, city mix changes and special events such as the Shanghai Expo in 2010 and public health events such as COVID-19.

The following table sets forth our RevPAR, average daily room rate and occupancy rate for legacy Huazhu's leased and owned hotels as well as manachised and franchised hotels for the periods indicated.

	Year Ended December 31,			Three Months Ended March 31,		
	2017	2018	2019	2019	2020	
					(Excluding hotels under requisition)	(Excluding hotels under governmental requisition or temporarily closed)
RevPAR[(1)] (in RMB)						
Leased and owned hotels	211	237	240	216	85	92
Manachised hotels	171	186	189	169	73	88
Franchised hotels	158	188	174	162	59	75
All hotels in operation	180	197	198	178	75	88
Average daily room rate[(1)] (in RMB)						
Leased and owned hotels	237	267	276	258	211	211
Manachised hotels	191	213	223	210	184	184
Franchised hotels	216	248	240	237	191	193
All hotels in operation	203	226	234	221	189	189
Occupancy rate (as a percentage)						
Leased and owned hotels	89	89	87	84	40	44
Manachised hotels	89	88	85	81	40	48
Franchised hotels	73	76	73	69	31	39
All hotels in operation	88	87	84	81	40	47

	Year Ended December 31,			Three Months Ended March 31,		
	2017	2018	2019	2019	2020	
					(Excluding hotels under requisition)	(Excluding hotels under governmental requisition or temporarily closed)
Weight of hotel room-nights available for sale contributed by leased and owned hotels less than six months (as a percentage)[2]	8	4	4	5	4	4

(1) The RevPAR and average daily room rates for legacy Huazhu are based on the tax-inclusive room rates.

(2) Represents (i) the aggregate of monthly hotel room-nights available for sale in a given period of leased and owned hotels, which had been in operation for less than six months, divided by (ii) the aggregate of monthly total hotel room-nights available for sale in that given period.

RevPAR may change from period to period due to (i) the change in the mix of our leased and owned hotels in the ramp-up and mature phases, (ii) the change in the mix of our hotels in different cities and locations, (iii) the change in the mix of our hotels of different brands, and (iv) the change in same-hotel RevPAR.

The RevPAR for all hotels in operation of legacy Huazhu (excluding hotels under governmental requisition or temporarily closed) in the three months ended March 31, 2020 was lower than the RevPAR for all of our hotels in operation in the same period of 2019, primarily due to the outbreak of COVID-19 and the Chinese government's measures to contain its spread, which resulted in lower occupancy rates and average daily room rates of our hotels. The RevPAR for all hotels in operation in 2019 was slightly higher than that in 2018, mainly attributable to the increase in the proportion of our midscale and upscale hotels. The RevPAR for all hotels in operation in 2018 was higher than that in 2017, mainly as a result of the upgrade of Hanting 2.0 and the growing demand for our midscale hotels.

The following table sets forth the RevPAR, average daily room rate and occupancy rate for the leased hotels as well as manachised and franchised hotels of legacy DH (excluding hotels temporarily closed) for the periods indicated.

	Three Months Ended March 31,	
	2019	2020
RevPAR[1] (in EUR)		
Leased hotels	67	51
Manachised hotels	48	37
Franchised hotels	49	44
All hotels in operation	59	46
Average daily room rate[1] (in EUR)		

	Three Months Ended March 31,	
	2019	2020
Leased hotels	104	97
Manachised hotels	84	81
Franchised hotels	82	78
All hotels in operation	95	89
Occupancy rate (as a percentage)		
Leased hotels	65	53
Manachised hotels	57	45
Franchised hotels	60	56
All hotels in operation	62	52

(1) The RevPAR and average daily room rates for legacy DH are based on the tax-exclusive room rates.

The RevPAR for all hotels in operation of legacy DH (excluding hotels temporarily closed) in the three months ended March 31, 2020 was lower than that in the same period of 2019, primarily due to the outbreak of COVID-19 in Europe and the relevant governments' measures to contain its spread.

The seasonality of our business may cause fluctuations in our quarterly RevPAR. We typically have the lowest RevPAR in the first quarter due to reduced travel activities in winter and during the Spring Festival holidays, and the highest RevPAR in the third quarter due to increased travel during summer, though this may not be true for this year given the COVID-19 impact. National and regional special events that attract large numbers of people to travel may also cause fluctuations in our RevPAR.

The following table sets forth the quarterly RevPAR of legacy Huazhu's hotels for the periods indicated.

	Three Months Ended							
	September 30, 2018	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	
							(Excluding hotels under requisition)	(Excluding hotels under governmental requisition or temporarily closed)
RevPAR (in RMB):								
Leased and owned hotels	257	238	216	252	259	235	85	92
Manachised hotels	205	185	169	195	206	183	73	88
Franchised hotels	213	185	162	185	189	161	59	75
Total hotels in operation	217	196	178	206	215	191	75	88

The following table sets forth the quarterly RevPAR of the hotels operated by legacy DH (excluding hotels temporarily closed) for the periods indicated.

	Three Months Ended		
	March 31, 2019	December 31, 2019	March 31, 2020
RevPAR (in EUR):			
Leased hotels	67	76	51
Manachised hotels	48	59	37
Franchised hotels	49	55	44
Total hotels in operation	59	67	46

Same-hotel RevPAR change. Our overall RevPAR trend does not reflect the trend of a stable and mature portfolio, because it may fluctuate when city mix and mix of mature and ramp-up hotels change. We track same-hotel year-over-year RevPAR change for legacy Huazhu's hotels in operation for at least 18 months to monitor the RevPAR trend for our mature hotels on a comparable basis. The following table sets forth our same-hotel RevPAR for hotels in operation of legacy Huazhu (excluding hotels under governmental requisition or temporarily closed) for at least 18 months for the periods indicated.

	Three Months Ended												
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020
Number of hotels in operation for at least 18 months	2,380	2,513	2,603	2,729	2,813	2,866	2,908	2,980	3,189	3,277	3,361	3,417	3,271
RevPAR (RMB)	151	175	193	172	165	194	207	189	176	202	211	188	87
Same-hotel RevPAR change (as a percentage)[(1)]	5.8	8.3	9.5	6.5	6.5	7.9	4.2	3.9	(0.4)	(2.1)	(3.8)	(5.4)	(52.8)

(1) In calculating the same-hotel RevPAR change (as a percentage) of our mature hotels in a specified period, which are hotels in operation for at least 18 months as at the beginning of one of the months within this period, the average RevPAR of these hotels in the months in which they are mature hotels within this period is compared with the average RevPAR of these same hotels in the corresponding months of the prior year.

Financial Key Performance Indicators

Our financial key performance indicators consist of (i) revenues, (ii) operating costs and expenses, (iii) adjusted net income (loss) (non-GAAP), EBITDA (non-GAAP) and Adjusted EBITDA (non-GAAP), and (iv) net cash provided by operating activities.

Revenues. We primarily derive our revenues from operations of our leased and owned hotels and franchise and service fees from our manachised and franchised hotels. The following table sets forth the revenues generated by our leased and owned as well as manachised and franchised hotels and other revenues, each in absolute amount and as a percentage of total revenues for the periods indicated.

	Year Ended December 31,						Three months Ended March 31,				
	2017		2018		2019		2019		2020		
	(In millions of RMB)	%	(In millions of RMB)	%	(In millions of RMB)	%	(In millions of RMB)	%	(In millions of RMB)	(In millions of US$)	%
							(Unaudited)				
Revenues:											
Leased and owned hotels	6,338	77.0	7,470	74.2	7,718	68.8	1,706	71.5	1,516	214	75.3
Manachised and franchised hotels	1,851	22.5	2,527	25.1	3,342	29.8	663	27.8	465	66	23.3
Others	40	0.5	66	0.7	152	1.4	18	0.7	32	4	1.4
Net revenues	8,229	100.0	10,063	100.0	11,212	100.0	2,387	100.0	2,013	284	100.0

- *Leased and Owned Hotels*. In 2017, we generated revenue of RMB6,338 million from our leased and owned hotels, which accounted for 77.0% of our net revenues for the year. In 2018, we generated revenue of RMB7,470 million from our leased and owned hotels, which accounted for 74.2% of our net revenues for the year. In 2019, we generated revenue of RMB7,718 million from our leased and owned hotels, which accounted for 68.8% of our net revenues for the year. In the three months ended March 31, 2020, we generated revenue of RMB1,516 million (US$214 million) from our leased and owned hotels, which accounted for 75.3% of our net revenues for this period. We expect that revenue from our leased and owned hotels will continue to constitute a majority of our net revenues in the foreseeable future. As of March 31, 2020, we had 63 leased and owned hotels under development.

  For our leased hotels, we lease properties from real estate owners or lessors and we are responsible for hotel development and customization to conform to our standards, as well as for repairs and maintenance and operating costs and expenses of properties over the term of the lease. We are also responsible for substantially all aspects of hotel operations and management, including hiring, training and supervising the hotel managers and employees required to operate our hotels and purchasing supplies. Our typical lease term ranges from ten to 30 years. For a substantial majority of our hotels, we typically enjoy an initial two- to six-month rent-free period. For certain of our hotels (under Deutsche Hospitality), the landlords are responsible for renovating the hotels (other than soft furnishing) and we are not required to pay rent until this renovation is completed. We generally pay fixed rent on a monthly, quarterly or biannual basis for the first three to five years of the lease term, after which we are generally subject to a 3% to 5% increase every three to five years or, for Deutsche Hospitality's hotels, generally annual adjustments based on consumer price index levels.

  Our owned hotels include the hotels we acquired as part of our strategic alliance with Accor in 2016, and the ones we acquired through acquisition of Blossom Hotel Management in 2018.

  Our revenues generated from leased and owned hotels are significantly affected by the following two operating measures:

- *The total number of room-nights available from the leased and owned hotels in our hotel group.* The future growth of revenues generated from our leased and owned hotels will depend significantly upon our ability to expand our hotel group into new locations and maintain and further increase our RevPAR at existing hotels.

- *RevPAR achieved by our leased and owned hotels, which represents the product of average daily room rates and occupancy rates*. To understand factors impacting our RevPAR, please see "—Non-financial Key Performance Indicators—RevPAR."

• *Manachised and Franchised Hotels.* In 2017, we generated revenue of RMB1,851 million from our manachised and franchised hotels, which accounted for 22.5% of our net revenues for the year. In 2018, we generated revenue of RMB2,527 million from our manachised and franchised hotels, which accounted for 25.1% of our net revenues for the year. In 2019, we generated revenue of RMB3,342 million from our manachised and franchised hotels, which accounted for 29.8% of our net revenues for the year. In the three months ended March 31, 2020, we generated revenue of RMB465 million (US$66 million) from our manachised and franchised hotels, which accounted for 23.3% of our net revenues for this period. We expect that revenue from our manachised and franchised hotels will increase in the foreseeable future as we add more manachised and franchised hotels in our hotel group. We also expect the number of our manachised and franchised hotels as a percentage of the total number of hotels in our network to increase. As of March 31, 2020, we had 2,312 manachised and franchised hotels under development.

  - *Manachised Hotels.* Our franchisees either lease or own their hotel properties and also invest in the renovation of their properties according to our product standards. Our franchisees are typically responsible for the costs of developing and operating the hotels, including renovating the hotels according to our standards, and all of the operating expenses. We manage our manachised hotels and impose the same standards for all manachised hotels to ensure product quality and consistency across our hotel network. Management services we provide to our franchisees for our manachised hotels generally include hiring, appointing and training hotel managers, managing reservations, providing sales and marketing support, conducting quality inspections and providing other operational support and information. We believe that our manachise model has enabled us to quickly and effectively expand our geographical coverage and market share in a less capital-intensive manner through leveraging the local knowledge and relationships of our franchisees.

    We collect fees from our franchisees and do not bear the loss incurred or otherwise share any profit realized by our franchisees. They are also responsible for all costs and expenses related to hotel construction and refurbishing. Our franchise and management agreements for manachised hotels typically run for an initial term of eight to ten years, and for our hotels under Deutsche Hospitality, 15 to 20 years.

    For our manachised hotels under legacy Huazhu, our franchisees are generally required to pay us an upfront franchise fee typically ranging between RMB80,000 and RMB500,000 per hotel. In general, we charge a monthly franchise fee of approximately 3% to 6.5% of the gross revenues generated by each manachised hotel. We also collect from franchisees a reservation fee

(typically 8% of the room rates, subject to a cap equal to 3.5% of the hotel's gross revenue) for using our central reservation system and a membership registration fee (typically ranging from RMB15 to RMB135 per member depending on the membership level) for customers who join our H Rewards loyalty program at the manachised hotels. In addition, we charge system maintenance and support fees and other IT service fees from our franchisees for sharing our technology infrastructure with our manachised hotels. For example, we charge our franchisees typically RMB2,500-RMB3,500 per month for sharing our "Easy" series digital system with a manachised hotel. Furthermore, we employ and appoint hotel managers for the manachised hotels and charge the franchisees a monthly management service fee depending on the brand and city tier of the manachised hotel; for example, this fee typically ranges from RMB8,000 to RMB20,000 for our economy brand manachised hotels.

For our manachised hotels under Deutsche Hospitality, the franchisees have historically been required to pay Deutsche Hospitality a management fee consisting of a base fee of 0.5% to 3.5% of the hotel's turnover and an incentive fee of 6% to 10% of the hotel's adjusted gross operating profit. Deutsche Hospitality participates in the distribution of the manachised hotel's profit after the franchisee's guaranteed return in rare cases, and charges a marketing fee of 1.0% to 5.0% of the turnover for a few manachised hotels. General manager compensation of a manachised hotel, including salaries, social security contribution, and various benefits and bonuses, is borne by the manachised hotel. For some manachised hotels outside Germany, Deutsche Hospitality further charges a license fee of approximately 0.5% to 1% of the hotel's turnover. We are gradually adapting the terms of Deutsche Hospitality's franchise and management agreements to be similar to those of our other manachised hotels.

- *Franchised Hotels.* Under our typical franchise agreements, we provide our franchisees with training, central reservation, sales and marketing support, technology support, quality assurance inspections and other operational support and information. We do not appoint hotel managers for our franchised hotels. We collect fees from the franchisees of our franchised hotels and do not bear any loss incurred or otherwise share any profit realized by our franchisees. Our franchise agreements for our franchised hotels typically run for an initial term of eight to ten years, and for our hotels under Deutsche Hospitality, 10 to 15 years.

  For our franchised hotels under legacy Huazhu, we charge our franchised hotels fees on generally the same terms as our manachised hotels, except that we do not appoint hotel managers to our franchised hotels and thus do not charge these hotels a monthly management service fee.

  For our franchised hotels under Deutsche Hospitality, the franchisees have historically been required to pay Deutsche Hospitality a franchise fee of approximately 0.5% to 4.0% of the hotel's gross room revenue turnover. Some hotels outside Germany are charged a fixed franchise fee ranging from EUR4,000 to EUR100,000 per year. Most franchised hotels are also charged a central service fee (or marketing fee in older contracts) of approximately 0.5%

to 2.5% of the hotel's gross room revenue or turnover and a license fee of 1.0% to 5.0% of the hotel's turnover. We are gradually adapting the terms of Deutsche Hospitality's franchise agreements to be similar to those of our other franchised hotels.

- *Other Revenues.* Other revenues of RMB40 million, RMB66 million, RMB152 million and RMB32 million (US$4 million) in 2017, 2018 and 2019 and the three months ended March 31, 2020, respectively, represented revenues generated from services other than the operation of hotel businesses, which mainly included revenues from the provision of IT products and services to hotels and revenues from Hua Zhu mall.

Operating Costs and Expenses. Our operating costs and expenses consist of costs for hotel operation, other operating cost, selling and marketing expenses, general and administrative expenses and pre-opening expenses. To mitigate the impact of COVID-19, we have taken measures to improve our cost structure, including negotiating with landlords to reduce or delay rental payments, streamlining our hotel staff, work shift sharing, temporary furlough of staff, and reducing or eliminating discretionary spending and capital expenditures. The effect of these measures was not fully reflected in our results for the first quarter of 2020 and takes time to realize. The following table sets forth the components of our operating costs and expenses, both in absolute amount and as a percentage of net revenues for the periods indicated.

	Year Ended December 31,						Three Months Ended March 31,				
	2017		2018		2019		2019		2020		
	(In millions of RMB)	%	(In millions of RMB)	%	(In millions of RMB)	%	(In millions of RMB)	%	(In millions of RMB)	(In millions of US$)	%
							(Unaudited)				
Net revenues	8,229	100.0	10,063	100.0	11,212	100.0	2,387	100.0	2,013	284	100.0
Operating costs and expenses											
Hotel operating costs:											
Rents	2,059	25.0	2,406	23.9	2,624	23.4	651	27.3	866	122	43.0
Utilities	366	4.4	399	4.0	404	3.6	129	5.4	132	19	6.6
Personnel costs	1,388	16.9	1,663	16.5	1,854	16.5	446	18.7	643	91	31.9
Depreciation and amortization	773	9.4	869	8.6	960	8.5	223	9.3	311	44	15.4
Consumables, food and beverage	551	6.7	673	6.7	793	7.1	174	7.3	191	27	9.5
Others	538	6.6	466	4.7	555	5.0	112	4.7	234	33	11.7
Total hotel operating costs	5,675	69.0	6,476	64.4	7,190	64.1	1,735	72.7	2,377	336	118.1
Other operating costs	17	0.2	15	0.1	57	0.5	7	0.3	8	1	0.4
Selling and marketing expenses	285	3.5	348	3.5	426	3.8	77	3.2	146	21	7.2
General and administrative expenses	691	8.4	851	8.5	1,061	9.5	206	8.6	316	45	15.7
Pre-opening expenses	206	2.5	255	2.5	502	4.5	104	4.4	111	16	5.5
Total operating costs and expenses	6,874	83.6	7,945	79.0	9,236	82.4	2,129	89.2	2,958	419	146.9

- *Hotel Operating Costs.* Our hotel operating costs consist primarily of costs and expenses directly attributable to the operation of our leased and owned as well as manachised hotels. Leased and owned hotel operating costs primarily include rental payments and utility costs for hotel properties, compensation and benefits for our hotel-based employees, costs of hotel room consumable products and depreciation and amortization of leasehold improvements, intangible assets and land use rights. Manachised hotel operating costs primarily include compensation and benefits for manachised hotel managers and other limited number of employees directly hired by us, which are recouped by us in the form of monthly service fees. We anticipate that our hotel operating costs in absolute amount will increase as we continue to open new hotels. Our hotel operating costs as a percentage of our net revenue may change from period to period mainly driven by three factors: (i) the hotel operating costs as a percentage of revenues from our leased and owned hotels, (ii) the operating costs, mainly personnel costs, as a percentage of revenues from the manachised and franchised business and (iii) the weight of manachised and franchised hotels in our revenue mix.

- *Selling and Marketing Expenses.* Our selling and marketing expenses consist primarily of commissions to travel intermediaries, expenses for marketing programs and materials, bank fees for processing bank card payments, and compensation and benefits for our sales and marketing personnel, including personnel at our centralized reservation center. We expect that our selling and marketing expenses will increase as our sales increase and as we further expand into new geographic locations and promote our brands.

- *General and Administrative Expenses.* Our general and administrative expenses consist primarily of compensation and benefits for our corporate and regional office employees and other employees who are not sales and marketing or hotel-based employees, travel and communication expenses of our general and administrative staff, costs of third-party professional services, and office expenses for corporate and regional offices. We expect that our general and administrative expenses will increase as we hire additional personnel and incur additional costs in connection with the expansion of our business.

- *Pre-opening Expenses.* Our pre-opening expenses consist primarily of rents, personnel cost, and other miscellaneous expenses incurred prior to the opening of a new leased or owned hotel.

Our pre-opening expenses are largely determined by the number of pre-opening hotels in the pipeline and the rental fees incurred during the development stage. Landlords typically offer a two- to six-month rent-free period at the beginning of the lease. For certain of our hotels (under Deutsche Hospitality), the landlords are responsible for renovating the hotels (other than soft furnishing) and we are not required to pay rent until this renovation is completed.

Nevertheless, rental is booked during this period on a straight-line basis. Therefore, a portion of pre-opening expenses is non-cash rental expenses. The following table sets forth the components of our pre-opening expenses for the periods indicated.

	Year Ended December 31,			Three Months Ended March 31,		
	2017	2018	2019	2019	2020	
	(In millions of RMB)			(Unaudited)		(In millions of US$)
Rents	192	221	460	97	99	14
Personnel cost	6	18	14	3	4	1
Others	8	16	28	4	8	1
Total pre-opening expenses	206	255	502	104	111	16

Our hotel operating costs, selling and marketing expenses and general and administrative expenses include share-based compensation expenses. The following table sets forth the allocation of our share-based compensation expenses, both in absolute amount and as a percentage of total share-based compensation expenses, among the cost and expense items set forth below.

	Year Ended December 31,						Three Months Ended March 31,				
	2017		2018		2019		2019		2020		
	(In millions of RMB)	%	(In millions of RMB)	%	(In millions of RMB)	%	(In millions of RMB)	%	(In millions of RMB)	(In millions of US$)	%
							(Unaudited)				
Hotel operating costs	20	29.7	27	32.8	35	31.8	8	30.8	10	1	34.5
Selling and marketing expenses	2	3.0	3	3.1	3	2.7	1	3.8	1	0	3.4
General and administrative expenses	44	67.3	53	64.1	72	65.5	17	65.4	18	3	62.1
Total share-based compensation expenses	66	100.0	83	100.0	110	100.0	26	100.0	29	4	100.0

We adopted our 2007 Global Share Plan and 2008 Global Share Plan in February and June 2007, respectively, expanded the 2008 Global Share Plan in October 2008, adopted the 2009 Share Incentive Plan in September 2009, and expanded the 2009 Share Incentive Plan in October 2009, August 2010 and March 2015. We did not grant any options to purchase our Shares in 2017, 2018, 2019 or the three months ended March 31, 2020. We granted 493,972, 1,708,980, 678,043 and 232,286 shares of restricted stock in 2017, 2018, 2019 and the three months ended March 31, 2020, respectively. We recognized share-based compensation as compensation expenses in the statement of comprehensive income based on the fair value of equity awards on the date of the grant, with the compensation expenses recognized over the period in which the recipient is required to provide service to us in exchange for the equity award. Share-based compensation expenses have been categorized as hotel operating costs, general and administrative expenses, or selling and marketing expenses, depending on the job functions of the grantees.

***Non-GAAP Financial Data**—EBITDA, Adjusted EBITDA and Adjusted Net Income (Loss) Attributable to Our Company.* We use earnings before interest income, interest expense, income tax expense (benefit) and depreciation and amortization, or EBITDA, a non-GAAP financial measure, to assess our results of operations before the impact of investing and financing transactions and income taxes. Given the significant investments that we have made in leasehold improvements, depreciation and amortization expense comprises a significant portion of our cost structure. We believe that EBITDA is widely used by other companies in the lodging industry and may be used by investors as a measure of our financial performance. We also use Adjusted EBITDA, another non-GAAP measure, which is defined as EBITDA before share-based compensation expenses and unrealized gains (losses) from fair value changes of equity securities. In addition, we use adjusted net income attributable to our Company excluding share-based compensation expenses and unrealized gains (losses) from fair value changes of equity securities, a non-GAAP financial measure. We present Adjusted EBITDA and adjusted net income (loss) attributable to our Company because they are used by our management to evaluate our operating performance. We also believe that Adjusted EBITDA and adjusted net income (loss) attributable to our Company provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

The following tables present certain unaudited financial data and selected operating data for the periods indicated.

	Year Ended December 31,			Three Months Ended March 31,		
	2017	2018	2019	2019	2020	
	(In millions of RMB)					(In millions of US$)
Non-GAAP Financial Data						
Adjusted net income (loss) attributable to our Company[(1)]	1,259	1,713	1,563	222	(1,103)	(155)
EBITDA[(1)]	2,348	2,272	3,555	412	(1,736)	(245)
Adjusted EBITDA[(1)]	2,379	3,269	3,349	528	(704)	(99)

(1) We believe that adjusted net income (loss) attributable to our Company provides meaningful supplemental information regarding our performance by excluding share-based compensation expenses and unrealized gains (losses) from fair value changes of equity securities that may not be indicative of our operating performance. We believe that both management and investors benefit from referring to adjusted net income (loss) attributable to our Company in assessing our performance and when planning and forecasting future periods. Adjusted net income (loss) attributable to our Company also facilitates management's internal comparisons to our historical performance. We believe that adjusted net income (loss) attributable to our Company is also useful to investors as it allows for greater transparency with respect to supplemental information used regularly by our management in financial and operational decision-making. A limitation of using adjusted net income (loss) attributable to our Company excluding share-based compensation expenses and unrealized gains (losses) from fair value changes of equity securities is that share-based compensation expenses and unrealized gains (losses) from fair value changes of equity securities have been and will continue to be significant and recurring in our business. Management compensates for these limitations by providing specific information regarding the GAAP amounts excluded from adjusted net income (loss) attributable to our Company.

We believe that EBITDA is a useful financial metric to assess our operating and financial performance before the impact of investing and financing transactions and income taxes. Given the significant investments that we have made in leasehold improvements, depreciation and amortization expense comprises a significant portion of our cost structure. In addition, we believe that EBITDA is widely used by other companies in the lodging industry and may be used by investors as a measure of our financial performance. We believe that EBITDA will provide investors with a useful tool for comparability between periods because it eliminates depreciation and amortization expense attributable to capital expenditures. We also use Adjusted EBITDA, which is defined as EBITDA before share-based compensation expenses and unrealized gains (losses) from fair value changes of equity securities. We present Adjusted EBITDA because it is used by our management to evaluate our operating performance. We also believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

Our calculation of EBITDA, Adjusted EBITDA and adjusted net income (loss) attributable to our Company does not deduct foreign exchange loss of RMB18 million, RMB144 million, RMB35 million and RMB58 million (US$8 million) in 2017, 2018, 2019 and the three months ended March 31, 2020, respectively. The presentation of EBITDA, Adjusted EBITDA and adjusted net income (loss) attributable to our Company should not be construed as an indication that our future results will be unaffected by other charges and gains we consider to be outside the ordinary course of our business.

The use of EBITDA, Adjusted EBITDA and adjusted net income (loss) attributable to our Company has certain limitations. Depreciation and amortization expense for various long-term assets, income tax, interest income and interest expense have been and will be incurred and are not reflected in the presentation of EBITDA. Share-based compensation expenses and unrealized gains (losses) from fair value changes of equity securities have been and will be incurred and are not reflected in the presentation of Adjusted EBITDA or adjusted net income (loss) attributable to our Company. Each of these items should also be considered in the overall evaluation of our results. Additionally, EBITDA and Adjusted EBITDA do not consider capital expenditures and other investing activities and should not be considered as a measure of our liquidity. We compensate for these limitations by providing the relevant disclosure of our depreciation and amortization, interest income, interest expense, income tax expense, share-based compensation expenses, unrealized gains (losses) from fair value changes of equity securities, capital expenditures and other relevant items both in our reconciliations to the U.S. GAAP financial measures and in our consolidated financial statements, all of which should be considered when evaluating our performance.

The terms EBITDA, Adjusted EBITDA and adjusted net income (loss) attributable to our Company are not defined under U.S. GAAP, and none of EBITDA, Adjusted EBITDA or adjusted net income (loss) attributable to our Company is a measure of net income, operating income, operating performance or liquidity presented in accordance with U.S. GAAP. When assessing our operating and financial performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance measure that is calculated in accordance with U.S. GAAP. In addition, our EBITDA, Adjusted EBITDA and adjusted net income (loss) attributable to our Company may not be comparable to EBITDA, Adjusted EBITDA, adjusted net income (loss) or similarly titled measures utilized by other companies since such other companies may not calculate EBITDA, Adjusted EBITDA or adjusted net income (loss) in the same manner as we do.

A reconciliation of adjusted net income to net income, which is the most directly comparable U.S. GAAP measure, is provided below.

	Year Ended December 31,			Three Months Ended March 31,		
	2017	2018	2019	2019	2020	
	(In millions of RMB) (Unaudited)					(In millions of US$)
Net income (loss) attributable to our Company	1,228	716	1,769	106	(2,135)	(301)
Share-based compensation expenses	66	83	110	26	29	4
Unrealized (gains) losses from fair value changes of equity securities	(35)	914	(316)	90	1,003	142
Adjusted net income (loss) attributable to our Company (Non-GAAP)	1,259	1,713	1,563	222	(1,103)	(155)

A reconciliation of EBITDA and Adjusted EBITDA to net income, which is the most directly comparable U.S. GAAP measure, is provided below.

	Year Ended December 31,			Three Months Ended March 31,		
	2017	2018	2019	2019	2020	
	(In millions of RMB) (Unaudited)					(In millions of US$)
Net income (loss) attributable to our Company	1,228	716	1,769	106	(2,135)	(301)
Interest income	(113)	(148)	(160)	(33)	(29)	(4)
Interest expense	87	244	315	77	137	19
Income tax expense (benefit)	357	569	640	31	(30)	(4)
Depreciation and amortization	789	891	991	231	321	45
EBITDA (Non-GAAP)	2,348	2,272	3,555	412	(1,736)	(245)
Share-based compensation expenses	66	83	110	26	29	4
Unrealized (gains) losses from fair value changes of equity securities	(35)	914	(316)	90	1,003	142
Adjusted EBITDA (Non-GAAP)	2,379	3,269	3,349	528	(704)	(99)

Net Cash Provided by (Used in) Operating Activities. Our net cash provided by operating activities is primarily attributable to our net income, add-backs from share-based compensation expenses, depreciation and amortization, impairment loss, deferred rent, non-cash lease expense, investment loss (income) and changes in operating assets and liabilities. We use net cash provided by operating activities to assess the cash generation capability and return profile of our business. Compared with adjusted EBITDA, net cash provided by operating activities neutralizes the impact of straight-line based rental accounting and timing difference in certain areas of revenue recognition when assessing the return profile and profitability of our business. We had net cash provided by operating activities of RMB2,453 million, RMB3,049 million and RMB3,293 million in 2017, 2018 and 2019, respectively. Primarily due to the impact of COVID-19, we had net cash used in operating activities of RMB1,346 million (US$190 million) in the three months ended March 31, 2020, compared to net cash provided by operating activities of RMB147 million in the same period of 2019. The year-over-year increase from 2017 to 2019 was mainly due to the expansion of our hotel network. We expect that our net cash provided by operating activities will increase as we further expand our hotel network after the negative impact of COVID-19 gradually diminishes.

TAXATION

We are incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, the British Virgin Islands and Seychelles, our subsidiaries are not subject to tax on income or capital gain. Under the current laws of Singapore, companies are subject to Singapore corporate income tax at a rate of 17%. Under the current laws of Germany, companies are subject to income tax at a standard rate of 15% (15.825% including solidarity surcharge), plus municipal trade tax of 7%-17%. Companies established in Japan are subject to Japan corporate income tax at a rate of 23.2% (30%-34% including local taxes). Companies established in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5%. Companies established in Taiwan are subject to Taiwan corporate income tax at a rate of 20%.

On March 16, 2007, the National People's Congress passed the Enterprise Income Tax Law and on December 6, 2007, the PRC State Council issued the Implementation Regulations of the Enterprise Income Tax Law, both of which became effective on January 1, 2008. The Enterprise Income Tax Law was most recently amended in December 2018. The Enterprise Income Tax Law and its Implementation Regulations, or the EIT Law, apply a uniform 25% enterprise income tax rate to both foreign-invested enterprises and domestic enterprises. Certain of our PRC subsidiaries have enjoyed preferential tax treatment. See "—Trend Information" below for more information.

The EIT Law imposes a withholding tax of 10% on dividends distributed by a PRC foreign-invested enterprise to its immediate holding company outside of China, if such immediate holding company is considered a "non-resident enterprise" without any establishment or place within China or if the dividends received have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding tax rate. A holding company which is a tax resident in Hong Kong, for example, would be subject to a 5% withholding tax rate on the dividends received from its PRC subsidiary if it owns at least 25% equity in the PRC subsidiary and is the beneficial owner of the dividends. See "Risk Factors—Risks Related to Doing Business in China—It is unclear whether we will be considered as a PRC resident enterprise under the Enterprise Income Tax Law of the PRC, and depending on the determination of our PRC resident enterprise status, if we are not treated as a PRC resident enterprise, dividends paid to us by our PRC subsidiaries will be subject to PRC withholding tax; if we are treated as a PRC

resident enterprise, we may be subject to 25% PRC income tax on our worldwide income, and holders of our ADSs or Shares that are non-PRC resident investors may be subject to PRC withholding tax on dividends on and gains realized on their transfer of our ADSs or Shares."

CRITICAL ACCOUNTING POLICIES

We prepare financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect the reported amounts of our assets and liabilities and the disclosure of our contingent assets and liabilities at the end of each fiscal period and the reported amounts of revenues and expenses during each fiscal period. We continue to evaluate these judgments and estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and assumptions that we believe to be reasonable, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors that should be considered when reviewing our financial statements. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Impairment of Long-Lived Assets

We evaluate our long-lived assets and finite lived intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When these events occur, we measure impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, we recognize an impairment loss equal to the difference between the carrying amount and fair value of these assets.

We determined fair value of the property and equipment based on the income approach using the discounted cash flow associated with the underlying assets, which incorporated certain assumptions including projected hotels' revenue, growth rates and projected operating costs based on current economic condition, expectation of management and projected trends of current operating results. We determined fair value of indefinite-lived intangible assets based on relief-from-royalty method.

We performed a recoverability test of our long-lived assets associated with certain hotels due to the continued underperformance relative to the projected operating results, of which the carrying amount of the property and equipment exceed the future undiscounted net cash flows and recognized an impairment loss of RMB169 million, RMB35 million, RMB3 million and nil during the years ended December 31, 2017, 2018, 2019 and the three months ended March 31, 2019, respectively.

As a result of the current economic environment due to COVID-19, we performed procedures to assess the recoverability of the net book value of property and equipment, right-of-use assets, and definite-lived intangible assets and recognized RMB10 million in impairment loss related to right-of-use assets, which were part of our long-lived assets, for the three months ended March 31, 2020.

However, the extent, magnitude and duration of COVID-19 may change the assumptions and estimates used in the indefinite life intangible assets valuation, which could result in future impairment charges. On March 31, 2020, the estimated fair value of our intangible assets with indefinite useful lives exceeded their carrying value by approximately RMB3,634 million. A 5% increase in the discount rate or decrease in forecast of future revenues or operating margin or royalty saving rate could reduce the fair value of our indefinite life intangible assets identified in our acquisition of Deutsche Hospitality below its carrying value, which could result in future impairment charges of up to RMB229 million, nil, nil and RMB155 million, respectively.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable assets less liabilities acquired.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Before the adoption of ASU No. 2017-04, Intangibles-Goodwill and Other, we performed a two-step goodwill impairment test. The first step compares the fair values of each reporting unit to its carrying amount, including goodwill. A reporting unit is identified as an operating segment or one level below an operating segment (also known as a component) for which discrete financial information is available and is regularly reviewed by the segment manager. All the acquired business has been migrated to our business, and our management regularly reviews operation data including industrial metrics of revenue per available room, occupancy rate, and number of hotels by scale/brand, rather than discrete financial information for the purpose of performance evaluation and resource allocation at brand level. We concluded that we had only one reporting unit, and therefore the goodwill impairment testing was performed on consolidation level. If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. We adopted ASU No. 2017-04, Intangibles-Goodwill and Other on January 1, 2020, which requires a one-step impairment test in which an entity compares the fair value of a reporting unit with its carrying amount and recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if any. Upon the acquisition of Deutsche Hospitality, we have concluded that there are two reporting units, which are legacy Huazhu and legacy DH since the segment managers regularly review discrete financial information for legacy Huazhu and legacy DH separately. The goodwill impairment testing was performed at each reporting unit level. If the carrying amount of a reporting unit exceeds its fair value, an impairment amounts to that excess should be recognized in general and administrative expenses.

We determined fair value of the equity value based on the income approach using the discounted cash flow associated with the underlying assets, which incorporated certain assumptions including projected hotels' revenue, growth rates and projected operating costs based on current economic condition, expectation of management and projected trends of current operating results.

Our management performs an annual goodwill impairment test on November 30. We had not recognized any goodwill impairment for the years ended December 31, 2017, 2018 and 2019. Given the impact that the COVID-19 pandemic is having on the hospitality industry, we concluded that indicators of impairment existed at March 31, 2020. We updated previous assumptions based on the current economic environment, which is subject to inherent risk and uncertainty due to the stay-in-place measures enacted as a result of the COVID-19 pandemic, consumer confidence levels, and the ongoing impact of the COVID-19 pandemic on the hospitality industry. We concluded that the goodwill was not impaired at March 31, 2020 as the fair values of our two reporting units were not less than their carrying values based on our management's projection of revenues, gross margin, operating costs and cash flows considering planned business and operational strategies over a long-term planning horizon of eight to 10 years along with a terminal value calculated based on discounted cash flows. On March 31, 2020, the estimated fair value of the legacy Huazhu reporting unit substantially exceeded its carrying value. For the goodwill of legacy DH, the estimated fair value of the reporting unit exceeded its carrying value by approximately RMB79 million. However, the extent, magnitude and duration of COVID-19 may change the assumptions and estimates used in the goodwill valuation, which could result in future impairment charges. On March 31, 2020, a 5% decline in the underlying discounted cash flow or increase in the discount rates could result in future goodwill impairment charges of approximately RMB218 million and RMB337 million, respectively.

Revenue Recognition

Our revenues are primarily derived from products and services in leased and owned hotels, contracts of manachised and franchised hotels with third-party franchisees as well as activities other than the operation of hotel businesses.

Leased and owned hotel revenues

Leased and owned hotel revenues are primarily derived from the rental of rooms, food and beverage sales and other ancillary goods and services, including but not limited to souvenir, laundry, parking and conference reservation. Each of these products and services represents an individual performance obligation and, in exchange for these services, we receive fixed amounts based on published rates or negotiated contracts. Payment is due in full at the time when the services are rendered or the goods are provided. Room rental revenue is recognized on a daily basis when rooms are occupied. Food and beverage revenue and other goods and services revenue are recognized when they have been delivered or rendered to the guests as the respective performance obligations are satisfied.

Manachised and franchised hotel revenues

The manachised and franchised agreement contains the following promised services:

- *Intellectual property licenses* grant the right to access our hotel system intellectual property, including brand names.

- *Pre-opening services* include providing services (for example, install IT information system and provide access to purchase platform, help to obtain operational qualification, and help to recruit and train employees) to the franchisees to assist in preparing for the hotel opening.

- *System maintenance services* include providing standardization hotel property management system (PMS), central reservation system (CRS) and other internet related services.

- *Hotel management services* include providing day-to-day management services of the hotels for the franchisees.

The promises to provide pre-opening services and system maintenance services are not distinct performance obligations because they are attendant to the license of intellectual property. Therefore, the promises to provide pre-opening services and system maintenance services are combined with the license of intellectual property to form a single performance obligation. Hotel management services form a single distinct performance obligation.

Manachised and franchised hotel revenues are derived from franchise agreements where the franchisees are primarily required to pay (i) an initial one-time franchise fee, and (ii) continuing franchise fees, which mainly consist of (a) on-going management and franchise service fees, (b) central reservation system usage fees, system maintenance and support fees and (c) reimbursements for hotel manager fees.

Initial one-time franchise fees are typically fixed and collected upfront and are recognized as revenue over the term of the franchise contract. We do not consider this advance consideration to include a significant financing component, since it is used to protect us from a franchisee failing to adequately complete some or all of its obligations under the contract.

On-going management and franchise service fees are generally calculated as a certain percentage of the room revenues of the franchised hotel. Generally, management and franchise service fees are due and payable on a monthly basis as services are provided and revenue is recognized over time as services are rendered.

Central reservation system usage fees, other system maintenance and support fees are typically billed and collected monthly along with base management and franchise fees, and revenue is generally recognized as services are provided.

Reimbursements for hotel manager fees, which cover the manachised hotel managers' payroll, social welfare benefits and certain other out-of-pocket expenses that we incur on behalf of the manachised hotels. The reimbursements are recognized over time within revenues for the reimbursement of costs incurred on behalf of manachised hotels.

The above policies are only applicable to legacy Huazhu. For manachised hotels under Deutsche Hospitality, the franchisees have historically been required to pay Deutsche Hospitality on-going management fees consisting of a base fee of 0.5% to 3.5% of the hotel's turnover and an incentive fee of 6% to 10% of the hotel's adjusted gross operating profit. Deutsche Hospitality participates in the distribution of the manachised hotel's profit after the franchisee's guaranteed return in rare cases, and charges a marketing fee of 1.0% to 5.0% of the turnover for a few manachised hotels. General manager compensation of a manachised hotel, including salaries, social security contribution, and various benefits and bonuses, is typically approximately EUR1.2 million per year and borne by the manachised hotel. For some manachised hotels outside Germany, Deutsche Hospitality further charges a license fee of approximately 0.5% to 1% of the hotel's turnover. For franchised hotels under Deutsche Hospitality, the franchisees have historically been required to pay Deutsche Hospitality a franchise fee of approximately 0.5% to 4.0% of the hotel's gross room revenue or turnover. Some hotels outside Germany are charged a fixed franchise fee ranging from EUR4,000 to EUR100,000 per year. Most franchised hotels are also charged a central service fee (or marketing fee in older contracts) of approximately 0.5% to 2.5% of the hotel's gross room revenue or turnover and a license fee of 1.0% to 5.0% of the hotel's turnover. We are gradually adapting the terms of Deutsche Hospitality's franchise and management agreements to be similar to those of our hotels under legacy Huazhu.

Following the COVID-19 outbreak in January 2020, we offered one-time reduction on continuing franchise fees of approximately RMB70 million for the three months ended March 31, 2020 to help franchisees meet their short-term working capital needs. There is no change to the scope of services or other terms of the agreements. Previously recognized revenue on the original contract was not adjusted.

Other revenues

Our other revenues are derived from activities other than the operation of hotel businesses, which mainly include revenues from Hua Zhu mall and the provision of IT products and services to hotels. Revenues from Hua Zhu mall are commissions charged from suppliers for goods sold through the platform and are recognized upon delivery of goods to end customers when its suppliers' obligation is fulfilled. Revenues from IT products are recognized when goods are delivered and revenues from IT services are recognized when services are rendered.

Loyalty Program

Under the loyalty program we administer, members earn loyalty points that can be redeemed for future products and services. Points earned by loyalty program members represent a material right to free or discounted goods or services in the future. The loyalty program has one performance obligation that consists of marketing and managing the program and arranging for award redemptions by members. We are responsible for arranging for the redemption of points, but we do not directly fulfill the redemption obligation except at leased and owned hotels. Therefore, we are the agent with respect to this performance obligation for manachised and franchised hotels, and are the principal with respect to leased and owned hotels.

For leased and owned hotels, a portion of the leased and owned revenues is deferred until a member redeems points. The amount of revenue we recognize upon point redemption is impacted by the estimate of the "breakage" for points that members will never redeem in our owned and leased hotels.

For manachised and franchised hotels, the portion of revenue deferred by manachised and franchised hotels are collected by us which will be refunded upon redemption of points at manachised and franchised hotels. The estimated breakage for points earned in manachised and franchised hotels are recognized as manachised and franchised revenue for each period. We estimate breakage based on our historical experience and expectations of future member behavior and will true up the estimated breakage at the end of each period.

The above policies are only applicable to legacy Huazhu. The loyalty program initiated by Deutsche Hospitality has the same rights, nature and redeemable approaches as legacy Huazhu, and therefore the accounting treatment is the same. As of March 31, 2020, the contract liabilities related to Deutsche Hospitality were immaterial and the existing loyalty program of Deutsche Hospitality was in the progress of being migrated to that of legacy Huazhu.

Membership fees from our customer loyalty program are all from legacy Huazhu, which are earned and recognized on a straight-line basis over the expected membership duration of the different membership levels and also applicable to legacy Huazhu only. Such duration is estimated based on our and our management's experience and is adjusted on a periodic basis to reflect changes in membership retention. The membership duration is estimated to be two to five years which reflects the expected membership retention.

Leases

As a lessee

Before January 1, 2019, we adopted the ASC 840, *Leases* and each lease is classified at the inception date as either a capital lease or an operating lease. All of our leases were classified under ASC Topic 840 as operating leases while there are both capital lease and operating lease under legacy DH. Our reporting for periods prior to January 1, 2019 continued to be reported in accordance with *Leases* ASC 840. We elected the practical expedients under ASU 2016-02 which includes the use of hindsight in determining the lease term and the practical expedient package to not reassess whether any expired or existing contracts are or contain leases, to not reassess the classification of any expired or existing leases, and to not reassess initial direct costs for any existing leases.

In evaluating whether an agreement constitutes a lease upon adoption of the new lease accounting standard ASC 842, we review the contractual terms to determine which party obtains both the economic benefits and control of the assets at the inception of the contract. We categorize leases with contractual terms longer than twelve months as either operating or finance lease at the commencement date of a lease.

We recognize a lease liability for future fixed lease payments and variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date and a ROU asset representing the right to use the underlying asset for the lease term. Lease liabilities are recognized at commencement date based on the present value of fixed lease payments and variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date) over the lease term using the rate implicit in the lease, if available, or our incremental borrowing rate. As our leases do not provide an implicit borrowing rate, we use an incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at the commencement date. Upon adoption of ASU 2016-02, we elected to use the remaining lease term as of January 1, 2019 in our estimation of the applicable discount rate for leases that were in place at adoption. For the initial measurement of the lease liabilities for leases commencing after January 1, 2019, we use the discount rate as of the commencement date of the lease, incorporating the entire lease term. Current maturities of operating lease liabilities and finance lease liabilities are classified as operating lease liabilities, current and finance lease liabilities, current, respectively, in our consolidated balance sheets. Long-term portions of operating lease liabilities and finance lease liabilities are classified as operating lease liabilities, non-current and finance lease liabilities, non-current, respectively, in our consolidated balance sheets. Most leases have initial terms ranging from 10 to 20 years for legacy Huazhu, and from 20 to 25 years for legacy DH. The lease term includes lessee options to extend the lease and periods occurring after a lessee early termination option, only to the extent it is reasonably certain that we will exercise such extension options and not exercise such early termination options, respectively. Our lease agreements may include non-lease components, mainly common area maintenance, which are combined with the lease components as we elect to account for these components as a single lease component, as permitted. We elected the practical expedient of not separating land components outside PRC from leases of specified property, plant, and equipment at the ASC 842 transition date. Besides, our lease payments are generally fixed and certain agreements contain variable lease payments based on the operating performance of the leased property and the changes in an index of consumer price index ("**CPI**"). All the lease agreements with variable lease payments based on the changes in CPI are held by legacy DH. For operating leases, we recognize lease expense on a straight-line basis over the lease term and variable lease payments that depend on an index or a rate are initially measured using the index or rate at the commencement date, and recognize otherwise variable lease payments in

the period in which the obligation for those payments is incurred. The operating lease expense is recognized as hotel operating costs, general and administrative expenses and pre-opening expenses in the consolidated statements of comprehensive income. For finance lease, lease expense is generally front-loaded as the finance lease ROU asset is depreciated on a straight-line basis over the shorter of the lease term or useful life of the underlying asset within hotel operating costs in the consolidated statements of comprehensive income, but interest expense on the lease liability is recognized in interest expense in the consolidated statements of comprehensive income using the effective interest method which results in more expense during the early years of the lease. Additionally, we elected not to recognize leases with lease terms of 12 months or less at the commencement date. Lease payments on short-term leases are recognized as an expense on a straight-line basis over the lease term, not included in lease liabilities. Our lease agreements do not contain any significant residual value guarantees or restricted covenants.

The ROU assets are measured at the amount of the lease liabilities with adjustments, if applicable, for lease prepayments made prior to or at lease commencement, initial direct costs incurred by us, deferred rent and lease incentives, and any off-market terms (that is, favorable or unfavorable terms) present in the lease when we acquired leases in a business combination in which the acquiree acts as a lessee. We evaluate the carrying value of ROU assets if there are indicators of impairment and reviews the recoverability of the related asset group. We exclude the lease obligation from the carrying value of the asset group. Accordingly, the lease payments (both principal and interest) do not reduce the undiscounted expected future cash flows used to test the asset group for recoverability. If the carrying value of the asset group determined to not be recoverable and is in excess of the estimated fair value, we record an impairment loss in the consolidated statement of operations. Non-cash lease expense are used as the non-cash add-back for the amortization of the operating ROU assets to the operating section of the consolidated statements of cash flow.

We reassess if a contract is or contains a leasing arrangement and re-measure ROU assets and liabilities upon modification of the contract. We will derecognize ROU assets and liabilities, with difference recognized in the income statement on the contract termination.

As a result of the COVID-19 pandemic, some of our hotels are experiencing significantly reduced consumer traffic. In this case, we, as the lessee are entitled to have the lease concession after the negotiation with lessors, and for the concessions related to the effects of the COVID-19 pandemic that do not result in a substantial increase in the obligations of the lessee, we recognized a negative lease expense of RMB38 million for the three months ended March 31, 2020 under the relief as we elect not to account for the concession as a lease modification and by using the variable lease expense approach.

Sublease

We sublease property which are not suitable to operate hotels to third parties under operating leases. In accordance with the provisions of ASC 842, since we have not been relieved as the primary obligor of the head lease, we cannot net the sublease income against its lease payment to calculate the lease liabilities and ROU assets. Our practice has been, and will continue to, straight-line the sub-lease income over the term of the sublease, which is consistent with the accounting treatment under ASC 840.

Income Taxes

The provision for income taxes has been determined using the asset and liability approach of accounting for income taxes. Under this approach, we recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and tax basis of assets and liabilities. A valuation allowance is required to reduce the carrying amounts of deferred tax assets if, based on the available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed periodically based on a more-likely-than-not realization threshold. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with operating loss in the hotel industry, tax planning strategy implemented and other tax planning alternatives. Prior to 2009, we had significant operating losses attributable to rapid expansion and related pre-opening costs incurred. As of December 31, 2017, 2018 and 2019 and March 31, 2020, we had deferred tax assets after valuation allowance of RMB406 million, RMB505 million, RMB548 million and RMB759 million (US$107 million), respectively. We expect many of our hotels that were put in operation since 2013 will mature gradually and generate sufficient taxable profit to utilize the substantial portion of the net loss carryforward. If our operating results are less than currently projected and there is no objectively verifiable evidence to support the realization of our deferred tax asset, additional valuation allowance may be required to further reduce our deferred tax asset. The reduction of the deferred tax asset could increase our income tax expenses and have an adverse effect on our results of operations and tangible net worth in the period in which the allowance is recorded.

The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Our tax rate is based on expected income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which we operate. For interim financial reporting, we estimate the annual tax rate based on projected taxable income for the full year and record a quarterly income tax provision in accordance with the anticipated annual rate. As the year progresses, we refine the estimates of the year's taxable income as new information becomes available, including year-to-date financial results. This continual estimation process often results in a change to our expected effective tax rate for the year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision reflects the expected annual tax rate. Significant judgment is required in determining our effective tax rate and in evaluating its tax positions.

We recognize a tax benefit associated with an uncertain tax position when, in our judgment, it is more likely than not that the position will be sustained upon examination by a taxing authority. For a tax position that meets the more-likely-than-not recognition threshold, we initially and subsequently measure the tax benefit as the largest amount that we judge to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. Our liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. Our effective tax rate includes the net impact of changes in the liability for unrecognized tax benefits and subsequent adjustments as considered appropriate by management. We classify interests and penalties recognized on the liability for unrecognized tax benefits as income tax expense.

In accordance with the EIT Law, dividends, which arise from profits of foreign invested enterprises earned after January 1, 2008, are subject to a 10% withholding income tax. If there is a favorable tax treaty between mainland China and the jurisdiction of the foreign holding company, the income tax rate may be reduced. For example, holding companies in Hong Kong that are also tax residents in Hong Kong are eligible for a 5% withholding tax on dividends under the Tax Memorandum between China and the Hong Kong Special Administrative Region if the holding company is the beneficial owner of the dividends. In 2018 and 2019, we accrued PRC dividend withholding tax of RMB34 million and RMB73 million, respectively. In 2020, we are restricted from distributing cash dividend pursuant to the waiver from certain financial covenants that we obtained for our certain bank loans and therefore do not expect to accrue PRC dividend withholding tax for this year.

Share-Based Compensation

The costs of share based payments are recognized in our consolidated financial statements based on their grant-date fair value over the vesting. We determine fair value of our share options as of the grant date using binomial option pricing model and the fair value of our nonvested restricted stocks as of the grant date based on the fair market value of the underlying Shares. Under the binomial option pricing model, we make a number of assumptions regarding fair value including the expected price multiple at which employee are likely to exercise stock options, the expected volatility of our future Share price, the risk free interest rate and the expected dividend yield. Determining the value of our share-based compensation expense in future periods also requires the input of subjective assumptions around estimated forfeitures of the underlying shares and likely future performance. The compensation expenses for the awards with performance conditions based upon our judgment of likely future performance and may be adjusted in future periods depending on actual performance. We estimate our forfeitures based on past employee retention rates, our expectations of future retention rates, and we will prospectively revise our forfeiture rates based on actual history. We estimate our future performance based on our historical results. Our compensation charges may change based on changes to our assumptions.

Recent Accounting Pronouncements

A list of relevant recent accounting pronouncements is included in Note 2 "Summary of Principal Accounting Policies" of the Accountant's Appendix IA to this prospectus.

RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated results of operations, both in absolute amount and as a percentage of net revenues for the periods indicated. This information should be read together with our consolidated financial statements and related notes as set forth in the Accountants' Report in Appendix IA to this prospectus.

We have grown rapidly since we began our current business of operating and managing a multi-brand hotel group in 2007. Our relatively limited operating history makes it difficult to predict our future operating results. We believe that the year-to-year comparison of operating results should not be relied upon as being indicative of future performance.

	Year Ended December 31,						Three Months Ended March 31,				
	2017		2018		2019		2019		2020		
	(In millions of RMB)	%	(In millions of RMB)	%	(In millions of RMB)	%	(In millions of RMB)	%	(In millions of RMB)	(In millions of US$)	%
							(Unaudited)				
Consolidated Statement of Comprehensive Income Data:											
Revenues:											
Leased and owned hotels	6,338	77.0	7,470	74.2	7,718	68.8	1,706	71.5	1,516	214	75.3
Manachised and franchised hotels	1,851	22.5	2,527	25.1	3,342	29.8	663	27.8	465	66	23.1
Others	40	0.5	66	0.7	152	1.4	18	0.7	32	4	1.6
Net revenues	8,229	100.0	10,063	100.0	11,212	100.0	2,387	100.0	2,013	284	100.0
Operating costs and expenses[(1)]:											
Hotel operating costs	5,675	69.0	6,476	64.4	7,190	64.1	1,735	72.7	2,377	336	118.1
Other operating costs	17	0.2	15	0.1	57	0.5	7	0.3	8	1	0.4
Selling and marketing expenses	285	3.5	348	3.5	426	3.8	77	3.2	146	21	7.2
General and administrative expenses	691	8.4	851	8.5	1,061	9.5	206	8.6	316	45	15.7
Pre-opening expenses	206	2.5	255	2.5	502	4.5	104	4.4	111	16	5.5

	Year Ended December 31,						Three Months Ended March 31,				
	2017		2018		2019		2019		2020		
	(In millions of RMB)	%	(In millions of RMB)	%	(In millions of RMB)	%	(In millions of RMB)	%	(In millions of RMB)	(In millions of US$)	%
							(Unaudited)				
Total operating costs and expenses	6,874	83.6	7,945	79.0	9,236	82.4	2,129	89.2	2,958	419	146.9
Other operating income, net	71	0.9	226	2.3	132	1.2	6	0.3	88	13	4.3
Income (losses) from operations	1,426	17.3	2,344	23.3	2,108	18.8	264	11.1	(857)	(122)	(42.6)
Interest income	113	1.4	148	1.5	160	1.4	33	1.4	29	4	1.4
Interest expenses	(87)	(1.1)	(244)	(2.4)	(315)	(2.8)	(77)	(3.2)	(137)	(19)	(6.8)
Other income (expense), net	128	1.6	203	2.0	331	3.0	65	2.7	(102)	(14)	(5.1)
Unrealized gain (loss) from fair value changes of equity securities	35	0.4	(914)	(9.1)	316	2.8	(90)	(3.8)	(1,003)	(142)	(49.8)
Foreign exchange gain (loss)	(18)	(0.2)	(144)	(1.4)	(35)	(0.3)	(32)	(1.4)	(58)	(8)	(2.8)
Income (loss) before income taxes	1,597	19.4	1,393	13.9	2,565	22.9	163	6.8	(2,128)	(301)	(105.7)
Income tax expense (benefit)	357	4.3	569	5.7	640	5.7	31	1.3	(30)	(4)	(1.5)
Income (loss) from equity method investments	(12)	(0.2)	(97)	(1.0)	(164)	(1.5)	(33)	(1.4)	(60)	(8)	(3.0)
Net income (loss)	1,228	14.9	727	7.2	1,761	15.7	99	4.1	(2,158)	(305)	(107.2)
Less: net (loss) income attributable to noncontrolling interest	0	0	11	0.1	(8)	(0.1)	(7)	(0.3)	(23)	(4)	(1.1)
Net income (loss) attributable to our Company	1,228	14.9	716	7.1	1,769	15.8	106	4.4	(2,135)	(301)	(106.1)

Note:

(1) Includes share-based compensation expenses as follows:

	Year ended December 31,			Three months ended March 31,		
	2017	2018	2019	2019	2020	
	(In millions of RMB)			(Unaudited)		(In millions of US$)
Share-based compensation expenses	66	83	110	26	29	4

SEGMENT AND GEOGRAPHY INFORMATION

Following our acquisition of Deutsche Hospitality on January 2, 2020, we determined that we had two operating segments, namely legacy Huazhu and legacy DH, as a result of a change in the way our management intends to evaluate results and allocate resources within our Group. See Note 2 "Summary of Principal Accounting Policies" of the Accountants' Report in Appendix IA to this prospectus for more information on our segment and geography information.

The following table provides a summary of our operating segment results for the period indicated. There was no reconciliation item and the total amounts were consistent with the consolidation amounts.

	Three months ended March 31, 2020		
	Legacy Huazhu	Legacy DH	Total
	(RMB in millions)		
Net revenues	1,288	725	2,013
Operating costs and expenses	2,081	877	2,958
Other operating (expenses) income, net	62	26	88
Interest income	29	0	29
Interest expense	110	27	137
Other income (expense), net	(104)	2	(102)
Unrealized gains (losses) from fair value changes of equity securities	(1,003)	–	(1,003)
Foreign exchange gain (loss)	(58)	(0)	(58)
Loss before income tax	(1,977)	(151)	(2,128)
Income tax expense (benefit)	5	(35)	(30)
Income (loss) from equity method investments	(54)	(6)	(60)
Net (loss) attributable to noncontrolling interest	(23)	–	(23)
Net loss attributable to our Company	(2,013)	(122)	(2,135)
Income tax expense (benefit)	5	(35)	(30)
Interest income	29	0	29
Interest expense	110	27	137
Depreciation and amortization	264	57	321
EBITDA (Non-GAAP)	(1,663)	(73)	(1,736)
Share-based compensation expenses	29	–	29
Unrealized (gains) losses from fair value changes of equity securities	1,003	–	1,003
Adjusted EBITDA (Non-GAAP)	(631)	(73)	(704)

	Three months ended March 31, 2020		
	Legacy Huazhu	Legacy DH	Total
	(RMB in millions)		
Net loss attributable to our Company	(2,013)	(122)	(2,135)
Share-based compensation expenses	29	–	29
Unrealized (gains) losses from fair value changes of equity securities	1,003	–	1,003
Adjusted net loss attributable to our Company (Non-GAAP)	(981)	(122)	(1,103)

The following table sets forth our revenues by geographic region for the period indicated.

	Three months ended March 31, 2020
	(RMB in millions)
China	1,284
Germany	511
All others	218
Total	2,013

The following table sets forth the RevPAR, average daily room rate and occupancy rate for the leased hotels as well as manachised and franchised hotels of legacy DH (excluding hotels temporarily closed) by geographic region for the periods indicated.

	Three Months Ended March 31,	
	2019	2020
RevPAR[(1)] (in EUR)		
Germany	64	51
Others	51	40
All hotels in operation	59	46
Average daily room rate[(1)] (in EUR)		
Germany	100	95
Others	86	81
All hotels in operation	95	89
Occupancy rate (as a percentage)		
Germany	64	53
Others	59	49
All hotels in operation	62	52

(1) The RevPAR and average daily room rates for legacy DH are based on the tax-exclusive room rates.

Other than China and Germany, no country individually represented more than 10% of our total revenue for the three months ended March 31, 2020.

COMPARISON OF THREE MONTHS ENDED MARCH 31, 2019 AND 2020

Net Revenue

Our net revenues decreased by 15.7% from RMB2,387 million in the three months ended March 31, 2019 to RMB2,013 million (US$284 million) in the same period of 2020. This decrease was primarily due to the impact of COVID-19, which resulted in lower occupancy rates and RevPAR of our hotels and the temporary closure of a large number of our hotels in China. The number of our hotels in China that were temporarily closed declined from the peak of over 2,000 hotels in February to 369 hotels as of March 31, 2020 (out of a total of 5,838 hotels as of the same date), all of which were in China. The decrease in our revenue was offset in part by our consolidation of Deutsche Hospitality, which we acquired on January 2, 2020. However, since the COVID-19 outbreak in Europe in March 2020, Deutsche Hospitality had also temporarily closed 85 of its hotels as of March 31, 2020 (out of a total of 115 hotels), including 49 leased hotels and 36 manachised and franchised hotels. Legacy Huazhu's net revenues for the three months ended March 31, 2020 were RMB1.3 billion (US$182 million), representing a 46.0% decrease compared to the same period of 2019.

- *Leased and Owned Hotels*. Net revenues from our leased and owned hotels decreased by 11.1% from RMB1,706 million in the three months ended March 31, 2019 to RMB1,516 million (US$214 million) in the same period of 2020. The decrease was primarily due to (i) the temporary closure of a number of our leased and owned hotels in China and (ii) the decreased RevPAR for legacy Huazhu's leased and owned hotels (excluding those temporarily closed and those under governmental requisition), which was RMB92 in the three months ended March 31, 2020, compared to RMB216 for all of our leased and owned hotels in the same period of 2019. These factors were offset in part by our consolidation of the revenue from the leased hotels of Deutsche Hospitality. Legacy Huazhu's net revenues from leased and owned hotels for the three months ended March 31, 2020 were RMB807 million (US$114 million), representing a 52.7% decrease compared to the same period of 2019.

- *Manachised and Franchised Hotels*. Net revenues from our manachised and franchised hotels decreased by 29.9% from RMB663 million in the three months ended March 31, 2019 to RMB465 million (US$66 million) in the three months ended March 31, 2020. This decrease was primarily due to (i) the temporary closure of a number of our manachised and franchised hotels; (ii) the decreased RevPAR for legacy Huazhu's manachised and franchised hotels (excluding those temporarily closed and those under governmental requisition), which was RMB87 in the three months ended March 31, 2020, compared to RMB169 for all of our manachised and franchised hotels in the same period of 2019; and (iii) our one-off waiver of an aggregate of RMB70 million in franchise fees and management service fees in the three months ended March 31, 2020 for certain of legacy Huazhu's manachised and franchised hotels significantly affected by COVID-19. Legacy Huazhu's net revenues from manachised and franchised hotels for the three months ended March 31, 2020 were RMB455 million (US$64 million), representing a 31.4% decrease compared to the same period of 2019.

- *Other Revenues.* Net other revenues increased from RMB18 million in the three months ended March 31, 2019 to RMB32 million (US$4 million) in the three months ended March 31, 2020. This increase was primarily attributable to the increase of revenues from provision of IT products and services to hotels. Legacy Huazhu's other revenues for the three months ended March 31, 2020 were RMB26 million (US$4 million), representing a 44.4% increase compared to the same period of 2019.

Operating Costs and Expenses

Our total operating costs and expenses increased by 38.9% from RMB2,129 million in the three months ended March 31, 2019 to RMB2,958 million (US$419 million) in the same period of 2020.

- *Hotel Operating Costs*. Our hotel operating costs increased by 37.0% from RMB1,735 million in the three months ended March 31, 2019 to RMB2,377 million (US$336 million) in the same period of 2020. This increase was primarily due to our consolidation of Deutsche Hospitality. Our hotel operating costs as a percentage of net revenues increased from 72.7% in the three months ended March 31, 2019 to 118.1% in same period of 2020, mainly attributable to the decrease in our net revenues. Legacy Huazhu's hotel operating costs for the three months ended March 31, 2020 were RMB1.7 billion (US$236 million), representing 129.7% of legacy Huazhu's net revenues.

- *Selling and Marketing Expenses*. Our selling and marketing expenses increased by 89.6% from RMB77 million in the three months ended March 31, 2019 to RMB146 million (US$21 million) in the same period of 2020. This increase was mainly due our consolidation of Deutsche Hospitality. Our selling and marketing expenses as a percentage of net revenues increased from 3.2% in the three months ended March 31, 2019 to 7.2% in the same period of 2020, primarily due to the decrease in our net revenues. Legacy Huazhu's selling and marketing expenses for the three months ended March 31, 2020 were RMB65 million (US$9 million), representing 5.0% of legacy Huazhu's net revenues.

- *General and Administrative Expenses*. Our general and administrative expenses increased by 53.4% from RMB206 million in the three months ended March 31, 2019 to RMB316 million (US$45 million) in the same period of 2020. Our general and administrative expenses as a percentage of net revenues increased from 8.6% in the three months ended March 31, 2019 to 15.7% in the same period of 2020. The increase was mainly attributable to the decrease in our net revenues. Legacy Huazhu's general and administrative expenses for the three months ended March 31, 2020 were RMB226 million (US$32 million), represented 17.5% of legacy Huazhu's net revenues.

- *Pre-opening Expenses*. Our pre-opening expenses increased by 6.7% from RMB104 million in the three months ended March 31, 2019 to RMB111 million (US$16 million) in the same period of 2020. Our pre-opening expenses as a percentage of net revenues increased from 4.4% in the three months ended March 31, 2019 to 5.5% in the same period of 2020, primarily due to the decrease in our net revenue. Legacy Huazhu's pre-opening expenses for the three months ended March 31, 2020 were RMB110 million (US$16 million), representing a 5.8% increase compared to the same period of 2019.

Other Operating Income, Net

Our other operating income increased from RMB6 million in the three months ended March 31, 2019 to RMB88 million (US$13 million) in the same period of 2020. Our operating income in the three months ended March 31, 2020 was mainly attributable to discretionary governmental subsidy income and a one-off compensation from a franchisee of RMB26 million (US$4 million).

Income (Losses) from Operations

As a result of the foregoing, we had loss from operations of RMB857 million (US$122 million) in the three months ended March 31, 2020, compared to income from operations of RMB264 million in the same period of 2019. Legacy Huazhu's loss from operations for the first quarter of 2020 was RMB731 million (US$103 million).

Interest Income (Expense), Net

Our net interest expense was RMB108 million (US$15 million) in the three months ended March 31, 2020. Our interest income was RMB29 million (US$4 million), and our interest expense was RMB137 million (US$19 million) in the three months ended March 31, 2020. Our net interest expense was RMB44 million in the same period of 2019. Our interest income was RMB33 million, and our interest expense was RMB77 million in the same period of 2019. The increase in our net interest expense was primarily due to increased bank borrowings in the three months ended March 31, 2020 compared to the same period of the prior year.

Other Income (Expense), Net

We had other expense, net, of RMB102 million (US$14 million) in the three months ended March 31, 2020, compared to other income, net, of RMB65 million in the same period of 2019. Other expense, net, in the three months ended March 31, 2020 was mainly related to impairment loss on investments totaling RMB92 million (US$13 million).

Unrealized Gains (Losses) From Fair Value Changes of Equity Securities

Our unrealized losses from fair value changes of equity securities was RMB1,003 million (US$142 million) in the three months ended March 31, 2020, primarily due to decreases in the prices of Accor's shares. We had unrealized losses from fair value changes of equity securities of RMB90 million in the same period of 2019. Unrealized losses from fair value changes of equity securities mainly represents the unrealized gains (losses) from our investment in equity securities with readily determinable fair values, such as shares of Accor.

Foreign Exchange Gain (Loss)

Our foreign exchange loss changed from RMB32 million in the three months ended March 31, 2019 to RMB58 million (US$8 million) in the same period of 2020, which was primarily attributable to the exchange loss related to our investment in Accor in Euro, partially offset by exchange gain of our Euro bank borrowing, as the Euro depreciated against the U.S. dollar in the three months ended March 31, 2020.

Income Tax Expense (Benefit)

We had income tax benefit of RMB30 million (US$4 million) in the three months ended March 31, 2020, compared to income tax expenses of RMB31 million in the same period of 2019. Our effective tax rate of approximately 1% in three months ended March 31, 2020 was mainly resulted from certain non-taxable loss of the fair value changes in equity securities investments and the valuation allowance provided for deferred tax assets. Our effective tax rate was approximately 19% in the same period of 2019.

(Loss) from Equity Method Investments

Our loss from equity method investments was RMB60 million (US$8 million) in the three months ended March 31, 2020, compared to RMB33 million in the same period of 2019. This change was primarily due to the loss incurred by certain of our investee companies.

Net (Loss) Attributable to Noncontrolling Interest

Net loss attributable to noncontrolling interest represents joint venture partners' share of our net loss based on their equity interest in the leased and owned hotels owned by the joint ventures which are controlled and consolidated by us. Net loss attributable to noncontrolling interest was RMB23 million (US$4 million) in the three months ended March 31, 2020, primarily due to losses from certain of our joint ventures. The net loss attributable to noncontrolling interest was RMB7 million in the same period of 2019.

Net (Loss) Income and Adjusted Net (Loss) Income Attributable to our Company (Non-GAAP)

As a result of the foregoing, net loss attributable to our Company was RMB2,135 million (US$301 million) in the three months ended March 31, 2020, compared to net income attributable to our Company of RMB106 million in the same period of 2019. Excluding share-based compensation expenses and the unrealized losses from fair value changes of equity securities, the adjusted net loss attributable to our Company (non-GAAP) for the three months ended March 31, 2020 were RMB1.1 billion (US$155 million), compared to adjusted net income attributable to our Company (non-GAAP) of RMB222 million in the same period of 2019. For the three months ended March 31, 2020, legacy Huazhu's net loss attributable to our Company was RMB2,013 million (US$284 million) and its adjusted net loss attributable to our Company (non-GAAP) was RMB981 million (US$138 million).

EBITDA (Non-GAAP) and Adjusted EBITDA (Non-GAAP)

EBITDA (non-GAAP) was negative RMB1,736 million (US$245 million) in the three months ended March 31, 2020, compared to RMB412 million in the same period of 2019. Adjusted EBITDA (non-GAAP) was negative RMB704 million (US$99 million) in the three months ended March 31, 2020, compared to RMB528 million in the same period of 2019. These changes were primarily due to the impact of COVID-19. For the three months ended March 31, 2020, legacy Huazhu's EBITDA (non-GAAP) was negative RMB1.7 billion (US$234 million) and our adjusted EBITDA (non-GAAP) was negative RMB631 million (US$88 million).

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Net Revenues

Our net revenues increased by 11.4% from RMB10,063 million in 2018 to RMB11,212 million in 2019.

- *Leased and Owned Hotels*. Net revenues from our leased and owned hotels increased by 3.3% from RMB7,470 million in 2018 to RMB7,718 million in 2019. This increase was primarily due to (1) our continued expansion of leased and owned hotels from 86,787 hotel rooms as of December 31, 2018 to 87,465 hotel rooms as of December 31, 2019; and (2) our RevPAR growth from RMB237 in 2018 to RMB240 in 2019. The increase of RevPAR for our leased and owned hotels was mainly as a result of the increase in the proportion of midscale and upscale hotels.

- *Manachised and Franchised Hotels*. Net revenues from our manachised and franchised hotels increased by 32.3% from RMB2,527 million in 2018 to RMB3,342 million in 2019. This increase was primarily due to our continued expansion of manachised hotels from 3,309 hotels and 314,932 hotel rooms as of December 31, 2018 to 4,519 hotels and 418,700 hotel rooms as of December 31, 2019 and franchised hotels from 222 hotels and 21,028 hotel rooms as of December 31, 2018 to 411 hotels and 30,711 hotel rooms as of December 31, 2019. RevPAR for our manachised and franchised hotels increased from RMB186 in 2018 to RMB188 in 2019, mainly attributable to the upgrade of economy hotels and the increase in the proportion of midscale and upscale hotels.

- *Other Revenues.* Net other revenues increased from RMB66 million in 2018 to RMB152 million in 2019. This increase was primarily attributable to the increase of revenues from provision of IT products and services to hotels.

Operating Costs and Expenses

Our total operating costs and expenses increased by 16.2% from RMB7,945 million in 2018 to RMB9,236 million in 2019.

- *Hotel Operating Costs*. Our hotel operating costs increased by 11.0% from RMB6,476 million in 2018 to RMB7,190 million in 2019. This increase was primarily due to our hotel network expansion and the increase in the proportion of midscale and upscale hotels. The increase in personnel costs, part of hotel operating costs, was also attributable to our expansion of manachised hotels from 3,309 hotels as of December 31, 2018 to 4,519 hotels as of December 31, 2019. Our hotel operating costs as a percentage of net revenues decreased from 64.4% in 2018 to 64.1% in 2019. The year-over-year decrease in the percentage was mainly attributable to the increased portion of manachised and franchised hotels.

- *Selling and Marketing Expenses*. Our selling and marketing expenses increased by 22.4% from RMB348 million in 2018 to RMB426 million in 2019. This increase was mainly due to (i) the expansion of our sales and marketing team in order to strengthen our direct sales channels at the hotel and regional levels, (ii) increased bank charges for online payments, and (iii) higher commission fees we paid to online travel agencies. Our selling and marketing expenses as a percentage of net revenues increased from 3.5% in 2018 to 3.8% in 2019.

- *General and Administrative Expenses*. Our general and administrative expenses increased from RMB851 million in 2018 to RMB1,061 million in 2019. Our general and administrative expenses as a percentage of net revenues increased from 8.5% in 2018 to 9.5% in 2019. The increase was mainly attributable to (i) our investments to expand our hotel development teams, upscale-brand hotels and IT capabilities, and (ii) our costs related to the Deutsche Hospitality acquisition.

- *Pre-opening Expenses*. Our pre-opening expenses increased from RMB255 million in 2018 to RMB502 million in 2019. The increase was mainly attributable to the construction of upscale-brand flag-ship hotels in 2019. Our pre-opening expenses as a percentage of net revenues increased from 2.5% in 2018 to 4.5% in 2019.

Other Operating Income, Net

Our other operating income decreased from RMB226 million in 2018 to RMB132 million in 2019, which was mainly attributable to (i) the one-time compensation we received from the selling shareholders of Crystal Orange as the final settlement of the sales and purchase transaction of RMB35 million in 2018, and (ii) compensations received or reversal of losses related to termination of certain leased hotels of RMB93 million in 2018, partially offset by an increase in subsidies income received related to taxes paid in 2019.

Income from Operations

As a result of the foregoing, we had income from operations of RMB2,108 million in 2019, compared to income from operations of RMB2,344 million in 2018.

Interest Income (Expense), Net

Our net interest expense was RMB155 million in 2019. Our interest income was RMB160 million, and our interest expense was RMB315 million in 2019. Our net interest expense was RMB96 million in 2018. Our interest income was RMB148 million, and our interest expense was RMB244 million in 2018. The increase in our net interest expense was primarily due to increased bank borrowings in 2019.

Other Income, Net

Our other income, net increased from RMB203 million in 2018 to RMB331 million in 2019, primarily attributable to higher gains realized from our sales of certain equity securities in 2019.

Unrealized gains (losses) from fair value changes of equity securities

Our unrealized gains from fair value changes of equity securities was RMB316 million in 2019, compared with unrealized losses from fair value changes of equity securities of RMB914 million in 2018. Unrealized gains (losses) from fair value changes of equity securities mainly represents the unrealized gains (losses) from our investment in equity securities with readily determinable fair values, such as Accor.

Foreign Exchange Loss

Our foreign exchange loss decreased from RMB144 million in 2018 to RMB35 million in 2019, which was primarily attributable to the exchange loss related to our investment in Accor in Euro, partially offset by exchange gain of our Euro bank borrowing, as the Euro depreciated against the U.S. dollar in 2019.

Income Tax Expense

Our income tax expenses increased from RMB569 million in 2018 to RMB640 million in 2019. Our effective tax rate in 2019 was 25.0%, which decreased from 40.8% in 2018. The relatively high effective tax rate in 2018 primarily reflected certain non-taxable losses associated with fair value changes in equity securities investments.

Equity Method Investments

Our loss from equity method investments increased from RMB97 million in 2018 to RMB164 million in 2019, primarily due to the loss incurred by certain investees.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest represents joint venture partners' share of our net income or loss based on their equity interest in the leased and owned hotels owned by the joint ventures which are controlled and consolidated by us. Net loss attributable to noncontrolling interest was RMB8 million in 2019, primarily due to losses from certain of our joint ventures. The net income attributable to noncontrolling interest was RMB11 million in 2018.

Net Income Attributable to Our Company and Adjusted Net Income Attributable to Our Company (Non-GAAP)

As a result of the foregoing, net income attributable to our Company increased from RMB716 million in 2018 to RMB1,769 million in 2019. The adjusted net income attributable to our Company (non-GAAP) decreased from RMB1,713 million in 2018 to RMB1,563 million in 2019.

EBITDA (Non-GAAP) and Adjusted EBITDA (Non-GAAP)

EBITDA (non-GAAP) increased from RMB2,272 million in 2018 to RMB3,555 million in 2019. Adjusted EBITDA (non-GAAP) increased from RMB3,269 million in 2018 to RMB3,349 million in 2019. This change was primarily due to the expansion of our hotel network, and the increased proportion of manachised and franchised hotels in 2019.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Net Revenues

Our net revenues increased by 22.3% from RMB8,229 million in 2017 to RMB10,063 million in 2018.

- *Leased and Owned Hotels*. Net revenues from our leased and owned hotels increased by 17.9% from RMB6,338 million in 2017 to RMB7,470 million in 2018. This increase was primarily due to (1) our continued expansion of leased and owned hotels from 671 hotels and 85,018 hotel rooms as of December 31, 2017 to 699 hotels and 86,787 hotel rooms as of December 31, 2018; and (2) our RevPAR growth from RMB211 in 2017 to RMB237 in 2018. The increase of RevPAR for our leased and owned hotels was mainly as a result of the increase in the proportion of midscale and upscale hotels.

- *Manachised and Franchised Hotels*. Net revenues from our manachised and franchised hotels increased by 36.6% from RMB1,851 million in 2017 to RMB2,527 million in 2018. This increase was primarily due to our continued expansion of manachised hotels from 2,874 hotels and 275,065 hotel rooms as of December 31, 2017 to 3,309 hotels and 314,932 hotel rooms as of December 31, 2018 and franchised hotels from 201 hotels and 19,592 hotel rooms as of December 31, 2017 to 222 hotels and 21,028 hotel rooms as of December 31, 2018. RevPAR for our manachised and franchised hotels increased from RMB171 and RMB158 in 2017 to RMB186 and RMB188 in 2018, respectively, mainly attributable to the upgrade of economy hotels and the increase in the proportion of midscale and upscale hotels.

- *Other Revenues.* Net other revenues increased from RMB40 million in 2017 to RMB66 million in 2018. This increase was primarily attributable to the increase of revenues from provision of IT products and services to hotels.

Operating Costs and Expenses

Our total operating costs and expenses increased by 15.6% from RMB6,874 million in 2017 to RMB7,945 million in 2018.

- *Hotel Operating Costs*. Our hotel operating costs increased by 14.1% from RMB5,675 million in 2017 to RMB6,476 million in 2018. This increase was primarily due to our expansion of leased and owned hotels from 671 hotels as of December 31, 2017 to 699 hotels as of December 31, 2018 and the increased proportion of our midscale and upscale hotels. The increase in personnel costs, part of hotel operating costs, was also attributable to our expansion of manachised hotels from 2,874 hotels as of December 31, 2017 to 3,309 hotels as of December 31, 2018. Our hotel operating costs as a percentage of net revenues decreased from 69.0% in 2017 to 64.4% in 2018. The year-over-year decrease in the percentage was mainly attributable to the improved blended RevPAR and the increased portion of manachised and franchised hotels.

- *Selling and Marketing Expenses*. Our selling and marketing expenses increased by 22.1% from RMB285 million in 2017 to RMB348 million in 2018. The increase was in line with the growth of our revenues. Our selling and marketing expenses as a percentage of net revenues remained stable at 3.5% in both 2017 and 2018.

- *General and Administrative Expenses*. Our general and administrative expenses increased from RMB691 million in 2017 to RMB851 million in 2018. Our general and administrative expenses as a percentage of net revenues increased from 8.4% in 2017 to 8.5% in 2018. The increase was mainly attributable to the increase of performance-related personnel costs.

- *Pre-opening Expenses*. Our pre-opening expenses increased from RMB206 million in 2017 to RMB255 million in 2018. The increase was mainly attributable to more leased midscale and upscale hotels opened or under construction in 2018. Our pre-opening expenses as a percentage of net revenues remained stable at 2.5% in both 2017 and 2018.

Other Operating Income, Net

Our other operating income was RMB226 million in 2018, which mainly included government grants of RMB106 million, gains related to compensation for termination of certain leased hotels of RMB67 million and reversal of contingent loss of RMB25 million, as well as the compensation of RMB35 million received from the selling shareholders of Crystal Orange as the final settlement of the sales and purchase transaction. Our other operating income was RMB71 million in 2017, which mainly included government grants.

Income from Operations

As a result of the foregoing, we had income from operations of RMB2,344 million in 2018, compared to income from operations of RMB1,426 million in 2017.

Interest Income (Expense), Net

Our net interest expense was RMB96 million in 2018. Our interest income was RMB148 million, and our interest expense was RMB244 million in 2018. Our net interest income was RMB26 million in 2017. Our interest income was RMB113 million, and our interest expense was RMB87 million in 2017. The change from net interest income in 2017 to net interest expense in 2018 was primarily due to our increased bank borrowings in 2018 and the Notes we issued in November 2017.

Other Income, Net

Our other income was RMB128 million and RMB203 million in 2017 and 2018, respectively, primarily attributable to the investment income from our equity investments including RMB104 million of dividends received from Accor in the third quarter of 2018.

Unrealized gains (losses) from fair value changes of equity securities

Our unrealized losses from fair value changes of equity securities was RMB914 million in 2018, compared with unrealized gains from fair value changes of equity securities of RMB35 million in 2017, primarily related to our investment in Accor.

Foreign Exchange Loss

Our foreign exchange loss increased from RMB18 million in 2017 to RMB144 million in 2018, which was primarily attributable to the exchange loss related to our investment in Accor in Euro, partially offset by the EUR241 million bank borrowing's exchange gain, as the Euro depreciated against the U.S. dollar in 2018.

Income Tax Expense

Our income tax expenses increased from RMB357 million in 2017 to RMB569 million in 2018.Our effective tax rate in 2018 was 40.8%, which increased from 22.4% in 2017, primarily reflecting certain non-taxable loss of the fair value changes in equity securities investments and a withholding tax accrued on our dividends declaration.

Loss from Equity Method Investments

Our loss from equity method investments increased from RMB12 million in 2017 to RMB97 million in 2018, primarily due to the loss incurred by certain investees.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest represents joint venture partners' share of our net income or loss based on their equity interest in the leased and owned hotels owned by the joint ventures. Net income attributable to noncontrolling interest was RMB11 million in 2018, primarily due to profits from certain of our joint ventures. The net income (loss) attributable to noncontrolling interest was not material in 2017.

Net Income Attributable to Our Company and Adjusted Net Income Attributable to Our Company (Non-GAAP)

As a result of the foregoing, we had net income attributable to our Company of RMB716 million in 2018 compared to net income attributable to our Company of RMB1,228 million in 2017. The adjusted net income attributable to our Company (non-GAAP) increased from RMB1,259 million in 2017 to RMB1,713 million in 2018.

EBITDA (Non-GAAP) and Adjusted EBITDA (Non-GAAP)

EBITDA (non-GAAP) was RMB2,272 million in 2018, compared with EBITDA (non-GAAP) of RMB2,348 million in 2017. Adjusted EBITDA (non-GAAP) increased from RMB2,379 million in 2017 to RMB3,269 million in 2018. This change was primarily due to the expansion of our hotel network, the improved RevPAR and the increased proportion of manachised and franchised hotels in 2018.

OUTSTANDING INDEBTEDNESS

In May 2017, we entered into a US$250 million term facility and US$250 million revolving credit facility agreement. The US$250 million revolving credit facility was available for 35 months after the date of the agreement. The interest rate on the loan was LIBOR plus 1.75%. There were some financial covenants including interest cover, leverage and tangible net worth related to this facility. We drew down US$250 million under the term facility agreement in 2017. We drew down US$250 million, US$370 million and US$755 million under the revolving credit facility agreement and repaid US$250 million, US$120 million and US$755 million in 2017, 2018 and 2019, respectively. The weighted average interest rate of borrowings drawn under these two facilities was 3.04%, 3.93% and 4.24% for 2017, 2018 and 2019, respectively. These two facilities were settled in January 2020.

In November 2017, we issued US$475 million of convertible senior notes to investors that we believe are independent third parties, and the note issuance did not and the note conversions do not require our Shareholders' approval. These notes will mature on November 1, 2022 and bear interest at a rate of 0.375% per annum, payable in arrears semi-annually on May 1 and November 1, beginning May 1, 2018. In 2017, proceeds to us were RMB3,093 million (US$467 million), net of issuance costs of RMB54 million (US$8 million). The notes can be converted into our ADSs at an initial conversion rate of 5.4869, before the ADS split, subject to change, of our ADSs per US$1,000 principal amount of the notes (equivalent to an initial conversion price of US$182.25 per ADS). The conversion rate of our convertible notes due 2022 are subject to customary anti-dilution adjustments, such as a change in ADS-to-Share ratio, distribution of cash or stock dividend or rights, and share split. Following a make-whole fundamental change (as defined in the indenture) that occurs prior to the maturity date or following our delivery of a notice of a tax redemption, we will increase the conversion rate for a holder who elects to convert its notes in connection with such a corporate event or such tax redemption. The increase in the applicable conversion rate will be based on (i) the date on which the make-whole fundamental change occurs or becomes effective, or the date on which we give the notice of tax redemption and (ii) the price paid (or deemed to be paid) per ADS in the make-whole fundamental change or, in the case of a tax redemption, the average of the last reported sale prices of the ADSs over the ten trading day period ending on, and including, the trading day immediately preceding the date we give such notice of redemption. The increase in the conversion rate is designed to be an approximate of the lost option value of the notes as a result of a make-whole fundamental change or a tax redemption. If the price paid (or deemed paid) per ADS in a make-whole fundamental change or when we give notice of a tax redemption is greater than a specified cap price or less than a specified floor price (each subject to adjustment), we will not increase the conversion rate for holders that convert their notes in connection with such make-whole fundamental change or a tax redemption. Based on the currently effective conversion rate of 22.5215, the maximum number of Shares that these notes could convert into would be 10.70 million ADSs, each representing one Share, accounting for 3.5% of our total outstanding Shares as of the Latest Applicable Date, assuming no future conversion rate adjustments and no conversion of our convertible senior notes due 2026. There are no special rights attached to these notes or the underlying Shares that are not available to other Shareholders under our Articles of Association. Holders of the notes may require the Company to repurchase all or a portion of the notes for cash on November 2, 2020, or upon a fundamental change, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest. We may redeem the notes, in whole but not in part, in connection with certain changes in tax law, at a redemption price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest. If we elect to redeem the notes as such, however, the noteholders may elect not to have their notes redeemed.

In connection with the issuance of our convertible senior notes due 2022, we entered into capped call transactions to reduce dilution to our existing shareholders. When a noteholder converts its notes, we can exercise the capped call options and will not be required to make any cash payments to the option counterparties upon this exercise, as we paid them premiums for the options upfront. Upon the exercise, we will be entitled to receive from the option counterparties a number of ADSs (and cash in lieu of fractional shares) (subject to a cap) for all such notes converted on a conversion date, generally corresponding to the amount by which the market price per ADS, as measured under the terms of the capped call transactions, exceeds the applicable strike price of the capped call transactions during the relevant valuation period under the capped call transactions. The strike price initially corresponds to the applicable conversion price of the notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the notes. We can then retire the ADSs received from the option counterparties, thereby reducing the increase in our total shares issued and outstanding immediately following the conversion of these notes.

In February 2018, we entered into a three-year term facility agreement under which we can borrow up to EUR260 million within 30 London business days. The interest rate on the loan for each interest period is the applicable EURIBOR plus 1.70%. We have pledged certain shares of Accor we acquired from the open market as collateral to secure this facility. The facility agreement includes certain financial covenants such as debt ratio and value of the pledged shares, and we were in compliance with such covenants as of December 31, 2019. We drew down EUR241 million under the term facility agreement in 2018 and repaid EUR193 million and EUR48 million in 2019 and February 2020, respectively. The weighted average interest rate of borrowings drawn under this agreement was 1.70% for 2018, 2019 and the three months ended March 31, 2020. This facility was settled in February 2020.

In March 2019, we entered into a five-year RMB1.2 billion bank loan contract which will expire in March 2024. Pursuant to the pledge agreements we entered into in May 2020, we have pledged a number of shares of three of our PRC subsidiaries to secure this loan. The interest rate resets every six months, and is based on the People's Bank of China's five-year benchmark interest rate on the relevant reset date. The loan contains certain financial covenants including an EBITDA to interest coverage ratio of no less than 4.00 to 1.00 and net tangible assets (namely, total assets less goodwill and intangible assets as confirmed by the bank) of no less than RMB3.0 billion, both of which are tested each six months during the loan term. On June 30, 2020, we obtained an exemption approval for this credit facility waiving the EBITDA to interest coverage ratio covenant until the six-months period ending June 30, 2021, subject to the satisfaction of certain amended covenants, including: (i) total borrowings not exceeding RMB15.7 billion during 2020, (ii) a minimum EBITDA of RMB1.0 billion in the second half of 2020, and (iii) no dividend distribution in the second half of 2020. Our financial condition as of March 31, 2020 provided us with sufficient headroom with respect to the amended covenants, including RMB48.5 billion in net tangible assets (far exceeding the minimum requirement of RMB3.0 billion) and RMB13.6 billion in borrowings (below the RMB15.7 billion cap). We drew down RMB1.2 billion, and repaid RMB89 million and RMB89 million in 2019 and March 2020, respectively. The weighted average interest rate of borrowings drawn under this agreement was 4.75% for 2019 and three months ended March 31, 2020.

In October 2019, we entered into a one-year term facility agreement under which we can borrow up to US$180 million. This loan was secured by a deposit equal to at least the aggregate of the loan facility amount, accrued interests and costs. The interest rate was fixed at 2.52%. We drew down US$180 million under this agreement in 2019, and repaid nil in 2019 and the first three months in 2020.

In December 2019, we entered into a EUR440 million term facility and US$500 million revolving credit facility agreement with several banks. The US$500 million revolving credit facility is available for 35 months from the date of this agreement. The interest rate for each interest period is the aggregate of (i) the applicable margin and (ii) LIBOR (or, in relation to any loan in Euro, EURIBOR). The margin for each loan depends on the applicable leverage range, generally 2.0% per annum. There are some financial covenants, including an EBITDA to interest coverage ratio of no less than 4.00 to 1.00, leverage (which should be no more than 4.50 to 1.00 as of December 31, 2019 and June 30, 2020, 4.00 to 1.00 as of December 31, 2020 and June 30 2021, 3.50 to 1.00 as of December 31, 2021 and June 30, 2022 and 3.00 to 1.00 after June 30,2022) and total equity of no less than RMB5.0 billion. On April 17, 2020, our syndication banks approved to release us from the original financial covenants until the six-month period ending June 30, 2021, subject to the satisfaction of certain amended covenants. The amended covenants mainly include: (i) a minimum EBITDA of RMB1 billion for the second half of 2020; (ii) no cash dividend and the aggregate of cash and cash equivalents and financing commitments from any bank or financial institution not less than RMB1.2 billion until June 30, 2021; and (iii) total borrowings not exceeding RMB15.7 billion and total equity more than zero until December 31, 2020 available financing commitment from any bank or financial institution. Our financial condition as of March 31, 2020 provided us with sufficient headroom with respect to these amended covenants, including total equity of RMB5.3 billion, total borrowings of RMB13.6 billion, and cash and cash equivalents (irrespective of our credit facilities) of RMB1.8 billion. We have pledged shares of certain of our subsidiaries to secure these facilities. Certain of our subsidiaries also provide subsidiary guarantees for these facilities. We drew down EUR440 million and US$500 million under the facility agreement in 2019. The weighted average interest rate of borrowings drawn under this agreement was 2.86% and 2.92% in 2019 and three months ended March 31, 2020, respectively.

During the three months ended March 31, 2020, we raised short-term bank borrowings amounting to RMB800 million from several PRC domestic banks to supplement our working capital. As of March 31, 2020, we had repaid RMB112 million of these loans.

In May 2020, we issued US$500 million of the convertible senior notes to investors that we believe are independent third parties, and the note issuance did not and the note conversions do not require our Shareholders' approval. These notes will mature on May 1, 2026 and bear interest at a rate of 3.00% per annum, payable in arrears semi-annually on May 1 and November 1, beginning November 11, 2020. The proceeds of these convertible senior notes were partially used for the repayment of the revolving portion of our syndicated bank borrowings, and the rest of these proceeds may be used for repurchases of our convertible senior notes due 2022, including upon the noteholders' exercise of their put option on November 2, 2020. Our convertible senior notes due 2026 can be converted into our ADSs at an initial conversion rate of 23.9710, subject to adjustment upon the occurrence of certain events, of our ADSs per US$1,000 principal amount of the notes (equivalent to an initial conversion price of approximately US$41.72 per ADS). The conversion rate of our convertible notes due 2026 are subject to customary anti-dilution adjustments, such as a change in ADS-to-Share ratio, distribution of cash or stock dividend or rights, and share split. Following a make-whole fundamental change (as defined in the indenture) that occurs prior to the maturity date or following our delivery of a notice of a tax redemption, we will increase the conversion rate for a holder who elects to convert its notes in connection with such a corporate event or such tax redemption. The mechanism for calculating the increase in the applicable conversion rate is similar as that for our convertible senior notes due 2022. Based on the currently effective conversion rate of 23.9710, the maximum number of Shares that could be converted will be 11.99 million ADSs, each representing one Share, accounting for 3.9% of our total outstanding Shares as of the Latest Applicable Date, assuming no future conversion rate

adjustments and no conversion of our convertible senior notes due 2022. There are no special rights attached to these notes or the underlying Shares that are not available to other Shareholders under our Articles of Association. Holders of the notes may require the Company to repurchase all or a portion of the notes for cash on May 1, 2024, or upon a fundamental change, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest. We may redeem the notes, in whole but not in part, in connection with certain changes in tax law, at a redemption price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest. If we elect to redeem the notes as such, however, the noteholders may elect not to have their notes redeemed.

The temporary closure of our hotels and lower occupancy rate during the COVID-19 outbreak since January 2020 may trigger an event of default under our banking arrangements. As of the date of this prospectus, we have obtained the required waiver and will continue to work with all relevant parties to obtain waivers wherever this is required. Since the outbreak, we have also received further support from some of our banks in the form of additional banking facilities and lower interest rates. For example, in the six months ended June 30, 2020, we borrowed a number of short-term loans totaling RMB644.8 million from three Chinese banks at interest rates ranging from 3.76% to 3.99%, which compared to the interest rates ranging from 4.25% to 4.57% that these banks offered us in 2019. In addition, during this six-month period, we borrowed short-term loans of RMB286.0 million from two other Chinese banks at even lower interest rates of 3.60% and 3.65%, respectively. We have on-going discussions with some banks for additional banking facilities and do not foresee any difficulties in obtaining these facilities when needed.

As of June 30, 2020, the unutilized credit facilities available to us was RMB5.3 billion. Within these facilities, Deutsche Hospitality had obtained credit facilities of EUR45 million as of June 30, 2020, including: (i) a EUR35 million 60-month loan agreement that Deutsche Hospitality entered into in July 2020 (the "**EUR35 million Loan**"), and (ii) a EUR10 million credit facility expiring on December 15, 2020, under which Deutsche Hospitality may draw down a loan not exceeding 12 months (the "**EUR10 million Facility**"). During the 60-month term of the EUR35 million Loan, Deutsche Hospitality is prohibited from conducting dividend distribution, equity redemption or other transactions that would result in payments to its shareholder. Deutsche Hospitality will be subject to similar restrictions during the loan term once a loan agreement is entered into under the EUR10 million Facility.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity have been cash generated from operating activities, borrowings from commercial banks and issuance of convertible senior notes. Our cash and cash equivalents and restricted cash consist of cash on hand, liquid investments which have maturities of three months or less when acquired and are unrestricted as to withdrawal or use, deposits used as security against borrowings, and deposits restricted due to contract disputes or lawsuits or special purpose. As of March 31, 2020, we had 63 properties for our leased and owned hotels (including 28 properties for leased hotels under Deutsche Hospitality) under development. As of March 31, 2020, we expected to incur approximately RMB2.1 billion of capital expenditures in connection with purchases of properties and equipment for certain recently completed leased and owned hotels and to fund the purchases of properties and equipment of these hotels. We intend to fund this planned expansion with our operating cash flow, our cash balance and our credit facilities.

Our business has been significantly impacted by the global outbreak of COVID-19 and began to experience operating losses and negative operating cash flows in the first quarter of 2020. We had a net loss of RMB2,135 million (US$301 million) and net cash outflows from operating activities of RMB1,346 million (US$190 million) for the three months ended March 31, 2020. We also had net current liabilities of RMB6,878 million (US$971 million) as of March 31, 2020. Our cash and cash equivalents and restricted cash were RMB3,475 million (US$491 million) as of the same date.

Due to the Chinese government's effective measures to contain the spread of COVID-19, China's domestic travel has gradually recovered, following eased travel restrictions and the national policy for resuming production and work. The occupancy rate of our hotels in China was improving steadily from March to early June 2020. As of June 30, 2020, approximately 96% of our legacy Huazhu's hotels (excluding hotels under governmental requisition) had resumed operations with an occupancy rate of approximately 83% in early June 2020. As of June 30, 2020, approximately 79% of legacy DH's hotels had resumed operations with an occupancy rate of approximately 29%.

We issued convertible senior notes in May 2020 with gross proceeds of US$500 million, and also had unutilized credit facilities of approximately RMB5.3 billion as of June 30, 2020 to support our operations.

We regularly monitor our current and expected liquidity requirements to ensure that we maintain sufficient cash balances to meet our liquidity requirements in the short and long term. Based on our cash flow projections from operating activities, existing cash and cash equivalents, current assets, convertible senior notes we issued in May 2020, available bank facilities and the net proceeds available to us from the Global Offering, we believe that we have adequate sources of liquidity to fund our working capital and capital expenditure requirements, and to meet our other liabilities and commitments when due for at least twelve months from the date of this prospectus.

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended December 31,			Three months ended March 31,		
	2017	2018	2019	2019	2020	
	(In millions of RMB)					(In millions of US$)
				(Unaudited)		
Operating cash flows before movements in working capital	2,252	2,989	4,847	814	(25)	(4)
Movements in working capital	201	60	(1,554)	(667)	(1,321)	(186)
Net cash provided by (used in) operating activities	2,453	3,049	3,293	147	(1,346)	(190)
Net cash (used in) investing activities	(6,235)	(6,345)	(285)	(378)	(5,235)	(739)
Net cash provided by (used in) financing activities	4,536	4,248	6,045	(194)	(3,893)	(550)
Effect of exchange rate changes on cash and cash equivalents	(34)	(24)	62	(2)	(50)	(7)
Net increase (decrease) in cash, cash equivalents and restricted cash	720	928	9,115	(427)	(10,524)	(1,486)
Cash, cash equivalents and restricted cash at the beginning of the year	3,236	3,956	4,884	4,884	13,999	1,977
Cash, cash equivalents and restricted cash at the end of the year	3,956	4,884	13,999	4,457	3,475	491
Interest paid, net of amounts capitalized	187	239	414	82	87	12
Income taxes paid	380	613	712	207	112	16

Operating Activities

During the Track Record Period, we financed our operating activities primarily through cash generated from operations.

Net cash used in operating activities amounted to RMB1,346 million (US$190 million) in the three months ended March 31, 2020, primarily attributable to (i) net loss of RMB2,158 million (US$305 million) mainly due to the impact of COVID-19, and (ii) a decrease in accrued expenses and other current liabilities of RMB696 million (US$98 million) due to our settlement of payables, partially offset by (i) an add-back of RMB1,088 million (US$154 million) in investment loss and (ii) an add-back of RMB545 million (US$77 million) in non-cash lease expense.

Net cash provided by operating activities amounted to RMB3,293 million in 2019, primarily attributable to (i) our net income of RMB1,761 million, (ii) an add-back of RMB2,235 million in non-cash lease expense, (iii) an add-back of RMB991 million in depreciation and amortization, and (iv) an increase of RMB408 million in accrued expenses and other current liabilities, partially offset by (i) a decrease in operating lease liabilities of RMB2,036 million; and (ii) a deduction of investment income of RMB477 million.

Net cash provided by operating activities amounted to RMB3,049 million in 2018, primarily attributable to (i) our net income of RMB727 million, (ii) an add-back of RMB1,009 million in investment loss, (iii) an add-back of RMB891 million in depreciation and amortization, (iv) an add-back of RMB157 million of loss from equity method investments, net of dividends; (v) an add-back of RMB140 million in the deferred rent because rental accrued on a straight-line

basis exceeded rental paid out of our contractual liabilities and (vi) an increase of RMB140 million in accrued expenses and other current liabilities, partially offset by an increase of prepaid rent of RMB283 million.

Net cash provided by operating activities amounted to RMB2,453 million in 2017, primarily attributable to (i) our net income of RMB1,228 million, (ii) an add-back of RMB789 million in depreciation and amortization, (iii) an increase of RMB278 million in accrued expenses and other current liabilities, (iv) an add-back of RMB209 million in the deferred rent because rental accrued on a straight-line basis exceeded rental paid out of our contractual liabilities and (v) an add-back of RMB169 million of impairment loss, partially offset by an increase of prepaid rent of RMB189 million.

Investing Activities

Our cash used in investing activities of RMB5,235 million (US$739 million) in the three months ended March 31, 2020 was primarily related to acquisitions, net of cash received, of RMB5,056 million (US$714 million), in connection with our acquisition of Deutsche Hospitality.

Our cash used in investing activities of RMB285 million in 2019 was primarily related to RMB1,527 million in our purchase of property and equipment, including leasehold improvements, purchase of equipment, fixtures in leased and owned hotels, as well as acquisition of Deutsche Hospitality, purchase of marketable securities from the open market and investment in hotel related funds. These factors were offset in part by proceeds of RMB2,002 million from maturity/sale and return of long-term investments.

Our net cash used in investing activities of RMB6,345 million in 2018 was primarily related to (i) long-term investments of RMB4,959 million, mainly due to our purchase of equity securities of Accor, and (ii) purchases of property and equipment from RMB1,115 million, mainly due to the construction of upscale hotels.

Our net cash used in investing activities of RMB6,235 million in 2017 was primarily related to (i) acquisitions, net of cash received, of RMB3,746 million in 2017, mainly due to the acquisition of Crystal Orange, (ii) purchases of long-term investments of RMB1,328 million, mainly equity securities of Accor, and (iii) purchase of property and equipment of RMB819 million.

Investments

Our investments generally include equity securities with readily determinable fair values, equity securities without readily determinable fair values, equity-method investments and available-for-sale debt securities. The following table sets forth our investments as of the dates indicated.

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	(In millions of RMB)			
Equity securities with readily determinable fair values:				
Accor	780	3,816	2,770	1,458
Other marketable securities	257	295	138	81
Equity securities without readily determinable fair values:				
Cjia/Cjia Group	–	298	232	215
OYO	66	66	66	66
Mobike	67	–	–	–
BJ GOOAGOO/GOOAGOO	60	–	–	–
Blossom Hotel Management	60	–	–	–
Other equity securities without readily determinable fair values	103	113	100	69
Equity-method investments:				
AAPC LUB	478	461	469	464
Hotel related funds	56	503	507	498
Shared office management entities	148	111	10	5
Cjia/Cjia Group	–	–	–	–
China Hospitality JV	–	117	115	113
GOOAGOO/Data Driven	–	52	49	49
Zleep Hotels A/S	–	–	–	102
Other investments	71	89	161	119
Available-for-sale debt securities:				
Cjia/Cjia Group	246	220	220	220
CREATER	100	100	–	–
Total	2,492	6,241	4,837	3,459

A significant portion of our investments as of December 31 of 2017, 2018 and 2019 and March 31 of 2020 was related to our investments in shares of Accor, a hotel group listed on the Paris stock exchange, which are equity securities with readily determinable fair values. As of March 31, 2020, we held less than 3% of Accor's total number of shares.

We recognized unrealized gains from fair value changes of equity securities of RMB35 million in 2017 and RMB316 million in 2019, and unrealized losses from fair value changes of equity securities of RMB914 million in 2018 and RMB1,003 million (US$142 million) in the three months ended March 31, 2020. See Note 7 "Investments" of the Accountants' Report in Appendix IA to this prospectus for more information on our investments.

We did the impairment testing for equity securities without readily determinable fair values, equity-method investments and available-for-sale debt securities and recorded impairment losses of RMB45 million, RMB47 million and nil for these respective assets for the three months ended March 31, 2020.

All of our equity and debt investments, joint ventures, strategic alliances, acquisitions and other investments generally require review and approval of our investment committee. Our investment committee comprises our chairman and chief executive officer, chief financial officer, president, and our vice president in charge of our strategic investment and capital markets department, and these members fully discuss the proposals and come to a consensus before making investment decisions. We also submit to our Board of Directors for approval any investment proposals that our management considers material to our Group.

Financing Activities

Our major financing activities since 2017 consist of loans with commercial banks, issuance of convertible senior notes and payment of dividends.

Net cash used in financing activities of RMB3,893 million (US$550 million) in the three months ended March 31, 2020 primarily consisted of (i) repayment of long-term bank borrowings of RMB3,902 million (US$551 million), (ii) dividends paid of RMB677 million (US$96 million, and (iii) repayment of short-term bank borrowings of RMB112 million (US$16 million), offset in part by proceeds from short-term bank borrowings of RMB800 million (US$113 million).

Net cash provided by financing activities of RMB6,045 million in 2019 primarily consisted of (i) proceeds of RMB13,176 million from long-term bank borrowings and (ii) proceeds of RMB2,214 million from short-term bank borrowings, partially offset by (i) repayment of long-term bank borrowings of RMB6,760 million and (ii) repayment of short-term bank borrowings of RMB1,902 million.

Net cash provided by financing activities of RMB4,248 million in 2018 primarily consisted of (i) proceeds of RMB4,275 million from long-term bank borrowings and (ii) proceeds of RMB928 million from short-term bank borrowings, partially offset by (i) repayment of long-term bank borrowings of RMB799 million, and (ii) repayment of short-term bank borrowings of RMB128 million.

Net cash provided by financing activities in 2017 primarily consisted of (i) proceeds of RMB3,633 million from long-term bank borrowings, (ii) proceeds of RMB2,925 million from issuance of convertible senior notes, net of issuance cost and capped call option, and (iii) proceeds of RMB137 million from short-term bank borrowings, partially offset by (i) repayment of long-term bank borrowings of RMB1,651 million, (ii) dividend payment of RMB306 million, and (iii) repayment of short-term bank borrowings of RMB295 million.

Restrictions on Cash Transfers to Us

We are a holding company with no material operations of our own. We conduct our operations primarily through our subsidiaries in China. As a result, our ability to pay dividends and to finance any debt we may incur depends upon dividends paid to us by our subsidiaries. If our subsidiaries or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our subsidiaries are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Pursuant to laws

applicable to entities incorporated in the PRC, our subsidiaries in the PRC must make appropriations from after-tax profit to non-distributable reserve funds. These reserve funds include one or more of the following: (i) a general reserve, (ii) an enterprise expansion fund and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires an annual appropriation of 10% of after-tax profit (as determined under accounting principles generally accepted in the PRC at each year-end) until the accumulative amount of such reserve fund reaches 50% of its registered capital; the other fund appropriations are at the subsidiaries' discretion. These reserve funds can only be used for the specific purposes of enterprise expansion, staff bonus and welfare, and are not distributable as cash dividends. In addition, due to restrictions on the distribution of share capital from our PRC subsidiaries, the share capital of our PRC subsidiaries, is considered restricted. As a result of the PRC laws and regulations, as of March 31, 2020, approximately RMB3,582 million (US$506 million) was not available for distribution to us by our PRC subsidiaries in the form of dividends, loans, or advances.

Furthermore, under regulations of the SAFE, the Renminbi is not convertible into foreign currencies for capital account items, such as loans, repatriation of investments and investments outside of China, unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made.

The EIT Law provides that enterprises established outside of China whose "de facto management bodies" are located in China are considered resident enterprises. Currently, it is still unclear whether the PRC tax authorities would determine that we should be classified as a PRC resident enterprise. See "Regulatory Overview—PRC Regulations—Regulations on Taxation."

The EIT Law imposes a withholding tax of 10% on dividends distributed by a foreign-invested enterprise to its immediate holding company outside of China, if such immediate holding company is considered a non-resident enterprise without any establishment or place within China, or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding tax rate. A holding company which is a tax resident in Hong Kong, for example, would be subject to a 5% withholding tax rate on the dividends received from its PRC subsidiary if it owns at least 25% equity in the PRC subsidiary and is the beneficial owner of the dividends.

The EIT Law provides that PRC resident enterprises are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. Therefore, if we are treated as a PRC resident enterprise, we will be subject to PRC income tax on our worldwide income at the 25% uniform tax rate, which could have an impact on our effective tax rate and an adverse effect on our net income and results of operations, although we would be exempted from enterprise income tax on dividends distributed from our PRC subsidiaries to us, since such income received by PRC resident enterprise is tax exempted under the EIT Law.

Our German subsidiaries are permitted to pay dividends from their distributable profit as long as there are no agreements, such as debt covenants, that restrict such payments, in which regulations applying to stock corporations (Aktiengesellschaft) have to be taken into account. See "—Dividend Policy" for more information.

Pursuant to the Companies Act (Chapter 50) of Singapore, dividends are only payable out of profits. Typically, the directors will recommend a particular rate of dividend and the company will, in general meetings, declare the dividend subject to the maximum recommended by the directors.

We do not expect any of such restrictions or taxes to have a material impact on our ability to meet our cash obligations.

Capital Expenditure

Our capital expenditures were incurred primarily in connection with leasehold improvements, investments in furniture, fixtures and equipment and technology, information and operational software. Our capital expenditures totaled RMB1,069 million, RMB1,451 million, RMB1,881 million and RMB287 million (US$40.5 million) in 2017, 2018, 2019 and the three months ended March 31, 2020, respectively. Our capital expenditures in the three months ended March 31, 2020 consisted of RMB286 million (US$40.4 million) in property and equipment and RMB1 million (US$0.1 million) in software and licenses. We will continue to make capital expenditures to meet the expected growth of our operations. Our cash balance, cash generated from our operating activities and credit facilities will meet our capital expenditure needs in the foreseeable future.

TREND INFORMATION

Our wholly owned subsidiary, Jizhu Information and Technology (Shanghai) Co., Ltd ("**Jizhu Shanghai**"), which was previously known as Mengguang Information and Technology (Shanghai) Co., Ltd, as a recognized software development entity located in Shanghai of PRC, is entitled to a two-year exemption and three-year 50% reduction starting from the first profit making year after absorbing all prior years' tax losses. Jizhu Shanghai has entered into the first tax profitable year for the year ended December 31, 2014. Therefore, Jizhu Shanghai applied tax exemption from 2014 to 2015, and was subject to a preferential tax rate of 12.5% from 2016 to 2018. In November 2018, Jizhu Shanghai was qualified as a high and new tech enterprise, resulting in it being subject to a reduced tax rate of 15% in 2019 and 2020. Another PRC subsidiary, Mengguang Information and Technology (Jiangsu) Co., Ltd. ("**Jiangsu Mengguang**"), has been qualified as a high and new tech enterprise, resulting in it subject to a reduced tax rate of 15% in 2019, 2020 and 2021. The aggregate amount and per share effect of tax holidays were as follows:

	Year Ended December 31,			Three Months Ended March 31,	
	2017	2018	2019	2019	2020
	(RMB in millions, except per share data)			(Unaudited)	
Aggregate amount	24	31	45	32	28
Per share effect-basic	0.09	0.11	0.16	0.11	0.10
Per share effect-diluted	0.08	0.10	0.15	0.11	0.10

WORKING CAPITAL

We recorded net current assets of RMB1,990 million, RMB1,005 million and RMB969 million and negative RMB6,878 million (US$971 million) as of December 31, 2017, 2018 and 2019 and March 31, 2020, respectively. As of June 30, 2020, we recorded total current assets of

RMB8,366 million (US$1,185 million) (unaudited) and total current liabilities of RMB14,351 million (US$2,032 million) (unaudited). In addition, as of June 30, 2020, we had cash and cash equivalents of RMB3,699 million (US$524 million) (unaudited) and restricted cash of RMB1,368 million (US$194 million) (unaudited). In connection with the financial data as of June 30, 2020 in this paragraph, translations of RMB into U.S. dollars were made at RMB7.0651 to US$1.00, the exchange rate on June 30, 2020 as set forth in the H.10 statistical release of the Federal Reserve Board. The following table sets forth a breakdown of our current assets and liabilities as of the dates indicated.

	As of December 31,				
	2017	2018	2019	As of March 31, 2020	
	(In millions of RMB)				(In millions of US$)
Current Assets					
Cash and cash equivalents	3,475	4,262	3,234	1,800	254
Restricted cash	481	622	10,765	1,675	237
Short-term investments measured at fair value	130	89	2,908	1,539	217
Account receivable, net	163	195	218	405	57
Loan receivables	381	94	193	222	31
Amounts due from related parties	118	176	182	220	31
Prepaid rent	660	955	–	–	–
Inventories	24	41	57	90	13
Other current assets	329	540	699	859	121
Total current assets	5,761	6,974	18,256	6,810	961
Current Liabilities:					
Short-term debt	131	948	8,499	5,782	816
Accounts payable	766	890	1,176	1,143	161
Amounts due to related parties	37	75	95	77	11
Salary and welfare payables	427	521	491	547	77
Deferred revenue	943	1,005	1,179	1,230	174
Operating lease liabilities, current	–	–	3,082	3,388	478
Finance lease liabilities, current	–	–	–	23	3
Accrued expenses and other current liabilities	1,249	1,607	1,856	1,330	188
Dividends payable	–	658	678	–	–
Income payable	218	265	231	168	24
Total current liabilities	3,771	5,969	17,287	13,688	1,932
Net current assets (liabilities)	1,990	1,005	969	(6,878)	(971)

Our net current assets decreased from RMB1,990 million as of December 31, 2017 to RMB1,005 million as of December 31, 2018, primarily due to our dividends payable as of the end of 2018.

Our net current assets decreased further to RMB969 million as of December 31, 2019, primarily due to reclassification of our prepaid rent into right-of-use assets (non-current) and recognition of short-term lease obligations in operating lease liabilities (current), following our adoption of the new lease accounting policy on January 1, 2019.

Our net current assets of RMB969 million as of December 31, 2019 changed to net current liabilities of RMB6,878 million (US$971 million) as of March 31, 2020. This change was primarily because of (i) a decrease in restricted cash as we paid off the outstanding consideration for our acquisition of Deutsche Hospitality and (ii) a decrease in cash and cash equivalents, which we used to pay for our operating costs and expenses after experiencing declines in revenues since the outbreak of COVID-19 in January 2020.

Our net current liabilities decreased slightly from RMB6,878 million (US$971 million) as of March 31, 2020 to RMB5,985 million (US$847 million) (unaudited) as of June 30, 2020, primarily due to an increase in cash and cash equivalents resulting from part of the proceeds from our issuance in May 2020 of our convertible senior notes due 2026.

The increase in accounts receivable from RMB218 million as of December 31, 2019 to RMB405 million (US$57 million) as of March 31, 2020 was primarily due to our consolidation of Deutsche Hospitality. As of March 31, 2020, we had RMB405 million (US$57 million) account receivable, primarily consisting of franchise fee receivables, amounts due from corporate customers, travel agents and hotel guests and credit card receivables. RMB283 million, or 69.9%, of our accounts receivable as of March 31, 2020 had been settled as of June 30, 2020.

For a more detailed discussion of our cash position, being the balance sheet item that has material impact on our liquidity, as well as material changes in the various working capital items, see "—Liquidity and Capital Resources."

OFF-BALANCE SHEET ARRANGEMENTS

Other than operating lease commitments and purchase obligations set forth in the table under "—Contractual Obligations," we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or R&D services with us.

CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations as of March 31, 2020:

	Payment Due in the Year Ending December 31,						Payment Due
	Total	2020	2021	2022	2023	2024	Thereafter
	(In RMB millions)						
Operating Lease Obligations	45,904	3,080	3,856	3,756	3,644	3,546	28,022
Finance Lease Obligations	3,770	65	113	126	128	129	3,209
Purchase Obligations	369	369	–	–	–	–	–
Bank Borrowing and Other Debt, with Principal and Interest	11,149	2,102	1,000	7,492	336	167	52
Convertible Senior Notes with Principal and Interest	3,378	3,378	–	–	–	–	–
Total	64,570	8,994	4,969	11,374	4,108	3,842	31,283

As of March 31, 2020, we had 32 lease contracts whose lease terms had not yet commenced, which we expect to account for as operating or finance leases. The future undiscounted lease payments for these non-cancellable lease contracts are RMB8.3 billion, which are not reflected in the consolidated balance sheets and the table above.

Our purchase obligations primarily consisted of contractual commitments in connection with leasehold improvements and installation of equipment for our leased hotels.

As of March 31, 2020, we recorded liabilities of uncertain tax benefits of approximately RMB38 million (US$5 million) associated with the interests on intercompany loans.

As of March 31, 2020, our bank borrowings and other debt consisted primarily of our syndicated loans of EUR440 million and US$500 million under our facilities agreement entered into in December 2019.

As of the same date, our convertible senior notes due 2022 had an outstanding principal amount of US$475 million, and we had reclassified the notes as short-term debt since noteholders have a put option right, which can be exercised on November 2, 2020.

In May 2020, we issued convertible senior notes due 2026 in the principal amount of US$500 million to repurchase our 2022 convertible senior notes and repay part of our loans.

As of June 30, 2020, we had short-term debt of RMB5,821 million (US$824 million) (unaudited), consisting primarily of our convertible senior notes due 2022 and a bank loan of US$180 million, all of which were outstanding. As of June 30, 2020, we had long-term debt of RMB9,240 million (US$1,308 million) (unaudited), consisting primarily of our convertible senior notes due 2026, EUR440 million and US$200 million syndicated loans and the non-current portion of an RMB1.0 billion bank loan. These short-term debt and long-term debt were unsecured and unguaranteed except that short-term debt and long-term debt of RMB2,432 million (US$344 million) were secured by deposits, shares of certain subsidiaries of the Group or property and equipment.

As of June 30, 2020, we had operating lease liabilities of RMB31,005 million (US$4,388 million) (unaudited) and finance lease liabilities of RMB2,237 million (US$317 million) (unaudited), certain of which were secured by the rental deposits. Except for the operating lease liabilities of RMB404 million (US$57 million) were guaranteed by bank facilities and RMB273 million (US$39 million) were guaranteed by individuals, operating lease liabilities and finance lease liabilities were unguaranteed.

As of June 30, 2020, save as disclosed in this subsection and "—Contractual Obligations," we did not have any bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges hire purchase commitments or other outstanding material contingent liabilities.

From June 30, 2020 to the Latest Practicable Date, we had a US$100 million net increase in our outstanding syndicated loans and we drew down EUR10 million under our EUR35 million loan facility. Save as disclosed in this subsection, since June 30, 2020 and up to the Latest Practicable Date, there has not been any material and adverse change in our indebtedness and contingent liabilities. Our Directors do not foresee any potential difficulty in obtaining bank facilities should the need arise.

QUANTITATIVE AND QUALITATIVE FINANCIAL RISKS

Interest Rate Risk

Our exposure to interest rate risk primarily relates to the interest rates for our outstanding debt and the interest income generated by excess cash invested in liquid investments with original maturities of three months or less. We do not rely on derivative financial instruments to manage our interest risk exposure. Interest-earning instruments carry a degree of interest rate risk.

We have not been exposed to material risks due to changes in interest rates. However, our future interest income and interest expense may be different from expected due to changes in market interest rates.

Foreign Exchange Risk

A significant portion of our revenues, expenses and financial assets are denominated in RMB. Our Reporting currency is Renminbi. The functional currencies of entities within Deutsche Hospitality include Euro and other currencies such as Swiss Franc. Our exposure to foreign exchange risk primarily relates to cash and cash equivalents and loans denominated in U.S. dollars and Euro, and our investment in equity securities of Accor denominated in Euro. The value of your investment in our ADSs will be affected by the foreign exchange rate between U.S. dollars and RMB and between U.S. dollars and Euro because the value of our business is effectively denominated in RMB and Euro, while the ADSs will be traded in U.S. dollars.

The value of the RMB against the U.S. dollar, the Hong Kong dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of RMB into foreign currencies, including U.S. dollars and Hong Kong dollars, has been based on rates set by the People's Bank of China. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy caused the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the RMB has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future. To the extent we hold assets

denominated in U.S. dollars, any appreciation of the RMB against the U.S. dollar could result in a change to our statement of operations and a reduction in the value of our U.S. dollar denominated assets. On the other hand, a decline in the value of the RMB against the U.S. dollar and the Hong Kong dollar could reduce the U.S. dollar equivalent amounts of our financial results, the value of your investment in our company and the dividends we may pay in the future, if any, all of which may have a material adverse effect on the prices of ADSs and Shares. To the extent that we need to convert U.S. dollars or Hong Kong dollars into Renminbi or Euro for our operations, appreciation of the Renminbi or Euro against the U.S. dollar or Hong Kong dollar would have an adverse effect on the Renminbi or Euro amount we receive from the conversion.

By way of example, assuming we had converted a U.S. dollar denominated cash balance of US$1 million as of March 31, 2020 into Renminbi at the exchange rate of US$1.00 for RMB7.0808, such cash balance would have been approximately RMB7.08 million (US$1 million). Assuming a 1.0% depreciation of the RMB against the U.S. dollar, such cash balance would have increased to RMB7.15 million (US$1 million) as of March 31, 2020.

Inflation

Since our inception, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, consumer price index in China increased by 1.6%, 2.1% and 2.3% in 2017, 2018 and 2019, respectively. The overseas markets in which we operate are generally not hyper-inflationary economies. Although we have not been materially affected by inflation in the past, we may be affected if China or any other market in which we operate experiences higher rates of inflation in the future.

DIVIDEND POLICY

We approved in November 2019 and declared on January 3, 2020 a cash dividend of US$0.34 per Share, or US$0.34 per ADS. Cash dividends on our Shares are paid in U.S. dollars, and the total amount of cash distributed for the dividend was approximately US$100 million, which was paid in full in February 2020.

On December 13, 2018, we approved and then declared a cash dividend of US$0.34 per Share, or US$0.34 per ADS. Cash dividends on our Shares are paid in U.S. dollars, and the total amount of cash distributed for the dividend was approximately US$100 million, which was paid in full by January 15, 2019.

On October 23, 2017, we approved and then declared a cash dividends of US$0.16 per Share, or US$0.64 per ADS, each representing four Shares. Cash dividends on our Shares are paid in U.S. dollars, and the total amount of cash distributed for the dividend was approximately US$44 million, which was paid in full by December 15, 2017.

We are a holding company with no material operations of our own. We conduct our operations primarily through our subsidiaries in China, as well as our subsidiaries in Europe and other jurisdictions. As a result, our ability to pay dividends and to finance any debt we may incur depends upon dividends paid to us by our subsidiaries. If our subsidiaries or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our PRC subsidiaries are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Pursuant to laws applicable to entities incorporated in the PRC, our subsidiaries in the PRC must make appropriations from after-tax profit to non-distributable reserve funds. These reserve funds include one or more of the

following: (i) a general reserve, (ii) an enterprise expansion fund and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires an annual appropriation of 10% of after-tax profit (as determined under accounting principles generally accepted in the PRC at each year-end) until the accumulative amount of such reserve fund reaches 50% of its registered capital; the other fund appropriations are at the subsidiaries' discretion. These reserve funds can only be used for specific purposes of enterprise expansion, staff bonus and welfare, and are not distributable as cash dividends. In 2019, PRC dividend withholding tax of RMB73 million was accrued. As of December 31, 2019, the accrued PRC dividend withholding tax liability was RMB18 million. We plan to maintain a moderate dividend distribution every year within the range of 0.5% to 2.0% of our market capitalization from current year net income since 2018. However, we are restricted from distributing cash dividends until June 30, 2021 pursuant to the waiver from certain financial covenants that we obtained on April 17, 2020 for our syndicated bank loans and therefore we will not accrue PRC dividend withholding tax in 2020.

Our German subsidiaries are permitted to pay dividends from their distributable profit as long as there are no agreements, such as debt covenants, that restrict such payments, in which regulations applying to stock corporations (Aktiengesellschaft) have to be taken into account. See "—Outstanding Indebtedness" for more information. The distributable profit is calculated based on the respective subsidiary's annual unconsolidated financial statements prepared in accordance with the German accounting principles, namely, the general accounting principles stated in the German Commercial Code (Handelsgesetzbuch). Distributions of dividends on shares of stock corporations (Aktiengesellschaften) for a given financial year are generally determined by a process in which the management board (Vorstand) and supervisory board (Aufsichtsrat) submit a proposal to the annual general shareholders' meeting (Hauptversammlung) held in the subsequent financial year and such annual general shareholders' meeting (Hauptversammlung) adopts a resolution. German law provides that a resolution concerning dividends and distribution thereof may be adopted only on the basis of a balance sheet profit (Bilanzgewinn) shown in the company's adopted annual single entity financial statements (festgestellter Jahresabschluss). If the management board and supervisory board adopt the financial statements, they can allocate an amount of up to half of the company's net income for the year to other surplus reserves. Additions to the legal reserves and loss carryforwards must be deducted in advance when calculating the amount of net income for the year to be allocated to other surplus reserves. Dividends on shares resolved by the general shareholders' meeting (Hauptversammlung) are paid annually, generally shortly after the annual shareholders' meeting (Hauptversammlung), in compliance with the rules of the respective clearing system. Dividend payment claims by shareholders are subject to a three-year statute of limitations. Details concerning any dividends resolved by the annual shareholders' meeting (Hauptversammlung) and the respective paying agents specified by the company will be published in the electronic version of the Federal Gazette (elektronischer Bundesanzeiger). The German subsidiary IntercityHotel GmbH is commercially integrated into Deutsche Hospitality through a profit and loss transfer agreement (Gewinnabführungsvertrag) in such a way that its annual profits are automatically paid to Deutsche Hospitality and losses are absorbed by Deutsche Hospitality.

Pursuant to the Companies Act (Chapter 50) of Singapore, dividends are only payable out of profits. Typically, the directors will recommend a particular rate of dividend and the company in general meeting will declare the dividend subject to the maximum recommended by the directors.

Subject to certain contractual restrictions, our Board of Directors has complete discretion in deciding whether to distribute dividends and the dividend amounts within the approved range. Other than these dividends distributions, we intend to indefinitely reinvest the remaining undistributed earnings of our subsidiaries.

PROPERTY INTERESTS AND PROPERTY VALUATION

D&P China (HK) Limited, an independent property valuer, has valued our owned properties as at June 30, 2020. The full text of its letter, summary of valuations and valuation report in connection with these property interests are set out in Appendix III to this prospectus.

The table below sets forth the reconciliation of aggregate carrying amounts of property interests from our financial information as at March 31, 2020 to June 30, 2020 and the revalued amount of our property interests as at June 30, 2020.

	(RMB in millions)
Net book value of property interests as at March 31, 2020	533
Less: Depreciation of building and facilities during the period from March 31, 2020 to June 30, 2020	4
Addition of book value of building and facilities during the period from March 31, 2020 to June 30, 2020	25
Net book value of property interests as at June 30, 2020	554
Valuation surplus as at June 30, 2020	432
Valuation as at June 30, 2020	986

NO MATERIAL ADVERSE CHANGE

After due and careful consideration, our Directors confirm that, up to the Latest Practicable Date, there has not been any material adverse change in our financial or trading position or prospects since March 31, 2020, and there is no event since March 31, 2020 that would materially affect the information shown in the Accountants' Report in Appendix IA to this prospectus.

LISTING EXPENSES

We expect to incur listing expenses of approximately RMB159.8 million (assuming that the Global Offering is conducted at the indicative offer price per Offer Share of HK$368.00 and the Over-allotment Option is not exercised). We will recognize RMB9.3 million as general and administrative expenses in the year ending December 31, 2020 and RMB150.5 million as a deduction in equity directly.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS LESS LIABILITIES

The following unaudited pro forma adjusted consolidated net tangible assets less liabilities of our Group attributable to ordinary shareholders of our Company prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules is set out to illustrate the effect of the Global Offering on the unaudited consolidated net tangible assets less liabilities of our Group attributable to the ordinary shareholders of our Company as of June 30, 2020, as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted consolidated net tangible assets less liabilities of our Group attributable to ordinary shareholders of our Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets less liabilities of our Group, had the Global Offering been completed as of June 30, 2020 or at any future dates. It is prepared based on the unaudited consolidated net tangible assets less liabilities of our Group attributable to ordinary shareholders of our Company as of June 30, 2020 as derived from Appendix IC to this prospectus, and adjusted as described below.

	Unaudited consolidated net tangible assets less liabilities of our Group attributable to ordinary shareholders of our Company as of June 30, 2020	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets less liabilities of our Group attributable to ordinary shareholders of our Company as of June 30, 2020	Unaudited pro forma adjusted consolidated net tangible assets less liabilities of our Group attributable to ordinary shareholder of our Company per Share	Unaudited pro forma adjusted consolidated net tangible assets less liabilities of our Group attributable to ordinary shareholders of our Company per ADS	Unaudited pro forma adjusted consolidated net tangible assets less liabilities of our Group attributable to ordinary shareholders of our Company per Share	Unaudited pro forma adjusted consolidated net tangible assets less liabilities of our Group attributable to ordinary shareholders of our Company per ADS
	(in millions of RMB)	(in millions of RMB)	(in millions of RMB)	RMB	RMB	HK$	HK$
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 5)*
Based on the indicative offer price of HK$368.00 per Offer Share	(6,594)	6,497	(97)	(0.32)	(0.32)	(0.36)	(0.36)

Notes:

1. The unaudited consolidated net tangible assets less liabilities of our Group attributable to ordinary shareholders of our Company as of June 30, 2020 is extracted from Appendix IC to this prospectus, which is based on the unaudited consolidated net assets of our Group attributable to ordinary shareholders of our Company as of June 30, 2020 of RMB4,736 million with adjustments for goodwill and intangible assets attributable to the ordinary shareholders of our Company of RMB5,402 million and RMB5,928 million, respectively.

2. The estimated net proceeds from the Global Offering are based on 20,422,150 Offer Shares at the indicative offer price of HK$368.00 per Offer Share after deduction of the estimated listing and share issue costs (including underwriting fees and other related expenses) expected to be incurred by our Company subsequent to June 30, 2020 and without taking into account any allotment, issuance of any Shares upon the conversion of our Company's convertible senior notes due 2022 or convertible senior notes due 2026 and issuance of any Shares upon the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of restricted stocks or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs by the Company. For the purpose of calculating the estimated net proceeds from the Global Offering, the translation of Hong Kong dollars into Renminbi was made at the exchange rate of HK$1.00 to RMB0.8857, which is derived from the respective exchange rate of Hong Kong dollars and Renminbi against U.S. Dollars on August 28, 2020 set forth in the H.10 statistical release of the Federal Reserve Board. No representation is made that Hong Kong dollars have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

3. The unaudited pro forma adjusted consolidated net tangible assets less liabilities of our Group attributable to ordinary shareholder of our Company per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 306,926,800 Shares are in issue assuming the Global Offering has been completed on June 30, 2020, without taking into account any allotment, issuance of any Shares upon the conversion of our Company's convertible senior notes due 2022 or convertible senior notes due 2026 and

issuance of any Shares which may be issued upon the exercise of the Over-allotment Option and Shares which may be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of the options or the vesting of restricted stock or other awards that have been or may be granted from time to time and the issuance or repurchase of Shares and/or ADSs by our Company.

4. The unaudited pro forma adjusted consolidated net tangible assets less liabilities of our Group attributable to ordinary shareholders of our Company per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents one Share.

5. For purposes of the unaudited pro forma adjusted net tangible assets less liabilities of our Group attributable to ordinary shareholders of our Company, the balances stated in Renminbi are converted into Hong Kong dollars at an exchange rate of RMB1.00 to HK$1.1290, which is derived from the respective exchange rate of Hong Kong dollars and Renminbi against U.S. Dollars on August 28, 2020 set forth in the H.10 statistical release of the Federal Reserve Board. No representation is made that Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.

6. No adjustment has been made to reflect the unaudited pro forma adjusted consolidated net tangible assets less liabilities of our Group attributable to the ordinary shareholders of our Company to reflect any trading result or other transactions of our Group entered into subsequent to June 30, 2020.

BOARD OF DIRECTORS

Our Board consists of nine Directors and an alternate Director. The table below sets forth certain information of each of our Directors:

Name	Age	Position(s)/ role and responsibilities	Time of joining our Group[4]	Date of appointment as Director
JI Qi (季琦)	53	Founder, Executive Chairman and Chief Executive Officer	February 2005	February 4, 2007
ZHANG Min (張敏)	46	Director and Vice Chairlady	September 2007	November 8, 2019
Sébastien, Marie, Christophe BAZIN	58	Director	January 2016	January 25, 2016
Gaurav BHUSHAN	49	Alternate director to Sébastien BAZIN	April 2016	April 15, 2016
ZHANG Shangzhi (張尚稚)	67	Director	June 2016	June 24, 2016
John WU Jiong (吳炯)[1][2]	53	Co-founder and independent Director	January 2007	January 4, 2007
ZHAO Tong Tong (趙彤彤)[1]	53	Co-founder and independent Director	February 2007	February 4, 2007
SHANG Jian (尚健)[1][2][3]	52	Independent Director	May 2014	May 5, 2014
HEE Theng Fong (許廷芳)[1][3]	66	Independent Director	July 2020	July 20, 2020
CAO Lei (曹蕾)[1][3]	45	Independent Director	July 2020	July 23, 2020

Notes:

(1) Mr. John Wu Jiong, Ms. Zhao Tong Tong, Mr. Shang Jian, Mr. Hee Theng Fong and Ms. Cao Lei are independent Directors under the NASDAQ rules. Mr. Shang Jian, Mr. Hee Theng Fong and Ms. Cao Lei are also independent non-executive Directors for the purpose of the Hong Kong Listing Rules.

(2) Mr. John Wu Jiong and Mr. Shang Jian are members of our Compensation Committee.

(3) Mr. Shang Jian, Mr. Hee Theng Fong and Ms. Cao Lei are members of our Audit Committee.

(4) Being the year in which the Director or senior manager joined our Group as a Director or an executive, officer or employee.

(5) There are no family relationships among any of the Directors or executive officers of our Company.

Directors

Mr. JI Qi (季琦), aged 53, founded our Group, and was appointed as a Director on February 4, 2007. Mr. Ji has also served as the Executive Chairman of our Board since August 2009, and our Chief Executive Officer since November 2019. He is primarily responsible for the overall strategic planning of our Group and the management of our Group's business. Mr. Ji also serves as a director in China Lodging Holdings Singapore Pte. Ltd and China Lodging Investment Limited, all of which are subsidiaries of our Company.

Mr. Ji has over 20 years of experience in the hospitality industry. Prior to his current role, he also served as our Chief Executive Officer from January 2012 to May 2015 and from 2007 to August 2009. He co-founded Home Inns & Hotels Management Inc. and served as its chief executive officer from 2002 to January 2005. He also co-founded Trip.com (a company listed on the NASDAQ, ticker symbol: TCOM), one of the largest online travel services providers in China, in 1999, acted as its chief executive officer and president until 2001, and currently serves on Trip.com's board as an independent director.

Mr. Ji received his bachelor degree in engineering mechanics and master degree in mechanical engineering from Shanghai Jiao Tong University (上海交通大學) in the PRC in 1989 and February 1992, respectively.

Ms. ZHANG Min (張敏), aged 46, joined our Group in September 2007 and was appointed as a Director on November 8, 2019. Ms. Zhang has served as our Executive Vice-chairlady since November 8, 2019 and subsequently as Vice Chairlady since July 20, 2020. She is primarily responsible for participating in decision making of important matters of our Group that involve our Board.

Ms. Zhang currently serves in a number of our subsidiaries. She is the director of Shanghai Yuchuang Investment Management Co., Ltd (上海與創投資管理有限公司). She is also a supervisor of Hangzhou Muting Hotel Management Co., Ltd (杭州目庭酒店管理有限公司), Urumqi Luting Hotel Management Co., Ltd (烏魯木齊魯庭酒店管理有限公司), Urumqi Qiting Hotel Management Co., Ltd (烏魯木齊齊庭酒店管理有限公司), Chongqing Yiting Hotel Management Co., Ltd (重慶藝庭酒店管理有限公司), Hanting (Shanghai) Enterprise Management Co., Ltd (漢庭(上海)企業管理有限公司), Dalian Yuanyang Sikelai Hotel Co., Ltd (大連遠洋斯克萊酒店有限公司), Chengdu HanTing Yangchen Hotel Management Co., Ltd (成都漢庭陽晨酒店管理有限公司), Nantong Botong Hotel Co., Ltd (南通市柏通大酒店有限公司) and Shanghai Yate Hotel Management Co., Ltd (上海雅特酒店管理有限公司).

Ms. Zhang has over 10 years of experience in the hospitality industry and in finance and consulting. She also served as our chief executive officer from May 2015 to November 2019, our president from January 2015 to May 2015, our chief financial officer from March 2008 to May 2015, our chief strategic officer from November 2013 to January 2015 and our senior vice president of finance from September 2007 to February 2008.

Ms. Zhang has been an independent director of LAIX Inc (a company listed on the New York Stock Exchange, ticker symbol: LAIX) since May 2020. She had also been an independent non-executive director of Genscript Biotech Corporation (a company listed on the Hong Kong

Stock Exchange, stock code: 1548) from August 2015 to November 2018, and an independent director of OneSmart Education Group Limited (a company listed on the New York Stock Exchange, ticker symbol: ONE) from March 2018 to February 2020.

Ms. Zhang received a Master of Business Administration degree from Harvard Business School in the United States in June 2003. She also obtained her bachelor's degree in international business management and master's degree in business management from the University of International Business and Economics (對外經濟貿易大學) in the PRC in June 1994 and July 1997, respectively. Ms. Zhang is a Fellow of The Aspen China Fellowship Program and a member of the Aspen Global Leadership Network.

Mr. Sébastien, Marie, Christophe BAZIN, also known as Sébastien Bazin, aged 58, joined our Group and was appointed as Director on January 25, 2016. Mr. Bazin is primarily responsible for participating in decision making of important matters of our Group.

Mr. Bazin has managed and participated in a large number of investments in the hospitality industry over 20 years. He serves as the chairman and chief executive officer of Accor (a company listed on the Euronext Paris (EPA) (stock code: AC) and London Stock Exchange (stock code: 0H59)), where he has served as a director since January 2006. Prior to that, he served as a member of the supervisory board of Accor since May 2005, and was responsible for participating in decision making of strategic matters of Accor. Please refer to the section headed "History and Corporate Structure—Strategic Alliance with Accor" for further details of the principal business activities of Accor and the non-competition undertaking entered into by Accor and us. Mr. Bazin is also the vice chairman of the supervisory board of Gustave Roussy Foundation. Previously, Mr. Bazin was a managing director and chief executive officer in Colony Capital SAS (Paris), a private-equity firm, from December 1997 to May 2013 and subsequently the president in Colony Capital SAS (Paris) from May to September 2013.

Mr. Bazin has been an independent director of General Electric Company (a company listed on the New York Stock Exchange, ticker symbol: GE) since April 2016. He had also been a non-executive and non-independent director of Banyan Tree Holdings Ltd. (a company listed on the Singapore Exchange, stock code: B58) from October 2017 to December 2017.

Mr. Bazin has earned his master's degree in business management from Paris-Sorbonne University in France in 1985.

Mr. Gaurav BHUSHAN, aged 49, joined our Group and was appointed as an alternate Director to Mr. Bazin on April 15, 2016.

Mr. Bhushan began his career with Accor in 1995 in Australia, where he held various posts in operations and finance before moving into development. Mr. Bhushan was the business development manager for Accor in Australia and New Zealand in 2000, and then VP development for North Asia and the Pacific region in 2004, and was subsequently appointed as the chief development and investment officer for Asia-Pacific from November 2011 to June 2015. Mr. Bhushan has led the Asia Pacific development teams of Accor since 2006. He has been the global chief development officer of Accor since July 2015, responsible for overseeing the group's hotel development strategy worldwide. Mr. Bhushan joined Accor's executive committee in January 2017.

Mr. Bhushan have also been an non-executive and non-independent director of Banyan Tree Holdings Ltd. (a company listed on the Singapore Exchange, stock code: B58) since December 2017.

He obtained a Master of Business Administration degree from the Royal Melbourne Institute of Technology in Australia in October 1997 and a graduate diploma in Applied Finance & Investments from the Securities Institute of Australia in March 2002.

Mr. ZHANG Shangzhi (張尚稚), aged 67, joined our Group and was appointed as a Director on June 24, 2016. Mr. Zhang is responsible for participating in decision making of important matters of our Group.

Mr. Zhang has more than 30 years of experience in the hotel industry and in foreign trade. Mr. Zhang has been the executive director of Tianjin Amis Hotel Management Company since 2009. He acted as general delegate of Accor Hotel Group in China from January 1999 to December 2008, during which he was concurrently appointed as the executive director and general manager of Tianjin Accor Hotel Management Co., Ltd. (天津雅高酒店管理有限公司) in March 2003, and was responsible for brand Ibis' development and operation in China. He successively served as head of manager office, assistant to general manager and deputy general manager at China Export Commodity Bases Development Corporation (中國出口商品基地建設總公司), from January 1993 to 1998. Prior to that, Mr. Zhang held several positions at the Ministry of Foreign Economic Relations and Trade of PRC (中華人民共和國對外經濟貿易部) from February 1978 to December 1992. He was third secretary of the Commercial Bureau of Chinese Embassy in Zaire from October 1981 to September 1985.

Mr. Zhang graduated from the University of International Business and Economics (對外經濟貿易大學) (formerly known as Beijing Institute of Foreign Trade (北京對外貿易學院)) in the PRC with a major in French in January 1978. He studied for "joint interpreting and conference service" program at the Commission of the European Communities in Brussels from September 1987 to February 1988 and the French National School of Administration (École Nationale D'administration) in France from 1990 to 1991. In 2014, Mr. Zhang received the medal award of "Chevalier de Legion d'honneur" from French government.

Mr. John WU Jiong (吳炯), aged 53, a co-founder of our Group, has served as our Director since January 4, 2007. Mr. Wu is primarily responsible for supervising and providing independent judgment to our Board. Mr. Wu also serves as a director of China Lodging Holdings Singapore Pte. Limited, a supervisor of HanTing Technology (Suzhou) Co., Ltd. (漢庭科技(蘇州)有限公司) and HanTing Xingkong (Shanghai) Hotel Management Co., Ltd. (漢庭星空(上海)酒店管理有限公司), all of which are the subsidiaries of our Company.

Mr. Wu is the founding partner and chairman of FengHe Fund Management Pte Ltd. He served as the venture partner of Northern Light Venture Capital and was an angel investor and the chief technology officer of Alibaba Group. Mr. Wu was a non-executive director of Viva Biotech Holdings (a company listed on the Hong Kong Stock Exchange, stock code: 1873) from 2018 to 2020.

Mr. Wu received his Bachelor of Science from the University of Michigan in the United States in August 1989.

Ms. ZHAO Tong Tong (趙彤彤), aged 53, a co-founder of our Group, has served as our Director since February 4, 2007. Ms. Zhao is primarily responsible for supervising and providing independent judgment to our Board.

Ms. Zhao has served in several companies, including the supervisor of Shanghai Asia-Tang Health Technology Development Co., Ltd., the executive director of Shanghai Hong Ying Hi-Tech Co., Ltd., and the executive director of Shanghai Xie Cheng Science and Technology Co., Ltd..

Ms. Zhao received her Master of Engineering degree from Shanghai Jiao Tong University (上海交通大學) in the PRC in March 1992 and her Master of Business Administration degree from McGill University in Canada in June 2003. She also obtained her bachelor's degree with a major in biomedical engineering and instrument from Southeast University (東南大學) in the PRC in July 1989.

Mr. SHANG Jian (尚健), aged 52, joined the Group and has served as our independent Director since May 5, 2014. Mr. Shang is primarily responsible for supervising and providing independent judgment to our Board.

He has over 21 years of experience in corporate management and financial innovation. Mr. Shang has been the general manager of Hong Shang Asset Management Co., Ltd. since July 2013. From September 2006 to November 2012, he served as chief executive officer of UBS SDIC Fund Management Company. Prior to that, he served as chief executive officer of Yin Hua Fund Management Co., Ltd., deputy chief executive officer of Hua An Fund Management Co., Ltd, and head of strategic planning of Shanghai Stock Exchange respectively from January 2001 to June 2006. Previously, he was a deputy division director of China Securities Regulatory Commission (中國證監會).

Mr. Shang has been an independent non-executive director of Shanghai Realway Capital Assets Management Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 1835) since October 2018.

Mr. Shang obtained his PhD in business administration and master of arts in economics from University of Connecticut in the United States in December 1997 and December 1994, respectively, and his bachelor's degree with a major in industrial and foreign trade from Shanghai Jiao Tong University (上海交通大學) in the PRC in July 1989.

Mr. HEE Theng Fong (許廷芳), aged 66, was appointed as an independent Director of the Company on July 20, 2020. Mr. Hee is mainly responsible for supervising and providing independent judgment to our Board.

Mr. Hee is a qualified advocate and solicitor in Singapore with over 30 years of experience. Mr. Hee has been a consultant of Harry Elias Partnership LLP since January 2014. Mr. Hee is a fellow of Singapore Institute of Arbitrators and Chartered Institute of Arbitrators (UK). He is also on the panel of arbitrators in various arbitration institutions including Singapore International Arbitration Centre (SIAC), China International Economic and Trade Arbitration Commission (CIETAC), Beijing Arbitration Commission (BAC), Shanghai International Economic and Trade Arbitration Commission (SIETAC), Hong Kong International Arbitration Centre (HKIAC), Hainan International Arbitration Court (HIAC) and Asian International Arbitration Centre (AIAC). Mr. Hee is also an ambassador of Singapore International Mediation Centre (SIMC) and has been an accredited mediator of Singapore Mediation Centre (SMC) since March 2017.

Mr. Hee serves as an independent director of several listed companies, including Zheneng Jinjiang Environment Holding Company Limited (a company listed on the Singapore Exchange, stock code: BWM) since June 2016, Straco Corporation Limited (a company listed on the Singapore Exchange, stock code: S85) since April 2016, Yanlord Land Group Limited (a company listed on the Singapore Exchange, stock code: Z25) since October 2017, China Aviation Oil (Singapore) Corporation Ltd (a company listed on the Singapore Exchange, stock code: G92) since April 2019, Haidilao International Holding Ltd. (a company listed on the Hong Kong Stock Exchange, stock code:6862) since September 2018, Tye Soon Limited (a company listed on the Singapore Exchange, stock code: BFU) from May 1997 to June 2020,

APAC Realty Limited (a company listed on the Singapore Exchange, stock code: CLN) from September 2017 to June 2020, First Resources Limited (a company listed on the Singapore Exchange, stock code: EB5) from October 2007 to May 2018, YHI International Limited (a company listed on the Singapore Exchange, stock code: BPF) from May 2003 to April 2018, and Datapulse Technology Limited (a company listed on the Singapore Exchange, stock code: BKW) from January 1994 to December 2017. Mr. Hee was also a director of Chinese Development Assistance Council from June 2012 to June 2018 and Singapore Chinese Cultural Centre from May 2015 to September 2019. He has been a director of Chua Foundation of Singapore since March 2015, F&H Singhome Fund II Ltd. since April 2012, and F&H Singhome Fund III Ltd. since August 2015.

Mr. Hee was awarded the Public Service Medal and Public Service Star awards by the Ministry of Home Affairs of Singapore respectively in 2008 and 2015. He was also appointed as a Justice of the Peace in April 2018.

Mr. Hee obtained his bachelor's degree in law from National University of Singapore (formerly known as the University of Singapore) with honors in Singapore in May 1979 and also received a diploma in Chinese law from Soochow University (蘇州大學) in the PRC in October 2004. He has been admitted as an advocate and solicitor by the Supreme Court of Singapore since October 1981.

Ms. CAO Lei (曹蕾), aged 45, joined our Group and was appointed as an independent Director on July 23, 2020. She is primarily responsible for supervising and providing independent judgment to our Board.

She has been the head of tax Greater China in Philips Electronic Singapore Pte Ltd. since May 2012. Prior to that, Ms. Cao served as a senior tax director from January 2010 to May 2012 and a tax director from October 2007 to December 2009 in Philips China Investment Co., Ltd. She was also a tax director in Philips Electronics Singapore Pte Ltd from January 2006 to September 2007 and the senior tax manager in Philips China Investment Co., Ltd. from November 2003 to December 2005. Her primary role is to manage a team to provide tax solutions for Philips group in the responsible market, as well as to support and secure Philips group's interests and operations. Previously, Ms. Cao worked in Deloitte Touche Tohmatsu Certified Public Accountants LLP from September 1995 to October 2003 under various roles and her last position was a manager in the tax and business advisory department.

Ms. Cao received a bachelor's degree with a major in international business management from Shanghai University of Finance and Economics (上海財經大學) in the PRC in July 1995. Ms. Cao is a PRC Certified Public Accountant, who has obtained her qualification from Shanghai Institute of Certified Public Accountants in December 2009, and is also a PRC Certified Tax Agent, who has obtained her qualification from Shanghai Certified Tax Agent Management Center (上海註冊税務師管理中心) in June 2000.

GENERAL

Save as disclosed above, each of our Directors has confirmed that:

(i) he or she does not and has not held any other directorships in listed companies during the three years immediately prior to the Latest Practicable Date;

(ii) there is no other information in respect of such Director to be disclosed pursuant to Rule 13.51(2) of the Listing Rules; and

(iii) there is no other material matter relating to our Directors that needs to be brought to the attention of our Shareholders.

Save as disclosed above and in the section headed "History and Corporate Structure—Strategic Alliance with Accor" in this prospectus, none of the Directors has any interests in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business and would require disclosure under Rule 8.10 of the Listing Rules.

SENIOR MANAGEMENT

The senior management team of our Group and the details of experience of each of our senior management members are as follows:

Name	Age	Position	Time of joining our Group	Date of appointment
JIN Hui (金輝)	42	President	February 2005	June 1, 2016
LIU Xinxin (劉欣欣)	42	Chief Digital Officer	September 2012	June 11, 2019
TEO Nee Chuan (趙汝泉)	49	Chief Financial Officer	November 2015	March 16, 2016

Mr. JIN Hui (金輝), aged 42, joined our Group in February 2005 and was appointed as the president of our Group on June 1, 2016. He is primarily responsible for PRC business of the Group.

Since he joined our Group, he has served as director of our Development Department, vice president and executive vice president of our Group, respectively. Mr. Jin worked with Shanghai Home Inns Hotels Management Limited as regional development manager during the period from March 2004 to December 2004.

Mr. Jin received his executive master's degree from China Europe International Business School (中歐國際工商學院) in the PRC in August 2014, and a Bachelor of Science degree in Psychology from the East China Normal University (華東師範大學) in the PRC in July 2000.

Ms. LIU Xinxin (劉欣欣), aged 42, joined our Group in September 2012 and has served as our Chief Digital Officer since June 2019. She is mainly responsible for our sales, loyalty program and information technology. She has previously served as our Chief Information Officer.

She was the founder and CEO of H-World Information and Technology Co., Ltd., which is an IT company incubated by our Group in November 2013. Prior to joining us, Ms. Liu worked in Alcatel-Lucent Shanghai Bell from July 1999 to September 2012, and was the IT head before she left.

Ms. Liu received her master's degree in master of business administration from Fudan University (復旦大學) in the PRC in January 2008, and her bachelor's degree in economic information management from Beijing Technology and Business University (北京工商大學) (formerly known as Beijing Business Academy (北京商學院)) in the PRC in June 1999.

Mr. TEO Nee Chuan (趙汝泉), aged 49, joined our Group in November 2015 as deputy chief financial officer and has served as our chief financial officer since March 16, 2016. Mr. Teo is primarily responsible for the financial planning and analysis of our Group.

Mr. Teo has more than 20 years of experience in financial management of multinational corporations. Prior to joining us, he was chief financial officer of Rnomac International Limited, from November 2011 to August 2015. Mr. Teo worked in DDB Greater China Group, was appointed as the chief financial officer in September 2009, and was additionally appointed as the director of operations in January 2011. He previously served in Focus Media Group and was appointed as the financial deputy director in June 2007. Prior to that, from September 1994 to May 2007, Mr. Teo worked at Ernst & Young and Ernst & Young Business Services Ltd. in various positions in Kuala Lumpur and Toronto, including as a senior manager in the Transaction Advisory Services.

Mr. Teo has been an independent director of 111, Inc. (a company listed on the NASDAQ, ticker symbol: YI) since September 2018.

Mr. Teo received his Bachelor of Science in Accounting and Financial Analysis degree from The University of Warwick in the United Kingdom in July 1994. He is a Chartered Certified Accountant in the United Kingdom, who has obtained his qualification in July 1998 from The Association of Chartered Certified Accountants, and is a Certified Public Accountant in the United States and Hong Kong, who has obtained his qualification from American Institute of Certified Public Accountants in May 2002 and Hong Kong Society of Accountants in October 2003, respectively.

Each of our senior management members has confirmed that he or she does not and has not held any other directorships in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately prior to the Latest Practicable Date.

COMPANY SECRETARY

Mr. RONG Yuewu (榮躍武), whose former name was Rong Yaowu (榮耀武), aged 50, was appointed as company secretary of our Company on July 20, 2020. Mr. Rong joined our Group in September 2011 and has served as the vice president of legal department of our Company.

Mr. Rong has more than 25 years of experience in legal consulting service. Prior to joining our Group, he served as a legal director in Shanghai Tianma Microelectronics Co., Ltd. (上海天馬微電子有限公司) from April 2007 to September 2011. Mr. Rong was a lawyer in two law firms during the period from March 1998 to April 2007. After graduation, he worked as a legal supervisor from January 1998 to February 1998 and as a legal executive from July 1995 to December 1997 in Xiamen International Trust Investment Co., Ltd (廈門國際信託投資公司).

Mr. Rong obtained his master's degree and bachelor's degree both with a major in law in Xiamen University (廈門大學) in the PRC in July 1995 and July 1992, respectively.

BOARD PRACTICES

General

There is no shareholding requirement for qualification to serve as a member of our Board of Directors. Our Board of Directors may exercise all the powers of our Company to borrow money, mortgage or charge its undertaking, property and uncalled capital, and issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of our company or of any third party.

Corporate Governance Rights of Shareholders

Pursuant to our Articles of Association, our Directors may be elected by our Shareholders. If our Board appoints any person as a Director to fill a casual vacancy or as an addition to our existing Board, such Director shall be subject to re-election at our subsequent general meeting or annual general meeting. Notwithstanding the foregoing, our Articles of Association contains provisions in respect of director nomination rights granted to Winner Crown and Trip.com and a director designation right granted to AAPC (the "**Corporate Governance Rights**"). There is no provision in our Articles of Association which requires (a) the appointment of any nominee or designee (as the case may be) of Winner Crown, Trip.com or AAPC as a Director or (b) the appointment of a director candidate which is nominated by any Shareholder, to be subject to Shareholders' approval.

After the listing of our ADSs on NASDAQ, in accordance with our Articles or as good corporate governance practice, we historically put forth a Director appointed by our Board to fill a casual vacancy or as an addition to our existing Board or following the exercise of a Corporate Governance Right (as the case may be) for re-election by our Shareholders.

Once appointed, any Director nominated or designated (as the case may be) of Winner Crown, Trip.com or AAPC may only be removed or replaced with the consent of the relevant Shareholder. Further details of the Corporate Governance Rights of Winner Crown, Trip.com and AAPC are as follows:

Winner Crown

Shortly after our Company was incorporated, a special resolution was passed by our then Shareholders on February 4, 2007 to approve the adoption of our amended and restated articles of association. Following such approval, our articles of association provided that for so long as our founder and co-founders (i.e. Mr. Ji Qi, Winner Crown, Ms. Zhao Tong Tong and Mr. John Wu Jiong) hold shares of our Company, they shall be entitled collectively by ordinary resolution voting as a separate class to appoint and remove two Directors. This director appointment right was terminated when our further amended and restated articles of association were adopted and became effective upon listing of our ADSs on NASDAQ.

The amendment of our articles of association to include Winner Crown's director nomination right was approved at our annual general meeting in 2012. Our articles of association then in effect provided that for so long as Winner Crown, together with its affiliates, continues to hold at least 25% of our total outstanding Shares, Winner Crown shall have the right to nominate two Directors to our Board. However, any person nominated by Winner Crown to serve as Director must be accepted by a majority of our Board before such nomination becomes effective. Any amendment or revocation of the relevant article in the Articles of Association requires the prior written consent of Winner Crown as long as Winner Crown is entitled to exercise its director nomination right thereunder.

Winner Crown's director nomination right was subsequently amended in 2015. On November 10, 2015, our Board directed that resolutions for amending our articles of association to modify Winner Crown's director nomination right be presented for voting at our annual general meeting in 2015. Such amendment was subsequently approved at our annual general meeting in 2015, pursuant to which the minimum shareholding requirement for Winner Crown and its affiliates decreased to 15% of our total outstanding Shares, but all other terms of the nomination right remained the same.

The grant of director nomination right to Winner Crown in 2012 and lowering of the minimum shareholding requirement for exercise of such right in 2015 were approved in consideration of the benefits of ensuring continuity of management of our Company. Please refer to the paragraph headed "Reasons for and benefits of grant of corporate governance rights" below for further details.

Trip.com

We entered into an investor and registration rights agreement with Trip.com on March 12, 2010 which, among other things, provided Trip.com with a director nomination right. Such right has been included in our articles of association, which were adopted with the approval of our Board and Shareholders at our extraordinary general meeting on the same day. Since our articles of association came into effect upon listing of our ADSs on NASDAQ, they have provided that for so long as Trip.com, together with its affiliates, continues to hold at least 8% of our total outstanding Shares, Trip.com shall have the right to nominate one Director to our Board. However, any person nominated by Trip.com to serve as Director must be accepted by a majority of our Board before such nomination becomes effective. Trip.com previously nominated Mr. Fan Min, who was appointed as a Director until January 1, 2018. Subsequently, Ms. Wang Xiaofan, the chief financial officer and executive vice president of Trip.com, was appointed as a Director from January 1, 2018 to July 20, 2020. Ms. Wang currently serves as an observer of our Board. Any amendment or revocation of the relevant article in our Articles of Association requires the prior written consent of Trip.com, as long as Trip.com is entitled to exercise its director nomination right thereunder.

As of the Latest Practicable Date, Trip.com held less than 8% of the total outstanding Shares and therefore its director nomination right under the Articles of Association has ceased to be effective. We will put forth a resolution at our next annual general meeting after the Listing to amend our Articles of Association by deletion of the article providing for Trip.com's director nomination right.

AAPC

We entered into a securities purchase agreement with AAPC on December 14, 2014 which, among other things, provided AAPC with a director designation right. On November 10, 2015, our Board directed that resolutions for amending our articles of association to include such director designation right be presented for voting at our annual general meeting in 2015. Such amendment was subsequently approved at our annual general meeting in 2015. Since then, our Articles of Association have provided that subject to certain conditions and qualifications, AAPC, a wholly-owned subsidiary of Accor, shall have the right to designate one Director to our Board and to any executive or management committee of our Board. Any person designated by AAPC shall be nominated and elected to our Board, provided that our Board shall only refrain from nominating and electing a designee of AAPC if it reasonably determines that such designee has a criminal record or would cause our Company to violate any anti-corruption rules or to lose any material licenses. AAPC designated Mr. Sébastien, Marie, Christophe Bazin as a Director and he has been appointed as a Director since January 25, 2016. Any amendment or

revocation of the relevant article in our Articles of Association requires the prior written consent of AAPC, as long as its Director designation rights pursuant to such article have not terminated. Upon the occurrence of any termination event under the Deed of Voting and ROFR (e.g. if AAPC and its affiliates fail to hold a specified level of our shareholding in our Company for twelve consecutive months), AAPC's Director designation right shall also terminate.

For further details, please refer to the sections headed "Relationship with our Controlling Shareholders—Management Independence", "History and Corporate Structure—Strategic Alliance with Accor" and "Related Party Transactions—Transactions with Trip.com" of this prospectus.

Reasons for and benefits of grant of corporate governance rights

We believe that our Directors had exercised their fiduciary duties when approving the grant of the director designation right to AAPC and director nomination right to Winner Crown and Trip.com, which were for the interest of our Company and Shareholders as a whole, given each of such right was approved by our Shareholders at the relevant general meeting of our Company and the following benefits and commercial reasons:

Winner Crown

(i) Winner Crown is ultimately owned by Mr. Ji Qi, our founder. Under his leadership, our Company has maintained management continuity and achieved fast growth, and has effectively grown into a world leading hotel group, operating and managing multi-brand hotels through consistent technological innovation and business modernization. The grant of director nomination right to Winner Crown was approved at our annual general meeting in 2012;

Trip.com

(ii) Trip.com is a leading travel service provider of online travel and related services. Having Trip.com as a supplier since the commencement of our operations and eventually a major supplier, as well as one of our principal shareholders, we have been able to benefit from Trip.com's service offerings, customer base, and geographic coverage. The grant of director nomination right to Trip.com was approved by our Board and Shareholders in 2010;

AAPC

(iii) the director designation right was granted to AAPC as part of the strategic alliance between our Group and Accor formed back in December 2014, further details of which are disclosed in the section headed "History and Corporate Structure—Strategic Alliance with Accor" of this prospectus. Among other things, the strategic alliance contemplated the grant of franchise rights by Accor to our Group for developing hotels under Accor brands in the PRC, Taiwan and Mongolia and resulting enlargement of our Group's brand portfolio with international midscale and upscale brands. Further, it was expected that the strategic alliance with Accor could combine the distribution channels and strengths of both groups, create value and thereby enhance the competitiveness of our Group;

(iv) when our Directors considered the terms of such transaction documents (including the grant of director designation right to AAPC) as a package, they had assessed all the relevant factors, including the overall benefits that the strategic alliance with Accor would

expect to bring to the business of our Group and the potential economic interests generated from such strategic alliance and other factors as set out above. The grant of director designation right to AAPC was approved by our Board and our Shareholders in 2015; and

(v) we expect Accor to designate a suitable candidate with sufficient qualification, competence, knowledge and experience as a Director. Upon exercise of its director designation right, AAPC designated Mr. Sébastien Bazin as a Director and Mr. Bazin's appointment was subsequently approved by both the Board and Shareholders. For further details of Mr. Bazin's extensive expertise and experience, please refer to the section headed "Board of Directors—Directors" of this section.

In addition, after the amendments to our Articles pursuant to Rule 19C.07 of the Hong Kong Listing Rules are approved at our annual general meeting after Listing, any Shareholder or Shareholders holding in aggregate not less than 10% of the voting rights of our Company shall have the right to request to convene a general meeting and add a resolution to nominate a Director. Please refer to the section headed "Information about the Listing—Our Articles" of this prospectus for further details.

Based on the above, our Directors are of the view that the grants of the director designation right to AAPC and director nomination right to Winner Crown and Trip.com do not contravene any specific shareholders' protection requirement under Rule 19C.07 of the Hong Kong Listing Rules. Our Directors also confirm that the grant of such rights complies with all the applicable U.S. laws, regulations and exchange rules. The Joint Sponsors, on the basis of above and considering these arrangements are not uncommon for companies listed on the stock exchanges in the United States, concur.

Terms of Directors and Executive Officers

Each of our Directors holds office until a successor has been duly elected and qualified. All of our executive officers are appointed by and serve at the discretion of our Board of Directors.

Duties of Directors

Under Cayman Islands law, all of our Directors owe us fiduciary duties, including a duty of loyalty, a duty to act honestly and a duty to act in good faith and in a manner they believe to be in our best interests. Our Directors must also exercise their powers only for a proper purpose. Our Directors also owe us a duty to act with skill and care. It was previously considered that a director of a Cayman Islands company need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, there are indications that the English and commonwealth courts are moving towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our Directors must ensure compliance with our Articles of Association, as amended and restated from time to time. In certain limited exceptional circumstances, our Shareholders may have the right to seek damages in our name if a duty owed by any of our Directors is breached.

Board Committees

Our Board of Directors has established an Audit Committee and a Compensation Committee. All members of our Audit Committee satisfy the "independence" requirements under the NASDAQ rules and meet the criteria for independence set forth in Rule 10A-3 of the U.S. Exchange Act.

Audit Committee

Our Audit Committee currently consists of Mr. Shang Jian, Mr. Hee Theng Fong and Ms. Cao Lei. The chairman of our Audit Committee is Mr. Shang, who satisfies the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC. Mr. Shang, Mr. Hee and Ms. Cao satisfy the "independence" requirements of the NASDAQ and SEC regulations and are independent non-executive Directors for the purpose of the Hong Kong Listing Rules. Our Audit Committee oversees our accounting and financial reporting processes and the audits of our financial statements. Our Audit Committee is responsible for, among other things:

- selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- setting clear hiring policies for employees or former employees of the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- reviewing and approving all proposed related-party transactions;
- discussing the annual audited financial statements with management and the independent auditors;
- discussing with management and the independent auditors major issues regarding accounting principles and financial statement presentations;
- reviewing reports prepared by management or the independent auditors relating to significant financial reporting issues and judgments;
- reviewing with management and the independent auditors related-party transactions and off-balance sheet transactions and structures;
- reviewing with management and the independent auditors the effect of regulatory and accounting initiatives and actions;
- reviewing policies with respect to risk assessment and risk management;
- reviewing our disclosure controls and procedures and internal control over financial reporting;
- timely reviewing reports from the independent auditors regarding all critical accounting policies and practices to be used by our company, all alternative treatments of financial information within GAAP that have been discussed with management and all other material written communications between the independent auditors and management;

- establishing procedures for the receipt, retention and treatment of complaints received from our employees regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;

- annually reviewing and reassessing the adequacy of our audit committee charter;

- such other matters that are specifically delegated to our Audit Committee by our Board of Directors from time to time; and

- meeting separately, periodically, with management, the internal auditors and the independent auditors.

Compensation Committee

Our Compensation Committee currently consists of Mr. John Wu Jiong and Mr. Shang Jian. Mr. Wu and Mr. Shang satisfy the "independence" requirements of the NASDAQ rules and the SEC regulations. Our Compensation Committee assists our Board of Directors in reviewing and approving the compensation structure for our Directors and executive officers, including all forms of compensation to be provided to our Directors and executive officers. Our Compensation Committee is responsible for, among other things:

- reviewing and approving the compensation for our senior executives;

- reviewing and evaluating our executive compensation and benefits policies generally;

- reporting to our Board of Directors periodically;

- evaluating its own performance and reporting to our Board of Directors on such evaluation;

- periodically reviewing and assessing the adequacy of the compensation committee charter and recommending any proposed changes to our Board of Directors; and

- such other matters that are specifically delegated to the Compensation Committee by our Board of Directors from time to time.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Compensation

Our Directors and senior management members receive compensation in the form of salaries, bonuses and other benefits in kind from the Company subject to applicable laws, rules and regulations. The aggregate amount of compensation and benefits in kind paid to the Directors and senior management members for the three years ended December 31, 2017, 2018 and 2019 were approximately RMB7.2 million, RMB8 million and RMB9 million, respectively.

No pension, retirement or similar benefits have been set aside or accrued for our executive officers or Directors. For each of the three years ended December 31, 2019, we also granted options and stock under our Share Incentive Plans. For equity-based grants to our Directors and

executive officers, please refer to the section headed "Statutory and General Information—A. Further Information about our Group—4. Share Incentive Plans" in this prospectus. We have no service contracts with any of our Directors providing for benefits upon termination of employment.

Service contracts

For details of the service contracts in relation to our Directors, please refer to the section headed "Statutory and General Information—C. Further Information about our Directors and Major Shareholders—2. Particulars of Service Contracts".

Share Incentive Plans

For details of the Share Incentive Plans in relation to our Directors and senior management, please refer to the section headed "Statutory and General Information—A. Further Information about our Group—4. Share Incentive Plans".

COMPLIANCE ADVISER

We have appointed China Everbright Capital Limited as our compliance adviser (the "**Compliance Adviser**") upon the Listing in compliance with Rule 3A.19 of the Listing Rules. We have entered into a compliance adviser's agreement with the Compliance Adviser, the material terms of which are as follows:

(i) the term of the appointment will commence from the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is the earlier;

(ii) pursuant to Rule 3A.23 of the Listing Rules, the Compliance Adviser shall provide advice and guidance to our Company in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report as required under the Listing Rules;
- where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules;

(iii) the Compliance Adviser will, if and when consulted, provide guidance and assistance with due care and skill to our Company on continuing compliance with our Company's obligations under the Listing Rules and all other applicable laws, rules, codes and guidelines;

(iv) the Compliance Adviser will discharge such duties and functions as may be required to be performed by it as a compliance adviser under the Hong Kong Listing Rules from time to time; and

(v) each of our Company and the Compliance Adviser has the right to terminate the agreement if the other party commits a material breach of the agreement.

BOARD DIVERSITY POLICY

We have adopted a diversity policy (the "**Board Diversity Policy**") which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of our Board. Pursuant to the Board Diversity Policy, we seek to achieve diversity of our Board through the consideration of a number of factors when selecting candidates to our Board, including but not limited to professional experience, skills, knowledge, education background, age, gender, cultural and ethnicity and length of service.

Our Directors are of different nationalities, including Australia, Canada, China, France and Singapore. They have a balanced mix of knowledge and skills, including in accounting, legal, finance, corporate management, consulting and hotel business. They obtained degrees in various areas such as engineering, economics, finance, law and science.

Our Board is responsible for reviewing the diversity of our Board. After the Listing, our Board will monitor the implementation of the Board Diversity Policy and review the Board Diversity Policy from time to time to ensure its effectiveness.

OVERVIEW

Immediately after the completion of the Global Offering, Mr. Ji Qi, our founder, executive chairman of our Board and Chief Executive Officer, will beneficially own and control (i) 1,023,171 Shares; (ii) through Winner Crown, a company wholly owned by Sherman Holdings which is in turn wholly owned by Credit Suisse Trust Limited, 72,344,905 Shares; and (iii) 16,000,000 ADSs representing 16,000,000 Shares and 10,224,652 Shares held by East Leader, over which Mr. Ji has voting power pursuant to powers of attorney dated November 27, 2014. Assuming that the Over-allotment Option is not exercised and without taking into account the Shares which may be issued pursuant to the Share Incentive Plans, Mr. Ji will be entitled to (directly and indirectly through Winner Crown, Sherman Holdings and East Leader) control the voting rights of approximately 31.37% of our total outstanding Shares immediately after the completion of the Global Offering. Therefore, Mr. Ji, Winner Crown, Sherman Holdings and East Leader will be our Controlling Shareholders after the Listing. For more information on Mr. Ji's shareholding, please refer to the section headed "Major Shareholders". For details of the shareholding structure of our Company, please refer to the section headed "History and Corporate Structure—Shareholding Structure" of this prospectus.

Winner Crown, Sherman Holdings and East Leader are special purpose vehicles without substantial business operations. Credit Suisse Trust Limited is the trustee of the Ji Family Trust, in respect of which Mr. Ji is a settlor.

Mr. Ji is also a director of Trip.com and owns 50.01% of the equity interest in Sheen Star Group Limited ("**Sheen Star**") of which we own 19.99%. Please refer to the sub-sections headed "Transactions with Trip.com" and "Transactions with Sheen Star", respectively, in the section headed "Related Party Transactions" for more details.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders and their respective close associates after the Listing.

Management Independence

Upon Listing, our Board will consist of nine Directors and an alternate Director. For more information, please see the section headed "Directors and Senior Management". Two of our Directors, Mr. Ji Qi and Ms. Zhao Tong Tong, are directors of Winner Crown and East Leader respectively, each of which is a special purpose vehicle without substantial business operations. Our Articles of Association provides that for so long as Winner Crown, together with its affiliates, continues to hold at least 15% of our total outstanding Shares, Winner Crown shall have the right to nominate two Directors to our Board; provided, however, that any person nominated by Winner Crown to serve as Director must be accepted by a majority of our Board, in their reasonable discretion, before such nomination becomes effective.

Notwithstanding the above, our Directors consider that our Board and senior management will function effectively and independently of our Controlling Shareholders and their close associates for the following reasons:

(a) our daily management and operations are carried out by a senior management team. The majority of our senior management held positions as senior management in our Group throughout the Track Record Period and all of them will continue to form our core management team and discharge their duties to our Shareholders as a whole, upon and after Listing. Each of our senior management members possesses the relevant management and/or industry-related experience and will be able to make decisions that are in our best interest. Please refer to the section headed "Directors and Senior Management" for details of their management experience;

(b) each of our Directors is fully aware of the fiduciary duties of a Director which require, among other things, that he or she must act for the benefit and in the best interests of our Group and must not allow any conflict between his or her duties as a Director and his or her personal interest;

(c) in the event that any Director to his or her knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, the interested Director(s) is required to declare the nature of his or her interest before voting at the relevant meeting(s) in respect of that transaction;

(d) our Board comprises nine Directors, including three independent non-executive Directors, which represent at least one-third of the members of our Board. Our independent non-executive Directors have extensive experience in corporate management and governance, and they are being appointed to ensure that our Board will only make decisions after due consideration of independent and impartial opinion. Further, certain matters of our Company must always be referred to the independent non-executive Directors for review; and

(e) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders that would support our independent management. Please refer to the sub-section headed "Corporate Governance Measures" in this section.

Operational Independence

We have our own operational structure consisting of separate departments, each with clear division of responsibilities. We have established internal control procedures to facilitate the effective operation of our business. We have our own customers with whom we communicate and maintain relationship independently. We have sufficient capital, retail and sales networks, marketing capabilities and employees to operate our business independently from our Controlling Shareholders. Save as disclosed in the sub-section headed "Statutory and General Information—B. Further Information about our Business—2. Intellectual Property Rights of our Group" of this prospectus, our Group (through our subsidiaries) holds all material licenses and owns all relevant intellectual properties and research and development facilities necessary to carry on our business.

Financial Independence

We have our own finance department responsible for discharging the treasury function. We also have our own financial management system and internal control system with the ability to operate independently of our Controlling Shareholders and their respective close associates from a financial perspective. We are capable of obtaining financing from Independent Third Parties, if necessary, without reliance on our Controlling Shareholders.

As of June 30, 2020, we did not obtain any borrowings, guarantees, or financial assistance from our Controlling Shareholders and their respective close associates and we did not have any outstanding loans granted or guaranteed by any of them to us

Based on the above, our Directors are of the view that they and our senior management are capable of carrying on our business independently of, and do not place undue reliance on, our Controlling Shareholders and their respective close associates after Listing.

DISCLOSURE UNDER RULE 8.10 OF THE HONG KONG LISTING RULES

As of the Latest Practicable Date, none of our Controlling Shareholders had any interest in a business which competes, or is likely to compete, either directly or indirectly, with our business, or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance in protecting our Shareholders' interests. We have adopted the following measures to ensure good corporate governance standards and to avoid potential conflicts of interest between our Group and our Controlling Shareholders:

(a) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company's expense;

(b) we have appointed China Everbright Capital Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the applicable Laws, as well as the Hong Kong Listing Rules, including various requirements relating to corporate governance; and

(c) we have established our Audit Committee and Compensation Committee with written charter in compliance with the NASDAQ rules. Our Audit Committee comprises three members, all of whom satisfy the "independence" requirements of the NASDAQ rules and are independent non-executive Directors for the purpose of the Hong Kong Listing Rules.

Based on the above, our Directors are satisfied that we have sufficient corporate governance measures in place to manage conflicts of interest that may arise between our Group and our Controlling Shareholders, and to protect our minority Shareholders' interests after the Listing.

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued Shares of our Company in issue and to be issued as fully paid or credited as fully paid prior to and immediately following the completion of the Global Offering:

As of the Latest Practicable Date

	US$
Authorized share capital	
8,000,000,000 Shares	800,000
1,000,000,000 Preferred Shares	100,000
Total	900,000
Issued, fully paid or credited to be fully paid	
300,986,245 Shares	30,098.6245
Issued and outstanding*	
297,027,044 Shares	29,702.7044

Note:

* Excluding 3,959,201 treasury Shares and Shares issued to our depository bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our Share Incentive Plans.

Immediately following completion of the Global Offering

	US$
Authorized share capital	
8,000,000,000 Shares	800,000
1,000,000,000 Preferred Shares	100,000
Total	900,000
Shares to be issued under the Global Offering	
20,422,150 Shares	2,042.2150
Issued, fully paid or credited to be fully paid	
321,408,395 Shares	32,140.8395
Issued and outstanding*	
317,449,194 Shares	31,744.9194

Note:

* Excluding 3,959,201 treasury Shares and Shares issued to our depository bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our Share Incentive Plans.

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Global Offering. The above does not take into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by our Company.

RANKING

The Shares are ordinary shares in our share capital and rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

SHARE INCENTIVE PLANS

See "Statutory and General Information—A. Further Information about our Group—4. Share Incentive Plans" for details about our Share Incentive Plans.

REGISTRATION RIGHTS

Section 5 of the Securities Act makes it unlawful for any person to offer or solicit an offer to purchase any security unless a registration statement has been filed with the SEC with respect to the security or sell such security unless the registration statement has become effective, unless an exemption is available. In 2010 and 2014, we sold certain ordinary shares in unregistered offerings to Trip.com and AAPC Hong Kong Limited ("**AAPC**"), respectively. In the securities purchase agreements we entered into with Trip.com and AAPC, respectively, we also granted board seat rights to them, as a result of which they may be deemed as our affiliates. Rule 144 under the Securities Act provides an exemption for the sale of restricted securities and securities held by affiliates, subject to a number of requirements in respect of reporting of the issuer under the Exchange Act, sale volume, holding period and manner of sale. To facilitate potential sale of our ordinary shares held by Trip.com and AAPC or securities convertible into or exchangeable for those shares, we have granted them registration rights to register those securities in certain circumstances, so that once registered, the securities can be freely sold in the U.S.

Investor and Registration Rights Agreements Entered into with Trip.com and AAPC on March 12, 2010 and January 25, 2016, respectively

Pursuant to the investor and registration rights agreements we entered into with Trip.com and AAPC on March 12, 2010 and January 25, 2016, respectively, we have granted certain registration rights to Trip.com and AAPC (each, an "**Investor**" and together, the "**Investors**"), which have not been exercised as at the Latest Practicable Date. The registration rights entitle AAPC and Trip.com to, subject to conditions, request our Company to effect a registration statement with the SEC covering the registration of at least 50% of the registrable securities held by it, or a registration statement on Form F-3 with respect to all or any of the registrable securities held by it. Further, our Company must notify AAPC and Trip.com in writing at least 30 days prior to filing any registration statement and allow each of them an opportunity to include in that registration all or any of its registrable securities held. We set forth below further details of the registration rights we granted to them.

Demand Registration Rights

Subject to any applicable lock-up agreement it may enter into, each Investor may request in writing that we effect a registration statement with the SEC covering the registration of at least fifty percent (50%) of the registrable securities held by such Investor. Upon receipt of such a request, we are required to use our best efforts to effect, as soon as practicable, such registration statement relating to such demand registration. If the Investor intends to distribute the registrable securities covered by its request by means of an underwriting, then the Investor shall so advise us as part of its request.

We are obligated to effect no more than three (3) such demand registration for each Investor. We are not obligated to effect any such registration if we have, within the six (6) month period preceding the date of such request, already effected a registration under the Securities Act pursuant to Investors demand registration rights or Form F-3 registration rights or in which the Investors had an opportunity to participate pursuant to piggyback registration rights. We have the right to defer the filing of the registration statement up to 90 days if our Board of Directors determines in good faith that such registration would be materially detrimental to us and our Shareholders; provided that we may not utilize this right more than once in any twelve-month period, and provided further that we shall not register any other of our ordinary shares during such twelve-month period.

Piggyback Registration Rights

If we propose to file a registration statement under the Securities Act for purposes of effecting a public offering for our own account, we must notify the Investors in writing at least thirty (30) days prior to filing any registration statement and afford holders of registrable securities an opportunity to include in that registration all or any part of their registrable securities then held. If an Investor desires to include in any such registration statement, it shall notify us the intention to participate and the number of registrable securities the holder wishes to include in such registration statement in writing within twenty (20) days after receipt of notice from us. If a registration statement under which we give notice to Investors is for an underwritten offering, then we shall so advise the Investors. In such event, the right of any Investor's registrable securities to be included in a registration will be conditioned upon the Investor's participation in such underwriting and the inclusion of the Investor's registrable securities in the underwriting.

Form F-3 Registration Rights

An Investor may request in writing that we effect a registration statement on Form F-3 with respect to all or any part of the registrable securities owned by the Investor. In this case, we will be required to, as soon as practicable, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of such registrable securities of the Investor as are specified in such request, together with all or such portion of the registrable securities of any other Investor joining in such request as are specified in a written request given within twenty (20) days after we provide the notice contemplated above.

We are not obligated to effect any such registration, if (1) the Form F-3 is not available for such offering by the Investors; (2) the aggregate anticipated price to the public of any registrable securities which such Investors propose to sell pursuant to such registration, together with the aggregate anticipated price to the public of any other securities we are entitled to include in such registration, is less than US$500,000; (3) our Board of Directors determines in good faith that such registration and offering would be materially detrimental to us and our shareholders, provided that we may not utilize this right more than once in any twelve-month period, we have the right to defer the filing of the registration statement up to 90 days, provided that we shall not register any of our other Shares during such 90-day period; or (4) we have, within the six (6) month period preceding the date of such request, already effected a registration under the Securities Act other than a underwriting registration from which the registrable securities of holders have been excluded.

Expenses of Registration

We will pay all expenses (other than the underwriting discounts and selling commissions) in complying with any demand registration, piggyback registration or the F-3 registration, including without limitation, all registration, filing and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company and reasonable fees and disbursement of the Investor's counsel. We will not, however, be required to pay for any expenses of any registration proceeding begun pursuant to these registration rights if the registration request is subsequently withdrawn at the request of the Investors.

Supplemental Registration Rights Agreements Entered into with Trip.com on August 3, 2020

Pursuant to the indenture dated July 20, 2020 (the "**Indenture**"), between Trip.com, as the issuer, and The Bank of New York Mellon, as the trustee (the "**Trustee**"), Trip.com has issued to certain investors US$500,000,000 principal amount of its 1.50% Exchangeable Senior Notes due 2027 (the "**Notes**"), which will initially be exchangeable for cash, our American depositary shares (the "**ADSs**"), each representing one Share, or a combination of cash and ADSs, at Trip.com's election, pursuant to the terms and subject to the conditions set forth in the Indenture. Pursuant to the Indenture, prior to the date that is six months following July 20, 2020 (the date of original issuance of the Notes), and at all times thereafter, Trip.com and a collateral agent will enter into a collateral agreement, pursuant to which the exchange obligations of Trip.com will be secured by a pledge of, and the collateral agent on behalf of the noteholders will have an enforceable, first priority security interest in (subject to customary exceptions) a certain number of our Shares as determined pursuant to the Indenture. Pursuant to the Indenture, Trip.com has requested us to provide certain additional registration rights with respect to resales of any ADSs deliverable upon exchange of the Notes or upon any enforcement, as well as the ordinary shares represented thereby, by noteholders under the Securities Act. As such, we entered into a supplemental registration agreement with Trip.com on August 3, 2020.

We are obligated to prepare and file with the SEC a shelf registration statement, or Delivery Registration Statement (which must be an automatic shelf registration statement if our Company is then a well-known seasoned issuer as defined in Rule 405 of the Securities Act), under Rule 415 under the Securities Act or any successor provision to cover the delivery of the registrable securities and shall have such Delivery Registration Statement declared effective by the SEC or, if eligible, become automatically effective upon filing, as the case may be, prior to July 20, 2021. Subject to the terms and conditions under this agreement, we shall use our best efforts to maintain the effectiveness of the Delivery Registration Statement filed until the earliest of (i) the date on which there are no longer outstanding any Notes, (ii) following any enforcement in respect of all of the registrable securities then pledged pursuant to the collateral agreement, the earlier of (a) 30 trading days following such enforcement and (b) the date on which all registrable securities have been disposed of by the collateral agent or noteholders, as applicable, and (iii) the date on which the ADSs (or other common equity or ADSs in respect of common equity underlying the Notes for which the Notes are then exchangeable) cease to be listed on any of the New York Stock Exchange, The Nasdaq Global Select Market, or The Nasdaq Global Market (or any of their respective successors).

If and only if we are not then permitted to file and have made effective a Delivery Registration Statement, we shall prepare and file with the SEC a shelf registration statement, the Resale Registration Statement, as a "shelf" registration statement under Rule 415 under the Securities Act or any successor provision to cover the resale of the registrable securities by noteholders from time to time (or, if applicable, upon any enforcement) and are required to have such Resale Registration Statement declared effective by the SEC or, if eligible, become automatically effective upon filing, as the case may be, prior to July 21, 2021. To enable resale through brokers and dealers from time to time of the registrable securities by holders in respect of the registrable securities held by them, we are required to use our best efforts to maintain the effectiveness of the Resale Registration Statement until the earliest of (i) the 30th trading day immediately following the maturity date of the Notes, (ii) the date on which all of the registrable securities have been sold pursuant to either the Resale Registration Statement or Rule 144, (iii) following any enforcement in respect of all of the registrable securities then pledged pursuant to the collateral agreement, the earlier of (a) 30 trading days following such enforcement and (b) the date on which all registrable securities have been disposed of by the collateral agent or noteholders, as applicable, and (iv) the date on which the ADSs (or other common equity or ADSs in respect of common equity underlying the Notes for which the Notes are then exchangeable) cease to be listed on any of the New York Stock Exchange, The Nasdaq Global Select Market, or The Nasdaq Global Market (or any of their respective successors).

If, at any time, Trip.com has not been an "affiliate" of us for more than three (3) months, our obligations under this supplement registration agreement shall be suspended until Trip.com becomes an "affiliate" of us again.

Except certain legal fees agreed between Trip.com and us, all reasonable expenses (other than underwriting discounts and commissions and the fees and disbursements of counsel of any noteholders) incurred in connection with the additional registrations, filings, and qualifications described in the supplemental registration rights agreement, including without limitation, all registration, filing, and qualification fees, printers' and accounting fees and the fees and disbursements of counsel incurred by us will be borne by Trip.com.

Limitation on Granting of Further Registration Rights

Without the prior written consent of the Investors, we are not allowed to grant, or cause or permit to be created, for the benefit of any person any registration rights of any kind relating to any our securities that is more favorable to such third-party that those have been granted to the Investors.

The following table sets forth information with respect to the beneficial ownership of our Shares as of the Latest Practicable Date by:

(i) each of our Directors and executive officers;

(ii) our Directors and executive officers as a group; and

(iii) each person known to us to own beneficially more than 5% of our Shares.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the Shares. Except as indicated below, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all Shares shown as beneficially owned by them. In computing the number of Shares beneficially owned by a person and the percentage ownership of that person, we have included Shares held by the person, as well as Shares that the person has the right to acquire within 60 days of the Latest Practicable Date, including through the vesting of restricted stock and the exercise of any option or other right. These Shares, however, are not included in the computation of the percentage ownership of any other person. We have one class of Shares, and each holder of our Shares is entitled to one vote per Share.

	Shares beneficially owned[1]	**Percent**	
Name	**As of the Latest Practicable Date**	**As of the Latest Practicable Date**	**Upon Completion of the Global Offering**
Directors and Executive Officers:			
Ji Qi	99,592,728[2]	33.53%	31.37%
John Wu Jiong	7,674,388[4]	2.58%	2.42%
Zhao Tong Tong	26,324,652[3]	8.86%	8.29%
Zhang Shangzhi	*	*	*
Shang Jian	*	*	*
Sébastien, Marie, Christophe Bazin	–	–	–
Gaurav Bhushan	–	–	–
Zhang Min	*	*	*
Hee Theng Fong	–	–	–
Cao Lei	–	–	–
Jin Hui	*	*	*
Liu Xinxin	*	*	*
Teo Nee Chuan	*	*	*
All Directors and Executive Officers as a Group	107,840,341	36.30%	33.96%

Name	Shares beneficially owned[1]	Percent	
	As of the Latest Practicable Date	As of the Latest Practicable Date	Upon Completion of the Global Offering
Principal Shareholders:			
Winner Crown	72,344,905[5]	24.36%	22.79%
Accor	15,543,167[6]	5.23%	4.90%
East Leader	26,224,652[7]	8.83%	8.26%
Invesco Ltd.	35,980,590[8]	12.11%	11.33%
Trip.com	22,049,446[9]	7.42%	6.95%

* Less than 1%.

(1) The number of Shares outstanding in calculating the percentages for each listed person or group includes the Shares underlying options held by such person or group exercisable within 60 days after the Latest Practicable Date. The total outstanding Shares of the Company exclude treasury Shares and Shares issued to our depositary bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our Share Incentive Plans. Percentage of beneficial ownership of each listed person or group is based on (i) 297,027,044 Shares outstanding as of the Latest Practicable Date, and (ii) the Shares underlying share options exercisable by and restricted stock vested to such person within 60 days after the Latest Practicable Date.

(2) Includes (i) 72,344,905 Shares held by Winner Crown, a company wholly owned by Sherman Holdings, which is in turn wholly owned by Credit Suisse Trust Limited ("**CS Trustee**"). CS Trustee acts as trustee of the Ji Family Trust, of which Mr. Ji Qi and his family members are the beneficiaries, (ii) 1,023,171 Shares held by Mr. Ji Qi, and (iii) 16,000,000 ADSs representing 16,000,000 Shares, which have been pledged to a third party financial institution to secure a borrowing, and 10,224,652 Shares held by East Leader, over which Mr. Ji has voting power pursuant to powers of attorney dated November 27, 2014. East Leader is wholly owned by Perfect Will Holdings Limited, ("**Perfect Will**"), a British Virgin Islands company, which is in turn wholly owned by Asia Square Holdings Ltd. ("**Asia Square**"), as nominee for J. Safra Sarasin Trust Company (Singapore) Ltd. ("**Sarasin Trust**"). Sarasin Trust acts as trustee of the Tanya Trust, of which Ms. Zhao Tong Tong and her family members are the beneficiaries.

(3) Includes (i) 100,000 Shares, and (ii) 16,000,000 ADSs representing 16,000,000 Shares, which have been pledged to a third party financial institution to secure a borrowing, and 10,224,652 Shares held by East Leader, a company wholly owned by Perfect Will, a British Virgin Islands company, which is in turn wholly owned by Asia Square, as nominee for Sarasin Trust. Sarasin Trust acts as trustee of the Tanya Trust, of which Ms. Zhao Tong Tong and her family members are the beneficiaries. Ms. Zhao is the sole director of East Leader.

(4) Includes 7,674,388 Shares held by Mr. John Wu Jiong.

(5) Winner Crown is wholly owned by Sherman Holdings, which is in turn wholly owned by CS Trustee. CS Trustee acts as trustee of the Ji Family Trust, of which Mr. Ji Qi, our founder and executive chairman, and his family members, are the beneficiaries. Mr. Ji is the sole director of Winner Crown. The address of Winner Crown is Vistra Corporate Service Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

(6) Includes (i) 10,563,167 Shares issued to AAPC, as reported in a Schedule 13D filed by Accor and AAPC on December 10, 2019, and (ii) 4,980,000 ADSs representing 4,980,000 Shares that Accor acquired in the open market between December 14, 2014 and May 7, 2015 and transferred to AAPC on May 7, 2015. Accor is a company incorporated under the laws of France and its registered office is 82 rue Henri Farman, 92130 Issy-les-Moulineaux. AAPC is a company incorporated in Hong Kong and its registered office is Room 803, 8/F, AXA Centre, 151, Gloucester Road, Wan Chai, Hong Kong.

(7) East Leader is wholly owned by Perfect Will Holdings Limited, a British Virgin Islands company, which is in turn wholly owned by Asia Square Holdings Ltd., as nominee for Sarasin Trust. Sarasin Trust acts as trustee of the Tanya Trust, of which Ms. Zhao Tong Tong and her family members, are the beneficiaries. Ms. Zhao is the sole director of East Leader. The address of East Leader is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

(8) Based on Amendment No. 1 to Schedule 13G filed with the SEC by Invesco Ltd. on February 7, 2020.

(9) Includes (i) 7,202,482 Shares that Trip.com purchased from us, (ii) an aggregate of 11,646,964 of our Shares that Trip.com purchased from the Chengwei Funds, CDH Courtyard Limited, the IDG Funds, the Northern Light Funds and Pinpoint Capital 2006 A Limited, and (iii) 3,200,000 ADSs representing 3,200,000 Shares that Trip.com subscribed in our initial public offering. Trip.com is a Cayman Islands company and its address is 968 Jin Zhong Road, Shanghai 200335, People's Republic of China.

We are seeking a listing on the Hong Kong Stock Exchange pursuant to Chapter 19C of the Hong Kong Listing Rules. Pursuant to Rule 19C.11 of the Hong Kong Hong Kong Listing Rules, Chapter 14A of the Hong Kong Listing Rules governing connected transactions does not apply to us. The following discussion of related party transactions has been prepared pursuant to the requirements of Form 20-F of the SEC, and is included in this prospectus for disclosure purposes only. For more information concerning our related party transactions for the three years ended December 31, 2019, and the three months ended March 31, 2020, see Note 20 to the consolidated financial statements of the Group shown in Appendix IA to this prospectus.

TRANSACTIONS WITH TRIP.COM

We conduct transactions in the ordinary course of our business with Trip.com, an entity in which Mr. Ji Qi, our founder, is a co-founder and independent director. Trip.com rendered reservation services to us to facilitate our customers in making reservations at our hotels from Trip.com's hotel booking system. For the three years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2019 and 2020, the aggregate commission fees of our leased and owned hotels paid to Trip.com for its reservation services amounted to RMB77 million, RMB61 million, RMB72 million, RMB16 million and RMB6 million (US$1 million), respectively. In December 31, 2018 and December 31, 2019 and the three months ended March 31, 2019 and 2020, the lease expenses of our leased and owned hotel paid to Trip.com amounted to RMB18 million, RMB18 million, RMB4 million and RMB5 million (US$1 million), respectively.

In a private placement before our initial public offering in 2010, Trip.com purchased 7,202,482 Shares from us and an aggregate of 11,646,964 of our Shares from the Chengwei Funds, CDH Courtyard Limited, the IDG Funds, the Northern Light Funds and Pinpoint Capital 2006 A Limited at a price equal to the initial public offering price per share. The investments by Trip.com were made pursuant to transactions exempt from registration under the Securities Act. In connection with these transactions, Trip.com was granted registration rights substantially similar to those granted to certain holder of our registrable securities under our amended and restated shareholders agreement. In addition, we have granted Trip.com the right to nominate one person to serve on our Board as long as Trip.com and its affiliates continuously maintain (i) at least 5% of our total outstanding Shares in the three years following the closing of our initial public offering and (ii) at least 8% of our total outstanding Shares thereafter. However, any person nominated by Trip.com to serve as a Director must be accepted by a majority of our Board, in their reasonable discretion, before such nomination becomes effective. In addition, Trip.com subscribed a total of 3,200,000 ADSs in our initial public offering at the initial public offering price. The ADSs issued and sold to Trip.com are on the same terms as the other ADSs being offered in our initial public offering.

For the three years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2019 and 2020, we provided marketing and training services to Trip.com and recorded service fees from Trip.com amounted to RMB24 million, RMB12 million, RMB41 million, nil and RMB38 million (US$5 million), respectively.

TRANSACTION WITH SHEEN STAR

In April 2014, we set up Sheen Star, together with Mr. Ji Qi and an Independent Third Party. We own 19.99% of the equity interest in Sheen Star and Mr. Ji Qi owns 50.01%. We recognized service fees from Sheen Star in the amount of RMB2 million, RMB4 million, RMB1 million and RMB1 million (US$0.1 million) for the years ended December 31, 2018 and 2019 and the three months ended March 31, 2019 and 2020, respectively.

We recognized interest income from Sheen Star of RMB8 million for the year ended December 31, 2019.

Sheen Star and its subsidiaries primarily engage in property management and one of its subsidiaries is a franchisee of our Group.

TRANSACTION WITH ACCOR

In January 2016, we completed strategic alliance transactions with Accor to join forces in the Pan-China region to develop Accor brands and to form an extensive and long-term alliance with Accor. After the transaction, Accor became one of our principal shareholders and was granted a right to designate one director to our Board of Directors. We recorded brand use fee, reservation fee and other related service fee to Accor of RMB11 million, RMB18 million, RMB28 million, RMB4 million and RMB4 million (US$1 million) for the three years ended December 31, 2017, 2018, 2019 and the three months ended March 31, 2019 and 2020, respectively. We also recognized service fee from Accor of RMB8 million, RMB14 million, RMB9 million, RMB2 million and RMB1 million (US$0.1 million) for the three years ended December 31, 2017, 2018, 2019 and the three months ended March 31, 2019 and 2020.

TRANSACTION WITH CJIA GROUP

China Cjia Group Limited ("**Cjia Group**") is one of our equity investees. We sold goods and provided IT and other services to Cjia Group amounted to RMB8 million, RMB30 million, RMB21 million, RMB7 million and RMB4 million (US$1 million) for the three years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2019 and 2020, respectively.

For the year ended December 31, 2017, we made shareholder loan payment to Cjia Group amounted to RMB85 million.

For the year ended December 31, 2018, we received loan from Cjia Group amounted to RMB103 million.

For the year ended December 31, 2019, we paid service fee to Cjia Group for its consultation services amounted to RMB6 million.

For the year ended December 31, 2019 and the three months ended March 31, 2019 and 2020, we received sublease income from Cjia Group amounted to RMB14 million, RMB3 million and RMB4 million (US$1 million), respectively.

TRANSACTION WITH CREATER

For the year ended December 31, 2017, we made shareholder loan payment to Shanghai CREATER Industrial Co., Ltd. ("**CREATER**") amounting to RMB27 million and we recognized interest income of RMB10 million, RMB6 million, RMB3 million for the years ended December 31, 2018 and 2019 and the three months ended March 31, 2019, respectively. CREATER ceased to be a related party of the Group from August 2019.

TRANSACTION WITH CHINA HOSPITALITY JV

For the year ended December 31, 2018, we, together with TPG, invested in China Hospitality JV, Ltd. ("**China Hospitality JV**"), in which we own 20% equity interest. We provided service fee amounted to RMB10 million, RMB6 million, RMB1 million and RMB26 million (US$4 million) to China Hospitality JV for the years ended December 31, 2018 and 2019 and the three months ended March 31, 2019 and 2020, respectively.

TRANSACTION WITH SMART LODGING

Smart Lodging Group (Cayman) Limited ("**Smart Lodging**") is one of our equity investees. For the year ended December 31, 2019 and the three months ended March 31, 2019 and 2020, we made shareholder loan payment to Smart Lodging amounted to RMB30 million, RMB20 million and was insignificant, respectively.

TRANSACTION WITH LIANQUAN

Shanghai Lianquan Hotel Management Co., Ltd ("**Lianquan**") is one of our equity investees. For the year ended December 31, 2019, we made shareholder loan payment to Lianquan amounted to RMB32 million.

For the year ended December 31, 2019 and the three months ended March 31, 2019 and 2020, the sublease income we received from Lianquan amounted to RMB7 million, nil and RMB3 million (US$0.4 million), respectively.

We estimate that the net proceeds from the Global Offering will be approximately HK$7,335.0 million after deducting the estimated underwriting fees and other estimated offering expenses payable by us and based upon an indicative offer price of HK$368.00 per Offer Share for both Hong Kong Public Offering and International Offering, and assuming the Over-allotment Option is not exercised, or HK$8,444.0 million if the Over-allotment Option is exercised in full.

The International Offer Price in the International Offering may be higher than, or the same as, the Public Offer Price in the Hong Kong Public Offering. See "Structure of the Global Offering—Pricing and Allocation."

We expect to use the net proceeds from the Global Offering for the following purposes:

(i) approximately 40% (approximately HK$2,934.0 million, assuming the Over-allotment Option is not exercised) to fund the capital expenditures and expenses to strengthen our hotel network, including:

  (a) approximately HK$1,411.2 million (equivalent of RMB1,250.0 million) for the capital expenditures and pre-opening expenses for approximately 50 new leased and owned hotels, from economy to upscale segments, that we plan to open in China within two years after the Global Offering, including approximately 40 of these hotels in the first year and 10 in the second year. The capital expenditures for these new hotels will include primarily development costs, such as construction costs for leasehold improvement and the purchase of furniture and equipment for hotel operation, and are expected to be approximately RMB20 million per hotel on average. The pre-opening expenses will include primarily rents, personnel cost and other miscellaneous expenses incurred prior to the opening of the new leased and owned hotels, and are expected to be approximately RMB5 million per hotel on average. The expected capital expenditures and pre-opening expenses per hotel vary depending on the hotel's location, floor area, number of hotel rooms, and brand, among others; and

  (b) approximately HK$1,522.8 million for the capital expenditures related to the upgrade and on-going maintenance of our existing leased and owned hotels in China and a number of other countries within two years after the Global Offering. We typically upgrade the facilities of our leased and owned hotels every six to eight years. We also incur on-going maintenance costs for these hotels. The upgrade and maintenance work will consist primarily of renovation of hotel rooms and periodic repair and replacement of furnishing and equipment.

(ii) approximately 30% (approximately HK$2,200.5 million, assuming the Over-allotment Option is not exercised) to repay part of our US$500 million revolving credit facility that we drew down in December 2019. Please see "Financial Information—Outstanding Indebtedness" for more information on this credit facility.

(iii) approximately 20% (approximately HK$1,467.0 million, assuming the Over-allotment Option is not exercised) to enhance our technology platform, including our H Rewards loyalty program. We plan to use (a) approximately 10%, or HK$733.5 million, of the proceeds to invest in R&D activities and recruit and incentive our R&D personnel, (b) approximately 5%, or HK$366.7 million, of the proceeds to integrate Deutsche Hospitality's hotels with our technology infrastructure and roll out and upgrade our global technology platform (including our H Rewards loyalty program), and (c) approximately 5%, or HK$366.7 million, of the proceeds to invest in improvements of our technological innovations and digital transformation initiatives at our group and hotel levels.

(iv) approximately 10% (approximately HK$733.5 million, assuming the Over-allotment Option is not exercised) for general corporate purposes.

HONG KONG UNDERWRITERS

Goldman Sachs (Asia) L.L.C.
CMB International Capital Limited
CLSA Limited
J.P. Morgan Securities (Asia Pacific) Limited
Morgan Stanley Asia Limited

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. We expect the International Offering to be fully underwritten by the International Underwriters. If, for any reason, we do not agree with the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 2,042,300 Hong Kong Offer Shares and the International Offering of initially 18,379,850 International Offer Shares, subject, in each case, to reallocation on the basis as described in "Structure of the Global Offering" as well as to the Over-allotment Option (in the case of the International Offering).

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on September 10, 2020. Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and conditions set out in this prospectus and the Hong Kong Underwriting Agreement at the Public Offer Price.

Subject to (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of restricted stocks or other awards that have been or may be granted from time to time, on the Main Board of the Hong Kong Stock Exchange and such approval not having been withdrawn and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The Joint Global Coordinators may (for themselves and on behalf of the Hong Kong Underwriters), in their sole and absolute discretion and upon giving written notice to the Company, terminate the Hong Kong Underwriting Agreement with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

(a) trading generally shall have been suspended or materially limited on, or by, as the case may be, any of the New York Stock Exchange, the American Stock Exchange, the NASDAQ or the Hong Kong Stock Exchange;

(b) trading of any securities of the Company shall have been suspended on any exchange or in any over-the-counter market;

(c) a material disruption in securities settlement, payment or clearance services in the U.S., the Cayman Islands, the PRC or Hong Kong shall have occurred; or

(d) any moratorium on commercial banking activities shall have been declared by United States Federal, New York State, the Cayman Islands, the PRC or Hong Kong authorities; or

(e) there shall have occurred any outbreak or escalation of hostilities, any change in financial markets, currency exchange rates or controls or any calamity or crisis, or any event or series of events in the nature of force majeure (including, without limitation, acts of government, declaration of a national, regional or international emergency or war, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God) that, in the reasonable judgment of the Joint Global Coordinators, is material and adverse and which, singly or together with any other event specified in this paragraph, makes it, in the reasonable judgment of the Joint Global Coordinators, impracticable to proceed with the offer, sale or delivery of the Offer Shares on the terms and in the manner contemplated in this prospectus, the registration statement, the general disclosure package and the final prospectus to be filed or issued by us in connection with the International Offering; or

(f) any material adverse change or prospective material adverse change in the earnings, results of operations, business, financial or trading position, conditions (financial or otherwise) of the Company and its subsidiaries (taken as a whole) (including any litigation or claim of any third party being threatened or instigated against the Company and its subsidiaries (taken as a whole)).

Undertakings Pursuant to the Hong Kong Underwriting Agreement

Except for (i) the issue, offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-Allotment Option), (ii) the grant or issue of securities pursuant to the terms of the Share Incentive Plans, (iii) the performance of the obligations under the indenture dated November 3, 2017 or capped call confirmations dated October 26, 2017 and additional capped call confirmations dated October 31, 2017 that the Company entered into in connection with its convertible senior notes due 2022, or indenture dated May 7, 2020 that the Company entered into in connection with its convertible senior notes due 2026, (iv) the issuance by the Company of any securities upon the exercise of an option or warrant or the conversion of the Company's convertible senior notes due 2022 or the conversion of the Company's convertible senior notes due 2026 or any other security outstanding on the date of the Hong Kong Underwriting Agreement and disclosed in this prospectus, (v) any capitalization issue, capital reduction or consolidation or sub-division of the Shares, and (vi) any repurchase of securities pursuant to any share repurchase programs existing on the date of the Hong Kong Underwriting Agreement, during the period commencing on the Price Determination Date and ending on, and including, the date that is 90 days after the Price Determination Date, the Company has undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Joint Sponsors not to, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules,

(a) offer, issue, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any Shares or ADSs of the Company or any securities convertible into or exercisable or exchangeable for Shares or ADSs of the Company (the "**Lock-Up Securities**"); or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Lock-Up Securities, whether any such transaction described in paragraph (a) above or this paragraph is to be settled by delivery of Lock-Up Securities, in cash or otherwise; or

(c) file any registration statement with the Commission relating to the offering of any Lock-Up Securities; or

(d) publicly disclose the intention to make any such offer, pledge, sale or disposition, or enter into any such transaction, swap, hedge or other arrangement, or file any such registration statement as specified in paragraphs (a), (b) or (c) above.

International Offering

International Underwriting Agreement

In connection with the International Offering, we expect to enter into the International Underwriting Agreement with, among others, the Joint Global Coordinators (on behalf of the International Underwriters) on the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the International Offer Shares initially being offered pursuant to the International Offering. We expect that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. See "Structure of the Global Offering—The International Offering."

Over-allotment Option

We expect to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, pursuant to which we may be required to issue up to an aggregate of 3,063,300 Shares, representing not more than 15% of the number of Offer Shares initially available under the Global Offering, at the International Offer Price, to, among other things, cover over-allocations in the International Offering, if any. See "Structure of the Global Offering—Over-allotment Option."

Commissions and Expenses

The Underwriters will receive an underwriting commission up to 1.5% of the aggregate offer price of all the Offer Shares (including any Offer Shares to be issued by us pursuant to the exercise of the Over-allotment Option), out of which they will pay any sub-underwriting commissions and other fees.

For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

The aggregate underwriting commissions payable to the Underwriters in relation to the Global Offering (assuming an indicative offer price of HK$368.00 per Offer Share for both the Hong Kong Public Offering and the International Offering and the exercise of the Over-allotment Option in full) will be approximately HK$129.6 million.

The aggregate underwriting commissions and fees together with the Hong Kong Stock Exchange listing fees, the SFC transaction levy and the Hong Kong Stock Exchange trading fee, SEC registration fees, legal and other professional fees and printing and all other expenses relating to the Global Offering are estimated to be approximately HK$198.6 million (assuming an indicative offer price of HK$368.00 per Offer Share for both the Hong Kong Public Offering and the International Offering and the exercise of the Over-allotment Option in full) and will be paid by us.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the "**Syndicate Members**") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to our assets, securities and/or instruments and/or persons and entities with relationships with us and may also include swaps and other financial instruments entered into for hedging purposes in connection with our loans and other debt.

In relation to the Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares, which may have a negative impact on the trading price of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in "Structure of the Global Offering." Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

- the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to us and certain of our affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of the Offer Shares in the Global Offering.

Lock-up

Undertakings by our Directors and Executive Officers

Our directors and officers, who owned approximately 36.3% of our issued share capital in aggregate as of the Latest Practicable Date, have agreed that, subject to limited exceptions, without the prior written consent of the Joint Sponsors on behalf of the Underwriters, it will not, and will not cause any of its direct or indirect affiliates to, during the period commencing on the Price Determination Date and ending on, and including, the date that is 90 days after the Price Determination Date or such earlier date that the Joint Sponsors consent to in writing (the "Restricted Period"), (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any Ordinary Shares or ADSs beneficially owned (as such term is used in Rule 13d-3 of the Exchange Act), by the undersigned or any securities so owned convertible into or exercisable or exchangeable for Ordinary Shares or ADSs (collectively, "Lock-Up Securities") or (2) enter into any hedging, swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Lock-Up Securities, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Lock-Up Securities, in cash or otherwise or (3) publicly disclose the intention to do any of the foregoing.

The foregoing sentence shall not apply to (a) transactions relating to Lock-Up Securities acquired in open market transactions after the completion of the Global Offering, *provided* that no filing under Section 15 and 16(a) of the Exchange Act or other public announcement shall be required or shall be voluntarily made in connection with subsequent sales of Lock-Up Securities acquired in such open market transactions, (b) transfers of Lock-Up Securities as a *bona fide* gift or gifts, (c) transfers of the undersigned's Lock-Up Securities if the undersigned is a partnership, limited liability company or corporation, to limited partners or shareholders or "affiliates" (as such term is defined in Rule 12b-2 under the Exchange Act) of the undersigned, provided that any such transfer shall not involve a disposition for value, (d)

transfers of Lock-up Securities to any trust for the direct or indirect benefit of the undersigned or the immediate family of the undersigned, provided that any such transfer shall not involve a disposition for value, *provided* that in the case of any transfer or distribution pursuant to clause (b), (c) or (d), each donee, distributee or transferee, as the case may be, shall sign and deliver to the Joint Sponsors a lock-up letter substantially in the form of this letter, or (e) establishment or amendment of a trading plan pursuant to Rule 10b5-1 under the Exchange Act for the transfer of Lock-Up Securities, provided that (x) such plan does not provide for the transfer of Lock-Up Securities during the Restricted Period and (y) to the extent a public announcement or filing under the Exchange Act, if any, is required or voluntarily made regarding the establishment of such plan, such announcement or filing shall include a statement to the effect that no transfer of such securities may be made under such plan during the Restricted Period or (f) with respect to an aggregate US$30 million loan to an independent director from a third party bank (the "Bank"), secured by a pledge of 16 million ADSs from that director, the transfer of up to US$30 million of ADSs to the Bank, its affiliates or third parties in the event the Bank forecloses on the pledged ADSs.

Undertakings by Winner Crown and East Leader

Winner Crown and East Leader, our Controlling Shareholders, have agreed that, subject to limited exceptions, without the prior written consent of the Joint Sponsors on behalf of the Underwriters, it will not, and will not cause any of its direct or indirect affiliates to, during the period commencing on the Price Determination Date and ending on, and including, the date that is 90 days after the Price Determination Date or such earlier date that the Joint Sponsors consent to in writing (the "Controlling Shareholder Restricted Period"), (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any Ordinary Shares or ADSs beneficially owned (as such term is used in Rule 13d-3 of the Exchange Act), by the undersigned or any securities so owned convertible into or exercisable or exchangeable for Ordinary Shares or ADSs (collectively, "Controlling Shareholder Lock-Up Securities") or (2) enter into any hedging, swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Controlling Shareholder Lock-Up Securities, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Controlling Shareholder Lock-Up Securities, in cash or otherwise or (3) publicly disclose the intention to do any of the foregoing.

The foregoing sentence shall not apply to (a) transactions relating to Controlling Shareholder Lock-Up Securities acquired in open market transactions after the completion of the Global Offering, provided that no filing under Section 15 and 16(a) of the Exchange Act or other public announcement shall be required or shall be voluntarily made in connection with subsequent sales of Controlling Shareholder Lock-Up Securities acquired in such open market transactions, (b) transfers of Controlling Shareholder Lock-Up Securities as a bona fide gift or gifts, (c) transfers of the undersigned's Controlling Shareholder Lock-Up Securities if the undersigned is a partnership, limited liability company or corporation, to limited partners or shareholders or "affiliates" (as such term is defined in Rule 12b-2 under the Exchange Act) of the undersigned, provided that any such transfer shall not involve a disposition for value, (d) transfers of Controlling Shareholder Lock-Up Securities to any trust for the direct or indirect benefit of the undersigned or the immediate family of the undersigned, provided that any such transfer shall not involve a disposition for value, provided that in the case of any transfer or distribution pursuant to clause (b), (c) or (d), each donee, distributee or transferee, as the case may be, shall sign and deliver to the Joint Sponsors a lock-up letter substantially in the form of this letter, or (e) establishment or amendment of a trading plan pursuant to Rule 10b5 1 under the Exchange Act for the transfer of Lock Up Securities, provided that (x) such plan does not provide for the transfer of Lock Up Securities during the Controlling Shareholder

Restricted Period and (y) to the extent a public announcement or filing under the Exchange Act, if any, is required or voluntarily made regarding the establishment of such plan, such announcement or filing shall include a statement to the effect that no transfer of such securities may be made under such plan during the Controlling Shareholder Restricted Period, or (f) to the extent applicable, with respect to an aggregate US$30 million loan to an independent director from the Bank, secured by a pledge of 16 million ADSs from that director, the transfer of up to US$30 million of ADSs to the Bank, its affiliates or third parties in the event the Bank forecloses on the pledged ADSs.

The Global Offering

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

The listing of the Shares on the Main Board of the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. The Joint Sponsors have made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus.

20,422,150 Offer Shares will initially be made available under the Global Offering comprising:

- the Hong Kong Public Offering of initially 2,042,300 Shares (subject to adjustment) in Hong Kong as described in "—The Hong Kong Public Offering" below; and

- the International Offering of initially 18,379,850 Shares (subject to adjustment and the Over-allotment Option) pursuant to the shelf registration statement on Form F-3ASR that was filed with the SEC and became effective on October 26, 2017, and the preliminary prospectus supplement filed with the SEC on September 9, 2020 and the final prospectus supplement to be filed with the SEC on or about September 18, 2020.

Investors may either (i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or (ii) apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 6.4% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised and without taking into account the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of restricted stocks or other awards that have been or may be granted from time to time. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 7.3% of the total Shares in issue immediately following the completion of the Global Offering (without taking into account the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of restricted stocks or other awards that have been or may be granted from time to time).

References in this prospectus to applications, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

The Hong Kong Public Offering

Number of Offer Shares initially offered

We are initially offering 2,042,300 Shares for subscription by the public in Hong Kong at the Public Offer Price, representing approximately 10.0% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 0.6% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of restricted stocks or other awards that have been or may be granted from time to time).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in "—Conditions of the Global Offering" below.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot) into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK$5 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK$5 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) and up to the total value in pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the "price" for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Public Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 1,021,150 Hong Kong Offer Shares is liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached.

We have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules to the effect as further described below.

2,042,300 Offer Shares are initially available in the Hong Kong Public Offering, representing approximately 10% of the Offer Shares initially available under the Global Offering.

If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (a) 13 times or more but less than 45 times, (b) 45 times or more but less than 91 times and (c) 91 times or more of the total number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 2,859,200 Offer Shares (in the case of (a)), 3,880,300 Offer Shares (in the case of (b)) and 7,556,200 Offer Shares (in the case of (c)), representing 14%, 19% and 37% of the total number of Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

In addition, the Joint Global Coordinators may allocate Offer Shares from the International Offer Shares to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with the Guidance Letter HKEx-GL91-18 issued by the Hong Kong Stock Exchange, if such allocation is done other than pursuant to Practice Note 18 of the Hong Kong Listing Rules, the maximum total number of Offer Shares that may be allocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 4,084,600 Shares).

If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

Details of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering will be disclosed in the results announcement of the Hong Kong Public Offering, which is expected to be published on Monday, September 21, 2020.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or if he/she has been or will be placed or allocated International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the indicative maximum Public Offer Price of HK$368.00 per Offer Share in addition to the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK$18,585.42 for one board lot of 50 Shares. If the Public Offer Price, as finally determined in the manner described in "—Pricing and Allocation" below, is less than the maximum Public Offer Price of HK$368.00 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in "How to Apply for Hong Kong Offer Shares."

The International Offering

Number of Offer Shares initially offered

The International Offering will consist of an initial offering of 18,379,850 Offer Shares offered by us (subject to adjustment and the Over-allotment Option), representing 90.0% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the International Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 5.8% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of restricted stocks or other awards that have been or may be granted from time to time).

Allocation

The International Offering will include marketing of Offer Shares in the United States as well as to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in "—Pricing and Allocation" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to our benefit and the benefit of the shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allocation of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in "—The Hong Kong Public Offering—Reallocation" above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, we expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require us to issue up to an aggregate of 3,063,300 Shares, representing not more than 15% of the total number of Offer Shares initially available under the Global Offering, at the International Offer Price under the International Offering to, among other things, cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Offer Shares to be issued pursuant thereto will represent approximately 1.0% of the total Shares in issue immediately following the completion of the Global Offering without taking into account the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of restricted stocks or other awards that have been or may be granted from time to time. If the Over-allotment Option is exercised, an announcement will be made.

Stabilization

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Public Offer Price.

In connection with the Global Offering, the Stabilizing Manager (or any person acting for it), on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager (or any person acting for it) to conduct any such stabilizing action. Such stabilizing action, if taken, (a) will be conducted at the absolute discretion of the Stabilizing Manager (or any person acting for it) and in what the Stabilizing Manager reasonably regards as our best interest, (b) may be discontinued at any time and (c) is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares, (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (c) purchasing, or agreeing to purchase, the Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) or (b) above, (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (e) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (f) offering or attempting to do anything as described in clauses (b), (c), (d) or (e) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager (or any person acting for it) may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager (or any person acting for it) will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager (or any person acting for it) and selling in the open market may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on Friday, October 16, 2020, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Public Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Public Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

We will ensure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

In addition, stabilization transactions with respect to the ADSs may be effected by one of the International Underwriters or its affiliates before and after the listing of the Shares on the Hong Kong Stock Exchange in accordance with applicable laws and regulations.

Over-Allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may cover such over-allocations by, among other methods, exercising the Over-allotment Option in full or in part, by using Shares purchased by the Stabilizing Manager (or any person acting for it) in the secondary market at prices that do not exceed the Public Offer Price or through the Stock Borrowing Agreement as detailed below or a combination of these means.

Stock Borrowing Agreement

In order to facilitate the settlement of over-allocations, if any, in connection with the Global Offering, the Stabilizing Manager, its affiliates, (or any person acting for it) may choose to borrow up to 3,063,300 Shares (being the maximum number of Shares which may be sold pursuant to the exercise of the Over-allotment Option) from Winner Crown, pursuant to the Stock Borrowing Agreement, which is expected to be entered into on or about the Price Determination Date.

The same number of Shares so borrowed must be returned to Winner Crown or their nominees, as the case may be, on or before the third business day following the earlier of (a) the last day on which the Over-allotment Option may be exercised and (b) the day on which the Over-allotment Option is exercised in full.

The Shares borrowing arrangement described above will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Winner Crown by the Stabilizing Manager (or any person acting for it) in relation to such Shares borrowing arrangement.

Pricing and Allocation

Determining the Pricing of the Offer Shares

We will determine the pricing of the Offer Shares for the purpose of the various offerings under the Global Offering on the Price Determination Date, which is expected to be on or about Wednesday, September 16, 2020 and, in any event, no later than Monday, September 21, 2020, by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us, and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

We will determine the Public Offer Price by reference to, among other factors, the closing price of the ADSs on the NASDAQ on the last trading day on or before the Price Determination Date (which is accessible to the Shareholders and potential investors at www.nasdaq.com/market-activity/stocks/htht), and the Public Offer Price will not be more than HK$368.00 per Hong Kong Offer Share. The historical prices of our ADSs and trading volume on the NASDAQ are set out below.

Period	High	Low	ADTV
	(US$)	(US$)	(million ADSs)[1]
Fiscal year ended December 31, 2019	44.94	27.39	1.3
Fiscal year of 2020 (up to the Latest Practicable Date)	46.16	26.61	2.2

Note:

(1) Average daily trading volume ("**ADTV**") represents daily average number of our ADSs traded over the relevant period.

Applicants under the Hong Kong Public Offering must pay, on application, the indicative maximum Public Offer Price of HK$368.00 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, amounting to a total of HK$18,585.42 for one board lot of 50 Shares.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on the NASDAQ on the last trading day on or before the Price Determination Date (on a per-Share converted basis) were to exceed the maximum Public Offer Price as stated in this prospectus and/or (b) we believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the bookbuilding process.

If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this prospectus or the International Offer Price.

We reserve the right not to proceed with the Hong Kong Public Offering or the International Offering on or at any time until the Price Determination Date if, for any reason, including as a result of volatility in the price of our ADSs or other changes in market conditions, we do not agree with the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares by Monday, September 21, 2020.

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where they deem appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with our consent, reduce the number of Offer Shares offered below as stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our website and the website of the Hong Kong Stock Exchange at **ir.huazhu.com** and **www.hkexnews.hk**, respectively, notices of the reduction. Upon the issue of such a notice, the revised number of Offer Shares will be final. If the number of Offer Shares is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications, unless positive confirmations from the applicants to proceed are received.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced.

Announcement of Final Pricing of the Offer Shares

The final pricing of the Offer Shares, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in "How to Apply for Hong Kong Offer Shares—D. Publication of Results."

Underwriting

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to, among other things, our agreeing with the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) on the pricing of the Offer Shares.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarized in "Underwriting."

Conditions of the Global Offering

Acceptance of all applications for Offer Shares will be conditional on:

- the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time, on the Main Board of the Hong Kong Stock Exchange and such approval not subsequently having been withdrawn or revoked prior to the Listing Date;

- the pricing of the Offer Shares having been agreed between the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and us;

- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and

- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this prospectus.

If, for any reason, we do not agree the pricing of the Offer Shares with the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before Monday, September 21, 2020, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our website and the website of the Hong Kong Stock Exchange at **ir.huazhu.com** and **www.hkexnews.hk**, respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in "How to Apply for Hong Kong Offer Shares—F. Refund of Application Monies." In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on Tuesday, September 22, 2020, provided that the Global Offering has become unconditional in all respects at or before that time.

Dealings in the Shares

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, September 22, 2020, it is expected that dealings in the Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Tuesday, September 22, 2020.

The Shares will be traded in board lots of 50 Shares each and the stock code of the Shares will be 1179.

IMPORTANT NOTICE TO INVESTORS:
FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide any printed copies of this prospectus or any printed copies of any application forms for use by the public.

This prospectus is available at the website of Hong Kong Exchanges and Clearing Limited at **www.hkexnews.hk** under the "*HKEXnews* > *New Listings* > *New Listing Information*" section, and our website at **ir.huazhu.com**. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

The contents of the electronic version of the prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (WUMP) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar and White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, at +852 2862 8646 from 9:00 a.m. to 9:00 p.m. on Friday, September 11, 2020, Monday, September 14, 2020, Tuesday, September 15, 2020 and from 9:00 a.m. to 6:00 p.m. on Saturday, September 12, 2020 and Sunday, September 13, 2020 and from 9:00 a.m. to 12:00 noon on Wednesday, September 16, 2020.

A. APPLICATIONS FOR HONG KONG OFFER SHARES

1. How to Apply

We will not provide any printed application forms for use by the public.

To apply for Hong Kong Offer Shares, you may:

(1) apply online through the **White Form eIPO** service at **www.eipo.com.hk**; or

(2) apply through **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:

(i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or

(ii) (if you are an existing CCASS Investor Participant) giving **electronic application instructions** through the CCASS Internet System (**https://ip.ccass.com**) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request

If you apply through channel (1) above, the Hong Kong Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

We, the Joint Global Coordinators, the **White Form eIPO** Service Provider and our and their respective agents may reject or accept any application, in full or in part, for any reason at our or their discretion.

2. Who Can Apply

Eligibility for the Application

You can apply for Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying:

- are 18 years of age or older; and
- have a Hong Kong address.

If an application is made by a person under a power of attorney, we and the Joint Global Coordinators, as our agents, may accept it at our or their discretion, and on any conditions we or they think fit, including requiring evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Hong Kong Listing Rules or any relevant waivers that have been granted by the Hong Kong Stock Exchange (details of the relevant waivers are set out in the sections headed "Waivers and Exemptions—Subscription for Shares by existing shareholders" and "Waivers and Exemptions—Dealings in the Shares prior to the Listing"), you cannot apply for any Hong Kong Offer Shares if:

- you are an existing beneficial owner of Shares and/or a substantial shareholder of any of our subsidiaries;
- you are our Director or chief executive and/or a director or chief executive officer of our subsidiaries;
- you are a close associate of any of the above persons;

- you are a core connected person of the Company or a person who will become a core connected person of the Company immediately upon the completion of the Global Offering; or

- you have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

Items Required for the Application

If you apply for Hong Kong Offer Shares online through the **White Form eIPO** service, you must:

- have a valid Hong Kong identity card number; and

- provide a valid e-mail address and a contact telephone number.

If you are applying for the Hong Kong Offer Shares online by instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals, please contact them for the items required for the application.

3. Terms and Conditions of an Application

By applying through the application channels specified in this prospectus you:

- undertake to execute all relevant documents and instruct and authorize us and/or the Joint Global Coordinators (or their agents or nominees), as our agents, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

- agree to comply with our Memorandum and Articles of Association, the Companies (WUMP) Ordinance and Cayman Companies Law;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in making your application and will not rely on any other information or representations, except those in any supplement to this prospectus;

- confirm that you are aware of the restrictions on the Global Offering set out in this prospectus;

- agree that none of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, or the Relevant Persons, and the **White Form eIPO** Service Provider is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);

- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;

- agree to disclose to us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which we or any of them may require about you and the person(s) for whose benefit you have made the application;

- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and neither we nor the Relevant Persons will breach any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions in this prospectus;

- agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong;

- agree that your application will be governed by the laws of Hong Kong;

- warrant that the information you have provided is true and accurate;

- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;

- authorize (i) us to place your name(s) or the name of HKSCC Nominees on our register of members as the holder(s) of any Hong Kong Offer Shares allocated to you and such other registers as required under our Memorandum and Articles of Association and (ii) us and/or our agents to send any Share certificate(s) and/or any e-Refund payment instructions and/or any refund check(s) to you or the first-named applicant for joint applications by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in "—Personal Collection" below to collect the Share certificate(s) and/or refund check(s) in person;

- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

- understand that we, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC directly or indirectly or through the White Form eIPO service or by any one as your agent or by any other person; and

- (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as its agent.

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each applicant and CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

4. Minimum Application Amount and Permitted Numbers

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 50 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application HK$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK$
50	18,585.42	1,000	371,708.34	20,000	7,434,166.72	700,000	260,195,835.20
100	37,170.83	1,500	557,562.50	30,000	11,151,250.08	800,000	297,366,668.80
150	55,756.25	2,000	743,416.67	40,000	14,868,333.44	900,000	334,537,502.40
200	74,341.67	2,500	929,270.84	50,000	18,585,416.80	1,021,150[1]	379,569,967.31
250	92,927.08	3,000	1,115,125.01	60,000	22,302,500.16		
300	111,512.50	3,500	1,300,979.18	70,000	26,019,583.52		
350	130,097.92	4,000	1,486,833.34	80,000	29,736,666.88		
400	148,683.33	4,500	1,672,687.51	90,000	33,453,750.24		
450	167,268.75	5,000	1,858,541.68	100,000	37,170,833.60		
500	185,854.17	6,000	2,230,250.02	200,000	74,341,667.20		
600	223,025.00	7,000	2,601,958.35	300,000	111,512,500.80		
700	260,195.84	8,000	2,973,666.69	400,000	148,683,334.40		
800	297,366.67	9,000	3,345,375.02	500,000	185,854,168.00		
900	334,537.50	10,000	3,717,083.36	600,000	223,025,001.60		

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

5. Applying Through the White Form eIPO Service

General

Individuals who meet the criteria in "—Who Can Apply" above may apply through the **White Form eIPO** service for the Offer Shares to be allocated and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to us. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** Service Provider.

If you have any question on how to apply through the **White Form eIPO** service for Hong Kong Offer Shares, you may call the enquiry hotline of the **White Form eIPO** Service Provider at +852 2862 8646 which is available from 9:00 a.m. to 9:00 p.m. on Friday, September 11, 2020, Monday, September 14, 2020 and Tuesday, September 15, 2020, and from 9:00 a.m. to 6:00 p.m. on Saturday, September 12, 2020 and Sunday, September 13, 2020 and from 9:00 a.m. to 12:00 noon on Wednesday, September 16, 2020.

Time for Submitting Applications under the White Form eIPO Service

You may submit your application through the **White Form eIPO** service through the designated website at **www.eipo.com.hk** (24 hours daily, except on the last day for applications) from 9:00 a.m. on Friday, September 11, 2020 until 11:30 a.m. on Wednesday, September 16, 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, September 16, 2020, the last day for applications, or such later time as described in "—C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists" below.

Commitment to sustainability

The obvious advantage of White Form eIPO service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK$2 for each "Huazhu Group Limited" White Form eIPO application submitted via **www.eipo.com.hk** to support sustainability.

6. Applying Through CCASS EIPO Service

General

You may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf. CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Internet System (**https://ip.ccass.com**) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants though HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to us, the Sponsor, the Joint Global Coordinators and the Hong Kong Share Registrar.

Applying through CCASS EIPO Service

Where you have applied through **CCASS EIPO** service (either indirectly through a broker or custodian or directly) and an application is made by HKSCC Nominees on your behalf:

- HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this prospectus; and

- HKSCC Nominees will do the following things on your behalf:

  - agree that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

  - undertake and confirm that you have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;

  - declare that only one set of **electronic application instructions** has been given for your benefit;

  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as its agent;

  - confirm that you understand that we, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

  - authorize us to place HKSCC Nominees' name on our register of members as the holder of the Hong Kong Offer Shares allocated to you, and despatch Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;

  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

  - confirm that you have received and read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made and will not rely on any other information or representations, except those in any supplement to this prospectus;

  - agree that neither we nor any of the Relevant Persons is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);

- agree to disclose to us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which we or they may require about you;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us, and to become binding when you give the instructions and such collateral contract to be in consideration of our agreeing that we will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering by us;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Offer Shares;

- agree with us, for ourselves and for the benefit of each shareholder (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for us and on behalf of each shareholder, with each CCASS Participant giving **electronic application instructions**) to observe and comply with our Memorandum and Articles of Association, the Companies (WUMP) Ordinance and Cayman Companies Law; and

- agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong.

Effect of Applying through CCASS EIPO Service

By applying through **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to us or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorized HKSCC to arrange payment of the maximum Public Offer Price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Public Offer Price is less than the maximum Public Offer Price initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

Time for Inputting Electronic Application Instructions[1]

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, September 11, 2020 – 9:00 a.m. to 8:30 p.m.
Saturday, September 12, 2020 – 8:00 a.m. to 1:00 p.m.
Monday, September 14, 2020 – 8:00 a.m. to 8:30 p.m.
Tuesday, September 15, 2020 – 8:00 a.m. to 8:30 p.m.
Wednesday, September 16, 2020 – 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, September 11, 2020 until 12:00 noon on Wednesday, September 16, 2020 (24 hours daily, except on Wednesday, September 16, 2020, the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, September 16, 2020, the last day for applications, or such later time as described in "—C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists" below.

If you are instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your broker or custodian for the latest time for giving such instructions which may be different from the latest time as stated above.

Note:

1. These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing Participants, CCASS Custodian Participants and/or CCASS Investor Participants.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

Personal Data

The following Personal Information Collection Statement applies to any personal data held by us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through **CCASS EIPO** service, you agree to all of the terms of the Personal Information Collection Statement below.

Personal Information Collection Statement

This Personal Information Collection Statement informs applicant for, and holder of, the Hong Kong Offer Shares, of the policies and practices of us and our Hong Kong Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Reasons for the collection of your personal data

It is necessary for applicants and registered holders of the Hong Kong Offer Shares to supply correct personal data to us or our agents and the Hong Kong Share Registrar when applying for the Hong Kong Offer Shares or transferring the Hong Kong Offer Shares into or out of their names or in procuring the services of the the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Offer Shares being rejected, or in delay or the inability of us or our Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Offer Shares inform us and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund check, where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing results of allocation of the Hong Kong Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of our Shares including, where applicable, HKSCC Nominees;

- maintaining or updating our Register of Members;
- verifying identities of the holders of our Shares;
- establishing benefit entitlements of holders of our Shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from us and our subsidiaries;
- compiling statistical information and profiles of the holder of our Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable us and the Hong Kong Share Registrar to discharge our or their obligations to holders of our Shares and/or regulators and/or any other purposes to which the securities' holders may from time to time agree.

Transfer of personal data

Personal data held by us and our Hong Kong Share Registrar relating to the holders of the Hong Kong Offer Shares will be kept confidential but we and our Hong Kong Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- our appointed agents such as financial advisers, receiving bankers and overseas principal share registrar;
- where applicants for the Hong Kong Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to us or the Hong Kong Share Registrar in connection with their respective business operation;
- the Hong Kong Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc.

Retention of personal data

We and our Hong Kong Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Offer Shares for as long as necessary to fulfil the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

Access to and correction of personal data

Holders of the Hong Kong Offer Shares have the right to ascertain whether we or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. We and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to us, at our registered address disclosed in the section headed "Corporate Information" in this prospectus or as notified from time to time, for the attention of the secretary, or our Hong Kong Share Registrar for the attention of the privacy compliance officer.

7. Warning for Electronic Applications

The application for the Hong Kong Offer Shares by **CCASS EIPO** service (directly or indirectly through your broker or custodian) is only a facility provided to CCASS Participants. Similarly, the application for the Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic application. We, the Relevant Persons, the **White Form eIPO** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant applying through **CCASS EIPO** service or person applying through the **White Form eIPO** service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS internet System for submission of **electronic application instructions**, they should go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, September 16, 2020.

8. How Many Applications Can You Make

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees.

All of your applications will be rejected if more than one application through the **CCASS EIPO** service (directly or indirectly through your broker or custodian) or through the **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**), and the number of Hong Kong Offer Shares applied by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your behalf.

For the avoidance of doubt, giving an **electronic application instruction** under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. However, any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your behalf to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Hong Kong Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

B. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Public Offer Price is HK$368.00 per Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 50 Hong Kong Offer Shares, you will pay HK$18,585.42.

You must pay the maximum Public Offer Price, together with brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, in full upon application for Hong Kong Offer Shares.

You may submit an application through the **White Form eIPO** service or the **CCASS EIPO** service in respect of a minimum of 50 Hong Kong Offer Shares. If you make an electronic application instruction for more than 50 Hong Kong Offer Shares, the number of Hong Kong Offer Shares you apply for must be in one of the specified numbers set out in the section "—4. Minimum Application Amount and Permitted Numbers".

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Hong Kong Listing Rules), and the SFC transaction levy and the Hong Kong Stock Exchange trading fee will be paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Public Offer Price, see "Structure of the Global Offering—Pricing and Allocation."

C. EFFECT OF BAD WEATHER AND EXTREME CONDITIONS ON THE OPENING AND CLOSING OF THE APPLICATION LISTS

The application lists will not open or close if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a "black" rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, September 16, 2020. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, September 16, 2020 or if there is/are a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in "Expected Timetable," an announcement will be made on our website at **ir.huazhu.com** and the website of Hong Kong Exchanges and Clearing Limited at **www.hkexnews.hk**.

D. PUBLICATION OF RESULTS

We expect to announce the pricing of the Offer Shares on Wednesday, September 16, 2020 on our website at **ir.huazhu.com** and the website of Hong Kong Exchanges and Clearing Limited at **www.hkexnews.hk**.

We expect to announce the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares on Monday, September 21, 2020 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our websites at **ir.huazhu.com** and the website of Hong Kong Exchanges and Clearing Limited at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and dates and in the manner set out below:

- in the announcement to be posted on our website and the website of Hong Kong Exchanges and Clearing Limited at **ir.huazhu.com** and **www.hkexnews.hk**, respectively, by no later than Monday, September 21, 2020;
- from the designated results of allocations website at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID function" on a 24 hour basis from 8:00 a.m. on Monday, September 21, 2020 to 12:00 midnight on Sunday, September 27, 2020; and
- from the allocation results telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. from Monday, September 21, 2020 to Thursday, September 24, 2020.

If we accept your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in "Structure of the Global Offering."

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

E. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

If your application is revoked:

By applying through the **CCASS EIPO** service or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with us.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) in the following circumstances:

- if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus; or

- if any supplement to this prospectus is issued, in which case applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

If we or our agents exercise discretion to reject your application:

We, the Joint Global Coordinators, the **White Form eIPO** Service Provider and our and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

If:

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you apply for, have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your payment is not made correctly;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at **www.eipo.com.hk**;
- you apply for more than 1,021,150 Hong Kong Offer Shares, being 50% of the 2,042,300 Hong Kong Offer Shares initially available under the Hong Kong Public Offering;
- we or the Joint Global Coordinators believe that by accepting your application, a violation of applicable securities or other laws, rules or regulations would result; or
- the Underwriting Agreements do not become unconditional or are terminated.

F. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Public Offer Price as finally determined is less than the maximum Public Offer Price per Offer Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable thereon) paid on application, or if the conditions of the Global Offering as set out in "Structure of the Global Offering—Conditions of the Global Offering" are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, will be refunded, without interest.

Any refund of your application monies will be made on or before Monday, September 21, 2020.

G. DESPATCH/COLLECTION OF SHARE CERTIFICATES/E-REFUND PAYMENT INSTRUCTIONS/REFUND CHECKS

You will receive one Share certificate for all Hong Kong Offer Shares allocated to you under the Hong Kong Public Offering (except pursuant to applications made through the **CCASS EIPO** service where the Share certificates will be deposited into CCASS as described below).

The Company will not issue temporary document of title in respect of the Offer Shares. The Company will not issue receipt for sums paid on application.

Subject to arrangement on despatch/collection of Share certificates and refund checks as mentioned below, any refund checks and Share certificate(s) are expected to be posted on or before Monday, September 21, 2020. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of check(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, September 22, 2020, provided that the Global Offering has become unconditional in all respects at or before that time. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of the Share certificates or prior to the Share certificates becoming valid do so entirely at their own risk.

Personal Collection

- ***If you apply through White Form eIPO service***:

  - If you apply for 500,000 Hong Kong Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, September 21, 2020, or any other place or date notified by us in the newspapers as the date of despatch or collection of Share certificates.

  - If you do not personally collect your Share certificate(s) within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post and at your own risk.

  - If you apply for less than 500,000 Hong Kong Offer Shares through the **White Form eIPO** service, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, September 21, 2020 by ordinary post and at your own risk.

  - If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address specified in your application instructions in the form of refund check(s) by ordinary post and at your own risk.

- ***If you apply through CCASS EIPO service***:

  Allocation of Hong Kong Offer Shares

  - For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

  Deposit of Share Certificates into CCASS and Refund of Application Monies

  - If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, September 21, 2020 or on any other date determined by HKSCC or HKSCC Nominees.

  - We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Offer Shares in the manner as described in "—Publication of Results" above on Monday, September 21, 2020. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Monday, September 21, 2020 or such other date as determined by HKSCC or HKSCC Nominees.

  - If you have instructed your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you can also check the number of the Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.

  - If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, September 21, 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

  - Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Public Offer Price and the maximum Public Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, September 21, 2020.

H. ADMISSION OF THE SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Hong Kong Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

We have made all necessary arrangements to enable the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HUAZHU GROUP LIMITED AND GOLDMAN SACHS (ASIA) L.L.C. AND CMB INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of Huazhu Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages IA-3 to IA-98, which comprises the consolidated balance sheets of the Group as at December 31, 2017, 2018, and 2019 and March 31, 2020, and the consolidated statements of comprehensive income (loss), the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended December 31, 2019 and the three months ended March 31, 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IA-3 to IA-98 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated September 11, 2020 (the "Prospectus") in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at December 31, 2017, 2018, and 2019 and March 31, 2020 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of comprehensive income (loss), the consolidated statement of changes in equity and the consolidated statement of cash flows for the three months ended March 31, 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IA-3 have been made.

Dividends

We refer to Note 15 to the Historical Financial Information which contains information about the dividends declared and paid by the Company in respect of the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
September 11, 2020

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on previously issued consolidated financial statements of the Group for the years ended December 31, 2017, 2018 and 2019 and the consolidated financial statements of the Group for the three months ended March 31, 2020 (collectively referred as "Underlying Financial Statements"). The Underlying Financial Statements have been prepared in accordance with the accounting policies which conform with the accounting principles generally accepted in the United States of America ("U.S. GAAP"). The previously issued consolidated financial statements for the years ended December 31, 2017, 2018 and 2019 were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") relating to the consolidated financial statements and the effectiveness of internal control over financial reporting. The consolidated financial statements for the three months ended March 31, 2020 were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP in accordance with the standards of PCAOB relating to the consolidated financial statements only.

The Historical Financial Information is presented in Renminbi ("RMB") and United States Dollars ("US$") and all values are rounded to the nearest million except when otherwise indicated.

CONSOLIDATED BALANCE SHEETS
(RMB in millions, except share and per share data, unless otherwise stated)

	As of December 31,			As of March 31,	
	2017	2018	2019	2020	
					US$'million (Note 2)
ASSETS					
Current assets:					
Cash and cash equivalents	3,475	4,262	3,234	1,800	254
Restricted cash	481	622	10,765	1,675	237
Short-term investments measured at fair value	130	89	2,908	1,539	217
Accounts receivable, net of allowance of RMB10, RMB17, RMB17 and RMB21 as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively	163	195	218	405	57
Loan receivables — current, net	381	94	193	222	31
Amounts due from related parties	118	176	182	220	31
Prepaid rent	660	955	—	—	—
Inventories	24	41	57	90	13
Other current assets, net	329	540	699	859	121
Total current assets	5,761	6,974	18,256	6,810	961
Property and equipment, net	4,523	5,018	5,854	6,471	914
Intangible assets, net	1,644	1,834	1,662	5,854	827
Operating lease right-of-use assets	—	—	20,875	29,567	4,176
Finance lease right-of-use assets	—	—	—	1,776	251
Land use rights, net	140	220	215	213	30
Long-term investments, including marketable securities measured at fair value of RMB907, RMB4,022, nil and nil as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively	2,362	6,152	1,929	1,920	271
Goodwill	2,265	2,630	2,657	5,339	754
Loan receivables, net	42	189	280	297	42
Other assets, net	365	471	707	672	95
Deferred tax assets	406	505	548	759	107
Total assets	17,508	23,993	52,983	59,678	8,428

CONSOLIDATED BALANCE SHEETS (Continued)
(RMB in millions, except share and per share data, unless otherwise stated)

	As of December 31,			As of March 31,	
	2017	2018	2019	2020	
					US$'million (Note 2)
LIABILITIES AND EQUITY					
Current liabilities:					
Short-term debt	131	948	8,499	5,782	816
Accounts payable	766	890	1,176	1,143	161
Amounts due to related parties	37	75	95	77	11
Salary and welfare payables	427	521	491	547	77
Deferred revenue	943	1,005	1,179	1,230	174
Operating lease liabilities, current	—	—	3,082	3,388	478
Finance lease liabilities, current	—	—	—	23	3
Accrued expenses and other current liabilities	1,249	1,607	1,856	1,330	188
Dividends payable	—	658	678	—	—
Income tax payable	218	265	231	168	24
Total current liabilities	3,771	5,969	17,287	13,688	1,932
Long-term debt	4,922	8,812	8,084	7,810	1,103
Deferred rent	1,380	1,507	—	—	—
Operating lease liabilities, non-current	—	—	18,496	27,618	3,900
Finance lease liabilities, non-current	—	—	—	2,168	306
Deferred revenue	398	458	559	546	77
Other long-term liabilities	381	453	566	659	93
Retirement benefit obligations	—	—	—	126	18
Deferred tax liabilities	422	475	491	1,787	253
Total liabilities	11,274	17,674	45,483	54,402	7,682

CONSOLIDATED BALANCE SHEETS (Continued)
(RMB in millions, except share and per share data, unless otherwise stated)

	As of December 31,			As of March 31,	
	2017	2018	2019	2020	
					US$'million (Note 2)
Commitments and contingencies (Note 21)					
Equity:					
Ordinary shares (US$0.0001 par value per share; 8,000,000,000 shares authorized; 294,040,234, 296,597,888, 299,424,485 and 299,952,102 shares issued as of December 31, 2017, 2018, 2019 and March 31, 2020, and 280,518,358, 283,076,012, 285,902,609 and 286,430,226 shares outstanding as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively)	0	0	0	0	0
Treasury shares (3,096,764 shares as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively)	(107)	(107)	(107)	(107)	(15)
Additional paid-in capital	3,624	3,713	3,834	3,863	546
Retained earnings	2,513	2,610	3,701	1,559	220
Accumulated other comprehensive income (loss)	168	(42)	(49)	(115)	(16)
Total Huazhu Group Limited shareholders' equity	6,198	6,174	7,379	5,200	735
Noncontrolling interest	36	145	121	76	11
Total equity	6,234	6,319	7,500	5,276	746
Total liabilities and equity	17,508	23,993	52,983	59,678	8,428

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(RMB in millions, except share and per share data, unless otherwise stated)

	Years Ended December 31,			Three Months Ended March 31,		
	2017	2018	2019	2019	2020	
				(Unaudited)		*US$'million (Note 2)*
Revenues:						
Leased and owned hotels	6,338	7,470	7,718	1,706	1,516	214
Manachised and franchised hotels	1,851	2,527	3,342	663	465	66
Others	40	66	152	18	32	4
Net revenues	8,229	10,063	11,212	2,387	2,013	284
Operating costs and expenses:						
Hotel operating costs	5,675	6,476	7,190	1,735	2,377	336
Other operating costs	17	15	57	7	8	1
Selling and marketing expenses	285	348	426	77	146	21
General and administrative expenses	691	851	1,061	206	316	45
Pre-opening expenses	206	255	502	104	111	16
Total operating costs and expenses	6,874	7,945	9,236	2,129	2,958	419
Other operating (expenses) income, net	71	226	132	6	88	13
Income (loss) from operations	1,426	2,344	2,108	264	(857)	(122)
Interest income	113	148	160	33	29	4
Interest expense	87	244	315	77	137	19
Other income (expense), net	128	203	331	65	(102)	(14)
Unrealized gains (losses) from fair value changes of equity securities	35	(914)	316	(90)	(1,003)	(142)
Foreign exchange gain (loss)	(18)	(144)	(35)	(32)	(58)	(8)
Income (loss) before income taxes	1,597	1,393	2,565	163	(2,128)	(301)
Income tax expense (benefit)	357	569	640	31	(30)	(4)
Loss from equity method investments	(12)	(97)	(164)	(33)	(60)	(8)
Net income (loss)	1,228	727	1,761	99	(2,158)	(305)
Less: net (loss) income attributable to noncontrolling interest	(0)	11	(8)	(7)	(23)	(4)
Net income (loss) attributable to Huazhu Group Limited	1,228	716	1,769	106	(2,135)	(301)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Continued)
(RMB in millions, except share and per share data, unless otherwise stated)

	Years Ended December 31,			Three Months Ended March 31,		
	2017	2018	2019	2019	2020	
				(Unaudited)		*US$'million (Note 2)*
Other comprehensive income						
Unrealized securities holding gains, net of tax of (8), nil, nil, nil (unaudited) and nil for 2017, 2018, 2019 and for three months ended March 31, 2019 and 2020, respectively	1	—	—	—	—	—
Reclassification of realized gains to net income, net of tax of nil for 2017, 2018 and 2019 and for the three months ended March 31, 2019 and 2020, respectively	(5)	—	—	—	—	—
Gain arising from defined benefit plan, net of tax of nil, nil, nil, nil (unaudited) and 0.1 for 2017, 2018 and 2019 and for the three months ended March 31, 2019 and 2020, respectively	—	—	—	—	3	0
Foreign currency translation adjustments, net of tax of nil for 2017, 2018, 2019 and for three months ended March 31, 2019 and 2020, respectively	177	(169)	(7)	93	(69)	(9)
Comprehensive income (loss)	1,401	558	1,754	192	(2,224)	(314)
Less: comprehensive (loss) income attributable to the noncontrolling interest	(0)	11	(8)	(7)	(23)	(4)
Comprehensive income (loss) attributable to Huazhu Group Limited	1,401	547	1,762	199	(2,201)	(310)
Earnings (Losses) per share:						
Basic	4.40	2.54	6.22	0.37	(7.46)	(1.05)
Diluted	4.21	2.49	5.94	0.36	(7.46)	(1.05)
Weighted average number of shares used in computation:						
Basic	279,272,140	281,717,485	284,305,138	283,251,520	286,013,704	286,013,704
Diluted	293,073,978	303,605,809	304,309,890	293,449,989	286,013,704	286,013,704

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(RMB in millions, except share and per share data, unless otherwise stated)

	Ordinary Shares			Treasury Shares		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest	Total Equity
	Issued shares	Outstanding shares	Amount	Shares	Amount					
Balance at January 1, 2017	281,379,130	278,282,366	0	3,096,764	(107)	3,699	1,580	(5)	17	5,184
Issuance of ordinary shares upon exercise of options and vesting of restricted stocks	2,235,992	2,235,992	0	—	—	9	—	—	—	9
Share-based compensation	—	—	—	—	—	66	—	—	—	66
Issuance of ordinary shares under ADS lending arrangement	10,425,112	—	0	—	—	—	—	—	—	0
Capped Call options in connection with issuance of convertible senior notes	—	—	—	—	—	(177)	—	—	—	(177)
ADS lending arrangement in connection with issuance of convertible senior notes	—	—	—	—	—	27	—	—	—	27
Noncontrolling interest recognized in connection with acquisitions	—	—	—	—	—	—	—	—	4	4
Net income	—	—	—	—	—	—	1,228	—	0	1,228
Cash dividends paid	—	—	—	—	—	—	(295)	—	—	(295)
Unrealized securities holding gains, net of tax	—	—	—	—	—	—	—	1	—	1
Reclassification of realized gains to net income, net of tax	—	—	—	—	—	—	—	(5)	—	(5)
Dividends paid to noncontrolling interest holders	—	—	—	—	—	—	—	—	(3)	(3)
Capital contribution from noncontrolling interest holders	—	—	—	—	—	—	—	—	26	26
Noncontrolling interest recognized from partial disposal	—	—	—	—	—	—	—	—	0	0
Acquisition of noncontrolling interest	—	—	—	—	—	0	—	—	(4)	(4)
Disposal of noncontrolling interest for deconsolidation	—	—	—	—	—	—	—	—	(4)	(4)
Foreign currency translation adjustments	—	—	—	—	—	—	—	177	—	177

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)
(RMB in millions, except share and per share data, unless otherwise stated)

	Ordinary Shares			Treasury Shares		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest	Total Equity
	Issued shares	Outstanding shares	Amount	Shares	Amount					
Balance at December 31, 2017	294,040,234	280,518,358	0	3,096,764	(107)	3,624	2,513	168	36	6,234
Cumulative effect of the adoption of ASU 2016-01	—	—	—	—	—	—	41	(41)	—	—
Issuance of ordinary shares upon exercise of options and vesting of restricted stocks	2,557,654	2,557,654	0	—	—	14	—	—	—	14
Share-based compensation	—	—	—	—	—	83	—	—	—	83
Net income	—	—	—	—	—	—	716	—	11	727
Cash dividends declared	—	—	—	—	—	—	(660)	—	—	(660)
Dividends paid to noncontrolling interest holders	—	—	—	—	—	—	—	—	(5)	(5)
Capital contribution from noncontrolling interest holders	—	—	—	—	—	—	—	—	29	29
Noncontrolling interest recognized in connection with acquisitions	—	—	—	—	—	—	—	—	150	150
Acquisition of noncontrolling interest	—	—	—	—	—	(8)	—	—	(76)	(84)
Foreign currency translation adjustments	—	—	—	—	—	—	—	(169)	—	(169)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)
(RMB in millions, except share and per share data, unless otherwise stated)

	Ordinary Shares			Treasury Shares		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest	Total Equity
	Issued shares	Outstanding shares	Amount	Shares	Amount					
Balance at December 31, 2018	296,597,888	283,076,012	0	3,096,764	(107)	3,713	2,610	(42)	145	6,319
Issuance of ordinary shares upon exercise of options and vesting of restricted stocks	2,826,597	2,826,597	0	—	—	14	—	—	—	14
Share-based compensation	—	—	—	—	—	110	—	—	—	110
Net income	—	—	—	—	—	—	1,769	—	(8)	1,761
Cash dividends approved	—	—	—	—	—	—	(678)	—	—	(678)
Dividends paid to noncontrolling interest holders	—	—	—	—	—	—	—	—	(5)	(5)
Capital contribution from noncontrolling interest holders	—	—	—	—	—	—	—	—	22	22
Acquisition of noncontrolling interest	—	—	—	—	—	(3)	—	—	(36)	(39)
Foreign currency translation adjustments	—	—	—	—	—	—	—	(7)	—	(7)
Disposal of noncontrolling interest for deconsolidation	—	—	—	—	—	—	—	—	3	3
Balance at December 31, 2019	299,424,485	285,902,609	0	3,096,764	(107)	3,834	3,701	(49)	121	7,500

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)
(RMB in millions, except share and per share data, unless otherwise stated)

	Ordinary Shares			Treasury Shares		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest	Total Equity
	Issued shares	Outstanding shares	Amount	Shares	Amount					
(Unaudited)										
Balance at January 1, 2019	296,597,888	283,076,012	0	3,096,764	(107)	3,713	2,610	(42)	145	6,319
Issuance of ordinary shares upon exercise of options and vesting of restricted stocks	815,022	815,022	0	—	—	4	—	—	—	4
Share-based compensation	—	—	—	—	—	26	—	—	—	26
Net income	—	—	—	—	—	—	106	—	(7)	99
Dividends paid to noncontrolling interest holders	—	—	—	—	—	—	—	—	(1)	(1)
Capital contribution from noncontrolling interest holders	—	—	—	—	—	—	—	—	6	6
Foreign currency translation adjustments	—	—	—	—	—	—	—	93	—	93
Balance at March 31, 2019	297,412,910	283,891,034	0	3,096,764	(107)	3,743	2,716	51	143	6,546

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)
(RMB in millions, except share and per share data, unless otherwise stated)

	Ordinary Shares			Treasury Shares		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest	Total Equity
	Issued shares	Outstanding shares	Amount	Shares	Amount					
Balance at December 31, 2019	299,424,485	285,902,609	0	3,096,764	(107)	3,834	3,701	(49)	121	7,500
Cumulative effect of the adoption of ASU 2016-13	—	—	—	—	—	—	(7)	—	—	(7)
Balance at January 1, 2020	299,424,485	285,902,609	0	3,096,764	(107)	3,834	3,694	(49)	121	7,493
Issuance of ordinary shares upon exercise of options and vesting of restricted stocks	527,617	527,617	0	—	—	0	—	—	—	0
Share-based compensation	—	—	—	—	—	29	—	—	—	29
Net income (loss)	—	—	—	—	—	—	(2,135)	—	(23)	(2,158)
Dividends paid to noncontrolling interest holders	—	—	—	—	—	—	—	—	(1)	(1)
Capital contribution from noncontrolling interest holders	—	—	—	—	—	—	—	—	0	0
Acquisition of noncontrolling interest	—	—	—	—	—	—	—	—	(22)	(22)
Foreign currency translation adjustments	—	—	—	—	—	—	—	(69)	—	(69)
Noncontrolling interest recognized from partial disposal	—	—	—	—	—	—	—	—	1	1
Pension liability adjustment	—	—	—	—	—	—	—	3	—	3
Balance at March 31, 2020	299,952,102	286,430,226	0	3,096,764	(107)	3,863	1,559	(115)	76	5,276

CONSOLIDATED STATEMENTS OF CASH FLOWS
(RMB in millions, unless otherwise stated)

	Years Ended December 31,			Three Months Ended March 31,		
	2017	2018	2019	2019	2020	
				(Unaudited)		*US$'million (Note 2)*
Operating activities:						
Net income (loss)	1,228	727	1,761	99	(2,158)	(305)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Share-based compensation	66	83	110	26	29	4
Depreciation and amortization	789	891	991	231	321	45
Amortization of issuance cost of convertible senior notes and upfront fee of bank borrowings	3	28	28	6	15	3
Deferred taxes	(79)	(91)	(38)	5	(47)	(7)
Bad debt expenses	2	10	21	(2)	13	2
Deferred rent	209	140	—	—	—	—
Loss (gain) from disposal of property and equipment	13	0	(10)	—	(2)	(0)
Impairment loss	169	35	13	—	102	14
Loss (income) from equity method investments, net of dividends	12	157	213	33	60	8
Investment (income) loss	(160)	1,009	(477)	77	1,088	154
Interest accretion for finance lease	—	—	—	—	9	1
Noncash lease expense	—	—	2,235	339	545	77
Changes in operating assets and liabilities, net of effect of acquisitions:						
Accounts receivable	4	(36)	(34)	(29)	43	6
Prepaid rent	(189)	(283)	—	—	—	—
Inventories	3	(14)	(17)	(0)	(3)	(0)
Amounts due from related parties	(31)	(32)	32	(20)	(34)	(5)
Other current assets	(76)	(56)	(80)	2	(51)	(7)
Other assets	(54)	(32)	(175)	(26)	(62)	(9)
Accounts payable	8	11	(1)	(19)	(133)	(19)
Amounts due to related parties	3	38	17	5	(29)	(4)
Salary and welfare payables	133	91	(28)	(167)	(21)	(3)
Deferred revenue	26	114	279	69	(202)	(29)
Accrued expenses and other current liabilities	278	140	408	38	(696)	(98)
Operating lease liabilities	—	—	(2,036)	(360)	(46)	(6)
Income tax payable	45	48	(35)	(183)	(94)	(13)
Other long-term liabilities	51	71	116	23	7	1
Net cash provided by (used in) operating activities	2,453	3,049	3,293	147	(1,346)	(190)

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(RMB in millions, unless otherwise stated)

	Years Ended December 31,			Three Months Ended March 31,		
	2017	2018	2019	2019	2020	
				(Unaudited)		*US$'million (Note 2)*
Investing activities:						
Purchases of property and equipment	(819)	(1,115)	(1,527)	(384)	(483)	(68)
Purchases of intangibles	(8)	(4)	(5)	—	(1)	(0)
Purchases of land use rights	—	(76)	(3)	—	—	—
Amount received as a result of government zoning	3	7	13	—	—	—
Acquisitions, net of cash received	(3,746)	(496)	(244)	(36)	(5,056)	(714)
Proceeds from disposal of subsidiary and branch, net of cash disposed	14	8	2	(0)	3	1
Purchase of long-term investments	(1,328)	(4,959)	(328)	—	—	—
Proceeds from maturity/sale and return of short-term and long-term investments	128	177	2,002	188	336	47
Payment for shareholder loan to equity investees	(113)	(7)	(87)	(27)	—	—
Collection of shareholder loan from equity investees	120	—	88	—	—	—
Purchases of short-term investments	(96)	—	—	—	—	—
Payment for the origination of loan receivables	(446)	(313)	(454)	(159)	(58)	(8)
Proceeds from collection of loan receivables	56	433	258	40	24	3
Net cash (used in) investing activities	(6,235)	(6,345)	(285)	(378)	(5,235)	(739)
Financing activities:						
Net proceeds from issuance of ordinary shares upon exercise of options	9	14	14	1	0	0
Proceeds from short-term bank borrowings	137	928	2,214	949	800	113
Repayment of short-term bank borrowings	(295)	(128)	(1,902)	(632)	(112)	(16)
Proceeds from long-term bank borrowings	3,633	4,275	13,176	1,695	—	—
Repayment of long-term bank borrowings	(1,651)	(799)	(6,760)	(1,551)	(3,902)	(551)
Funds advanced from noncontrolling interest holders	84	36	2	—	—	—
Repayment of funds advanced from noncontrolling interest holders	(9)	(8)	(19)	(3)	(2)	(0)
Acquisitions of noncontrolling interest	(4)	(84)	(39)	—	(22)	(3)
Proceeds from amounts due to related parties	—	103	—	—	—	—
Repayment of amounts due to related parties	—	(113)	—	—	—	—

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(RMB in millions, unless otherwise stated)

	Years Ended December 31,			Three Months Ended March 31,		
	2017	2018	2019	2019	2020	
				(Unaudited)		*US$'million (Note 2)*
Contribution from noncontrolling interest holders	26	29	22	6	0	0
Proceeds from long-term finance liabilities (failed sale and leaseback "failed SLB")	—	—	—	—	36	5
Repayment of long-term finance liabilities (failed SLB)	—	—	—	—	(7)	(1)
Dividends paid to noncontrolling interest holders	(3)	(5)	(5)	(1)	(1)	(0)
Dividends paid	(306)	—	(658)	(658)	(677)	(96)
Proceeds from issuance of convertible senior notes, net of issuance cost and capped call option	2,925	—	—	—	—	—
Direct financing costs paid	(10)	—	—	—	—	—
Principal payments of finance lease	—	—	—	—	(6)	(1)
Proceed from ADS lending	0	—	—	—	—	—
Net cash (used in) provided by financing activities	4,536	4,248	6,045	(194)	(3,893)	(550)
Effect of exchange rate changes on cash and cash equivalents, and restricted cash	(34)	(24)	62	(2)	(50)	(7)
Net increase in cash, cash equivalents and restricted cash	720	928	9,115	(427)	(10,524)	(1,486)
Cash, cash equivalents and restricted cash at the beginning of the year/period	3,236	3,956	4,884	4,884	13,999	1,977
Cash, cash equivalents and restricted cash at the end of the year/period	3,956	4,884	13,999	4,457	3,475	491
Supplemental disclosure of cash flow information:						
Interest paid, net of amounts capitalized	187	239	414	82	87	12
Income taxes paid	380	613	712	207	112	16
Cash paid for amounts included in the measurement of operating lease liabilities	—	—	2,905	775	459	65
Cash paid for amounts included in the measurement of finance lease liabilities	—	—	—	—	18	3

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(RMB in millions, unless otherwise stated)

	Years Ended December 31,			Three Months Ended March 31,		
	2017	2018	2019	2019	2020	
				(Unaudited)		*US$'million (Note 2)*
Non-cash right-of-use assets obtained in exchange for operating lease liabilities	—	—	4,176	1,916	628	89
Supplemental schedule of non-cash investing and financing activities:						
Purchases of property and equipment included in payables	613	688	963	591	790	112
Consideration payable for business acquisition	118	40	16	44	11	2
Purchase of intangible assets included in payables	6	5	3	4	4	1
Reimbursement of government zoning included in receivables	2	—	—	—	—	—
Cash dividends declared in payables	—	658	678	—	—	—

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheets that sum to the total of the same such amounts shown in the statements of cash flows.

	Years Ended December 31,			Three Months Ended March 31,		
	2017	2018	2019	2019	2020	
				(Unaudited)		*US$'million (Note 2)*
Cash and cash equivalents	3,475	4,262	3,234	3,840	1,800	254
Restricted cash	481	622	10,765	617	1,675	237
Total Cash and cash equivalents, and restricted cash shown in the statement of cash flows	3,956	4,884	13,999	4,457	3,475	491

HUAZHU GROUP LIMITED
NOTES TO THE HISTORICAL FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017, 2018, 2019 AND THE THREE MONTHS ENDED MARCH 31, 2019, 2020
(RMB in millions, except share and per share data, unless otherwise stated)

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands under the laws of the Cayman Islands on January 4, 2007. The principal business activities of the Company and its subsidiaries and consolidated variable interest entities (the "Group") are to develop leased and owned, manachised and franchised hotels mainly in the People's Republic of China ("PRC").

On January 2, 2020, the Group completed the acquisition of 100% equity interest of Steigenberger Hotels Aktiengesellschaft Germany ("Deutsche Hospitality" or "DH") with the aggregated consideration of EUR720 million. Deutsche Hospitality was engaged in the business of leasing, franchising, operating and managing hotels under five brands in the midscale and upscale market in Europe, the Middle East and Africa.

Leased and owned hotels

The Group leases hotel properties from property owners or purchases properties directly and is responsible for all aspects of hotel operations and management, including hiring, training and supervising the managers and employees required to operate the hotels. In addition, the Group is responsible for hotel development and customization to conform to the standards of the Group brands at the beginning of the lease or the construction, as well as repairs and maintenance, operating expenses and management of properties over the term of the lease or the land and building certificate.

As of December 31, 2017, 2018, 2019 and March 31, 2020, the Group had 671, 699, 688 and 756 leased and owned hotels in operation, respectively.

Manachised and franchised hotels

Typically the Group enters into certain franchise and management arrangements with franchisees for which the Group is responsible for providing branding, quality assurance, training, reservation, hiring and appointing of the hotel general manager and various other support services relating to the hotel renovation and operation. Those hotels are classified as manachised hotels. Under typical franchise and management agreements, the franchisee is required to pay an initial franchise fee and ongoing franchise and management service fees, the majority of which are equal to a certain percentage of the revenues of the hotel. The franchisee is responsible for the costs of hotel development, renovation and the costs of its operations. The term of the franchise and management agreements are typically eight to ten years for legacy Huazhu and 15 to 20 years for manachised hotels and 10 to 15 years for franchised hotels under Legacy Deutsche Hospitality and are renewable upon mutual agreement between the Group and the franchisee. The Group also has some franchised hotels in which cases the Group does not provide a hotel general manager. As of December 31, 2017, 2018 and 2019, and March 31, 2020, the Group had 2,874, 3,309, 4,519 and 4,820 manachised hotels in operation and 201, 222, 411 and 377 franchised hotels in operation, respectively.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The Historical Financial Information of the Group has been prepared in accordance with the accounting principles generally accepted in the United States of America ("U.S. GAAP").

No statutory financial statements of the Company have been prepared since its date of incorporation as it is incorporated in the jurisdiction where there are no statutory audit requirements.

The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business are dependent on, among other things, the Group's ability to generate cash flows from operations, and the Group's ability to arrange adequate financing arrangements, to support its working capital requirements.

Due to the outbreak of COVID-19, the Group's businesses have been significantly impacted and began to experience operating losses and negative operating cash flows in the first quarter of 2020. The Group had a net loss attributable to the Company of RMB2,135 and a net cash outflows from operating activities of RMB1,346 for the three months ended March 31, 2020. The net current liabilities was RMB6,878 as of March 31, 2020. As of March 31, 2020, the Group had cash and cash equivalents and restricted cash of RMB3,475.

With China's significant efforts in containing the spread of COVID-19, domestic travel is gradually rebuilding with eased travel restrictions and national policy for resuming production and work. As of June 30, 2020 approximately 96% of legacy Huazhu's hotels (excluding hotels under governmental requisition) had resumed operations with an occupancy rate of approximately 83% in early June 2020. In addition, due to the German government's effective measures and the employees' great efforts, as of the end of June, 2020, 79% of hotels under Deutsche Hospitality have resumed operations.

The Group obtained waiver from certain financial covenants for its bank loans covenants under which the original financial covenants will not be applicable until the six-month period ending June 30, 2021. The Group issued convertible senior notes in May 2020 with gross proceeds of US$500 million, and also had unutilized credit facilities of approximately RMB5,300 as of June 30, 2020 to support its operations. The Group regularly monitor its current and expected liquidity requirements to ensure that it maintain sufficient cash balances to meet its liquidity requirements in the short and long term. Based on Group cash flow projections from operating activities, existing cash and cash equivalents, current assets, convertible senior notes issued in May 2020 and available bank facilities, the management believes there is no substantial doubt about the Group's ability to continue as a going concern.

Basis of consolidation

The Historical Financial Information includes the financial statements of the Company, its majority-owned subsidiaries and consolidated variable interest entities (the "VIEs"). All intercompany transactions and balances are eliminated on consolidation.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Variable Interest Entities

The Group evaluates the need to consolidate certain variable interest entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support.

The Company is deemed as the primary beneficiary of and consolidates variable interest entities when the Company has the power to direct the activities that most significantly impact the economic success of the entities and effectively assumes the obligation to absorb losses and has the rights to receive benefits that are potentially significant to the entities.

As of December 31, 2017, 2018 and 2019, and March 31, 2020, the Group consolidated two, six, eight and eight entities under VIE model, and the assets and liabilities of the consolidated VIEs are immaterial to the Group's Historical Financial Information.

The Group evaluates its business activities and arrangements with the entities that operate the manachised and franchised hotels and the funds that it serves as general partner or fund manager to identify potential variable interest entities. Generally, these entities that operate the manachised and franchised hotels qualify for the business scope exception, therefore consolidation is not appropriate under the variable interest entity consolidation guidance. For the disclosure of significant non-consolidated variable interest entities, see Note 7 Investments.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Group bases its estimates on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Significant accounting estimates reflected in the Group's consolidated financial statements include the useful lives and impairment of property and equipment and intangible assets, valuation allowance of deferred tax assets, purchase price allocation, impairment of goodwill, fair value measurement and impairment of investments, share-based compensation, obligations related to the pension plans, estimates involved in the accounting for its customer loyalty program, contingent liabilities and incremental borrowing rate used to measure lease liabilities.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and demand deposits, which are unrestricted as to withdrawal and use, and which have original maturities of three months or less when purchased.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Restricted cash

Restricted cash mainly represents deposits used as security against borrowings, deposits restricted due to contract disputes or lawsuit and cash restricted for special purposes.

Investments

Investments represent equity-method investments, equity investments with readily determinable fair values, equity investments without readily determinable fair values and available-for-sale debt securities.

The Group accounts for equity investment in entities with significant influence under equity-method accounting. Under this method, the Group's pro rata share of income (loss) from investment is recognized in the consolidated statements of comprehensive income. Dividends received reduce the carrying amount of the investment. When the Group's share of loss in an equity-method investee equals or exceeds its carrying value of the investment in that entity, the Group continues to report its share of equity method losses in the statements of comprehensive income to the extent of and as an adjustment to the carrying amount of its other investments in the investee. Equity-method investment is reviewed for impairment by assessing if the decline in market value of the investment below the carrying value is other-than-temporary. In making this determination, factors are evaluated in determining whether a loss in value should be recognized. These include consideration of the intent and ability of the Group to hold investment and the ability of the investee to sustain an earnings capacity, justifying the carrying amount of the investment. Impairment losses are recognized in other expense when a decline in value is deemed to be other-than-temporary.

Investments in equity securities that have readily determinable fair values (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are measured at fair value, with unrealized gains and losses from fair value changes recognized in net income in the consolidated statements of comprehensive income.

Investments in equity securities without readily determinable fair values are measured at cost minus impairment adjusted by observable price changes in orderly transactions for the identical or a similar investment of the same issuer. These investments are measured at fair value on a nonrecurring basis when there are events or changes in circumstances that may have a significant adverse effect. An impairment loss is recognized in the consolidated statements of comprehensive income equal to the amount by which the carrying value exceeds the fair value of the investment.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Investments (Continued)

Debt securities that the company has no intent to hold till maturity or may sell the security in response to the changes in economic conditions are classified as available-for-sale debt securities. Available-for-sale debt securities are reported at fair value, with unrealized gains and losses (other than impairment losses) recognized in accumulated other comprehensive income or loss. Realized gains and losses on debt securities are recognized in the net income in the consolidated statements of comprehensive income. Before the adoption of Accounting Standards Update ("ASU") 2016-13 the amount of the total impairment related to the credit loss was recognized in the income statement and the amount related to all other factors is recognized in other comprehensive income, net of applicable taxes, and the impairment losses recognized in the income statement cannot be reversed for any future recoveries. After the adoption of ASC 326 on January 1, 2020, credit-related impairment is measured as the difference between the debt security's amortized cost basis and the present value of expected cash flows and is recognized as an allowance on the balance sheet with a corresponding adjustment to earnings. The allowance should not exceed the amount by which the amortized cost basis exceeds fair value.

Considering the continuing deteriorating business performance of two of the equity method investments due to the impact from COVID-19, the Group recorded an impairment of RMB92 for the three months ended March 31, 2020. No other impairment was recorded during the Track Record Period.

Accounts receivable, loan receivables and other financial assets

Accounts receivable, net

Accounts receivable mainly consist of franchise fee receivables, amounts due from corporate customers, travel agents, hotel guests and credit card receivables, which are recognized and carried at the original invoice or accrued amount less an allowance for credit losses. Before the year 2020, the Group established an allowance for doubtful accounts primarily based on the aging of the receivables and factors surrounding the credit risk of specific customers. After the adoption of ASU 2016-13 Financial instruments- credit losses on January 1, 2020, the accounts receivable balance reflects invoiced and accrued revenue and is presented net of an allowance for credit losses. The Group establishes current expected credit losses ("CECL") for pools of assets with similar risk characteristics by evaluating historical levels of credit losses, current economic conditions that may affect a customer's ability to pay, and creditworthiness of significant customers. When specific customers are identified as no longer sharing the same risk profile as their current pool, they are removed from the pool and evaluated separately. The Group mainly focuses on historical collection experience and considering on aging or specific customer circumstance.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Accounts receivable, loan receivables and other financial assets (Continued)

Loan receivables, net

The Group primarily entered into entrusted loan agreements with certain franchisees with the typical terms to be two to three years and annual interest rates ranging from 8.0% to 8.5%, and with other un-related third-parties with the annual interest rates ranging from 6% to 15%. Loan receivables are measured at amortized cost with interest accrued based on the contract rate. The Group classified loan receivables as long-term or short-term investments according to their contractual maturity or expected holding time. The Group evaluates the credit risk associated with the loans, and estimates the cash flow expected to be collected over the life of loans on an individual basis based on the Group's past experiences, the borrowers' financial position, their financial performance and their ability to continue to generate sufficient cash flows. A credit allowance will be established for the loans unable to collect. As a result of the assessment, the Group recorded a valuation allowance of nil, nil, RMB4 and nil in the years ended December 31, 2017, 2018 and 2019, and the three months ended March 31, 2019 respectively. Before the year 2020, the Group evaluates the credit risk associated with the loans, and estimates the cash flow expected to be collected over the life of loans on an individual basis on the group's past experience, the borrowers' financial position, their financial performance and their ability to continue to generate sufficient cash flows. A valuation allowance will be established for the loans unable to collect. After the adoption of ASU 2016-13, the Group estimates the CECL based on the expectation of future economic conditions, historical collection experience and a loss-rate approach whereby the allowance is calculated using the probability of default and recovery rates and multiplying it by the asset's amortized cost at the balance sheet date. As a result of the assessment, the Group recorded a credit allowance of RMB2 for three months ended March 31, 2020.

Additionally, the Group records an allowance on other forms of financial assets, including other current assets, other assets and amounts due from related parties with the similar approach of accounts receivable, which are immaterial to the consolidated financial statements.

The table below shows a summary of allowance for credit losses for the three months ended March 31, 2020.

Allowance for credit losses

	March 31, 2020
Balance as of December 31, 2019	26
Adoption of CECL	7
Adjusted balance as of January 1, 2020	33
Write-offs	(1)
Recoveries	0
Provision for losses	13
Balance as of the end of period	45

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Inventories

Inventories mainly consist of small appliances, bedding and daily consumables, operating supplies, food and beverage inventory items. Small appliances and bedding for new hotels opened are stated at cost, less accumulated amortization, and are amortized over their estimated useful lives, generally one year, from the time they are put into use. Daily consumables and beddings replacement are expensed when used.

Property and equipment, net

Property and equipment, net are stated at cost less accumulated depreciation. The renovations, betterments and interest cost incurred during construction are capitalized. Depreciation of property and equipment is provided using the straight line method over their expected useful lives. The expected useful lives are as follows:

Leasehold improvements	Shorter of the lease term or their estimated useful lives
Buildings	20-40 years
Furniture, fixtures and equipment	1-20 years
Motor vehicles	5 years

Construction in progress represents leasehold improvements and property under construction or being installed and is stated at cost. Cost comprises original cost of property and equipment, installation, construction and other direct costs. Construction in progress is transferred to leasehold improvements and depreciation commences when the asset is ready for its intended use.

Expenditures for repairs and maintenance are expensed as incurred. Gain or loss on disposal of property and equipment, if any, is recognized in the consolidated statements of comprehensive income as the difference between the net sales proceeds and the carrying amount of the underlying asset.

Intangible assets, net

Intangible assets consist primarily of brand name, master brand agreement, non-compete agreements, franchise or manachised agreements and favorable leases acquired in business combinations before the adoption of ASC Topic 842, *Leases* ("ASC 842") and purchased software. Intangible assets acquired through business combinations are recognized as assets separate from goodwill if they satisfy either the "contractual-legal" or "separability" criterion. Intangible assets, including brand name, master brand agreement, non-compete agreements, franchise agreements, favorable lease agreements and other intangible assets acquired from business combination are recognized and measured at fair value upon acquisition.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Intangible assets, net (Continued)

The favorable lease agreements and unfavorable lease agreements in which the Group acts as a lessee were reclassified to operating lease right-of-use assets on January 1, 2019, upon adoption of ASC 842, Leases, which are amortized combining with operating lease right-of-use assets over remaining operating lease terms. The favorable lease agreements in which the Group acts as a lessor were accounted as intangible assets as before, which are amortized over remaining operating lease terms.

Non-compete agreements and franchise agreements are amortized over the expected useful life and remaining franchise contract terms respectively. Purchased software is stated at cost less accumulated amortization.

Intangible assets with finite useful lives are amortized using the straight-line method over their respective estimated useful lives over which the assets are expected to contribute directly or indirectly to the future cash flows of the Group. These estimated useful lives are generally as follows:

Franchise agreements	remaining contract terms from 10 to 20 years
Non-compete agreements	2 - 10 years based on specified non-compete period
Favorable lease agreements acquired before the adoption of ASC 842	remaining lease terms from 1 to 20 years
Purchased software	3 - 10 years based on the estimated usage period
Unfavourable lease agreements	remaining lease terms from 3 to 13 years
Other intangible assets including trademark, licenses and other rights	2 - 15 years based on the contractual term, the length of license agreements and the effective terms of other legal rights

Brand names acquired by legacy Huazhu are considered to have indefinite useful lives since there are no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of these brands and these brands can be renewed at nominal cost. Master brand agreement, acquired in Accor acquisition, granted the Group certain franchise rights with initial term of 70 years, and can be renewed without substantial obstacles. As a result, the useful life is determined to be indefinite. The Group evaluates the brand name and master brand agreement each reporting period to determine whether events and circumstances continue to support an indefinite useful life. Impairment is tested annually or more frequently if events or changes in circumstances indicate that it might be impaired. The Group measures the impairment by comparing the fair value of brand name and master brand agreement with its carrying amount. If the carrying amount of brand name and master brand agreement exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess. The Group measures the fair value of the brand name under the relief-from-royalty method, the master brand agreement under the multi-period excess earnings method. The determination of the fair value requires management to make significant estimates and assumptions related to forecasts of future revenues, operating margin, royalty saving rate and discount rates to estimate the net present value of future cash flows. Management performs its annual brand name and master brand agreement impairment test on November 30.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Intangible assets, net (Continued)

Due to the COVID-19 outbreak worldwide, the Group suffered an operating loss for the first quarter of 2020. As the situation is not totally under controlling and future impacts of the COVID-19 pandemic are highly uncertain, the Group performed impairment testing regarding all the indefinite life intangible assets as of March 31, 2020. There is no impairment loss recognized for intangible assets as a result of the impairment test as of March 31, 2020. However, the extent, magnitude and duration of COVID-19 pandemic may change the assumptions and estimates used in the indefinite life intangible assets valuation, which could result in future impairment charges.

On March 31, 2020, the estimated fair value of the intangible assets with indefinite useful lives exceeded its carrying value by approximately RMB3,634. A 5% increase in the discount rate or decrease in forecast of future revenues or operating margin or royalty saving rate could reduce the fair value of indefinite life intangible assets below its carrying value, which could result in future impairment charges of up to RMB229, nil, nil and RMB155, respectively.

Land use rights

The land use rights represent the operating lease prepayments for the rights to use the land in the PRC under ASC 842, which are amortized on a straight-line basis over the remaining term of the land certificates, between 30 to 50 years. Amortization expense of land use rights for the years ended December 31, 2017, 2018 and 2019, and for the three months ended March 31, 2019 and 2020 amounted to RMB5, RMB5, RMB8, RMB2 and RMB2, respectively.

Impairment of long-lived assets

The Group evaluates its long-lived assets and finite lived intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Group measures impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, the Group recognizes an impairment loss equal to the difference between the carrying amount and fair value of these assets.

The Group performed a recoverability test of its long-lived assets associated with certain hotels due to the continued underperformance relative to the projected operating results, of which the carrying amount of the property and equipment exceed the future undiscounted net cash flows and recognized an impairment loss of RMB169, RMB35, RMB3 and nil during the years ended December 31, 2017, 2018, 2019 and three months ended March 31, 2019.

As a result of the current economic environment due to COVID-19, the Group performed procedures to assess the recoverability of the net book value of property and equipment, operating lease right-of-use assets, and definite-lived intangible assets and recognized RMB10 impairment loss related to operating lease right-of-use assets for three months ended March 31, 2020.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Impairment of long-lived assets (Continued)

Fair value of the property and equipment was determined by the Group based on the income approach using the discounted cash flow associated with the underlying assets, which incorporated certain assumptions including projected hotels' revenue, growth rates and projected operating costs based on current economic condition, expectation of management and projected trends of current operating results.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable assets less liabilities acquired.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Before the adoption of ASU No. 2017-04, Intangibles-Goodwill and Other, the Group performed a two-step goodwill impairment test. The first step compares the fair values of each reporting unit to its carrying amount, including goodwill. A reporting unit is identified as an operating segment or one level below an operating segment (also known as a component) for which discrete financial information is available and is regularly reviewed by segment manager. Before the acquisition of Deutsche Hospitality, all the acquired business has been migrated to the Group's business, and the Group's management regularly reviews operation data including industrial metrics of revenue per available room, occupancy rate, and number of hotels by scale/brand, rather than discrete financial information for the purpose of performance evaluation and resource allocation at brand level. The Group concluded that it had only one reporting unit, and therefore the goodwill impairment testing was performed on consolidation level. If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. The Group adopted ASU No. 2017-04, Intangibles-Goodwill and Other on January 1, 2020, which requires a one-step impairment test in which an entity compares the fair value of a reporting unit with its carrying amount and recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if any. Upon the acquisition of Deutsche Hospitality, the Group concludes there are two reporting units, which are legacy Huazhu and legacy DH since the segment manager regularly reviews discrete financial information for legacy Huazhu and legacy DH separately. The goodwill impairment testing was performed at each reporting unit level. If the carrying amount of a reporting unit exceeds its fair value, an impairment amounts to that excess should be recognized in general and administrative expenses.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Fair value of the equity value was determined by the Group based on the income approach using the discount rates and discounted cash flow associated with the underlying assets, which incorporated certain assumptions including projected hotels' revenue, growth rates and projected operating costs based on current economic condition, expectation of management and projected trends of current operating results.

Management performs its annual goodwill impairment test on November 30. The Group had not recognized any goodwill impairment for the years ended December 31, 2017, 2018 and 2019. Given the impact the COVID-19 pandemic is having on hospitality industry, the Group concluded that indicators of impairment existed at March 31, 2020. The Group updated previous assumptions based on the current economic environment which is subject to inherent risk and uncertainty due to the stay-in-place measures enacted as a result of the COVID-19 pandemic, consumer confidence levels, and the ongoing impact of the COVID-19 pandemic on the hospitality industry. Based on the analysis, the Group concluded that the goodwill is not impaired at March 31, 2020. On March 31, 2020, the estimated fair value of legacy Huazhu reporting unit substantially exceeded its carrying value. For the goodwill of legacy DH, the estimated fair value of the reporting unit exceeded its carrying value by approximately RMB79. A 5% decline in the underlying discounted cash flow or increase in the discount rate could have resulted in goodwill impairment charges of approximately RMB218 and RMB337, respectively.

Revenue recognition

Revenue are primarily derived from products and services in leased and owned hotels, contracts of manachised and franchised hotels with third-party franchisees as well as activities other than the operation of hotel businesses.

Leased and owned hotel revenues

Leased and owned hotel revenues are primarily derived from the rental of rooms, food and beverage sales and other ancillary goods and services, including but not limited to souvenir, laundry, parking and conference reservation. Each of these products and services represents an individual performance obligation and, in exchange for these services, the Group receives fixed amounts based on published rates or negotiated contracts. Payment is due in full at the time when the services are rendered or the goods are provided. Room rental revenue is recognized on a daily basis when rooms are occupied. Food and beverage revenue and other goods and services revenue are recognized when they have been delivered or rendered to the guests as the respective performance obligations are satisfied.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Manachised and franchised hotel revenues

The manachised and franchised agreement contains the following promised services:

- *Intellectual Property ("IP") license* grant the right to access the Group's hotel system IP, including brand names.

- *Pre-opening services* include providing services (e.g., install IT information system and provide access to purchase platform, help to obtain operational qualification, and help to recruit and train employees) to the franchisees to assist in preparing for the hotel opening.

- *System maintenance services* include providing standardization hotel property management system ("PMS"), central reservation system ("CRS") and other internet related services.

- *Hotel management services* include providing day-to-day management services of the hotels for the franchisees.

The promises to provide pre-opening services and system maintenance services are not distinct performance obligation because they are attendant to the license of IP. Therefore, the promises to provide pre-opening services and system maintenance services are combined with the license of IP to form a single performance obligation. Hotel management services forms a single distinct performance obligation.

Manachised and franchised hotel revenues are derived from franchise agreements where the franchisees are primarily required to pay (i) an initial one-time franchise fee, and (ii) continuing franchise fees, which mainly consist of (a) on-going management and franchise service fees, (b) central reservation system usage fees, system maintenance and support fees and (c) reimbursements for hotel manager fees.

Initial one-time franchise fee, is typically fixed and collected upfront and recognized as revenue over the term of the franchise contract. The Group does not consider this advance consideration to include a significant financing component, since it is used to protect the Group from the franchisees failing to adequately complete some or all of its obligations under the contract.

On-going management and franchise service fees are generally calculated as a certain percentage of the room revenues of the franchised hotel. Generally, management and franchise service fees are due and payable on a monthly basis as services are provided and revenue is recognized over time as services are rendered.

Central reservation system usage fees, other system maintenance and support fees are typically billed and collected monthly along with base management and franchise fees, and revenue is generally recognized as services are provided.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Manachised and franchised hotel revenues (Continued)

Reimbursements for hotel manager fees, which cover the manachised hotel managers' payroll, social welfare benefits and certain other out-of-pocket expenses that the Group incurs on behalf of the manachised hotels. The reimbursements are recognized over time within revenues for the reimbursement of costs incurred on behalf of manachised hotels.

Above policies are only applicable to legacy Huazhu. For manachised hotels under Deutsche Hospitality, the franchisees have historically been required to pay Deutsche Hospitality an on-going management fees consisting of a base fee as a percentage of the hotel's gross revenues and an incentive fee as a percentage of the hotel's gross adjusted profit. For franchised hotels under Deutsche Hospitality, the franchisees have historically been required to pay Deutsche Hospitality a license fee, a franchise fee and a central service fee. The manachised and franchised hotel revenues of Deutsche Hospitality are recognized over time as services are rendered. The Group is gradually conforming the terms of Deutsche Hospitality's franchise and management agreements to those of hotels under legacy Huazhu.

Since the COVID-19 outbreak in January 2020, the Group has offered one-time reduction on continuing franchise fees of approximately RMB70 for the three months ended March 31, 2020 to help franchisees meet their short-term working capital needs. There is no change to the scope of services or other terms of the agreements. Previously recognized revenue on the original contract was not adjusted.

Other Revenues

Other revenues are derived from activities other than the operation of hotel businesses, which mainly include revenues from Hua Zhu mall and the provision of IT products and services to hotels. Revenues from Hua Zhu mall are commissions charged from suppliers for goods sold through the platform and are recognized upon delivery of goods to end customers when its suppliers' obligation is fulfilled. Revenues from IT products are recognized when goods are delivered and revenues from IT services are recognized when services are rendered.

Loyalty Program

Under the loyalty program the Group administers, members earn loyalty points that can be redeemed for future products and services. Points earned by loyalty program members represent a material right to free or discounted goods or services in the future. The loyalty program has one performance obligation that consists of marketing and managing the program and arranging for award redemptions by members. The Group is responsible for arranging for the redemption of points, but the Group does not directly fulfill the redemption obligation except at leased and owned hotels. Therefore, the Group is the agent with respect to this performance obligation for manachised and franchised hotels, and is the principal with respect to leased and owned hotels.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Loyalty Program (Continued)

For leased and owned hotels, a portion of the leased and owned revenues is deferred until a member redeems points. The amount of revenue the Group recognize upon point redemption is impacted by the estimate of the "breakage" for points that members will never redeem in the Group's owned and leased hotels.

For manachised and franchised hotels, the portion of revenue deferred by manachised and franchised hotels are collected by the Group which will be refunded upon redemption of points at manachised and franchised hotels. The estimated breakage for points earned in manachised and franchised hotels are recognized as manachised and franchised revenue for each period. The Group estimates breakage based on the Group's historical experience and expectations of future member behavior and will true up the estimated breakage at end of each period.

Above policies are only applicable to legacy Huazhu. The loyalty program initiated by Deutsche Hospitality has the same rights, nature and redeemable approaches as legacy Huazhu, therefore the accounting treatment is the same. As of March 31, 2020, the contract liabilities related to Deutsche Hospitality were immaterial and the loyalty program of Deutsche Hospitality was in the progress of being migrated to that of legacy Huazhu.

Membership fees from the Group's customer loyalty program are all from legacy Huazhu, which are earned and recognized on a straight-line basis over the expected membership duration of the different membership levels and also applicable to legacy Huazhu only. Such duration is estimated based on the Group's and management's experience and is adjusted on a periodic basis to reflect changes in membership retention. The membership duration is estimated to be two to five years which reflects the expected membership retention. Revenues recognized from membership fees were RMB160, RMB192, RMB224, RMB54 (unaudited) and RMB57 for the years ended December 31, 2017, 2018 and 2019, and for the three months ended March 31, 2019 and 2020, respectively, which amount were included in revenues from leased and owned hotel or revenues from manachised and franchised hotels depending on the type of hotels the membership was sold at.

Contract Balances

The Group's payments from customers are based on the billing terms established in contracts. Customer billings are classified as accounts receivable when the Group's right to consideration is unconditional. If the right to consideration is conditional on future performance under the contract, the balance is classified as a contract asset. Payments received in advance of performance under the contract are classified as current or non-current contract liabilities on the Group's consolidated balance sheets and are recognized as revenue as the Group performs under the contract.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Value-Added Taxes and surcharges

The accommodation services of the Group in PRC and Germany are subject to 6% and 19% of Value-Added Taxes, respectively.

The Group is subject to education surtax and urban maintenance and construction tax, on the services provided in the PRC.

Advertising and promotional expenses

Advertising related expenses, including promotion expenses and production costs of marketing materials, are charged to the consolidated statements of comprehensive income as incurred, and amounted to RMB91, RMB103, RMB99, RMB13 (unaudited) and RMB36 for the years ended December 31, 2017, 2018 and 2019, and for the three months ended March 31, 2019 and 2020, respectively.

Government grants

Government grants represent cash received by the Group in the PRC from local governments as incentives for investing in certain local districts, and are typically granted based on the amount of investments the Group made as well as income generated by the Group in such districts. Such subsidies allow the Group full discretion to utilize the funds and are used by the Group for general corporate purposes. The local governments have final discretion as to whether the Group has met all criteria to be entitled to the subsidies. Normally, the Group does not receive written confirmation from local governments indicating the approval of the cash subsidy before cash is received, and therefore cash subsidies are recognized when received and when all the conditions for their receipts have been satisfied. Government grants recognized were RMB55, RMB106, RMB148, RMB6 (unaudited) and RMB22 for the years ended December 31, 2017, 2018 and 2019, and for the three months ended March 31, 2019 and 2020, respectively, which were recorded as other operating income.

Leases

As a lessee

Before January 1, 2019, the Group adopted the ASC 840, *Leases* and each lease is classified at the inception date as either a capital lease or an operating lease. All of the Group's leases were classified under ASC 840 as operating leases while there are both capital lease and operating lease under legacy DH. The Group's reporting for periods prior to January 1, 2019 continued to be reported in accordance with ASC 840 *Leases*. The Group elected the practical expedients under ASU 2016-02 which includes the use of hindsight in determining the lease term and the practical expedient package to not reassess whether any expired or existing contracts are or contain leases, to not reassess the classification of any expired or existing leases, and to not reassess initial direct costs for any existing leases.

In evaluating whether an agreement constitute a lease upon adoption of the new lease accounting standard ASC 842, the Group reviews the contractual terms to determine which party obtains both the economic benefits and control of the assets at the inception of the contract. The Group categorizes leases with contractual terms longer than twelve months as either operating or finance lease at the commencement date of a lease.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Leases (Continued)

As a lessee (Continued)

The Group recognizes a lease liability for future fixed lease payments and variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date and an operating lease right-of-use ("ROU") asset representing the right to use the underlying asset for the lease term. Lease liabilities are recognized at commencement date based on the present value of fixed lease payments and variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date) over the lease term using the rate implicit in the lease, if available, or the Group's incremental borrowing rate. As its leases do not provide an implicit borrowing rate, the Group uses an incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at the commencement date. Upon adoption of ASU 2016-02, the Group elected to use the remaining lease term as of January 1, 2019 in the estimation of the applicable discount rate for leases that were in place at adoption. For the initial measurement of the lease liabilities for leases commencing after January 1, 2019, the Group uses the discount rate as of the commencement date of the lease, incorporating the entire lease term. Current maturities of operating lease liabilities and finance lease liabilities are classified as operating lease liabilities, current and finance lease liabilities, current, respectively, in the Group's consolidated balance sheets. Long-term portions of operating lease liabilities and finance lease liabilities are classified as operating lease liabilities, non-current and finance lease liabilities, non-current, respectively, in the Group's consolidated balance sheets. Most leases have initial terms ranging from 10 to 20 years for legacy Huazhu, and from 20 to 25 years for legacy DH. The lease term includes lessee options to extend the lease and periods occurring after a lessee early termination option, only to the extent it is reasonably certain that the Group will exercise such extension options and not exercise such early termination options, respectively. The Group's lease agreements may include non-lease components, mainly common area maintenance, which are combined with the lease components as the Group elects to account for these components as a single lease component, as permitted. The Group elected the practical expedient of not to separate land components outside PRC from leases of specified property, plant, and equipment at the ASC 842 transition date. Besides, the Group's lease payments are generally fixed and certain agreements contain variable lease payments based on the operating performance of the leased property and the changes in the index of consumer pricing index ("CPI"). All the lease agreements with variable lease payments based on the changes in CPI are held by legacy DH. For operating leases, the Group recognizes lease expense on a straight-line basis over the lease term and variable lease payments that depend on an index or a rate are initially measured using the index or rate at the commencement date, otherwise variable lease payments are recognized in the period in which the obligation for those payments is incurred. The operating lease expense is recognized as hotel operating costs, general and administrative expenses and pre-opening expenses in the consolidated statements of comprehensive income. For finance lease, lease expense is generally front-loaded as the finance lease ROU asset is depreciated on a straight-line basis over the shorter of the lease term or useful life of the underlying asset within hotel operating costs in the consolidated statements of comprehensive income, but interest expense on the lease liability is recognized in interest expense in the consolidated statements of comprehensive income using the effective interest method which results in more expense during the early years of the lease. Additionally, the Group elected not to recognize leases with lease terms of 12 months or less at the commencement date. Lease payments on short-term leases are recognized as an expense on a straight-line basis over the lease term, not included in lease liabilities. The Group's lease agreements do not contain any significant residual value guarantees or restricted covenants.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Leases (Continued)

As a lessee (Continued)

The ROU assets are measured at the amount of the lease liabilities with adjustments, if applicable, for lease prepayments made prior to or at lease commencement, initial direct costs incurred by the Group, deferred rent and lease incentives, and any off-market terms (that is, favorable or unfavorable terms) present in the lease when the Group acquired leases in a business combination in which the acquiree acts as a lessee. The Group evaluates the carrying value of ROU assets if there are indicators of impairment and reviews the recoverability of the related asset group. The Group excludes the lease obligation from the carrying value of the asset group. Accordingly, the lease payments (both principal and interest) don't reduce the undiscounted expected future cash flows used to test the asset group for recoverability. If the carrying value of the asset group determined to not be recoverable and is in excess of the estimated fair value, the Group records an impairment loss in the consolidated statement of comprehensive income. Noncash lease expense are used as the noncash add-back for the amortization of the operating ROU assets to the operating section of the consolidated statements of cash flow.

The Group reassesses of a contract is or contains a leasing arrangement and re-measures ROU assets and liabilities upon modification of the contract. The Group will derecognize ROU assets and liabilities, with difference recognized in the income statement on the contract termination.

As a result of the COVID-19 pandemic, some of the hotels of the Group are experiencing significantly reduced consumer traffic. In this case, the Group, as the lessee is entitled to have the lease concession after the negotiation with lessors, and it recognizes a negative lease expense of RMB38 for the three months ended March 31, 2020 under the relief as the Group elects not to account for the concession as a lease modification and by using the variable lease expense approach.

Sublease

The Group subleases property which are not suitable to operate hotels to third parties under operating leases. In accordance with the provisions of ASC 842, since the Group has not been relieved as the primary obligor of the head lease, the Group cannot net the sublease income against its lease payment to calculate the lease liabilities and ROU assets. The Group's practice has been, and will continue to, straight-line the sub-lease income over the term of the sublease, which is consistent with the accounting treatment under ASC 840.

Income taxes

Current income taxes are provided for in accordance with the relevant statutory tax laws and regulations.

Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Net operating losses are carried forward and credited by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of the Group, it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Foreign currency translation

The reporting currency of the Group is the RMB. The functional currency of the Company is the United States dollar ("US$"). Monetary assets and liabilities denominated in currencies other than the functional currency are remeasured in functional currency at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the functional currency during the year are converted into the functional currency at the applicable rates of exchange prevailing on the day transactions occurred. Transaction gains and losses are recognized in the statements of comprehensive income.

Assets and liabilities are translated into RMB at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of comprehensive income.

The financial records of the Group's subsidiaries are maintained in local currencies, which are the functional currencies.

Comprehensive income

Comprehensive income includes all changes in equity except for those resulting from investments by owners and distributions to owners and is comprised of net income, foreign-currency translation adjustments, unrealized gains (losses) associated with investments in securities accounted for as available-for-sale and gain (loss) arising from defined benefit plan.

Concentration of credit risk

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, restricted cash, short-term and long-term investments, loan receivables, amount due from related parties, other current assets, other assets and accounts receivable. All of the Group's cash and cash equivalents and restricted cash are held with financial institutions that Group's management believes to be high credit quality. In addition, the Group's investment policy limits its exposure to concentrations of credit risk and the Group's short-term and long-term investments consist of equity investments in listing and private companies. The Group's loan receivables are lent to entities with high credit quality. The Group conducts credit evaluations on its group and agency customers and generally does not require collateral or other security from such customers. The Group periodically evaluates the creditworthiness of the existing customers in determining an allowance for accounts receivable, loan receivable and financial assets, including other current assets, other assets and amounts due from related parties based on the expectation of future economic conditions, historical collection experience and a loss-rate approach.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Fair value

The Group defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

The established fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs may be used to measure fair value include:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group measures fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates.The Group's financial instruments include cash and cash equivalent, restricted cash, loan receivables current and non-current portion, receivables, payables, short-term debts, long-term debts. The carrying amounts of these short-term financial instruments approximates their fair value due to their short-term nature. The long-term debts and long-term loan receivables approximate their fair values, because the bearing interest rate approximates market interest rate, and market interest rates have not fluctuated significantly since the commencement of loan contracts signed. The carrying amounts of convertible senior notes were RMB3,027, RMB3,209, RMB3,290 and RMB3,348 and the corresponding fair value estimated based on quoted market price were RMB3,372, RMB3,185, RMB3,711 and RMB3,229, as of December 31, 2017, 2018, 2019, and March 31, 2020, respectively. The fair value of pension plan assets is discussed in Note 18.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Fair value (Continued)

As of December 31, 2017, 2018 and 2019, and March 31, 2020, information about inputs into the fair value measurements of the Group's assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows:

			Fair Value Measurements at Reporting Date Using		
As of December 31,	Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2017	Equity securities with readily determinable fair value	1,037	1,037		
2017	Available-for-sale debt securities	346		346	
2018	Equity securities with readily determinable fair value	4,111	4,111		
2018	Available-for-sale debt securities	320		320	
2019	Equity securities with readily determinable fair value	2,908	2,908		
2019	Available-for-sale debt securities	220		220	

			Fair Value Measurements at Reporting Date Using		
As of March 31,	Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2020	Equity securities with readily determinable fair value	1,539	1,539		
2020	Available-for-sale debt securities	220		220	

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Fair value (Continued)

The following table presents the Group's assets measured at fair value on a non-recurring basis for the years ended December 31, 2017, 2018 and 2019, and for the three months ended March 31, 2020:

			Fair Value Measurements at Reporting Date Using			
Years Ended December 31,	Description	Fair Value for Years Ended December 31	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Loss for the Year
2017	Property and equipment	52			52	169
2018	Property and equipment	10			10	35
2019	Property and equipment	—			—	3
2019	Long-term investment	—			—	10

			Fair Value Measurements at Reporting Date Using			
Three Months Ended March 31,	Description	Fair Value for Three Months Ended March 31	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Loss for the Year
2020	Operating lease right-of-use Assets	23			23	10
2020	Long-term investment	—			—	92

As a result of reduced expectations of future cash flows from certain leased hotels, the Group determined that the hotels property and equipment with a carrying amount of RMB221, RMB45, RMB3 and nil was not fully recoverable and consequently recorded an impairment charge of RMB169, RMB35, RMB3 and nil for the years ended December 31, 2017, 2018 and 2019, and for the three months ended March 31, 2020, respectively. The Group also determined that the operating lease right-of-use assets amount with a carrying amount of RMB33 was not fully recoverable and consequently recorded an impairment charge of RMB10 for the three months ended March 31, 2020.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Fair value (Continued)

Fair value of the property and equipment and right-of-use assets impairment testing was determined by the Group based on the income approach using the discounted cash flow associated with the underlying assets, which incorporated certain assumptions including projected hotels' revenue, growth rates and projected operating costs based on current economic condition, expectation of management and projected trends of current operating results. As a result, the Group has determined that the majority of the inputs used to value its long-lived assets held and used and its reporting units are unobservable inputs that fall within Level 3 of the fair value hierarchy. The revenue growth rate and the discount rate were the significant unobservable input used in the fair value measurement, which are 4% and 20%, respectively, for the years ended December 31, 2017, 2018 and 2019, respectively.

As a result of the impairment assessment, the Group determined that the long-term investment amount with a carrying amount of nil, nil, RMB10, nil (unaudited) and RMB92 was impaired as a result of the impairment assessment for the years ended December 31, 2017, 2018 and 2019, and for the three months ended March 31, 2019 and 2020, respectively.

Share-based compensation

The Group recognizes share-based compensation in the consolidated statements of comprehensive income based on the fair value of equity awards on the date of the grant, with compensation expenses recognized over the period in which the grantee is required to provide service to the Group in exchange for the equity award. Vesting of certain equity awards are based on the performance conditions for a period of time following the grant date. Share-based compensation expense is recognized according to the Group's judgement of likely future performance and will be adjusted in future periods based on the actual performance. The share-based compensation expenses have been categorized as either hotel operating costs, general and administrative expenses or selling and marketing expenses, depending on the job functions of the grantees. For the years ended December 31, 2017, 2018 and 2019, and for the three months ended March 31, 2019 and 2020, the Group recognized share-based compensation expenses of RMB66, RMB83 and RMB110, RMB26 and RMB29 respectively, which was classified as follows:

	Years Ended December 31,			Three Months Ended March 31,	
	2017	2018	2019	2019	2020
				(Unaudited)	
Hotel operating costs	20	27	35	8	10
Selling and marketing expenses	2	3	3	1	1
General and administrative expenses	44	53	72	17	18

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

	Years Ended December 31,			Three Months Ended March 31,	
	2017	2018	2019	2019	2020
				(Unaudited)	
Total	66	83	110	26	29

Earnings (Losses) per share

Basic earnings (losses) per share is computed by dividing income attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the year. Diluted earnings (losses) per share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares, which consist of the ordinary shares issuable upon the conversion of the convertible senior notes (using the if-converted method) and ordinary shares issuable upon the exercise of stock options and vest of nonvested restricted stocks (using the treasury stock method).

The loaned shares under the ADS lending agreement are excluded from both the basic and diluted earnings (losses) per share calculation unless default of the ADS lending arrangement occurs which the Group considered the possibility is remote.

Segment and geography information

The Group identifies a business as an operating segment if: i) it engages in business activities from which it may earn revenues and incur expenses; ii) its operating results are regularly reviewed by the Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance; and iii) it has available discrete financial information. The Group's chief operating decision maker has been identified as the chief executive officer. Before the acquisition of DH completed on January 2, 2020, CODM regularly reviews the operation data, such as industrial metrics of revenue per available room, occupancy rate, and number of hotels by scale/brand, to assess the performance and allocate the resources at brand level. All the acquired business including Accor, Crystal Orange and Blossom hotel management has been migrated to the Group's business, and the Group operated and managed its business as a single operating and reporting segment. After the acquisition of DH, CODM regularly reviews the operating data and EBITDA, which is defined as earnings before interest income, interest expense, income tax expense (benefit) and depreciation and amortization, a non-GAAP financial measure for legacy Huazhu and legacy DH separately to evaluate their performance. Therefore, in January 2020, the Group modified its operating segment structure to be two operating segments which are legacy Huazhu and legacy DH as a result of a change in the way management intends to evaluate results and allocate resources within the Group. In identifying its reportable segments, the Group assesses nature of operating segments and evaluates the operating results of each reporting segments. Both operating segments meet the quantitative thresholds and should be considered as two reportable segments.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Segment and geography information (Continued)

The following table provides a summary of the Group's operating segment results for the three months ended March 31, 2020. There is no reconciliation items and the total amounts are consistent with the consolidation amounts.

	Legacy Huazhu	Legacy DH	Total
Net revenues	1,288	725	2,013
Operating costs and expenses	2,081	877	2,958
Other operating (expenses) income, net	62	26	88
Interest income	29	0	29
Interest expense	110	27	137
Other income (expenses), net	(104)	2	(102)
Unrealized gains (losses) from fair value changes of equity securities	(1,003)	—	(1,003)
Foreign exchange gain (loss)	(58)	0	(58)
Loss before income tax	**(1,977)**	**(151)**	**(2,128)**
Income tax expense (benefit)	5	(35)	(30)
Income (loss) from equity method investments	(54)	(6)	(60)
Net loss attributable to noncontrolling interest	(23)	—	(23)
Net loss attributable to Huazhu Group Limited	**(2,013)**	**(122)**	**(2,135)**
Income tax expense (benefit)	5	(35)	(30)
Interest income	29	0	29
Interest expense	110	27	137
Depreciation and amortization	264	57	321
EBITDA (Non-GAAP)	**(1,663)**	**(73)**	**(1,736)**

The following table presents total assets and liabilities for operating segments, reconciled to consolidated amounts:

	Legacy Huazhu	Legacy DH	Total
Total assets	**40,579**	**19,099**	**59,678**
Total liabilities	**41,949**	**12,453**	**54,402**

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Segment and geography information (Continued)

The following tables represent revenues and property and equipment, net, intangible assets, net, right-of-use assets, land use rights, net and goodwill by geographical region.

Revenues:

China	1,284
Germany	511
All other	218
Total	**2,013**

Property and equipment, net, intangible assets, net, right-of-use assets, land use rights, net and goodwill:

China	30,815
Germany	15,992
All other	2,413
Total	**49,220**

Other than China and Germany, there were no countries that individually represented more than 10% of the total revenue and certain long lived assets for the three months ended March 31, 2020.

Treasury shares

Treasury shares represent shares repurchased by the Company that are no longer outstanding and are held by the Company. Treasury shares are accounted for under the cost method. As of December 31, 2017, 2018 and 2019 and March 31, 2020, under the repurchase plan, the Company had repurchased an aggregate of 3,096,764 ordinary shares on the open market for total cash consideration of RMB107. The repurchased shares were presented as "treasury shares" in shareholders' equity on the Group's consolidated balance sheets.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

Adopted Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-07, which eliminates the requirement to retroactively adopt the equity method of accounting. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The amendments in this ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. The Group adopted the ASU effective January 1, 2017 and there was no impact on the Group's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. For public entities, the ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. The new standard requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools, prospectively. In addition, excess tax benefits shall be classified as an operating activity rather than financing activity flows using either a prospective transition method or a retrospective transition method. The Group adopt the ASU on January 1, 2017. The adoption of ASU 2016-09 resulted in a decrease in our provision for income taxes of RMB46 in fiscal year 2017, due to the recognition of excess of tax benefits for options exercised and the vesting of equity awards in year 2017. The Group adopted the cash flow presentation retrospectively and accordingly, excess tax benefits from equity-based compensation of RMB46 in fiscal year 2017 are presented as an operating activity.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

Adopted Accounting Standards (Continued)

The Group adopted the ASU 2014-09 and all related ASUs (collectively, the "new revenue standards") on January 1, 2018 utilizing the full retrospective basis in the consolidated financial statements, which required the Group to adjust each prior reporting period presented. The adoption of new revenue standards impacted the timing of revenue recognition related to initial one-time franchise fee from upon the opening of hotels to over the term of the franchise contract. In addition, the adoption of new revenue standards also impacted the accounting of the loyalty program. Under previous guidance, the Group adopted the incremental cost model to account for customer loyalty program. The estimated incremental costs, net of the reimbursement received from the franchisees, were accrued and recorded as accruals for customer loyalty program as members accumulate points and were recognized as cost and expense in the accompanying consolidated statements of comprehensive income. Upon adoption of new revenue standards, loyalty program is considered a separate performance obligation and the consideration allocated to the loyalty program are recognized as revenue upon point redemption, net of any cost paid to the franchisees and other third parties. The impact of the changes made to the Group's consolidated financial statements of year 2017 as a result of the adoption of new revenue standards was as follows:

	Year Ended December 31, 2017		
	As Reported	Effect of the Adoption of New Revenue Standards	As Adjusted
Revenues:			
Leased and owned hotels	6,343	(5)	6,338
Manachised and franchised hotels	1,787	64	1,851
Total revenues	8,170	59	8,229
Net revenues	8,170	59	8,229
Operating costs and expenses:			
Hotel operating costs	5,674	1	5,675
Selling and marketing expenses	215	70	285
Total operating costs and expenses	6,803	71	6,874
Income from operations	1,438	(12)	1,426
Income before income taxes	1,609	(12)	1,597
Income tax expense	360	(3)	357
Net income	1,237	(9)	1,228
Net income attributable to Huazhu Group Limited	1,237	(9)	1,228
Earnings per share:			
Basic	4.43		4.40
Diluted	4.24		4.21

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

Adopted Accounting Standards (Continued)

	As of December 31, 2017		
	As Reported	Effect of the Adoption of New Revenue Standards	As Adjusted
Deferred tax assets	326	80	406
Total assets	17,428	80	17,508
Deferred revenue — current	832	111	943
Accrued expenses and other current liabilities	1,265	(16)	1,249
Deferred revenue — non-current	172	226	398
Total liabilities	10,953	321	11,274
Retained earnings	2,754	(241)	2,513
Total equity	6,475	(241)	6,234
Total liabilities and equity	17,428	80	17,508

In January 2016, the FASB issued ASU No. 2016-01, which improves the recognition and measurement of financial instruments. The new guidance requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income and separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Group adopted the ASU effective January 1, 2018. The unrealized gains (losses), net of tax, on the available-for-sale securities of RMB41 were reclassified from accumulated other comprehensive income to retained earnings as of January 1, 2018.

In November 2016, the FASB issued ASU 2016-18, which amends ASC 230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. Under ASU 2016-18, restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. This ASU should be applied retrospectively and becomes effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, but early adoption is permitted. As a result of this update, restricted cash are included within cash and cash equivalents on the statements of consolidated cash flows. The Group adopted the ASU effective January 1, 2018. The balance of restricted cash of the Group of RMB1 and RMB481 are included within the beginning balance of cash, cash equivalents, and restricted cash on the statements of consolidated cash flows for the years ended December 31, 2017 and 2018, respectively.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

Adopted Accounting Standards (Continued)

In June 2018, the FASB issued ASU 2018-07, which simplifies aspects of share-based compensation issued to non-employees by making the guidance consistent with the accounting for employee share-based compensation. The ASU is effective for public business entities for fiscal years beginning after December 15, 2018. The Group's early adoption of this ASU in the year ended December 31, 2018 had no material impact on the Group's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02 ("ASU 2016-02"), Leases (Topic 842) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities with certain practical expedients available on the balance sheet and disclosing key information about leasing arrangements. Subsequent to ASU 2016-02, the FASB issued related ASUs, including ASU No. 2018-11 ("ASU 2018-11"), *Leases (Topic 842): Targeted Improvements,* which provides for another transition method in addition to the modified retrospective approach required by ASU 2016-02. This option allows entities to initially apply the new leases standard at the adoption date and recognize a cumulative adjustment to the opening balance of retained earnings in the period of adoption rather than retrospectively adjusting prior periods and the package of practical expedients, which allowed the Group to (1) not reassess whether existing contracts contain leases, (2) carry forward the existing lease classification, and (3) not reassess initial direct costs associated with existing leases. Upon adoption of Topic 842, the Group elected to use the remaining lease term as of January 1, 2019 in estimation of the applicable discount rate for leases that were in place at adoption. By applying ASU 2016-02 at the adoption date, as opposed to at the beginning of the earliest period presented, the reporting for periods prior to January 1, 2019 continued to be reported in accordance with *Leases* ASC 840.

As a result of adoption, the Group recognized operating ROU assets of RMB18,940 and related lease liabilities of RMB19,438 for operating leases. The Group reclassified from assets and liabilities RMB498 net to operating ROU assets. The adoption of ASU 2016-02 did not materially affect the consolidated statements of income or consolidated statements of cash flows and had no impact on the debt covenant compliance under the current agreements.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

Adopted Accounting Standards (Continued)

The impact on the Group's consolidated balance sheet upon adoption of ASU 2016-02 was as follows:

	December 31, 2018	January 1, 2019	
	As Reported	Effect of Adoption ASU 2016-02	As Adjusted
Assets			
Prepaid rent	955	(955)	—
Intangible assets, net	1,834	(181)	1,653
Operating lease right-of-use assets	—	18,940	18,940
Total assets	2,789	17,804	20,593
Accrued expenses and other current liabilities	1,607	(126)	1,481
Deferred rent	1,507	(1,507)	—
Other long-term liabilities	453	(1)	452
Operating lease liabilities, current	—	2,733	2,733
Operating lease liabilities, non-current	—	16,705	16,705
Total liabilities	3,567	17,804	21,371

Further in April 2020, the FASB released a Q&A which allows lessees and lessors to make an election to either apply the lease modification guidance or the variable rents guidance under ASC 840 and ASC 842 for lease concessions related to COVID-19 as long as the total cash flows as a result of the concession are substantially the same or less than those in the contract before the concession. A preparer can make this election without the need to determine whether a force majeure clause exists in the lease. The Group has elected to account for the lease concessions as variable lease expenses and recognized RMB38 negative lease expense under the relief for the three months ended March 31, 2020. The Group expects to record additional negative lease expense in future periods as the negotiation with lessors is still in process.

In June 2016, the FASB released ASU No.2016-13 ("ASU 2016-13"), Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU, along with subsequent ASUs issued to clarify certain provisions of ASU 2016-13, provide more useful information about expected credit losses to financial statement users and changes how entities will measure credit losses on financial instruments and timing of when such losses should be recognized. The standards are to be applied using a modified retrospective approach and are effective for interim periods and fiscal years beginning after December 15, 2019, with early adoption permitted. The Group adopted the guidance on January 1, 2020, as required, using the modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date to align the Group's current processes for establishing an allowance for credit losses with the new guidance. Upon adoption, the Group recorded an adjustment of RMB7 to opening retained earnings related to the credit allowance for accounts receivable, other receivables and loan receivables. ASU 2016-13 did not materially affect Group's consolidated financial statements.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

Adopted Accounting Standards (Continued)

In January 2017, the FASB issued ASU No.2017-04, *Intangibles-Goodwill and Other*, which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under the ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, the ASU clarifies the requirements for excluding and allocating foreign currency translation adjustments to reporting units in connection with an entity's testing of reporting units for goodwill impairment. The ASU also clarifies that an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. For public business entities, the ASU is effective prospectively for fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Group adopted this ASU on January 1, 2020 and the adoption does not have a significant impact on the Group's consolidated financial statements.

In August 2018, the FASB released ASU No. 2018-13 ("ASU 2018-13"), Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 modifies the disclosure requirements on fair value measurements. The provisions of ASU 2018-13 are to be applied using a prospective or retrospective approach, depending on the amendment, and are effective for interim periods and fiscal years beginning after December 15, 2019, with early adoption permitted. The Group adopted this ASU on January 1, 2020 and the adoption of this ASU does not have a significant impact on the Group's consolidated financial statements.

In October 2018, the FASB issued ASU 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities. The new standard changes how entities evaluate decision-making fees under the variable interest entity guidance. The new standard is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance. The standard should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings at the beginning of the period of adoption. The Group adopted this ASU on January 1, 2020 and the adoption of this ASU does not have a significant impact on the Group's consolidated financial statements.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Accounting Standards Not Yet Adopted

In August 2018, the FASB issued ASU 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Topic 715-20). The amendment modifies the disclosure requirements for employers that sponsor defined benefit pension or other post-retirement plans. The revised guidance is effective for financial statements issued for fiscal years beginning after December 15, 2020, with early adoption permitted. The revised guidance will not have a material impact on the Group's consolidated financial statements.

In December 2019, the FASB has issued ASU No. 2019-12, Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes. The guidance issued in this update simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition for deferred tax liabilities for outside basis differences. This ASU also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted, and is not expected to have a material impact on the Group's consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. ASU 2020-04 provides optional expedients and exceptions that the Company can elect to adopt, subject to meeting certain criteria, regarding contract modifications, hedging relationships, and other transactions that reference the London interbank offered rate for deposits of US dollars ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. The relief provided in ASU 2020-04 is applicable to all entities, but is only available through December 31, 2022. The Group is still assessing the impact of adopting ASU 2020-04.

Translation into United States Dollars

The Historical Financial Information of the Group is stated in RMB. Translations of amounts from RMB into United States dollars are solely for the convenience of the reader and were calculated at the rate of US$1 = RMB7.0808, on March 31, 2020, as set forth in H.10 statistical release of the Federal Reserve Board. The translation is not intended to imply that the RMB amounts could have been, or could be, converted, realized or settled into United States dollars at that rate on March 31, 2020, or at any other rate.

3. ACQUISITIONS

(i) On May 25, 2017, the Group completed the acquisition of 100% of the equity interest of Crystal Orange Hotel Holdings Limited (the "Crystal Orange") engaged in the business of leasing, franchising, operating and managing hotels under Crystal Orange brands in the midscale market in the PRC, with an aggregated consideration in cash of approximately RMB3,765.

The net revenue and net income of the acquiree included in the consolidated statements of comprehensive income for the year ended December 31, 2017 were RMB777 and RMB100, respectively.

The following table summarizes unaudited pro forma results of operation for the years ended 2017 assuming that the acquisition occurred as of January 1, 2017. The pro forma results have been prepared for comparative purpose only based on management's best estimate and do not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred as of January 1, 2017.

	Years Ended December 31, 2017
Pro forma net revenue	8,630
Pro forma net income	1,267

The Group incurred transaction cost of RMB46 for the acquisition, which was expensed in 2017. In addition, Crystal Orange incurred certain costs directly attributable to the business combination including RMB256 related to the consultation services agreements and option cancellation agreement. These expenses are non-recurring in nature, and were eliminated from the calculation of pro forma net income above.

The following is a summary of the fair values of the assets acquired and liabilities assumed:

	2017	Amortization Period
Current assets	137	
Property and equipment	842	3-20 years
Favorable leases	91	remaining lease terms
Franchise agreement	58	remaining contract terms
Brand name	1,142	indefinite life
Goodwill	2,093	
Other non-current assets	131	
Current liabilities	(222)	
Non-current liabilities	(180)	
Deferred tax liabilities	(323)	
Noncontrolling interest	(4)	
Total	3,765	

3. ACQUISITIONS (Continued)

(ii) In August 2018, the Group completed the acquisition of 83% equity interest of Blossom Hotel Investment Management (Kunshan) Co., Ltd. (the "Blossom hotel management"). Blossom hotel management was engaged in the business of owning, leasing, franchising, operating and managing hotels under Blossom hotel management brand in the upscale market in the PRC. The aggregated consideration RMB536 consisted of RMB463 cash consideration transferred and RMB73 implied fair value of the 11% equity interest originally owned by the Group in 2017. The previously held 11% equity interest that was accounted for using cost method was remeasured to fair value on the acquisition date, resulting in a gain of RMB13 recognized in investment income.

The net revenue and net loss of the acquiree included in the consolidated statements of comprehensive income for the year ended December 31, 2018 were RMB30 and RMB15, respectively.

The following table summarizes unaudited pro forma results of operation for the years ended December 31, 2017 and 2018 assuming that the acquisition occurred as of January 1, 2017. The pro forma results have been prepared for comparative purpose only based on management's best estimate and do not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred as of January 1, 2017.

	Years Ended December 31,	
	2017	**2018**
Pro forma net revenue	8,331	10,124
Pro forma net income	1,214	701

The transaction cost for the acquisition was immaterial.

The following is a summary of the fair values of the assets acquired and liabilities assumed:

	2018	**Amortization Period**
Current assets	84	
Property and equipment	187	3-20 years
Favorable leases	7	remaining lease terms
Unfavorable leases	(1)	remaining lease terms
Franchise agreement	25	remaining contract terms
Brand name	170	indefinite life
Goodwill	365	
Land use rights	10	
Deferred tax assets	12	
Current liabilities	(105)	
Non-current liabilities	(18)	
Deferred tax liabilities	(50)	
Noncontrolling interest	(150)	
Total	536	

In August 2018, the Group purchased additional 11% noncontrolling interest from several minority shareholders for total cash consideration of RMB73. In 2019, the Group purchased additional 5% noncontrolling interest for total consideration of RMB34. The purchase of the noncontrolling interest is treated as an equity transaction. As of March 31, 2020, the Group owns 99% equity interest of Blossom hotel management in total.

3. ACQUISITIONS (Continued)

(iii) During the years ended December 31, 2017, 2018 and 2019, the Group acquired two individual hotels, two individual hotels and three individual companies for total cash consideration of nil, RMB7 and RMB54 respectively. The business acquisitions were accounted for under purchase accounting. The assets and liabilities of these hotels and companies acquired in 2017, 2018 and 2019 were immaterial to the Historical Financial Information.

(iv) On January 2, 2020, the Group completed the acquisition of 100% equity interest of Deutsche Hospitality. Deutsche Hospitality was engaged in the business of leasing, franchising, operating and managing hotels under five brands in the midscale and upscale market in Europe, the Middle East and Africa. The aggregated consideration was EUR720 million (equivalent to RMB5,624) which has been fully paid in cash as of January 2, 2020.

The net revenue and net loss of the acquiree included in the consolidated statements of comprehensive income for the three months ended March 31, 2020 were RMB725 and RMB122, respectively.

The following table summarizes unaudited pro forma results of operation for the three month ended March 31, 2019 and 2020 assuming that the acquisition occurred as of January 1, 2019. The pro forma results have been prepared for comparative purpose only based on management's best estimate and do not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred as of January 1, 2019.

	Period Ended March 31,	
	2019	**2020**
Pro forma net revenue	3,280	2,013
Pro forma net income (loss)	73	(2,158)

The Group incurred transaction cost of RMB70 for the acquisition, which was expensed in 2019. These expenses are non-recurring in nature, and were eliminated from the calculation of pro forma net income above.

3. ACQUISITIONS (Continued)

The following is a summary of the fair values of the assets acquired and liabilities assumed:

	2020	Amortization Period
Current assets	785	
Property and equipment, net	586	2-25 years
Operating lease right-of-use assets	8,616	The lease terms
Finance lease right-of-use assets	1,794	Shorter of estimated useful lives of the assets and the lease terms
Franchise agreements	270	Remaining contract terms
Brand name	3,873	Indefinite life
Non-compete agreement	10	2 years
Goodwill	2,682	
Deferred tax assets	170	
Other non-current assets	280	
Operating lease liabilities, current	(296)	
Finance lease liabilities, current	(21)	
Other current liabilities	(784)	
Operating lease liabilities, non-current	(8,553)	
Finance lease liabilities, non-current	(2,166)	
Other non-current liabilities	(330)	
Deferred tax liabilities	(1,292)	
Total	5,624	

Goodwill was recognized as a result of expected synergies from combining operations of the Group and acquired business and other intangible assets that don't qualify for separate recognition. The goodwill generated from the DH acquisition is allocated to the reporting unit of legacy DH. None of the Goodwill is expected to be deductible for tax purposes.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregated Revenues

The following tables present the Group's revenues disaggregated by the nature of the product or service:

	Years Ended December 31,			Three Months Ended March 31,	
	2017	2018	2019	2019	2020
				(Unaudited)	
Room revenues	5,842	6,894	7,057	1,560	1,058
Food and beverage revenues	249	304	351	82	205
Others	247	272	310	64	253
Leased and owned hotels revenue	6,338	7,470	7,718	1,706	1,516
Initial one-time franchise fee	59	79	93	21	23
On-going management and service fees	759	983	1,228	244	111
Central reservation system usage fees, other system maintenance and support fees	436	630	908	169	111
Reimbursements for hotel manager fees	371	455	581	128	144
Other fees	226	380	532	101	76
Manachised and franchised hotels revenue	1,851	2,527	3,342	663	465
Other revenues	40	66	152	18	32
Total revenues	8,229	10,063	11,212	2,387	2,013

4. REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

Contract Balances

The Group's contract assets are insignificant at December 31, 2017, 2018 and 2019, and March 31, 2020.

	As of December 31,			As of March 31,
	2017	2018	2019	2020
Current contract liabilities	943	1,005	1,179	1,230
Long-term contract liabilities	398	458	559	546
Total contract liabilities	1,341	1,463	1,738	1,776

The contract liabilities balances above which are classified as deferred revenue on the consolidated balance sheet, as of December 31, 2017, 2018 and 2019, and March 31, 2020 were comprised of the following:

	As of December 31,			As of March 31,
	2017	2018	2019	2020
Initial fees received from franchisees owners	553	674	869	862
Cash received for membership fees and not recognized as revenue	305	357	400	369
Advances received from customers	425	374	412	489
Deferred revenue related to the loyalty program	58	58	57	56
Total	1,341	1,463	1,738	1,776

The Group classifies initial fees received from franchisees into current liabilities when the hotel has not yet opened. Initial fees received from franchisees for pre-opening hotels are RMB252, RMB329, RMB448 and RMB435 as of December 31, 2017, 2018 and 2019, and March 31, 2020, respectively. Once the hotel opens, initial one-time franchise fee will be recognized as revenue over the term of the franchise contract and the initial fees received from franchisees that has not been recognized as revenue will be reclassified into current contract liabilities and long-term contract liabilities respectively.

The Group recognized revenues that were previously deferred as contract liabilities of RMB445, RMB468, RMB491 and RMB334 during the years ended December 31, 2017, 2018 and 2019, and for the three months ended March 31, 2020, respectively.

Revenue Allocated to Remaining Performance Obligations

Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods.

As of March 31, 2020, the Group had RMB56 of deferred revenues related to unsatisfied performance obligations under HUAZHU Rewards that will be recognized as revenues when the points are redeemed, which the Group estimates will occur over the next two

4. REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

years. The Group had RMB862 of deferred revenues related to initial fees received from franchisees owners are expected to be recognized as revenues over the remaining contract periods over generally one to ten years. Additionally, the Group had RMB369 of deferred revenues related to membership fees that are expected to be recognized as revenues over the remaining membership life, which is estimated to be one to five years. The Group also had RMB489 of deferred revenues related to advances received from customers, which are expected to be recognized as revenues in future periods over the terms of the related contracts.

The Group did not estimate revenues expected to be recognized related to the Group's unsatisfied performance for the following:

- Revenues related to on-going management and franchise service fees, as they are considered sales-based royalty fees.

- Revenues related to central reservation system usage fees, other system maintenance and support fees, and reimbursement for hotel manager fee, as the related revenues from the satisfaction of these performance obligations is recognized when the Group is entitled to invoice the amount.

5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following:

	As of December 31,			As of March 31,
	2017	2018	2019	2020
Cost:				
Buildings	247	247	247	247
Leasehold improvements	6,453	7,389	8,414	8,822
Furniture, fixtures and equipment	1,034	1,162	1,270	1,816
Motor vehicles	1	1	1	1
	7,735	8,799	9,932	10,886
Less: Accumulated depreciation	(3,707)	(4,344)	(4,918)	(5,146)
	4,028	4,455	5,014	5,740
Construction in progress	495	563	840	731
Property and equipment, net	4,523	5,018	5,854	6,471

5. PROPERTY AND EQUIPMENT, NET (Continued)

Depreciation expense was RMB753, RMB847, RMB967, RMB225 and RMB293 for the years ended December 31, 2017, 2018 and 2019, and for the three months ended March 31, 2019 and 2020, respectively.

The Group occasionally demolishes certain leased hotels due to local government zoning requirements, which typically results in receiving compensation from the government.

6. INTANGIBLE ASSETS, NET

Intangible assets, net consist of the following:

	As of December 31,			As of March 31,
	2017	2018	2019	2020
Intangible assets with indefinite life:				
Brand name (Note 3)	1,170	1,340	1,340	5,212
Master brand agreement	192	192	192	192
Intangible assets with definite life:				
Franchise agreements	70	95	95	365
Favorable lease agreements	256	278	13	13
Purchased software	65	69	72	88
Other intangible assets	—	—	20	65
Total	1,753	1,974	1,732	5,935
Less: Accumulated amortization	(109)	(140)	(70)	(81)
Total	1,644	1,834	1,662	5,854

Unfavorable lease

	As of December 31,	
	2017	2018
Unfavorable lease agreements	4	3
Less: Accumulated amortization	(3)	(2)
Unfavorable lease agreements, net	1	1

6. INTANGIBLE ASSETS, NET (Continued)

The values of favorable lease agreements were determined based on the estimated present value of the amount the Group has avoided paying as a result of entering into the lease agreements. Unfavorable lease agreements were determined based on the estimated present value of the acquired lease that exceeded market prices and are recognized as other long-term liabilities. The value of favorable and unfavorable lease agreements is amortized using the straight-line method over the remaining lease term before January 1, 2019. Favorable lease agreements and unfavorable lease agreements in which the Group acts as a lessee were reclassified to operating lease right-of-use assets on January 1, 2019, upon adoption of ASC 842. For the favorable lease agreements in which the Group acts as a lessor were accounted as intangible assets as before.

Amortization expense of intangible assets for the years ended December 31, 2017, 2018 and 2019, and for the three months ended March 31, 2019 and 2020 amounted to RMB31, RMB39, RMB16, RMB3 (unaudited) and RMB11 respectively.

The annual estimated amortization expense for the above intangible assets excluding brand name and master brand agreement for the following years is as follows:

	Amortization for Intangible Assets
2020	33
2021	42
2022	35
2023	33
2024	31
Thereafter	276
Total	450

7. INVESTMENTS

The investments as of December 31, 2017, 2018 and 2019, and March 31, 2020 were as follows:

	As of December 31,			As of March 31,
	2017	2018	2019	2020
Equity securities with readily determinable fair values:				
Accor	780	3,816	2,770	1,458
Other marketable securities	257	295	138	81
Equity securities without readily determinable fair values:				
Cjia/Cjia Group	—	298	232	215
OYO	66	66	66	66
Mobike	67	—	—	—
BJ GOOAGOO/ GOOAGOO	60	—	—	—
Blossom hotel management (Note 3)	60	—	—	—
Other equity securities without readily determinable fair values	103	113	100	69
Equity-method investments:				
AAPC LUB	478	461	469	464
Hotel related funds	56	503	507	498
Shared office management entities	148	111	10	5
Cjia/Cjia Group	—	—	—	—
China Hospitality JV	—	117	115	113
GOOAGOO/Data Driven	—	52	49	49
Zleep	—	—	—	102
Other investments	71	89	161	119
Available-for-sale debt securities:				
Cjia/Cjia Group	246	220	220	220
CREATER	100	100	—	—
Total	2,492	6,241	4,837	3,459

7. INVESTMENTS (Continued)

Equity securities with readily determinable fair values:

In 2017, 2018 and 2019, and the three months ended March 31, 2020, the Group purchased 2,309,981, 10,782,131, 282,787 and nil ordinary shares of Accor, a hotel group listed in Paris stock exchange, from open market. In 2019 and the three months ended March 31, 2020, the Group sold out 4,904,222 and 1,003,654 of these shares with gains of RMB52 and losses of RMB21 realized, respectively. As of March 31, 2020, the Group accumulatively hold 7,467,023 shares of Accor, which accounts for less than 3% of Accor total outstanding shares where the Group does not have the ability to significantly influence the operations of this entity. In 2018, 2019 and the three months ended March 31, 2019 and 2020, the Group recognized unrealized gains (losses) from fair value changes of Accor of RMB (794), RMB351, RMB (99) and RMB (977), respectively.

At December 31, 2017, 2018 and 2019, and March 31, 2020, the Group had RMB257, RMB295, RMB138, and RMB81, respectively, of other marketable securities, which represent investments in entities in hospitality or related industries where the Group does not have the ability to significantly influence the operations of these entities. In 2018 and 2019 and the three months ended March 31, 2019 and 2020, the Group recognized unrealized gains (losses) from fair value changes of other marketable securities of RMB (120), RMB (35), RMB9 (unaudited) and RMB (26), respectively.

Before the adoption of ASU 2016-01 in 2018, the fair value changes were recognized in accumulated other comprehensive income. Upon the adoption of ASU 2016-01 on January 1, 2018, the Group used modified retrospective approach to apply the amendments and the future fair value changes were recognized in net income.

Equity securities without readily determinable fair values:

In 2016, the Group sold its subsidiary, Chengjia Hotel Management Co., Ltd. to Chengjia (Shanghai) Apartment Management Co., Limited ("Cjia"), the Group's equity investee. As of December 31, 2016, the Group had approximately 23% equity interest of Cjia and a sixty-month convertible note with original value of RMB52. In 2017, the Group invested in Cjia for convertible notes totaled RMB200. With the injection from an unrelated investor to Cjia, the Group recognized gain on deemed disposal of RMB40 in other income in 2017. In 2018, Cjia completed its restructuring, and accordingly the Company's equity interest of 17% in Cjia was transformed to be the Group's equity interest of 17% in China Cjia Group Limited ("Cjia Group"). In addition, the Group made further investment in preferred shares of Cjia Group of US$45 million in 2018. Meanwhile, the convertible notes of Cjia could be replaced by convertible notes of Cjia Group in the next four years. In 2019, Cjia Group repurchased from the Group part of its ordinary shares and preferred shares and issued new shares to an unrelated investor. As a result, the Group recognized a gain of RMB9 in other income in 2019. As of March 31, 2020, the Group had approximately 15% ordinary shares of Cjia Group. The Group accounted for the ordinary shares in Cjia Group under equity-method as the Group has the ability to exert significant influence. The convertible notes are recorded as available-for-sale debt securities. The preferred shares are accounted for as equity securities without readily determined fair value as they are not in substance ordinary shares. The Group recognized investment loss of RMB33, RMB38, RMB45, RMB15 (unaudited) and RMB17 in income (loss) from equity method investments in 2017, 2018 and 2019, and in the three months ended March 31, 2019 and 2020, respectively. Loss from equity method investments reduced the cost of equity-method investment to zero and further adjusted the carrying amount of convertible notes and preferred shares.

7. INVESTMENTS (Continued)

Equity securities without readily determinable fair values: (Continued)

In January 2017, the Group purchased 1,316,205 preferred shares and invested in convertible notes with principal amount of US$5 million and interest rate of 8% of Mobike Ltd. ("Mobike"), a Chinese bike-sharing company. As of December 31, 2017, the Group had less than 1% equity interest of Mobike. The Group accounted the investment at cost method prior to 2018. Along with the adoption of ASC 2016-01, the Group accounted it as equity securities without readily determinable fair values. In 2018, the Group disposed all the Mobike preferred shares and recognized a gain of RMB55.

In September 2017, the Group purchased approximately 1% equity interest of Oravel Stays Private limited ("OYO"), an India leading hospitality company. The Group accounted the investment as equity securities without readily determinable fair values since the Group does not have the ability to exert significant influence over OYO.

Other equity securities without readily determinable fair values included several insignificant investments in certain privately-held companies.

Equity-method investments:

In January 2016, the Group acquired approximately 28% equity interest in AAPC LUB. The Group accounted for the investment in AAPC LUB under equity-method as the Group has the ability to exert significant influence. The Group recognized investment income of RMB31, RMB43, RMB47, RMB12 (unaudited) and investment losses of RMB5 in income (loss) from equity method investments in 2017, 2018 and 2019 and the three months ended March 31, 2019 and 2020, respectively. In 2018 and 2019, the Group received cash dividend from AAPC LUB of RMB60 and RMB39 which was recognized as return on investment.

As of December 31, 2017, 2018 and 2019, and March 31, 2020, the Group had RMB56, RMB503, RMB507 and RMB498, respectively, of investments in hotel related funds. Those funds were VIEs and were managed by or power shared with un-related third-parties. However, the Group determined that they were not the primary beneficiary of those VIEs since the Group did not have the power to direct the activities of these VIEs that most significantly impacted its economic performance. The Group accounted for the investment under equity-method. The Group recognized investment income (loss) of nil, RMB (28), RMB11, RMB (16) (unaudited) and RMB (9) in income (loss) from equity method investments in 2017, 2018 and 2019 and the three months ended March 31, 2019 and 2020, respectively. The maximum potential financial statement loss the Group could incur if the investment funds were to default on all of their obligations is the loss of value of the interests in such investments of RMB498 that the Group holds as of March 31, 2020.

In 2018, the Group partnered with an unrelated third party investor to form China Hospitality JV, Ltd. ("China Hospitality JV"), of which the Group holds 20% equity interest. The business of China Hospitality JV was to acquire and operate two hotel properties. The Group accounted for the investment in China Hospitality JV under equity-method as the Group has the ability to exert significant influence. The Group recognized investment loss of RMB11, RMB2, RMB1 (unaudited) and RMB3 in income (loss) from equity method investments in 2018 and 2019, and in the three months ended March 31, 2019 and 2020, respectively.

7. INVESTMENTS (Continued)

Equity-method investments: (Continued)

As of December 31, 2018, the Group had approximately 41% equity interest of Gooagoo Group Holdings Limited ("GOOAGOO"), a high-tech service provider for Offline-To-Online data processing and platform operation, and accounted for as equity-method investments as the Group has the ability to exert significant influence through the increased voting power. After the restructuring of GOOAGOO and further investment of the Group in 2019, all the equity interests of the GOOAGOO were repurchased and the Group had approximately 20% equity interest of Beijing Data Driven Technology Co., Ltd ("Data Driven"), a domestic subsidiary of GOOAGOO in China. The Group recognized investment loss of nil, RMB14, RMB3, RMB1 (unaudited) and RMB0.5 in income (loss) from equity method investments in 2017, 2018 and 2019, and in the three months ended March 31, 2019 and 2020, respectively.

In February 2019, Deutsche Hospitality acquired 51% of the shares in Zleep Hotels A/S ("Zleep"), a hotel brand in Scandinavia. The Group's interest in Zleep is accounted for using the equity method in the consolidated financial statements because the Group has joint control only in the business and finance decisions due to voting right restrictions. The Group recognized investment loss of RMB6 in income (loss) from equity method investments in the three months ended March 31, 2020.

Other investments included several insignificant equity investments in certain privately-held companies.

Available-for-sale debt securities:

In September 2017, the Group invested in Shanghai CREATER Industrial Co., Ltd. ("CREATER"), a staged office space company in China, for two-year convertible notes amounted RMB100 with an interest rate of 10% per year. The convertible notes with equity pledge are convertible upon satisfaction of certain conditions or at the option of the Group to ordinary shares in the last month before the expiration. The convertible notes were recorded as available-for-sale debt securities and were redeemed on maturity in 2019.

8. GOODWILL

The changes in the carrying amount of goodwill for the years ended December 31, 2017, 2018 and 2019, and for the three months ended March 31, 2020 were as follows:

	Gross Amount	Accumulated Impairment Loss	Net Amount
Balance at January 1, 2017	176	(4)	172
Increase in goodwill related to acquisitions	2,093	—	2,093
Balance at December 31, 2017	2,269	(4)	2,265
Increase in goodwill related to acquisitions	365	—	365
Balance at December 31, 2018	2,634	(4)	2,630
Increase in goodwill related to acquisitions	27	—	27
Balance at December 31, 2019	2,661	(4)	2,657
Increase in goodwill related to acquisitions	2,682	—	2,682
Balance at March 31, 2020	5,343	(4)	5,339

After the acquisition of DH, the goodwill by reporting units as of March 31, 2020 was as follows:

	Legacy Huazhu[(1)]	Legacy DH[(2)]	Total
Goodwill as of December 31, 2019	2,657	—	2,657
Goodwill as of March 31, 2020	2,657	2,682	5,339

(1) Amounts for the legacy Huazhu reporting unit include gross carrying values of RMB2,269, RMB2,634, RMB2,661 and RMB2,661 as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively, and accumulated impairment losses of RMB4 as of December 31, 2017, 2018, 2019 and March 31, 2020.

(2) Before the acquisition of DH, all the goodwill is allocated to one reporting unit legacy Huazhu. There were no accumulated impairment losses for the legacy DH reporting unit as of March 31, 2020.

9. DEBT

The short-term and long-term debt as of December 31, 2017, 2018 and 2019, and March 31, 2020 were as follows:

	As of December 31,			As of March 31,
	2017	2018	2019	2020
Short-term debt:				
Long-term bank borrowings, current portion	0	0	3,953	469
Short-term bank borrowings	131	948	1,256	1,965
Convertible senior notes, current portion	—	—	3,290	3,348
Total	131	948	8,499	5,782
Long-term debt:				
Long-term bank borrowings, non-current portion	1,895	5,603	8,084	7,671
Convertible senior notes, non-current portion	3,027	3,209	—	—
FF&E liability	—	—	—	120
Others	—	—	—	19
Total	4,922	8,812	8,084	7,810

Bank borrowings

In May 2017, the Group entered into an US$250 million term facility and US$250 million revolving credit facility agreement with several banks. The US$250 million revolving credit facility is available for 35 months after the date of the agreement. The interest rate on the loan is LIBOR plus 1.75%. There are some financial covenants including interest coverage ratio, leverage and tangible net worth related to this facility and the Group was in compliance as of December 31, 2017, 2018 and 2019. The Group had drawn down US$250 million under the term facility agreement in 2017 and repaid nil in 2017, 2018 and 2019. For revolving credit facility agreement, the Group had drawn down total US$250 million, US$370 million, and US$755 million in succession under the revolving facility agreement and repaid US$250 million, US$120 million and US$755 million in 2017, 2018 and 2019 respectively. The weighted average interest rate of borrowings drawn under this agreement was 3.04%, 3.93% and 4.24% for the years ended December 31, 2017, 2018 and 2019 respectively. The Group had repaid all the bank borrowings under term facility and revolving facility on January 2, 2020.

9. DEBT (Continued)

Bank borrowings (Continued)

In February 2018, the Group entered into a three-year term facility agreement under which the Group can borrow up to EUR260 million within 30 London business days. The interest rate on the loan for each interest period is the aggregate of the applicable EURIBOR and a spread of 1.70%. The Group had pledged 13,092,112 shares of Accor the Group acquired from open market in 2017 and 2018 as collateral. The loan contains certain financial covenants including debt ratio and the value of pledged shares and the Group was in compliance as of December 31, 2018 and 2019. The Group had drawn down EUR241 million in 2018 under the term facility agreement and repaid EUR193 million and EUR48 million in 2019 and February 2020 with all shares of Accor released from pledge. The weighted average interest rate of borrowings drawn under this agreement was 1.70% for the year ended December 31, 2018 and 2019 and first quarter ended March 31, 2020.

In March 2019, the Group entered into a five-year RMB1,190 bank loan contract expiring in March 2024. The interest rate resets every six months, and is based on the People's Bank of China five-year benchmark interest rate on the pricing date. The loan contains certain financial covenants including interest coverage ratio and net tangible assets and the Group was in compliance as of December 31, 2019. On June 30, 2020, the Group obtained an exemption approval for the RMB1,190 long-term credit facility, providing that with satisfaction of amended covenants, the original financial covenants of interest coverage ratio will not be applicable until the six-month period ending June 30, 2021. The amended covenants include borrowings, EBITDA and cash dividend distribution limitation related to this facility. The Group is and expects to be able to remain fully in compliance with the amended covenants; The Group had repaid RMB89 and RMB89 in 2019 and March 2020 in accordance with the agreed repayment schedule. The weighted average interest rate of borrowings drawn under this agreement was 4.75% for the year ended December 31, 2019 and three months ended March 31, 2020.

In October 2019, the Group entered into a one-year term facility agreement under which the Group can borrow up to US$180 million within two months secured by deposit at least equal to loan facility amount with accrued interest and any cost. The interest rate was fixed at 2.52%. The Group had drawn down US$180 million under this agreement with US$185 million deposit in 2019 and repaid nil in 2019 and the first three months in 2020.

In December 2019, the Group entered into a EUR440 million term facility and US$500 million revolving credit facility agreement with several banks. The US$500 million revolving credit facility is available for 35 months after the date of the agreement. The interest rate on the loan for each interest period is the aggregate of the applicable Margin and LIBOR or EURIBOR in relation to any loan in EUR. The Margin for each loan depends on the applicable leverage range, generally means 2.0% per annum. There are some financial covenants including interest coverage ratio, leverage and book equity related to this facility and the Group was in compliance as of December 31, 2019. On April 17, 2020, the Group obtained an exemption approval for the EUR440 million and US$500 million long-term credit facility, providing that with satisfaction of amended covenants, the original financial covenants will not be applicable until the six-month period ending June 30, 2021. The amended covenants includes book equity, borrowings, EBITDA and minimum cash related to this facility. The Group is and expects to be able to remain fully in compliance with the amended covenants. The Group had drawn down EUR440 million and US$500 million as of December 31, 2019 under the facility agreement and repaid nil in 2019 and the first three months in 2020. The weighted average interest rate of borrowings drawn under this agreement was 2.86% and 2.92% for the year ended December 31, 2019 and three months ended March 31, 2020, respectively. The Group repaid US$300 million under revolving credit facility of US$500 million in May 2020.

9. DEBT (Continued)

Bank borrowings (Continued)

During the three months ended March 31, 2020, the Group raised short-term bank borrowings amounted to RMB800 from several banks to supplement its working capital. As of March 31, 2020, among which, RMB112 was repaid.

Convertible Senior Notes due 2022

On November 3, 2017, the Company issued US$475 million of Convertible Senior Notes (the "Notes"). The Notes mature on November 1, 2022 and bear interest at a rate of 0.375% per annum, payable in arrears semi-annually on May 1 and November 1, beginning May 1, 2018. In 2017, proceeds to the Company were RMB3,093 (equivalently US$467 million), net of issuance costs of RMB54 (equivalently US$8 million).

Holders of the Notes have the option to convert their Notes at any time prior to the close of business on the second business day immediately preceding the maturity date. The Notes can be converted into the Company's ADSs at an initial conversion rate of 5.4869 of the Company's ADSs per US$1,000 principal amount of the Notes (equivalent to an initial conversion price of US$182.25 per ADS). The conversion rate is subject to adjustment in some events but is not adjusted for any accrued and unpaid interest. In addition, following a make-whole fundamental change (as defined in the Indenture) that occur prior to the maturity date or following the Company's delivery of a notice of a tax redemption, the Company will increase the conversion rate for a holder who elects to convert its notes in connection with such a corporate event or such tax redemption.

The holders may require the Company to repurchase all or portion of the Notes for cash on November 2, 2020, or upon a fundamental change, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest. The Company believes that the likelihood of occurrence of events considered a fundamental change is remote.

The conversion option meets the definition of a derivative. However, since the conversion option is considered indexed to the Company's own stock and classified in stockholders' equity, the scope exception is met, accordingly the bifurcation of conversion option from the Notes is not required. There is no beneficial conversion feature ("BCF") attribute to the Notes as the set conversion prices for the Notes are greater than the respective fair values of the ordinary share price at date of issuance.

The feature of mandatory redemption upon maturity is clearly and closely related to the debt host and this feature is no need to be bifurcated. Furthermore, the Company concluded that the feature of contingent put options upon tax events or fundamental changes does not need to be considered as an embedded derivative to be bifurcated.

Therefore, the Company accounted for the Notes in accordance with ASC 470, as a single instrument. Issuance costs related to the Notes is recorded in consolidated balance sheet as a direct deduction from the principal amount of the Notes, and is amortized over the period from November 3, 2017, the date of issuance, to November 1, 2020, the first put date of the Notes, using the effective interest method. On December 31, 2019, the Group reclassified the Notes as short-term debt as the Notes holders have a put option which can be exercised within one year.

9. DEBT (Continued)

ADS Lending Arrangement

Concurrent with the offering of the Notes, the Company entered into ADS lending agreements with the affiliates of the initial purchasers of the Notes ("ADS Borrowers"), pursuant to which the Company lent to the ADS Borrowers 2,606,278 ADSs (the "Loaned ADSs") at a price equal to par, or $0.0004 per ADS ("ADS lending arrangement"). The purpose of the ADS lending arrangements is to facilitate privately negotiated transactions in which the ultimate holders of the Notes may elect to hedge their investment in the related notes. As of December 31, 2017, 2018 and 2019, and March 31, 2020 the outstanding number of Loaned ADSs was 2,606,278.

The Loaned ADSs must be returned to the Company by the earliest of (a) the maturity date of the Notes, November 1, 2022, (b) upon the Company's election to terminate the ADS lending agreement at any time after the later of (x) the date on which the entire principal amount of the Notes ceases to be outstanding, and (y) the date on which the entire principal amount of any additional convertible securities that the Company has in writing consented to permit the ADS Borrower to hedge under the ADS lending agreement ceases to be outstanding, in each case, whether as a result of conversion, redemption, repurchase, cancellation or otherwise; and (c) the termination of the ADS lending agreement. The Company is not required to make any payment to the initial purchasers or ADS Borrower upon the return of the Loaned ADSs. The ADS Borrowers do not have the choice or option to pay cash in exchange for the return of the Loaned ADSs.

No collateral is required to be posted for the Loaned ADSs. The initial purchasers are required to remit to the Company any dividends paid to the holders of the Loaned ADSs. An ADS Borrower has the ability to vote without restriction. However, the ADS Borrowers have agreed not to vote on the Loaned ADSs.

In accordance with FASB ASC Sub-topic 470-20, the Company has accounted for the ADS lending agreement initially at fair value and recognized it as an issuance cost associated with the convertible debt offering. As a result, additional debt issuance costs of RMB26 (equivalently US$4 million) were recorded on the issuance date with a corresponding increase to additional paid-in-capital. This debt issuance costs have also been amortized from the date of issuance to the put date of Notes, using the effective interest method.

In accordance with ASC Topic 470-20, although legally issued, the Loaned ADSs are not considered outstanding, and then excluded from basic and diluted earnings per share unless default of the ADS lending arrangement occurs, at which time the Loaned ADSs would be included in the basic and diluted earnings per share calculation. As of March 31, 2020, it is not probable that the ADS Borrower or the counterparty to the ADS lending arrangement will default.

9. DEBT (Continued)

Capped Call Options

In connection with the issuance of the Notes, the Company has entered into capped call option transactions with some of the initial purchasers or their affiliates (the "Option Counterparties") to reduce the potential dilution to existing shareholders of the Company upon conversion of the Notes. The cap price of the capped call transactions will initially be US$221.31 per ADS, subject to adjustment under the terms of the capped call transactions. The total premium paid by the Company for the capped call transactions was RMB177 (equivalently US$27 million) on the purchased date. The capped call option is classified in stockholders' equity, recorded at the cost with no subsequent changes in fair value be recorded.

FF&E Liability

The group entered into several contracts with lessors to install furniture, fixtures and equipment ("FF&E") in various leased hotels prior to the respective commencement date. Those transactions are classified as "failed" sale and leaseback transactions, as the control of the furniture, fixtures and equipment does not transfer to the lessor. Consequently, the received consideration from the lessor is accounted for as a liability. The current maturities and long-term portions of FF&E liability are recorded in accrued expenses and other current liabilities and long-term debt, respectively.

Debt Maturities

The contractual maturities of the Group's debt as of March 31, 2020 were as follows:

	Principle Amounts
Within one year	5,799
Between 1 to 2 years	274
Between 2 to 3 years	7,288
Between 3 to 4 years	319
Between 4 to 5 years	16
Beyond 5 years	47
Total	13,743

10. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	As of December 31,			As of March 31,
	2017	2018	2019	2020
Payable to franchisees	418	698	1,028	331
Other payables	264	261	394	386
Accrued rental, utilities and other accrued expenses	174	187	133	304
Liabilities related to customer loyalty program	138	154	110	107
Value-added tax, other tax and surcharge payables	—	90	90	108
Payable to noncontrolling interest holders	87	107	85	83
Payable for business acquisitions	118	39	16	11
Deferred rent, current	50	71	—	—
Total	1,249	1,607	1,856	1,330

From time to time, the Group receives cash advances from noncontrolling interest holders of hotels that are not wholly owned by the Group. Such advances are non-interest bearing and are payable within one year. Payable to franchisees mainly represents room charges received on behalf of franchisees and are payable within one year.

11. HOTEL OPERATING COSTS

Hotel operating costs include all direct costs incurred in the operation of the leased and owned hotels, manachised and franchised hotels and consist of the following:

	Years Ended December 31,			Three Months Ended March 31,	
	2017	2018	2019	2019	2020
				(Unaudited)	
Rents	2,059	2,406	2,624	651	866
Utilities	366	399	404	129	132
Personnel costs	1,388	1,663	1,854	446	643
Depreciation and amortization	773	869	960	223	311
Consumable, food and beverage	551	673	793	174	191
Others	538	466	555	112	234
Total	5,675	6,476	7,190	1,735	2,377

12. PRE-OPENING EXPENSES

The Group expenses all costs incurred in connection with start-up activities, including pre-operating costs associated with new hotel facilities and costs incurred with the formation of the subsidiaries, such as organization costs. Pre-opening expenses primarily include rental expenses and employee costs incurred during the hotel pre-opening period.

	Years Ended December 31,			Three Months Ended March 31,	
	2017	2018	2019	2019	2020
				(Unaudited)	
Rents	192	221	460	97	99
Personnel costs	6	18	14	3	4
Others	8	16	28	4	8
Total	206	255	502	104	111

13. SHARE-BASED COMPENSATION

In February 2007, the Group adopted the 2007 Global Share Plan which allows the Group to offer incentive awards to employees, officers, directors and consultants or advisors (the "Participants"). Under the 2007 Global Share Plan, the Group may issue incentive awards to the Participants to purchase not more than 10,000,000 ordinary shares. In June 2007, the Group adopted the 2008 Global Share Plan which allows the Group to offer incentive awards to Participants to purchase up to 3,000,000 ordinary shares. In October 2008, the Group increased the maximum number of incentive awards available under the 2008 Global Share Plan to 7,000,000. In September 2009, the Group adopted the 2009 Share Incentive Plan which allows the Group to offer incentive awards to Participants. Under the 2009 Share Incentive Plan, the Group may issue incentive awards to purchase up to 3,000,000 ordinary shares. In August 2010, the Group increased the maximum number of incentive awards available under the 2009 Share Incentive Plan to 15,000,000. In March 2015, the Group increased the maximum number of incentive awards available under the 2009 Share Incentive Plan to 43,000,000. The 2007 and 2008 Global Share Plans and 2009 Share Incentive Plan (collectively, the "Incentive Award Plans") contain the same terms and conditions. The incentive awards granted under the Incentive Award Plans typically have a maximum life of ten years and vest in typical ways as listed below:

a.) Vest 50% on the second anniversary of the stated vesting commencement date with the remaining 50% vesting ratably over the following two years;

b.) Vest over a period of ten years in equal yearly installments;

As of March 31, 2020, the Group had granted 24,577,669 options and 24,382,569 nonvested restricted stocks, which were subject to adjustment on performance condition.

13. SHARE-BASED COMPENSATION (Continued)

Share options

No share options were granted during the years 2017, 2018 and 2019, and the three months ended March 31, 2020.

The following table summarized the Group's share option activity under the option plans:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
		US$	*Years*	*US$'million*
Share options outstanding at January 1, 2017	2,656,244	2.15		
Forfeited	(2,296)	1.82		
Exercised	(609,224)	2.25		
Share options outstanding at December 31, 2017	2,044,724	2.12	1.45	70
Share options exercisable at December 31, 2017	1,969,391	2.01	1.38	67
Share options outstanding at January 1, 2018	2,044,724	2.12		
Forfeited	(32,019)	1.75		
Exercised	(876,715)	2.42		
Share options outstanding at December 31, 2018	1,135,990	1.89	0.91	30
Share options exercisable at December 31, 2018	1,099,720	1.81	0.83	29

13. SHARE-BASED COMPENSATION (Continued)

Share options (Continued)

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
		US$	*Years*	*US$'million*
Share options outstanding at January 1, 2019	1,135,990	1.89		
Exercised	(1,088,358)	1.76		
Share options outstanding at December 31, 2019	47,632	4.95	1.06	2
Share options exercisable at December 31, 2019	45,710	4.97	1.01	2
Share options outstanding at January 1, 2020	47,632	4.95		
Forfeited	(1,000)	1.53		
Exercised	(1,436)	4.44		
Share options outstanding at March 31, 2020	45,196	5.05	0.80	1
Share options vested or expected to vest at March 31, 2020	45,196	5.05	0.80	1
Share options exercisable at March 31, 2020	45,196	5.05	0.80	1

As of March 31, 2020, total unrecognized compensation expense related to the option arrangements was nil.

13. SHARE-BASED COMPENSATION (Continued)

Share options (Continued)

During the years ended December 31, 2017, 2018 and 2019, and the three months ended March 31, 2019 and 2020, 609,224, 876,715 and 1,088,358, 213,575 (unaudited) and 1,436 options were exercised with an aggregate intrinsic value of RMB77, RMB194 and RMB255, RMB57 (unaudited) and RMB0.2 respectively.

Nonvested restricted stocks

The fair value of nonvested restricted stock with service conditions or performance conditions is based on the fair market value of the underlying ordinary shares on the date of grant.

In 2017, 2018 and 2019, and the three months ended March 31, 2019 and 2020 the Group granted nil, 661,973 and 221,712, nil and nil nonvested restricted stocks, respectively to senior officers and managers, each was in ten tranches with performance conditions. Each tranche is accounted for as a separate award with the same grant date, its own service inception date and requisite service period. The share-based compensation cost is recognized for each vesting tranche during the respective service period based on the estimated performance conditions at the service inception date. The Group reassesses the performance condition at each reporting period for true up. For each tranche, 50% vests on the second anniversary of the vesting commencement date with the remaining 50% vesting ratably over the following two years.

13. SHARE-BASED COMPENSATION (Continued)

Nonvested restricted stocks (Continued)

The following table summarized the Group's nonvested restricted stock activity in 2017, 2018, 2019 and three months ended March 31, 2020.

	Number of Restricted Stocks	Weighted Average Grant Date Fair Value
		US$
Nonvested restricted stocks outstanding at January 1, 2017	13,540,557	5.20
Granted	493,972	21.78
Forfeited	(174,984)	6.43
Vested	(1,626,768)	4.99
Adjusted for performance conditions	259,793	5.11
Nonvested restricted stocks outstanding at December 31, 2017	12,492,570	5.86
Granted	1,708,980	27.51
Forfeited	(253,323)	8.63
Vested	(1,680,939)	5.75
Adjusted for performance conditions	(170,672)	4.89
Nonvested restricted stocks outstanding at December 31, 2018	12,096,616	8.89
Granted	678,043	31.14
Forfeited	(727,479)	15.57
Vested	(1,738,239)	8.76
Adjusted for performance conditions	(63,551)	15.45
Nonvested restricted stocks outstanding at December 31, 2019	10,245,390	9.87
Granted	232,286	26.61
Forfeited	(62,372)	27.26
Vested	(526,181)	9.04
Adjusted for performance conditions	(259,298)	4.93
Nonvested restricted stocks outstanding at March 31, 2020	9,629,825	10.34
Expect to vest as of March 31, 2020	8,548,416	

As of March 31, 2020, there was RMB623 in unrecognized compensation costs, net of estimated forfeitures, related to unvested restricted stocks, which is expected to be recognized over a weighted-average period of 3.63 years.

The total fair value of nonvested restricted stocks vested in 2017, 2018 and 2019, and the three months ended March 31, 2019 and 2020 was RMB274, RMB183 and RMB443, RMB152 (unaudited) and RMB115 respectively.

14. EARNINGS (LOSSES) PER SHARE

The following table sets forth the computation of basic and diluted earnings (losses) per share for the years indicated:

	Years Ended December 31,			Three Months Ended March 31,	
	2017	2018	2019	2019	2020
				(Unaudited)	
Net income (loss) attributable to ordinary shareholders—basic	1,228	716	1,769	106	(2,135)
Eliminate the dilutive effect of interest expense of convertible senior notes	5	40	40	—	—
Net income attributable to ordinary shareholders—diluted	1,233	756	1,809	106	(2,135)
Weighted average ordinary shares outstanding—basic	279,272,140	281,717,485	284,305,138	283,251,520	286,013,704
Incremental weighted-average ordinary shares from assumed exercise of share options and nonvested restricted stocks using the treasury stock method	12,202,369	11,463,212	9,397,527	10,198,469	—
Dilutive effect of convertible senior notes	1,599,469	10,425,112	10,607,225	—	—
Weighted average ordinary shares outstanding—diluted	293,073,978	303,605,809	304,309,890	293,449,989	286,013,704
Basic earnings (losses) per share	4.40	2.54	6.22	0.37	(7.46)
Diluted earnings (losses) per share	4.21	2.49	5.94	0.36	(7.46)

14. EARNINGS (LOSSES) PER SHARE (Continued)

For the years ended December 31, 2017, 2018 and 2019, and for the three months ended March 31, 2019 and 2020, the Group had securities which could potentially dilute basic earnings (losses) per share in the future, but which were excluded from the computation of diluted earnings (losses) per share as their effects would have been anti-dilutive. Such outstanding securities consist of the following:

	Years Ended December 31,			Three Months Ended March 31,	
	2017	2018	2019	2019	2020
				(Unaudited)	
Outstanding employee options and nonvested restricted stocks	—	530,009	—	—	9,656,346
Shares of convertible senior notes	—	—	—	10,607,225	10,697,713
Total	—	530,009	—	10,607,225	20,354,059

15. CASH DIVIDEND

On October 23, 2017, the Group approved and declared a cash dividend of US$0.16 per ordinary share on its outstanding shares as of the close of trading on December 15, 2017. Such dividend of RMB295 was recorded as a reduction against retained earnings, and the dividend of RMB11 attributable to ADS issued under the ADS lending arrangement was recorded as a receivable in other current assets as of December 31, 2017 and had been received in January 2018.

On December 13, 2018, the Group approved and declared a cash dividend of US$0.34 per ordinary share on its outstanding shares as of the close of trading on January 2, 2019. Such dividend of RMB658 was recorded as dividends payable as of December 31, 2018, and fully paid in January 2019.

In November 2019, the Group approved a cash dividend in the total amount of approximately US$100 million on its outstanding shares as of the close of trading on January 10, 2020. Such dividend of RMB678 was recorded as dividends payable as of December 31, 2019, and fully paid in February 2020.

The Group does not plan to distribute cash dividends to its shareholders in 2020.

16. LEASES

The Group's leases mainly related to building and the rights to use the land. The total expense related to short-term leases were insignificant for year of 2017, 2018 and 2019, and for the three months ended March 31, 2019 and 2020, and sublease income of the Group which is recognized in revenues in the consolidated statements of comprehensive income (loss) were RMB79, RMB123 and RMB121, RMB29 (unaudited) and RMB32 for the years of 2017, 2018 and 2019 and for the three months ended March 31, 2019 and 2020 respectively.

A summary of supplemental information related to leases for the year of 2019 and the three months ended March 31, 2020 is as follows:

	Year Ended December 31, 2019	Period Ended March 31, 2019	Period Ended March 31, 2020
		(Unaudited)	
Lease cost:			
Operating fixed lease cost	3,094	752	943
Finance lease cost			
— Amortization of ROU assets	—	—	17
— Interest on lease liabilities	—	—	22
Short term lease cost	0	—	0
Variable lease cost	10	1	37
Total lease cost	3,104	753	1,019

	As of December 31, 2019	As of March 31, 2020
Weighted average remaining lease term		
Operating leases	11 years	14 years
Finance leases	—	29 years
Weighted average discount rate		
Operating leases	7.34%	6.24%
Finance leases	—	3.95%

16. LEASES (Continued)

Lease expense for all the Group's leases (including fixed lease cost, variable lease cost and short-term lease cost) for the years ended December 31, 2017, 2018, 2019 and three months ended March 31, 2019 and 2020 were RMB2,262, RMB2,641, RMB3,104, RMB753 and RMB1,019 respectively.

As of March 31, 2020, the maturities of lease liabilities in accordance with ASC 842 in each of the next five years and thereafter are as follows:

	Total Operating Leases	Total Finance Leases
Within 1 year	4,064	93
Between 1 to 2 years	3,843	117
Between 2 to 3 years	3,728	126
Between 3 to 4 years	3,653	128
Between 4 to 5 years	3,500	129
Beyond 5 years	27,116	3,177
Total minimum lease payments	45,904	3,770
Less: amount representing interest	(14,898)	(1,579)
Present value of minimum lease payments	31,006	2,191

As of March 31, 2020, the Group has entered 32 lease contracts whose leases have not yet commenced and the Group expects to account for them as operating or finance leases. The future undiscounted lease payments for these non-cancellable lease contracts are RMB8,329, which is not reflected in the consolidated balance sheets.

16. LEASES (Continued)

As of December 31, 2019, the maturities of lease liabilities in accordance with ASC 842 in each of the next five years and thereafter disclosed in 2019 FORM 20-F were as follows:

Year Ending December 31,	Total Operating Leases
2020	3,236
2021	3,231
2022	3,157
2023	3,031
2024	2,921
Thereafter	18,077
Total minimum lease payments	33,653
Less: amount representing interest	(11,598)
Present value of minimum lease payments	22,055

The undiscounted future minimum payments under non-cancelable operating leases as of December 31, 2018, prior to the adoption of ASC 842 was as follows:

Year Ending December 31,	
2019	2,854
2020	2,863
2021	2,777
2022	2,661
2023	2,548
Thereafter	15,669
Total	29,372

The undiscounted future minimum payments under non-cancelable operating leases as of December 31, 2017, prior to the adoption of ASC 842 was as follows:

Year Ending December 31,	
2018	1,824
2019	2,539
2020	2,518
2021	2,414
2022	2,284
Thereafter	13,509
Total	25,088

17. INCOME TAXES

The Group is subject to different income tax rates in various countries and jurisdictions under laws and relevant interpretations depending on the place of formation. Under the current laws of the Cayman Islands, the British Virgin Islands and Seychelles, companies are not subject to tax on income or capital gain. Under the current laws of Singapore, companies are subject to Singapore corporate income tax at a rate of 17%. Under the current laws of Germany, companies are subject to income tax at a standard rate of 15% (15.825% including solidarity surcharge), plus municipal trade tax of 7%-17%. Companies established in Japan are subject to Japan corporate income tax at a rate of 23.2% (30%-34% including local taxes). Companies established in Hong Kong are subject to Hong Kong profit tax at a two-tier profits tax rate regime applies: 8.25% for corporations on the first HKD2 million of assessable profits, and 16.5% for corporations on the remainder of assessable profits. Companies established in Taiwan are subject to Taiwan corporate income tax at a rate of 20%.

Under the Law of the People's Republic of China on Enterprise Income Tax ("EIT Law"), which was effective from January 1, 2008, domestically-owned enterprises and foreign-invested enterprises are subject to a uniform tax rate of 25%, and the industries and projects that are encouraged and supported by the State may enjoy tax preferential treatment. Jizhu Information and Technology (Shanghai) Co., Ltd. ("Jizhu Shanghai"), which once called Mengguang Information and Technology (Shanghai) Co., Ltd, is a recognized software development entity located in Shanghai of PRC. Jizhu Shanghai is entitled to a two-year exemption and three-year 50% reduction tax holiday starting from the first profit making year after absorbing all prior years' tax losses, and has entered into the first tax profitable year in 2014. Therefore, it applied tax exemption from 2014 to 2015, and tax rate of 12.5% from 2016 to 2018. In November 2018, Jizhu Shanghai was qualified as high and new tech enterprise, resulting Jizhu Shanghai subject to a reduced tax rate of 15% in 2019 and 2020. Mengguang Information and Technology (Jiangsu) Co., Ltd. ("Jiangsu Mengguang"), is qualified as high and new tech enterprise, resulting Jiangsu Mengguang subject to a reduced tax rate of 15% in 2019, 2020 and 2021.

Income (loss) before income taxes consists of:

	Years Ended December 31,			Three Months Ended March 31,	
	2017	2018	2019	2019	2020
				(Unaudited)	
PRC including Hong Kong and Taiwan	1,258	1,583	2,334	338	(1,819)
Germany	—	—	—	—	(181)
Other	339	(190)	231	(175)	(128)
Total	1,597	1,393	2,565	163	(2,128)

17. INCOME TAXES (Continued)

Tax expense (benefit) is comprised of the following:

	Years Ended December 31,			Three Months Ended March 31,	
	2017	2018	2019	2019	2020
				(Unaudited)	
Current Tax	436	660	678	53	19
Deferred Tax	(79)	(91)	(38)	(22)	(49)
Total	357	569	640	31	(30)

A reconciliation between the effective income tax rate and the PRC statutory income tax rate is as follows:

	Years Ended December 31,			Three Months Ended March 31,	
	2017	2018	2019	2019	2020
				(Unaudited)	
PRC statutory tax rate	25%	25%	25%	25%	25%
Tax effect of non-deductible expenses and non-taxable income in determining taxable profit[(i)]	1%	15%	(3)%	1%	(13)%
Effect of different tax rate of group entities operating in other jurisdictions	1%	4%	1%	4%	(3)%
Effect of change in valuation allowance	—	(1)%	2%	2%	(9)%
Effect of tax holiday	(1)%	(3)%	(2)%	(1)%	1%
Effect of cash dividends	(1)%	5%	4%	2%	—
Effect of disposal of subsidiary	—	1%	—	—	—
Effect of excess tax benefit of rewards	(3)%	(5)%	(2)%	(14)%	—
Effective tax rate	22%	41%	25%	19%	1%

(i) Expenses not deductible for tax purposes and non-taxable income primarily represent unrealized loss from fair value changes of equity securities in 2018 and for the three months ended March 31, 2020.

17. INCOME TAXES (Continued)

The aggregate amount and per share effect of the tax holidays are as follows:

	Years Ended December 31,			Three Months Ended March 31,	
	2017	2018	2019	2019	2020
				(Unaudited)	
Aggregate amount	24	31	45	32	28
Per share effect—basic	0.09	0.11	0.16	0.11	0.10
Per share effect—diluted	0.08	0.10	0.15	0.11	0.10

The principal components of the Group's deferred income tax assets and liabilities as of December 31, 2017, 2018 and 2019, and March 31, 2020 are as follows:

	As of December 31,			As of March 31,
	2017	2018	2019	2020
Deferred tax assets:				
Net loss carryforward	140	181	243	787
Deferred revenue	196	223	260	77
Long-term assets	130	149	125	174
Bad debt provision	4	6	7	9
Accrued payroll	14	16	23	32
Other accrued expenses	30	19	19	3
Share-based compensation	13	17	23	23
Others	2	1	0	—
Valuation allowance	(123)	(107)	(152)	(346)
Total deferred tax assets	406	505	548	759
Deferred tax liabilities:				
Fair value adjustment for Building, land use rights and identified intangible assets due to acquisition	399	447	449	1,726
Others	23	28	42	61
Total deferred tax liabilities	422	475	491	1,787

17. INCOME TAXES (Continued)

The Group considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will more likely than not be realized. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carryforward periods, the Group's experience with tax attributes expiring unused and tax planning alternatives. Valuation allowances have been established for deferred tax assets based on a more likely than not threshold. The Group's ability to realize deferred tax assets depends on its ability to generate sufficient taxable income within the carryforward periods provided for in the tax law. Movement of the valuation allowance is as follows:

	Years Ended December 31,			Three Months Ended March 31,
	2017	2018	2019	2020
Balance at the beginning of the year/period	(115)	(123)	(107)	(152)
Provided	(63)	(36)	(79)	(206)
Reversed	47	43	24	12
Written off	8	9	10	—
Balance at the end of the year/period	(123)	(107)	(152)	(346)

As of March 31, 2020, the Group's PRC subsidiaries had tax loss carryforwards of RMB939, which will expire between 2020 and 2024 if not used, and RMB1,819, which will expire between 2020 and 2027 if not used. The Germany Companies had tax loss carry forwards of RMB181, which can be offset in the future without anytime restriction.

17. INCOME TAXES (Continued)

The Group determines whether or not a tax position is "more-likely-than-not" of being sustained upon audit based solely on the technical merits of the position. At December 31, 2017, 2018 and 2019, and March 31, 2020, the Group had recorded liabilities for uncertain tax benefit of approximately RMB26, RMB14, RMB18 and RMB38 associated with the interests on intercompany loans, respectively. No interest or penalty expense was recorded for the years ended December 31, 2017, 2018 and 2019, and for the three months ended March 31, 2019 and 2020. The Group does not anticipate any significant changes to its liability for unrecognized tax benefits within the next 12 months.

	Years Ended December 31,			Three Months Ended March 31,
	2017	2018	2019	2020
Balance at January 1	20	26	14	18
Addition for tax positions	6	(12)	4	20
Balance at December 31	26	14	18	38

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of income taxes is due to computational errors made by the taxpayer. The statute of limitations will be extended to five years under special circumstances, which are not clearly defined, but an underpayment of income tax liability exceeding RMB0.1 is specifically listed as a special circumstance. In the case of a transfer pricing related adjustment, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. The Group's PRC subsidiaries are therefore subject to examination by the PRC tax authorities from 2016 through 2020 on non-transfer pricing matters, and from 2011 through 2020 on transfer pricing matters. Generally, the statute of limitations for the assessment and collection of taxes is four years. The four year period usually starts at the end of the year in which the tax return is filed. If no tax return is filed, the statute of limitations starts with the end of the third year following the year in which the tax arose. Extended limitations of 5 and 10 years will apply in the event of tax evasion or tax fraud. The statute of limitations may be suspended for a variety of reasons, for example, appeal of assessment by taxpayers, announcement or start of a tax audit, obvious mistake in tax assessment, etc.

18. EMPLOYEE BENEFIT PLANS

a. Defined Benefit Plans

Retirement benefit obligation result all from the German pension plan after the completion of the acquisition of DH as this pension plan is the most significant defined benefit plan in the Group.

The Group is required to recognize the funded status of the pension plan, which is the difference between the fair value of plan assets and projected benefit obligations, in the consolidated balance sheets and make corresponding adjustments for changes in the value through accumulated other comprehensive income (loss), net of taxes.

18. EMPLOYEE BENEFIT PLANS (Continued)

a. Defined Benefit Plans (Continued)

The following table presents the projected benefit obligation, fair value of plan assets, funded status and accumulated benefit obligation for the plans during three months ended March 31, 2020:

	Three Months Ended March 31, 2020
Change in Projected Benefit Obligation:	
Begin of period	147
Current service cost	2
Interest cost	0
Contributions by plan participants	0
Actuarial loss (gain)	(6)
Foreign currency translation	0
Curtailments	(2)
Administrative Expenses, Taxes and Premiums Paid	(0)
Benefits paid	(2)
End of period	139

	Three Months Ended March 31, 2020
Change in Plan Assets:	
Begin of period	32
Actual return on plan assets	(3)
Exchange differences	0
Employer contributions	2
Benefits paid	(2)
Other economic events	(23)
End of period	6
Excess of defined benefit obligation over the fair value of plan assets	133
Accumulated benefit obligation	**139**

18. EMPLOYEE BENEFIT PLANS (Continued)

a. Defined Benefit Plans (Continued)

Amounts recognized in the consolidated balance sheets consisted of the following:

	As of March 31, 2020
Salary and welfare payables	7
Retirement benefit obligation	126
Liability in the balance sheet	133

Amounts recognized in accumulated other comprehensive income consisted of the following:

	Three Month Ended March 31, 2020
Net actuarial gain (loss)	3
Net amount recognized	3

The net periodic pension cost (credit) and the estimated unrecognized prior service cost and net loss that will be amortized into net periodic pension cost (credit) during the period ended March 31, 2020 is immaterial.

The principal actuarial assumptions used were as follows:

	As of March 31, 2020
Discount rate — Germany	1.45%
Discount rate — other	0.71%
Inflation rate	1.00%
Future salary increases	1.50%
Future pension increases	1.80%

The investment objectives for the various plans are preservation of capital, current income and long-term growth of capital. All plan assets are managed by outside investment managers. Asset allocations are reviewed periodically by the investment managers.

18. EMPLOYEE BENEFIT PLANS (Continued)

a. Defined Benefit Plans (Continued)

Expected long-term returns on plan assets are determined using historical performance for debt and equity securities held by our plans, actual performance of plan assets and current and expected market conditions. Expected returns are formulated based on the target asset allocation. The target asset allocation for the plan, as a percentage of total plan assets, as of March 31, was 23 percent in funds that invest in equity securities and 34 percent in funds that invest in debt securities.

The following tables present the fair value hierarchy of total plan assets measured at fair value by asset category as of March 31, 2020:

	As of March 31, 2020
Level 1	
Equity funds	1
Bond funds	2
Property	2
Other	1
Total	6

The Group expects to contribute approximately RMB7 to the plan in 2020.

As of March 31, 2020, the benefits expected to be paid in the year ended December 31, 2020 and 2021 are RMB5 and RMB8, respectively.

b. Defined Contribution Plans

Full time employees of the Group in the PRC participate in a government-mandated defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. PRC labor regulations require the Group to accrue for these benefits based on a certain percentage of the employees' salaries. The total contribution for such employee benefits were RMB264, RMB321 and RMB413, RMB94 and RMB96 for the years ended December 31, 2017, 2018 and 2019, and for the three months ended March 31, 2019 and 2020 respectively. The Group has no ongoing obligation to its employees subsequent to its contributions to the PRC plan.

Furthermore, the Group pays contribution to governmental and private pension insurance organizations based on legal regulations in some countries out of China. The contributions are recognized as expense and amount RMB20 for three months ended March 31, 2020.

19. RESTRICTED NET ASSETS

Pursuant to laws applicable to entities incorporated in the PRC, the subsidiaries of the Group in the PRC must make appropriations from after-tax profit to non-distributable reserve funds. These reserve funds include one or more of the following: (i) a general reserve, (ii) an enterprise expansion fund and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end) until the accumulative amount of such reserve fund reaches 50% of their registered capital; the other fund appropriations are at the subsidiaries' discretion. These reserve funds can only be used for specific purposes of offsetting future losses, enterprise expansion and staff bonus and welfare and are not distributable as cash dividends and amounted to RMB379, RMB502, RMB604 and RMB604 as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. In addition, due to restrictions on the distribution of share capital from the Company's PRC subsidiaries, the PRC subsidiaries share capital of RMB2,978 at and March 31, 2020 is considered restricted. As a result of these PRC laws and regulations, as of March 31, 2020, approximately RMB3,582 is not available for distribution to the Company by its PRC subsidiaries in the form of dividends, loans or advances.

Pursuant to laws applicable to entities incorporated in the Europe, certain subsidiaries of the Group must make appropriations from after-tax profit to non-distributable reserve funds. These reserve funds include general reserve which is not distributable as cash dividends or other cash disbursements and amounted to RMB7 as of March 31, 2020. In addition, due to restrictions on the distribution of share capital from the Deutsche Hospitality and its subsidiaries, the share capital of RMB5 at March 31, 2020 is considered restricted.

20. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

20. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

The following entities are considered to be related parties to the Group. The related parties mainly act as service providers and service recipients to the Group. The Group is not obligated to provide any type of financial support to these related parties.

Related Party	Nature of the Party	Relationship with the Group
Trip.com Group Limited ("Ctrip")	Online travel services provider	Mr. Ji Qi is a director
Sheen Star Group Limited ("Sheen Star")	Investment holding company	Equity method investee of the Group, controlled by Mr. Ji Qi
Accor Hotels ("Accor")	Hotel Group	Shareholder of the Group
China Cjia Group Limited ("Cjia Group")	Apartment Management Group	Equity method investee of the Group
Shanghai CREATER Industrial Co., Ltd. ("CREATER")	Staged office space company	Equity method investee of the Group
Shanghai Zhuchuang Enterprise Management Co., Ltd. ("Zhuchuang")	Staged office space company	Equity method investee of the Group
China Hospitality JV, Ltd. ("China Hospitality JV")	Property management company	Equity method investee of the Group
Smart Lodging Group (Cayman) Limited ("Smart Lodging")	Hotel chain	Equity method investee of the Group
Shanghai Lianquan Hotel Management Co., Ltd. ("Lianquan")	Hotel management company	Equity method investee of the Group
Suzhou Huali Jinshi Construction Decoration Co., Ltd	Building decoration company	Equity method investee of the Group

Shanghai CREATER Industrial Co., Ltd. ceased to be related parties of the Group from August 2019.

20. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(a) Related party balances

Amounts due from related parties were mainly comprised of shareholder loans to Sheen Star, CREATER, Cjia Group, Zhuchuang and Lianquan, which are short-term and non-trade in nature and mainly payable on demand, and receivable for service fee from Accor, service fee and room charges withheld by Ctrip. The loan to related parties are not expected to be settled prior to the listing.

	As of December 31,			As of March 31,
	2017	2018	2019	2020
Sheen Star	39	44	52	52
CREATER	27	40	—	—
Zhuchuang	—	—	27	27
Ctrip	32	34	16	43
Cjia Group	15	23	16	20
Accor	2	2	1	0
Lianquan	—	—	50	53
Others	3	33	20	25
Total	118	176	182	220

Amounts due to related parties were mainly comprised of payables for brand use fee, reservation fee and other service fee to Ctrip, Accor and Cjia Group, cash received in advance of compensation fee for early termination of service agreement from China Hospitality JV and payables for construction service fee to Huali Jinshi which are short-term in nature and payable on demand. They are all trade nature.

	As of December 31,			As of March 31,
	2017	2018	2019	2020
Ctrip	29	25	33	26
China Hospitality JV	—	25	25	—
Accor	7	8	11	12
Cjia Group	—	7	17	15
Huali Jinshi	—	1	9	20
Others	1	9	0	4
Total	37	75	95	77

20. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Related party transactions

During the years ended December 31, 2017, 2018 and 2019, and for the three months ended March 31, 2019 and 2020 significant related party transactions were as follows:

	Years Ended December 31,			Three Months Ended March 31,	
	2017	2018	2019	2019	2020
				(Unaudited)	
Commission expenses to Ctrip	77	61	72	16	6
Lease expenses to Ctrip	—	18	18	4	5
Brand use fee, reservation fee and other related service fee to Accor	11	18	28	4	4
Marketing and training fee from Ctrip	24	12	41	—	38
Service fee from Accor	8	14	9	2	1
Service fee from China Hospitality JV	—	10	6	1	26
Service fee from Sheen Star	—	2	4	1	1
Goods sold and service provided to Cjia Group	8	30	21	7	4
Sublease income from Cjia Group	—	—	14	3	4
Service fee to Cjia Group	—	—	6	—	—
Sublease income from Lianquan	—	—	7	—	3
Interest income from Sheen Star	—	—	8	—	0
Interest income from CREATER	—	10	6	3	—
Loan payment to Cjia Group	85	—	—	—	—
Loan payment to CREATER	27	—	—	—	—
Loan from Cjia Group	—	103	—	—	—
Loan payment to Smart Lodging	—	—	30	20	0
Loan payment to Lianquan	—	—	32	—	—

21. COMMITMENTS AND CONTINGENCIES

(a) Commitments

As of March 31, 2020, the Group's commitments related to leasehold improvements and installation of equipment for hotel operations was RMB369, which is expected to be incurred within one year.

By subscription agreement of September 6 and November 29, 2018, Deutsche Hospitality entered into a commitment to purchase ordinary shares in a fund for European hotel real estate of Commerz Real to a maximum amount of RMB94. The first payment is planned for September 2020, whereas the investment plan is still not final.

(b) Contingencies

The Group is subject to periodic legal or administrative proceedings in the ordinary course of the Group's business, including lease contract terminations and disputes, and operation beyond scope of business. The Group does not believe that any currently pending legal or administrative proceeding to which the Group is a party will have a material adverse effect on the financial statements. As of March 31, 2020, the accrued contingent liability was RMB20.

22. SUBSEQUENT EVENTS

In May, 2020, the Group completed an offering of US$500 million in principle amount of convertible senior notes due 2026 (the "Notes"). The Notes bear interest at a rate of 3.00% per year, payable in arrears on May 1 and November 1 of each year, beginning on November 1, 2020. The Notes will mature on May 1, 2026, unless repurchased, redeemed or converted in accordance with their terms prior to such date. The key terms of the Notes are substantially the same as the one issued in 2017.

Pursuant to the pledge agreements the Group entered into in May, 2020, the Group has pledged a number of its subsidiaries' shares to secure the five-year RMB1,190 bank loan which the Group entered into the agreement in March 2019.

With China normalized epidemic prevention and control, domestic travel is gradually rebuilding with eased travel restrictions and national policy for resuming production and work. As of June 30, 2020, approximately 96% of legacy Huazhu's hotels (excluding hotels under governmental requisition) had resumed operations with an occupancy rate of approximately 83% in early June 2020.

22. SUBSEQUENT EVENTS (Continued)

Since early March 2020, Deutsche Hospitality hotel operations have also been affected by COVID-19 in Europe. In order to contain the spread of COVID-19, local governments ordered a number of our European hotels to be closed. At the end of March 2020, 74% or 85 of hotels of DH hotels were closed. The German government has implemented measures against COVID-19. Due to the German government's measures and employees' great efforts, the Group has observed an initial recovery in our hotel operations since May. As of June 30, 2020, 79% of DH hotels have resumed operations. The Group has also reached out to banks for additional bank facilities to support operations in Europe during this period. As of June 30, 2020, Deutsche Hospitality had obtained credit facilities of EUR45 million, including: (i) a EUR35 million 60-month loan agreement that Deutsche Hospitality entered into in July 2020 (the "EUR35 million Loan"), and (ii) a EUR10 million credit facility expiring on December 15, 2020, under which Deutsche Hospitality may draw down a loan not exceeding 12 months (the "EUR10 million Facility"). During the 60-month term of the EUR35 million Loan, Deutsche Hospitality is prohibited from conducting dividend distribution, equity redemption or other transactions that would result in payments to its shareholder. Deutsche Hospitality will be subject to similar restrictions during the loan term once a loan agreement is entered into under the EUR10 million Facility.

In the second quarter of 2020, Deutsche Hospitality had received commercial insurance compensation for hotel closure of approximately EUR7 million in 2020.

23. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared by the Group in respect of any period subsequent to March 31, 2020 and up to the date of this report. No dividends or distributions have been declared or made by the Company in respect of any period subsequent to March 31, 2020.

ADDITIONAL FINANCIAL INFORMATION—FINANCIAL STATEMENTS
SCHEDULE I
HUAZHU GROUP LIMITED
FINANCIAL INFORMATION FOR PARENT COMPANY

BALANCE SHEETS
(RMB in millions, except share and per share data, unless otherwise stated)

	As of December 31,		
	2017	2018	2019
Assets			
Current assets:			
Cash and cash equivalents	557	695	361
Short-term investments	130	89	64
Other current assets	37	29	24
Total current assets	724	813	449
Other assets	33	11	155
Investment in subsidiaries	10,062	13,454	16,472
Long-term investment	780	—	—
Total assets	11,599	14,278	17,076
Liabilities and equity			
Current liabilities:			
Short-term debt	131	—	8,312
Dividends payable	—	658	678
Amount due to related parties	313	477	594
Accrued expenses and other current liabilities	35	54	113
Total current liabilities	479	1,189	9,697
Long-term debt	4,922	6,915	—
Total liabilities	5,401	8,104	9,697
Equity:			
Ordinary shares (US$0.0001 par value per share; 8,000,000,000 shares authorized; 294,040,234, 296,597,888 and 299,424,485 shares issued as of December 31, 2017, 2018 and 2019, and 280,518,358, 283,076,012 and 285,902,609 shares outstanding as of December 31, 2017, 2018 and 2019, respectively)	0	0	0
Treasury shares (3,096,764, 3,096,764 and 3,096,764 shares as of December 31, 2017, 2018 and 2019, respectively)	(107)	(107)	(107)
Additional paid-in capital	3,624	3,713	3,834
Retained earnings	2,513	2,610	3,701
Accumulated other comprehensive income (loss)	168	(42)	(49)
Total equity	6,198	6,174	7,379
Total liabilities and equity	11,599	14,278	17,076

ADDITIONAL FINANCIAL INFORMATION—FINANCIAL STATEMENTS
SCHEDULE I
HUAZHU GROUP LIMITED
FINANCIAL INFORMATION FOR PARENT COMPANY

STATEMENTS OF COMPREHENSIVE INCOME
(RMB in millions, unless otherwise stated)

	Years Ended December 31,		
	2017	**2018**	**2019**
Operating costs and expenses:			
General and administrative expenses	69	89	115
Total operating costs and expenses	69	89	115
Loss from operations	(69)	(89)	(115)
Interest income	2	1	10
Interest expense	87	198	201
Foreign exchange gain (loss)	(14)	17	5
Other income, net	7	50	30
Unrealized gain (loss) from fair value changes of equity securities	35	(45)	(27)
Income in investment in subsidiaries	1,354	980	2,067
Net income attributable to Huazhu Group Limited	1,228	716	1,769
Other comprehensive income			
Unrealized securities holding gains (losses), net of tax of (8), nil and nil for 2017, 2018 and 2019, respectively	1	—	—
Reclassification of realized gains to net income, net of tax	(5)	—	—
Foreign currency translation adjustments, net of tax of nil for 2017, 2018 and 2019, respectively	177	(169)	(7)
Comprehensive income	1,401	547	1,762

ADDITIONAL FINANCIAL INFORMATION—FINANCIAL STATEMENTS
SCHEDULE I
HUAZHU GROUP LIMITED
FINANCIAL INFORMATION FOR PARENT COMPANY

CONDENSED STATEMENTS OF CASH FLOWS
(RMB in millions, unless otherwise stated)

	Years Ended December 31,		
	2017	2018	2019
Net cash provided by (used in) operating activities	(131)	(60)	(212)
Investing activities:			
Investment in subsidiaries	(3,250)	—	(1,039)
Receipt of investment in subsidiaries	—	2,121	9
Purchase of long-term investments	(760)	(3,782)	—
Proceeds from sale of long-term investments	58	—	—
Purchase of short-term investments	(96)	—	—
Net cash provided by (used in) investing activities	(4,048)	(1,661)	(1,030)
Financing activities:			
Net proceeds from issuance of ordinary shares upon exercise of option	9	14	14
Proceeds of advances from subsidiaries	90	149	109
Proceeds from short-term bank borrowings	136	—	1,265
Repayment of short-term bank borrowings	(294)	(128)	—
Proceeds from long-term bank borrowings	3,633	2,409	5,206
Repayment of long-term bank borrowings	(1,651)	(786)	(5,169)
Proceeds from issuance of convertible senior notes, net of issuance cost and capped call option	2,925	—	—
Debt financing costs paid	(10)	—	—
Proceeds from ADS lending	0	—	—
Dividends paid	(306)	—	(658)
Net cash provided by (used in) financing activities	4,532	1,658	767
Effect of exchange rate changes on cash and cash equivalents	(170)	201	141
Net increase (decrease) in cash and cash equivalents, and restricted cash	183	138	(334)
Cash, cash equivalents and restricted cash at the beginning of the year	374	557	695
Cash, cash equivalents and restricted cash at the end of the year	557	695	361

The accompanying notes are an integral part of these consolidated financial statements

ADDITIONAL FINANCIAL INFORMATION—FINANCIAL STATEMENTS
SCHEDULE I
HUAZHU GROUP LIMITED
FINANCIAL INFORMATION FOR PARENT COMPANY

Note to Schedule I

Schedule I has been provided pursuant to the requirements of Rule 12-04 (a) and 5-04- (c) of Regulation S-X, which require condensed financial information as to the financial position, change in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year.

The condensed financial information has been prepared using the same accounting policies as set out in the accompanying consolidated financial statements except that the equity method has been used to account for investments in its subsidiaries. Such investments in subsidiaries are presented on the balance sheets as investment in subsidiaries and the profit of the subsidiaries is presented as income in investment in subsidiaries.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The footnote disclosures contain supplemental information relating to the operations of the Company and, as such, these statements should be read in conjunction with the notes to the accompanying consolidated financial statements.

As of December 31, 2017, 2018 and 2019, there are no material contingencies, mandatory dividend, and significant provision of long-term obligation or guarantee of the Company, except for those which have separately disclosed in the consolidated financial statements.

ADDITION INFORMATION—FINANCIAL STATEMENTS SCHEDULE II

HUAZHU GROUP LIMITED

This financial information has been prepared in conformity with accounting principles generally accepted in the United States.

VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Year	Charge to Costs and Expenses	Addition Due to Acquisition	Charge Taken Against Allowance	Write off	Balance at End of Year
			(RMB in millions)			
Allowance for doubtful accounts of accounts receivables and other receivables:						
2017	12	2	—	—	(3)	11
2018	11	10	4	—	(8)	17
2019	17	21	—	—	(16)	22
Valuation allowance for deferred tax assets						
2017	115	60	3	(47)	(8)	123
2018	123	36	—	(43)	(9)	107
2019	107	79	—	(24)	(10)	152

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Consolidated income statement
For the year ended December 31, 2019

	Note	*€*
Revenues	*22*	470,804,015
Other operating income	*23*	27,384,693
Cost of materials and services		-111,400,453
a) Expenses for raw materials, consumables and for goods		*-57,323,720*
b) Expenses for services obtained		*-54,076,733*
Personnel expenses	*24*	-146,738,700
Depreciation, amortization and impairment	*7 & 8*	-85,757,231
Other operating expenses	*25*	-118,033,005
Operating profit (EBIT)		**36,259,318**
Finance income	*26*	2,077,044
Finance expenses	*26*	-54,155,206
Finance expenses — net		**-52,078,162**
Share of profit/loss (-) of associates and joint ventures		**-611,256**
Loss before income taxes		**-16,430,100**
Income taxes	*27*	2,040,160
Loss for the year		**-14,389,939**
thereof attributable to the owners of the company		-14,389,939

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended December 31, 2019

	€
Loss for the year	**-14,389,939**
Other Comprehensive Income:	
Items that will not be reclassified to profit or loss	
Remeasurements of Post Employment Benefit Obligations	-1,623,146
Remeasurements of Fair Value	466,293
	-1,156,853
Items that may be subsequently reclassified to profit or loss	
Currency Translation Adjustments	693,378
	693,378
Other Comprehensive Income for the year	**-463,475**
Total Comprehensive Income	**-14,853,414**
thereof attributable to owners of the company	-14,853,414

The accompanying notes are an integral part of these consolidated financial statements.

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 26.

Consolidated balance sheet
As of December 31, 2019

	Note	€
ASSETS		
Property, plant and equipment	*7*	75,057,570
Right-of-use assets	*13*	1,315,642,719
Intangible assets	*8*	9,137,858
Loans to affiliated and associated companies	*11*	75,000
Investments in associates and joint ventures	*10*	16,359,355
Other non-current financial assets	*12*	4,988,714
Deferred income tax assets	*19*	25,991,985
Other non-current assets	*14*	7,668,548
Total non-current assets		**1,454,921,750**
Inventories	*15*	3,912,098
Trade receivables	*12*	30,191,106
Other current financial assets	*12*	13,383,906
Contract assets	*22*	445,584
Current income tax receivables		1,108,222
Other current assets	*14*	7,364,307
Cash and cash equivalents	*16*	44,033,538
Total current assets		**100,438,760**
Total Assets		**1,555,360,511**
EQUITY AND LIABILITIES		
Subscribed share capital	*17*	12,480,000
Capital reserves	*17*	13,272,990
Other reserves	*17*	3,477,745
Retained earnings	*17*	-29,652,851
Total equity		**-422,116**
Non-current borrowings and other financial liabilities		15,722,682
Non-current Leasing liabilities	*13*	1,372,201,723
Deferred income tax liabilities	*19*	1,410,475
Retirement benefit obligations	*20*	15,167,420
Other non-current liabilities	*18*	76,627
Non-current provisions	*21*	10,099,743
Total non-current liabilities		**1,414,678,670**
Other financial liabilities	*11*	12,575,221
Current Leasing liabilities	*13*	40,681,590
Trade payables		33,752,808
Contract Liabilities	*18*	28,581,271
Other current liabilities	*18*	10,601,011
Current income tax liabilities		2,496,165
Current provisions	*21*	12,415,890
Total current liabilities		**141,103,956**
Total liabilities		**1,555,782,627**
Total equity and liabilities		**1,555,360,511**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended December 31, 2019

	Attributable to the owners of the company				
	Share capital €	**Capital reserves €**	**Retained earnings €**	**Other reserves €**	**Total €**
Jan 01, 2019	12,480,000	13,272,990	-14,106,059[1]	2,784,367	**14,431,298**
Loss for the year			-14,389,939		**-14,389,940**
Other Comprehensive Income					
Remeasurements of Fair Value			466,293		**466,293**
Remeasurements of Post Employment Benefit Obligations			-1,623,146		**-1,623,146**
Currency Translation Adjustments				693,378	**693,378**
Total Comprehensive Income			**-15,546,792**	**693,378**	**-14,853,414**
Dec 31, 2019	**12,480,000**	**13,272,990**	**-29,652,851**	**3,477,745**	**-422,116**

1 The transition effects due to first adoption IFRS 16 in the retained earnings amounts to k€ 19,841.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended December 31, 2019

		Jan 1, 2019-Dec 31, 2019
	Result for the period before taxes on income	-16,430,099
+/-	Depreciation and amortization on intangible assets and property, plant and equipment and right of use assets (as far as it impacts result)	85,757,231
+/-	Increase/decrease in provisions	299,561
=	**Operating cash flow**	69,626,693
+/-	Other non-cash-effective expenses/income	48,496,874
+/-	Loss/profit from the disposal of fixed assets	44,111
-/+	Increase/decrease in inventories, trade accounts receivable as well as other assets not classified under investing and financing activities	-3,570,650
+/-	Increase/decrease in trade accounts payable as well as other liabilities not classified as financing activities	8,012,193
-	Taxes on income paid	-9,020,000
=	**Cash flow from operating activities**	113,589,221
-	Outflows for investments in property, plant and equipment	-30,325,782
+	Inflows from investment grants	3,775,000
-	Outflows for investments in intangible assets	-818,634
-	Outflows for investments in financial assets	-15,166,147
+	Changes in group cash funds for additions to consolidated group	1,091,000
-	Payments for additions to consolidated group	-1,876,000
=	**Cash flow from investing activities**	**-43,320,563**
-	Lease interest payments	-52,463,629
-	Lease principal payments	-33,391,436
=	**Cash flow from financing activities**	**-85,855,065**
=	**Cash-effective change in cash and cash equivalents**	**-15,586,407**
+/-	Currency-related change in cash and cash equivalents	407,705
+	Cash and cash equivalents at the beginning of the period	59,212,240
=	**Cash and cash equivalents at the end of the period**	**44,033,538**
	interest received: k€	+82
	interest paid: k€	-52,679

The accompanying notes are an integral part of these consolidated financial statements.

1 General information

Steigenberger Hotels AG ('the company') and its subsidiaries (together 'the group' or 'Steigenberger Group') are one of the leading hotel companies in Europe and are based in Frankfurt am Main (Lyoner Straße 25, 60528 Frankfurt am Main/Germany). As of December 31, 2019, the group currently held five separate hotel brands under a single umbrella named "Deutsche Hospitality". Deutsche Hospitality operates 108 hotels located in 20 countries on 3 continents. Deutsche Hospitality stands for top class European hotel management with German tradition and international vision carrying the values of passion, perfection, and caring.

The detailed information of the five brands with Deutsche Hospitality are as follows:

- **Steigenberger Hotels and Resorts**: 58 luxury hotels
- **InterCityHotel**: 41 mid-range Business Hotels
- **"Jaz in the city"**: 2 music-specialized hotels
- **Maxx by Steigenberger**: 3 upscale hotels.
- **Zleep Hotels**: hotel brand in Scandinavia. The company acquired 51% shares of Zleep A/S, Denmark on February 1, 2019.

These brands may be broken down into three categories on the basis of the contracts:

- Lease businesses (58 hotels)
- Management businesses (24 hotels)
- Franchise businesses (26 hotels)

At December 31, 2019, D.H. DEUTSCHE HOSPITALITY Limited, Limassol, Cyprus, (formerly: Brierly Investments Limited), ("D.H. DEUTSCHE HOSPITALITY") controlled 100% of the Steigenberger Group. On January 2, 2020, the group was acquired by the Huazhu Group through the company Huazhu GmbH & Co. KG (Frankfurt am Main) ("Huazhu"). The purpose of these financial statements is to meet the reporting requirements of Rule 3-05 of Regulation S-X of the Securities and Exchange Commission (SEC). As a result, these financial statements do not include comparative figures, which constitutes a departure from International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

The consolidated group balance sheet date as of December 31, 2019 corresponds to the reporting date of the annual financial statements of the parent company and the included subsidiaries, joint ventures and associated companies.

The consolidated financial statements were approved by the management board of the group on April 30, 2020.

2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for certain assets and liabilities as separately stated in note 3 Summary of significant accounting policies. The consolidated financial statements were prepared under the assumption that the business will continue as a going concern. With respect to going concern, please refer to note 31 where the measures taken to improve operating performance and cash flows are described.

All amounts are reported in EURO (€) if not stated otherwise, which is the functional currency of the Steigenberger Group.

As a result of the presentation, deviations due to rounding may occur in the tables.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied within the entire reporting period, unless stated otherwise.

The consolidated financial statements of Steigenberger Group have been prepared in accordance with IFRS, as issued by the IASB, for the year ended December 31, 2019.

The preparation of financial statements in conformity with IFRS 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 6 Critical accounting estimates and judgments.

Only those standards and interpretations which are in principle relevant for the group are explicitly described below. No standard has been applied prior to the effective date.

2 Basis of preparation (Continued)

Standards, amendments to existing standards and interpretations that have become effective in 2019

The following standards, amendments to existing standards and interpretations became effective in 2019 and have been applied in the reporting period for the first time. The nature and effect of the first-time adoption of IFRS 16 *Leases* is described in note 13 Leases.

Several other amendments and interpretations apply for the first time in 2019, but do not have a material impact on the consolidated financial statements of Steigenberger Group.

IFRS pronouncement	Effective date	Comments
IFRS 16 Leases	1 January 2019	IFRS 16 Leases (IFRS 16) sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Lessor accounting substantially remains unchanged. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and presents cash repayments of the lease liability and interest as total cash outflow for leases under financing activities in the statement of cash flows under IAS 7 Statement of Cash Flows.

2 Basis of preparation (Continued)

Standards, amendments to existing standards and interpretations that have become effective in 2019 (Continued)

IFRS pronouncement	Effective date	Comments
		IFRS 16 has been adopted by the group for the year ended December 31, 2019 in accordance with the modified retrospective approach under IFRS 16.C5(b) along with the simplifications given under IFRS 16.C8/C9/C10/C16. The standard has material effects on the consolidated financial statements as presented in detail in section *9 Leases*.
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019	These amendments require the entity to use the assumptions used for remeasurement to determine current service cost and net interest for the period, if a plan amendment, curtailment or settlement occurs. The amendments also clarify the effects of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The changes did not have any material effects on the consolidated financial statements.
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	1 January 2019	The amendments clarify that an entity applies IFRS 9 'Financial instruments' to long-term interest in an associate or joint venture to which the equity method is not applied. The impairment requirements in IFRS 9 should also be applied. The changes did not have any material effects on the consolidated financial statements.
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019	The amendment permits entities to measure more assets at amortized cost than under the previous version of IFRS 9, particularly financial assets with negative compensation. Furthermore, the amendment clarifies accounting for the modifications of a financial liability. The changes did not have any material effects on the consolidated financial statements.

2 Basis of preparation (Continued)

Standards, amendments to existing standards and interpretations that have become effective in 2019 (Continued)

IFRS pronouncement	Effective date	Comments
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019	These amendments include following improvements to IFRS 2015-2017 cycle: IFRS 3, 'Business combinations', — entity remeasures its previously held interest in a joint operation when it obtains control of the business. IFRS 11,'Joint arrangements', — entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the business. IAS 12,' Income taxes' — entity accounts for all income tax consequences of dividend payments in the same way. IAS 23,' Borrowing costs' — entity treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale. The changes did not have any material effects on the consolidated financial statements.
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019	IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12 'Income taxes' are applied to deferred and current income tax assets and liabilities where there is uncertainty over income tax treatments. The changes did not have any material effects on the consolidated financial statements.

2 Basis of preparation (Continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after January 1, 2020, but the company has not early adopted them:

1) Standards, amendments to existing standards and interpretations that have already been endorsed by the EU

IFRS pronouncement	Effective date	Comments
Amendment to References to the Conceptual Framework in IFRS Standards	1 January 2020	The revised Conceptual Framework primarily serves the IASB as the conceptual basis for developing IFRS Standards and Interpretations. The revised Conceptual Framework should also assist preparers of IFRS financial statements in developing accounting policies when no IFRS Standard or Interpretation applies to a particular transaction. The revision of the Conceptual Framework mainly focused on a new chapter on measurement of assets and liabilities, guidance on reporting financial performance, revised definitions of an asset and a liability, and clarifications of the role of stewardship and the concept of prudence in context of the objective of IFRS general purpose financial reporting. At the present time, the changes are not expected to have any material effects on the consolidated financial statements.

2 Basis of preparation (Continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group (Continued)

1) Standards, amendments to existing standards and interpretations that have already been endorsed by the EU (Continued)

IFRS pronouncement	Effective date	Comments
Interest Rate Benchmark Reform to IFRS 9, IFRS 7 and IAS 39 Financial Instruments	1 January 2020	The Board has amended its new and old financial instruments Standards, IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, as well as the related standard on disclosures, IFRS 7 Financial Instruments: Disclosures. The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. At the present time, the changes are not expected to have any material effects on the consolidated financial statements.
Amendment to IAS 1 and IAS 8: Definition of Materiality	1 January 2020	The amendment clarifies that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. At the present time, the changes are not expected to have any material effects on the consolidated financial statements.

2 Basis of preparation (Continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group (Continued)

2) Standards, amendments to existing standards and interpretations that have not yet been endorsed by the EU

IFRS pronouncement	Expected effective date	Comments
Amendments to IFRS 10 "Consolidated financial statements" and **IAS 28** "Investments in associates and joint ventures" on sale or contribution of assets	Postponed	These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. At the present time, the changes are not expected to have any material effects on the consolidated financial statements.
Amendment to IFRS 3: Definition of a Business	1 January 2020	The amendment is intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. It clarifies the minimum requirements to be a business, removes the assessment of a market participant's ability to replace missing elements, and narrows the definition of outputs. The amendment adds guidance to assess whether an acquired process is substantive, adds illustrative examples and introduces an optional concentration test to permit a simplified assessment. At the present time, the changes are not expected to have any material effects on the consolidated financial statements.

3 Summary of significant accounting policies

3.1 Consolidation

3.1.1 Subsidiaries

Subsidiaries are all companies that are directly or indirectly controlled by Steigenberger Group. According to IFRS 10, control only exists if an investor has the power over the investee, is exposed to variable returns, and is able to use power to affect its amount of variable returns. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities. Relevant activities are those activities that significantly affect the investee's returns. The existence and effect of substantive potential voting right that are currently exercisable or convertible, including potential voting rights held by other group companies, are considered when assessing whether an entity is controlled. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

A business combination exists when Steigenberger Group obtains control of another entity. The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the consideration is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

3.1.2 Transactions and non-controlling interests

Non-controlling interests have a share in the earnings of the reporting period. In general, the group treats transactions with non-controlling interests as transactions with equity owners of the group. As of December 31, 2019 there are no non-controlling interests within the group.

3 Summary of significant accounting policies (Continued)

3.1 Consolidation (Continued)

3.1.3 Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the

3 Summary of significant accounting policies (Continued)

3.1 Consolidation (Continued)

3.1.3 Business Combinations (Continued)

gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Regarding business combinations under common control, Steigenberger Group chose to account the business combination under common control according to the predecessor accounting method. Consequently, assets and liabilities are not restated to their fair values and no new goodwill is recorded. Any difference between the cost of the transaction and the carrying value of the net assets are recorded in equity.

3.1.4 Associates and Joint Ventures

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Similar to associates the group's interests in jointly controlled entities are accounted for using the equity method and recognised at cost at the time of acquisition. The carrying amount of the investment may include goodwill as the positive difference between the cost of the investment and Steigenberger Group's proportional share in the fair values of the entity's identifiable assets and liabilities. The carrying amount of the investment is tested for impairment at each reporting date, provided there are indications of impairment. If the carrying amount of the investment exceeds its recoverable amount, an impairment loss must be recognised in the amount of the difference. The revocable amount is measured at the higher of fair value less costs of disposal and value in use. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

3 Summary of significant accounting policies (Continued)

3.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'EURO' (€), which is the company's functional and the group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are generally presented in the income statement within 'other operating income/expense'. As far as they relate to the translation of financial assets or liabilities they are included in 'financial income/expense'.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each consolidated balance sheet presented are translated at the closing rate at the date of that consolidated balance sheet;

(b) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

3 Summary of significant accounting policies (Continued)

3.2 Foreign currency translation (Continued)

(c) Group companies (Continued)

The exchange rates of the Swiss Franc as the most important currency affecting foreign currency translation as well as for the United Arab Emirates Dirham (AED), Egypt Pound (EGP), Tunesian Dirham (TND) and Danish Krones (DKK) are as follows:

	Dec 31, 2019	
	Spot rate	**Average rate**
Swiss Franc per €	1.0854	1.1124
AED per €	4.1126	4.1066
EGY per €	17.9249	18.6939
TND per €	3.1291	3.2809
DKK per €	7.4715	7.4661

3.3 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and accumulated impairment charge, if recorded. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other operating income/expenses' in the consolidated income statement.

The useful economic life is mainly defined as eight to 25 years for fittings in non-owned buildings and two to 20 years for technical equipment, plant and machinery as well as other equipment, operational and office equipment. The useful lives do not exceed the respective lease term.

3 Summary of significant accounting policies (Continued)

3.3 Property, plant and equipment (Continued)

Furniture, fixtures and equipment that is initially installed in leased hotels by Steigenberger prior to the commencement date is capitalized under property, plant and equipment. Those installments are accounted for as "failed" sale-and-leaseback transactions. The initially installed furniture, fixtures and equipment and the corresponding reinvestments in furniture, fixtures and equipment that are performed by Steigenberger along the lease term are separated into three clusters and depreciated over 1.5 or 10 years. Reinvestments in furniture, fixtures and equipment towards the end of the lease term are depreciated until the end date of the lease contract.

3.4 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and on an interim basis whenever events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Trademarks, licences & other rights

Separately acquired trademarks, licences and other rights are shown at historical cost. Trademarks, licences and other rights acquired in a business combination are recognised at fair value at the acquisition date. Trademarks, licences and other rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks, licences and other rights over their estimated useful lives of three to ten years.

3 Summary of significant accounting policies (Continued)

3.5 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets, that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 cash flows (cash-generating units). Right-of-use assets under IFRS 16 are also subject to impairment in accordance with IAS 36. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Concerning the assessment of asset and goodwill impairment in the current period, please refer to notes 7 and 8.

3.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

3.6.1 Classification and initial measurement

Financial Assets

At initial recognition, the group measures the financial assets at their fair value. Financial assets are classified based on the model for managing the financial assets and the contractual terms of the cash flows.

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (equity & debt instruments)
- Financial assets at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss.

3 Summary of significant accounting policies (Continued)

3.6 Financial instruments (Continued)

3.6.1 Classification and initial measurement (Continued)

Financial Assets (Continued)

The classification and measurement of financial assets is based on the one hand on the cash flow condition (the "solely payments of principle and interest" criterion), that is, the contractual cash flow characteristics of an individual financial asset. On the other hand, it also depends on the business model used for managing financial asset portfolios. Based on these two criteria, the following measurement categories for financial assets are relevant to Steigenberger:

Amortized Cost (AC)

Financial debt instruments measured at amortized cost include all assets with contractual terms that give rise to cash flows on specific dates, provided that these cash flows are solely payments of principal and interest on the principal amount outstanding in accordance with the cash flow condition in IFRS 9, to the extent that the asset is held with the intention of collecting the expected contractual cash flows over its term.

Fair Value through Other Comprehensive Income (FVOCI)

Financial debt instruments measured at fair value through other comprehensive income include all assets with contractual terms that give rise to cash flows on specified dates, which are solely payments of principal and interest on the principal amount outstanding in accordance with the cash flow condition in IFRS 9, to the extent that the asset is not just held with the intention of collecting the expected contractual cash flows over its term, but also generating cash flows from its sale. Under IFRS 9, there is in addition an option to measure equity instruments at fair value through other comprehensive income as far as they are not held for trading (without recycling). Steigenberger exercised this option for equity instruments.

Fair Value through profit and loss (FVPL)

The category comprises financial assets that do not fall under the two other categories. As equity instruments are measured "at fair value through comprehensive income" by designation of Steigenberger, no assets are classified as at fair value through profit and loss.

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The group's financial liabilities include trade and other payables and loans.

3 Summary of significant accounting policies (Continued)

3.6 Financial instruments (Continued)

3.6.1 Classification and initial measurement (Continued)

Financial liabilities (Continued)

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

Fair Value through profit or loss (FVPL)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Steigenberger Group has not designated any financial liability as at fair value through profit or loss.

Amortized Cost (AC)

This is the category most relevant to the group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 11 Financial Instruments.

3.6.2 Subsequent measurement

Financial assets and financial liabilities are recognized in the consolidated balance sheet when the Steigenberger Group becomes a party to a financial instrument. Financial assets are derecognized when Steigenberger no longer has a contractual right to the cash flows from the financial asset or when the financial asset is transferred together with all material risks and rewards of ownership and Steigenberger does not have control of the financial asset after it has been transferred. For example, receivables are derecognized when they are definitively

3 Summary of significant accounting policies (Continued)

3.6 Financial instruments (Continued)

3.6.2 Subsequent measurement (Continued)

found to be uncollectible. Financial liabilities are derecognized when the contractual obligations expire, are discharged or cancelled. Regular-way purchases and sales of financial instruments are accounted for using the settlement date.

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. If pricing on an active market is available, for example in the form of share prices, these are used as the basis for the measurement. Otherwise, the measurement is based on internal measurement models using current market parameters or external measurements, for example, from banks. These internal measurements predominantly use the net present value method (compare Note 5.3).

The measurement of the categories of financial instrument is as follows:

Amortized Cost (AC)

Financial instruments measured at amortized cost are recognized at fair value upon addition. Insofar as future impairment is anticipated, it is considered for measurement unless immaterial. No-interest or low-interest bearing financial instruments with terms of more than one year are measured at present value. Subsequent to first-time recognition, such financial instruments are measured at amortized cost. That is the amount at which a financial asset was valuated upon first-time recognition, less repayments, plus or less the cumulative amortization of any difference between the originally assigned value and the amount repayable at final maturity based on the effective interest method, and less any valuation allowances for expected credit loss.

Fair Value through Profit or Loss (FVPL)

Financial instruments measured at fair value through profit or loss are recognized at fair value upon addition. Gains or losses resulting from subsequent measurement are to be recognized in profit or loss.

Fair Value through Other Comprehensive Income (FVOCI)

Debt instruments and equity instruments measured at fair value outside profit or loss are recognized at fair value upon addition. Gains or losses resulting from subsequent measurement are to be recognized in equity outside profit or loss. Upon disposal of debt instruments, gains or losses included in revaluation reserve are to be recognized in the income statement. With respect to equity instruments, there is no reclassification of the revaluation reserve equity through profit or loss. Only distributed dividends are recognized in profit and loss, unless the dividend clearly represents a recovery of part of the costs of the investment. Steigenberger exercises the option to subsequently measure equity instruments not held for trading through other comprehensive income.

Financial liabilities are carried at amortised cost.

3 Summary of significant accounting policies (Continued)

3.7 Impairment of Financial assets

Trade receivables, other financial assets, investments, and cash and cash equivalents in the category "Financial assets at amortised costs" as well as debt instruments of the category "fair value through other comprehensive income" are subject to an impairment model as per IFRS 9 based on expected credit losses. The expected credit losses are calculated as the probability-weighted present value of all payment defaults during the term of the assets. A three-tier model is used for this purpose.

Stage 1: Recording expected credit losses over the entire term due to events within the next twelve months Includes new contracts and existing contracts with no significant increase to the credit risk.

Stage 2: Recording expected credit losses over the entire term without affecting the credit rating. Includes financial assets whose credit risk has risen significantly but whose credit rating is not affected.

Stage 3: Recording expected credit losses over the entire term with impairment of the credit rating includes financial assets whose credit ratings are impaired or have defaulted.

The criteria that the group uses to determine that there is objective evidence of an impairment loss at Stage 3 includes:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) Adverse changes in the payment status of borrowers in the portfolio; and
  - (ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

3 Summary of significant accounting policies (Continued)

3.7 Impairment of Financial assets (Continued)

As required under IFRS 9, the Steigenberger Group uses the simplified approach for trade receivables and contract assets and determines the expected credit loss over the entire term (Stage 2). These were clustered according to customer groups, past due dates and the different business models of the Steigenberger Group. Two Impairment Matrices were calculated based on both external and future looking market data as well as internal information and historical events of default to determine future risks of defaults. Due to significant differences regarding the credit risk, the trade receivables and customers were generally clustered in the following 2 categories based on hotel business contracts:

- Lease Businesses
- Management and Franchise Businesses

If future losses are expected for financial assets carried at cost, a write-down to the lower expected realizable value is made. Under the expected credit loss model, both incurred losses as well as losses expected in the future periods are recognized.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

3.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Inventories mainly include operating supplies and food and beverage inventory items.

Cost of inventory is determined using the First-In First-Out method.

3.9 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. For trade receivables without significant financing component, expected credit losses are determined using the simplified approach recognized as a risk provision item over the asset term pursuant to IFRS 9.5.5.15.

3.10 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the consolidated balance sheet.

3 Summary of significant accounting policies (Continued)

3.11 Shareholders' equity

At December 31, 2019, the sole shareholder of the group is D.H. DEUTSCHE HOSPITALITY. The subscribed capital amounts to € 12,480,000.00. The share capital is fully paid up, and consists of 480,000 no-par-value shares representing € 26 per share.

3.12 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade payables are derecognised when the obligation specified is cancelled or expires, or the primary responsibility for the liability is legally transferred to another party.

3.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are derecognised when the obligation specified is cancelled or expires, or the primary responsibility for the liability is legally transferred to another party.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.14 Obligations from customer loyalty programs

In order to increase customer loyalty, Steigenberger awards bonus points for services purchased in its hotels. These bonus points can be exchanged into services from Steigenberger. Accumulated but as yet unused bonus points are deferred using the deferred revenue method to the extent that they are likely to be used on goods or services provided in the award catalogue. The fair value of points accumulated on the group's services provided is recognised under deferred revenue in contract liabilities in the balance sheet.

3 Summary of significant accounting policies (Continued)

3.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and on tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither IFRS nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3 Summary of significant accounting policies (Continued)

3.16 Employee benefits

(a) Pension obligations

Group companies operate different pension schemes. Steigenberger Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. Within Steigenberger, the group pays contributions to governmental and private pension insurance organisations based on legal regulations. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The majority of the employee benefit plans are defined benefit plans, either funded or unfunded. The major defined benefit plan is the German benefit plan which defines the amount of pension benefit that an employee will receive on retirement to depend on years of service and compensation. The defined benefit plans provide benefits in case of retirement, disability and death as life-long pension payments.

The Swiss pension plan is funded through a Swiss pension fund; both employer and employee are obliged to contribute to the pension fund. The contributions depend on the salary in the respective year.

The liability recognised in the consolidated balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, if any, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Remeasurements arising from experience adjustments and changes in actuarial assumptions are charged or credited to retained earnings in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without a realistic possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

3 Summary of significant accounting policies (Continued)

3.17 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group. The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is measured at the amount, which the entities expect to receive for a satisfied performance obligation. Revenue is realised, when the customer obtains control over the promised goods or services and when the customer can benefit from these. The recognition of revenue is based on a five-step model according to IFRS 15:

1. Identification of contracts with a customer

2. Identification of separate performance obligations

3. Determination of the transaction price

4. Allocation of the transaction price to the separate performance obligations

5. Revenue recognition according to the timing of fulfilment of a performance obligation

By applying the five-step model, the Steigenberger Group identifies distinct performance obligations in each contract with a customer. The transaction price is determined and allocated to the performance obligations according to the requirements of IFRS 15. Variable consideration in contracts with customers — such as rebates, bonus agreements or other kinds of price concessions — is analyzed, measured and included in the revenue recognition. The allocation of the transaction price in case of more than one performance obligation would be performed based on the suggested approaches of IFRS 15. For every performance obligation, in accordance with IFRS 15, revenue recognition is determined

3 Summary of significant accounting policies (Continued)

3.18 Revenue recognition (Continued)

to be at a point in time or to be satisfied over time. Multi-component contracts that contain distinct performance obligations with different timing of revenue recognition have been analysed and are not currently material.

(a) Sales relating to contracts with customers

Revenue from contracts with customers includes:

- For leased hotels, all revenue received from clients for accommodation, catering and other services ("Accommodation, Food & Beverages")
- For franchised hotels, all fees paid by the contracting party ("Franchise Fees")
- For managed hotels, all fees paid by the contracting party ("Management Fees")

Revenues arising from the sale of goods are usually recognized point in time when control is transferred to the customer. Revenues arising from the sale of services are basically recognized over time. In hospitality practices, the period of service is short within days and their impact is immaterial. Therefore, their revenues are not deferred over time. When the services are rendered, the revenues are recognized. "Accommodation, Food & Beverages" are in many cases considered as a series of distinct goods or services. The bundled revenues are recognized when the material part of revenues accommodation service is rendered. In relation to revenue from assistance fees, revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by the performance of Steigenberger. If circumstances arise that may change estimates in relation to contracts with customers, those estimates are revised and accounted for in accordance with the applicable guidance of IFRS 15.

(b) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

3 Summary of significant accounting policies (Continued)

3.19 Leases

In January 2016, the IASB published IFRS 16 *Leases*, which has replaced IAS 17 *Leases* for all annual reporting periods beginning on or after January 1, 2019. IFRS 16 introduces a new definition of a lease, with a single lessee accounting model eliminating the previous distinction between operating leases and finance leases. Under IFRS 16, lessees are required to account for all leases in a similar manner to the current finance lease accounting recognising lease assets and liabilities on the Statement of Financial Position. Lessor accounting remains similar to current practice.

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases — Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

The group mainly leases land, buildings and furniture, fixtures and equipment for its hotel properties and headquarters. The leases for hotels generally have a non-cancelable lease term of 20 to 25 years, and may include extension or termination options and variable lease payments. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The group also has lease agreements on other assets, such as offices, cars, car parks and IT equipment that usually have a lease term of 3 to 5 years. Sublease contracts exist mainly in relation to restaurants and stores located in its hotels. Low value assets which are expensed as incurred include mainly copy machines, telephones, minor hotel equipment and staff uniforms.

Lessee Accounting

The group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The group has completed a review of its leasing commitments and adopted IFRS 16 *Leases* for the year ended 31 December 2019. The group adopted IFRS 16 in accordance with the modified retrospective approach per IFRS 16.C5(b).

IFRS 16 has been adopted by the group for the year ended December 31, 2019 in accordance with the modified retrospective approach under IFRS 16.C5(b) along with the simplifications given under IFRS 16.C8/C9/C10/C16. In particular, the group elected to adopt the practical expedient related to leases of all asset classes with a lease term of less than 12 months or for which the underlying asset is of low value and leases with a remaining lease term of less than 12 months at the transition date. In these cases, no right-of-use asset and lease liability is recognized. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

3 Summary of significant accounting policies (Continued)

3.19 Leases (Continued)

Lessee Accounting (Continued)

(a) Right-of-use assets

The group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). At transition, the right-of-use assets are measured at cost equal to the remaining lease liability less any deferred lease incentives received as of January 1, 2019. Subsequently, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in note 3.5 Impairment of non-financial assets.

(b) Lease liabilities

At the commencement date of the lease, the group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the group and payments of penalties for terminating the lease, if the lease term reflects the group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the group uses its incremental borrowing rates at the lease commencement date or January 1, 2019 if later because the interest rate implicit in the lease is not readily determinable. The different incremental borrowing rates used are reflective of the currency and lease term. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

3 Summary of significant accounting policies (Continued)

3.19 Leases (Continued)

Lessee Accounting (Continued)

(c) Short-term leases and leases of low-value assets

The group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. The recognition exemption for leases of low value assets is adopted on a lease-by-lease basis. Assets are considered to be low value if the underlying value of the asset amounts to less than k€ 5.

Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

(d) Lease components and non-lease components

Contracts often combine different kinds of obligations of the supplier, which might be a combination of lease components or a combination of lease and non-lease components. For hotel lease contracts that contain a lease component and additional lease and non-lease components, the group separates the components land and building, and furniture, fixtures and equipment (FF&E). Service related components are generally included in the calculation of the lease liability.

(e) Sale & leaseback transactions

A transaction is accounted for as a sale of an underlying asset and a leaseback of that underlying asset only if the initial transaction qualifies as a sale in accordance with IFRS 15 *Revenue from Contracts with Customers*. To qualify as a sale of an asset under the revenue standard, the customer (buyer-lessor) needs to obtain control of the asset from the seller-lessee. If this is not the case, no sale has occurred and the transaction should be accounted for as a failed sale. To account for a failed sale as a financing arrangement, the seller-lessee does not derecognize the underlying asset and the seller-lessee continues depreciating the asset as if it was the legal owner. The sales proceeds received from the buyer-lessor are recognized as a financial liability. The "failed" sale & leaseback transaction is presented under Property, plant and equipment. (Note 7)

(f) Statement of cash flows

Lease payments are presented as follows in the Group statement of cash flows:

- variable lease payments that are not included in the measurement of the lease liabilities are presented within cash flows from operating activities;
- principal and interest payments of recognized lease liabilities are presented within cash flows from financing activities.

3 Summary of significant accounting policies (Continued)

3.19 Leases (Continued)

Lessor Accounting

A lessor shall classify each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all of the risks and rewards incidental to ownership of an underlying asset. Otherwise the lease is classified as an operating lease.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

The group acts as a lessor in connection with its sub-lease arrangements. Sub-leases of the group's assets are typically classified as operating leases, as the risks and rewards of ownership are not substantially transferred to the sub-lessee. Accordingly, lease income is accounted for on a straight-line basis over the contract term and presented within revenue in the consolidated income statement.

3.20 Non-current assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

3.21 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's shareholders.

4 Scope of Consolidation

4.1 Changes in consolidation group

As of December 31, 2019, the consolidation group comprised Steigenberger Hotels AG as well as eight domestic and eight foreign companies in relation to which Steigenberger Hotels AG directly or indirectly holds a majority of voting rights.

As of December 31, 2019, the following companies are for the first time consolidated:

- Tunisian Hospitality Group Limited, Tunis/Tunisia ("Tunisian Hospitality") was fully acquired by Steigenberger Hotels AG in the context of a step acquisition from 50% to 100% of the shares in August 2019.

- The Zleep Hotel GmbH, Frankfurt am Main was founded on and fully consolidated from September 4, 2019.

4 Scope of Consolidation (Continued)

4.2 Business combinations

Tunisian Hospitality was fully acquired by Steigenberger Hotels AG in the context of a step acquisition from 50% to 100% of the shares in August 2019. Tunisian Hospitality is therefore fully consolidated in the consolidated financial statements as of December 31, 2019.

Tunisian Hospitality

- At Equity (50% of shares): since December 31, 2017
- Fully consolidated (100% of shares): since August 31, 2019

4.3 Associates and Joint Ventures

As of December 31, 2019, the following entities are included as investments in associates and joint ventures in the consolidated financial statements:

- Steigenberger Middle East Hotels & Resorts S.A.E., Cairo/Egypt ("SME", since November 1, 2016)
- Aurea Palacio Hospitality Limited, New Dehli/India (since December 31, 2016)
- Sourcify GmbH, Frankfurt/Main ("Sourcify", since December 31, 2018)
- Zleep Hotels A/S, Tastrup/Denmark ("Zleep", since February 1, 2019)

Steigenberger Group holds 50% of shares in the capital and voting rights of SME and Sourcify which are recognized as joint ventures and 49% of the joint venture Aurea Palacio Hospitality Limited. Furthermore, Steigenberger Group holds 51% of shares in the capital and voting rights of Zleep since February 2019. However, Zleep is not fully consolidated because the group only has joint control in the business and finance decisions due to voting right restrictions.

4 Scope of Consolidation (Continued)

4.4 Overview of shareholdings

For a detailed overview regarding the shareholdings of Steigenberger Group, readers are referred to the following chart:

	Interest in capital	Interest in voting rights	Currency
Affiliated companies (consolidated)			
IntercityHotel GmbH, Frankfurt am Main	100%	100%	EUR
STAG Hotelverwaltungs-Gesellschaft mbH, Wien/Österreich	100%	100%	EUR
Steigenberger Hotels AG, Zürich/Schweiz	100%	100%	CHF
STAG Hotels Netherlands B.V., Amsterdam/Niederlande	100%	100%	EUR
H.E.A.D. HOTEL EQUIPMENT AND DESIGN GmbH, Frankfurt am Main	100%	100%	EUR
Steigenberger Consulting GmbH, Frankfurt am Main	100%	100%	EUR
D. H. Deutsche Hospitality GmbH, Frankfurt am Main	100%	100%	EUR
Jaz Hotel GmbH, Frankfurt am Main	100%	100%	EUR
Steigenberger Spa GmbH, Frankfurt am Main	100%	100%	EUR
Steigenberger Italia S.r.L., Meran/Italien	100%	100%	EUR
MAXX Hotel GmbH, Frankfurt am Main	100%	100%	EUR
Zleep Hotel GmbH, Frankfurt am Main	100%	100%	EUR
Scheveningen Hotel Holding B.V., Den Haag/Niederlande	100%	100%	EUR
STAG Belgium N.V., Brüssel/Belgien	100%	100%	EUR
Steigenberger DMCC, Dubai, VAE	100%	100%	AED
Tunesian Hospitality Group, Tunis/Tunesien	100%	100%	TND
Associated companies (measured at equity)			
Aurea Palacio Hospitality Private Limited, New Delhi/India	49%	49%	INR
Sourcify GmbH	50%	50%	EUR
Steigenberger Middle East Hotels+ Resorts S.A.E., Cairo/Egypt	50%	50%	EGP
Zleep Hotels A/S, Taastrup, Dänemark	51%	51%	DKK
Zleep Hotel Copenhagen City ApS, Taastrup/Denmark	100%	100%	DKK
Zleep Hotel Ishøj ApS, Taastrup/Denmark	100%	100%	DKK
Zleep Hotel Aarhus ApS, Taastrup/Denmark	100%	100%	DKK
Zleep Hotel Kolding ApS, Taastrup/Denmark	100%	100%	DKK
Zleep Hotel Roskilde ApS, Taastrup/Denmark	100%	100%	DKK
Zleep Hotel Aalborg ApS, Taastrup/Denmark	100%	100%	DKK
Zleep Hotel Lyngby ApS, Taastrup/Denmark	100%	100%	DKK
Zleep Hotel Aashus Skejby ApS, Taastrup/Denmark	100%	100%	DKK
Zleep Hotel Copenhagen Arena ApS, Taastrup/Denmark	100%	100%	DKK
Zleep Hotels AB, Sweden	100%	100%	SEK
Zleep Hotels Upplands Väsby AB, Sweden	100%	100%	SEK

5 Financial risk management

5.1 Financial risk factors

The group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

Financial risk management is carried out on group level. The responsibilities and controls necessary associated with risk management are determined by group management. Group Treasury and Controlling identify and evaluate financial risks in close co-operation with the group's operating units.

(a) Market risk

Market risk mainly includes currency risk, fair value interest rate risk, cash flow interest rate risk and price risk. Risks attributable to changes in prices or cash flow fluctuations are of minor significance for the Group.

The group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Steigenberger operates mainly in Germany, Austria the Netherlands and Belgium. Steigenberger also operates in United Arab Emirates, Egypt, Oman, Tunisia and China. Foreign exchange risk mainly relates to Swiss franc, Arabic dirham, Tunisian dinar, Danish crown and Egyptian pounds, but is of minor significance for the group.

As the group does not have material interest bearing assets and external bank loans the interest rate risks are of minor significance as well.

As Steigenberger Group is not exposed to any other price risks, like stock exchange prices or commodity prices, an increase or decrease of the relevant market prices within reasonable margins would not have an impact on the group's profit or equity. Hence, the group's exposure to other price risks is regarded as not material.

(b) Credit risk

Credit risk is monitored on group basis.

The credit risk incurred by the group is the risk that counterparties fail to meet their obligations arising from operating activities and from financial transactions. The group's main financial assets are cash and cash equivalents and trade debtors and other accounts receivables. In general, cash and cash equivalents are kept in banks with high credit ratings. Default risks are continuously monitored in the operating business and are taken into consideration by way of adequate impairments.

Default and liquidity risks in the area of receivables are limited by refining cash-relevant processes as part of the internal control system, and maintaining a well-oiled accounts receivables management and dunning system.

For an overview of past-due receivables, refer to note 11 Trade and other receivables.

5 Financial risk management (Continued)

5.1 Financial risk factors (Continued)

(c) Liquidity risk

To ensure the solvency and financial flexibility of Steigenberger, the Group retains a liquidity reserve through cash and cash equivalents. Liquidity reserve is monitored on an ongoing basis with regard to the group's business performance and planned investments.

In order to optimise the consolidated Group-wide supply and management of liquidity, cash pool agreements existed between Steigenberger Hotels AG and all major foreign subsidiaries in 2019.

There are no liabilities to banks as of the balance sheet date.

On December 30, 2015, the shareholder credit line was reduced from m€ 6.0 to m€ 3.0. In 2016 the shareholder credit line has not been utilized and extended and ran out as of December 31, 2019.

As of December 31, 2019, the Steigenberger Group had a loan facility of with Commerzbank AG. Of this amount, m€ 2.5 can be used as current account credit and m€ 7.5 can be used for sureties and guaranties. The loan facility was extended until further notice.

In addition, the Group had a loan facility covering m€ 5.0 with UniCredit Bank AG. Of this amount, m€ 2.0 can be used as an overdraft facility and m€ 3.0 for sureties and guaranties. Both facilities are available until further notice.

The tables below analyse the group's primary financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

(all amounts in €)	**less than 1 year**	**between 1 and 5 years**	**over 5 years**
Dec. 31, 2019			
Trade Payables	33,752,808		
Lease liabilities	85,858,489	556,859,215	2,047,557,786
Other financial liabilities (excl. lease liabilities)	12,575,221	12,642,864	4,113,584
	132,186,519	**569,502,079**	**2,051,671,370**

Based on an agreement dated April 30/May 2, 2012, StAG granted a loan facility up to the amount of m€ 3.0 to its sole shareholder D.H. Deutsche Hospitality. The loan matured on December 31, 2013, and was automatically prolonged for another year at each year-end unless terminated by at least one of the contracting parties, whereby a notice period of three months to the end of the term is to be observed. Interest is based on the 3-month EURIBOR plus a margin of 6% per annum. Due to drawn amounts of the credit line, receivables due from the shareholder of m€ 2.7 were disclosed as of December 31, 2019 (plus interest of m€ 1.2).

5 Financial risk management (Continued)

5.2 Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders, to ensure sufficient financial resources for investments and to maintain an optimal capital structure. The group's objectives when managing capital are to ensure the availability of liquid funds within the group and the management of liquidity. The majority of Steigenberger's operations are financed by the group's operating cash flows. Net debt and liquidity are monitored in the short and medium term by means of regular cash flow forecast and treasury reports.

With regard to capital risk, the group manages its capital based on consolidated accounts. The capital structure is continuously reviewed by the Board of Directors. The review includes an assessment of the equity ratio, which is defined as the ratio of shareholders' equity to total assets. The equity ratio was -0.03% as of December 31, 2019.

Financial liabilities, which require compliance with financial covenants, are not in place.

5.3 Fair value estimation

IFRS 13.76 for financial instruments requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

(b) Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

(c) Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The different hierarchy levels demand for different amounts of disclosure.

There were no transfers between levels 1 and 2 during the year.

As of December 31, 2019 a financial instrument referring to shares in a German company is measured at fair value based on level 2 measurement and is reported in other non-current financial assets.

For more information refer to note 3.6. Significant accounting policies — Financial instruments and note 10 Investments in associates and joint ventures.

6 Critical accounting estimates and judgments

The application of the accounting and valuation methods prescribed by IFRS and IFRIC requires making a large number of estimates and assumptions. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Significant judgement in determining the lease term of contracts with renewal options

The group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The group has the option, under some of its hotel leases, to lease the assets for additional terms of five to ten years. The group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. The group considers all relevant factors that create an economic incentive for it to exercise the renewal, such as the existence of furniture, fixtures and equipment with a significant remaining value in its leased property assets. After the commencement date, the group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). Based on historic experience and the current expectations, the group includes all extension options for hotel lease contracts in the determination of the lease liability.

(b) Judgement in estimating the incremental borrowing rate

The group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

6 Critical accounting estimates and judgments (Continued)

(c) Income taxes

The group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the group-wide provision for income taxes. 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.

(d) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 18 Other non-financial liabilities.

If the discount rate used differed +0.25%/-0.25% from management's estimates, the defined benefit obligation for pension benefits would be an estimated 2.7% lower or 2.89% higher.

(e) Provisions

Whether a present obligation is probable or not requires judgement. The nature and type of risks for these provisions differ and management's judgement is applied regarding the nature and extent of obligations in deciding if an outflow of resources is probable or not. Provisions for termination benefits and restructuring provisions involve management's judgement in estimating the expected cash outflows for severance payments.

(f) Estimated impairment of assets and goodwill

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 3 Summary of significant accounting policies. In case of any triggering event the group also tests if the carrying amount of other assets is impaired. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (for further details please refer to note 7 Property, plant and equipment and 8 Intangible assets).

6 Critical accounting estimates and judgments (Continued)

(g) Obligations from customer loyalty programs

Accumulated but not yet used bonus points are deferred using the deferred revenue method to the extent that they are likely to be used on goods or services provided in the program catalogue. The fair value of points accumulated on the group's services provided is recognised under deferred revenue in other payables in the balance sheet. Fair value is determined as the value for which the goods/services equivalent to the points could be sold separately, i. e. the average yield, taking booking class and region into account.

The group uses judgment in determining the likelihood of conversion of points accumulated as well as for the determination of the fair value.

(h) Useful lives of property, plant and equipment and intangibles assets

The group's management determines the estimated useful lives and related depreciation/amortisation charges for its property, plant and equipment and intangibles assets. This estimate is based on projected lifecycles. It could change as a result of external factors as severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold.

NOTES TO THE CONSOLIDATED BALANCE SHEET

7 Property, plant and equipment

	Land and buildings	Technical equipment, plant and machinery	Other equipment, operational and office equipment	Construction in progress	Total
Year ended 31 December 2019					
Opening gross book amount	29,715,803	19,959,270	71,649,875	3,199,196	124,524,144
Additions	3,092,474	4,053,318	19,461,412	3,718,578	30,325,781
Change in scope of consolidation	–	28,950	–	–	28,950
Disposals	(837,781)	(260,525)	(1,667,943)	(55,713)	(2,821,961)
Reclassifications	1,267,991	1,153,488	469,244	(2,887,192)	3,531
Exchange differences	167,878	353,094	198,951	69,959	789,881
Closing gross book amount	**33,406,364**	**25,287,595**	**90,111,540**	**4,044,829**	**152,850,327**
Opening accumulated depreciation	(19,172,470)	(12,015,485)	(29,458,702)	–	(60,646,656)
Impairment	–	–	(238,865)	–	(238,865)
Depreciation charge	(1,646,328)	(1,834,144)	(14,544,977)	–	(18,025,449)
Disposals	837,781	126,376	790,828	–	1,754,985
Reclassifications	–	(1,202)	1,202	–	–
Exchange differences	(155,398)	(300,853)	(180,520)	–	(636,771)
Closing accumulated depreciation	**(20,136,414)**	**(14,025,308)**	**(43,631,034)**	**–**	**(77,792,756)**
Net book amount as of Dec 31, 2019	**13,269,949**	**11,262,286**	**46,480,506**	**4,044,829**	**75,057,570**

7 Property, plant and equipment (Continued)

Construction in progress mainly related to investments in digitizing and IT hardware in Hotels. Reclassifications relate to construction in progress and down payments on assets. Down payments are part of "Other non-financial assets" (note 12 Trade receivables and other financial assets) as long as the definition of an item of property, plant and equipment is not fulfilled. Once the construction finished, they are recognized as the additions into the applicable categories.

The other items of property, plant and equipment mainly comprise tenant fittings and furniture as well as restaurant and bistro assets for the hotels. Steigenberger Group is contractually obligated to invest in furnitures, fixtures and equipment in most of its leased hotels. In relation to the initial installment of furnitures, fixtures and equipment in leased hotels prior to the commencement date, Steigenberger Group capitalized m€ 15.6 ("failed" sale and lease back transactions with the lessor, refer to note 13 Leasing). As Steigenberger Group performs obligatory renewals of those assets during the lease term, reinvestments amounting to m€ 11.5 are capitalized as of December 31, 2019. Steigenberger Group is obligated to return installed furniture, fixtures and equipment to the lessor at the end of the contract term. Therefore, reinvestments in furniture, fixtures and equipment towards the end of the lease term are depreciated until the end date of the lease contract.

None of the assets are pledged as security.

Changes in scope of consolidation mainly refers to integration of Tunisian Hospitality PPE assets. (See note 9 Business Combinations)

Depreciation expenses and impairment losses have been charged to "Depreciation, amortisation and impairment" in the consolidated income statement.

The group monitors the business performance of each hotel separately. Each hotel is the smallest unit that generates cash inflows that are largely independent of the cash flows of other assets. Thus, each hotel represents a CGU according to IAS 36.

Due to the loss history of the hotel, an impairment test was performed for the Steigenberger Wiltcher's hotel in Brussels as of December 31, 2019. In order to identify if the assets are impaired, the carrying amount of the CGU is compared with its recoverable amount. The recoverable amount of the CGU has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a nine-year period. The cash flow projections are based on the past performance of the hotel (before the transfer), experience of Steigenberger with similar hotels and management's expectations of market development. GOP margin is expected to increase moderately within the detailed planning period. Forecasts for other operating costs, which are not linked to revenues are adjusted based on the current structure of the business. They do not reflect any future restructuring or cost savings measures. Annual capital expenditures are based on historical experience and the planned refurbishment expenditure. Cash flows beyond the nine-year period until the end of the lease contract are extrapolated using an unchanged growth rate of 1.5%. A discount rate of 6.2% was used. This corresponds to level 3 of the fair value hierarchy according to IFRS 13. Comparing the carrying amount of the CGU with the value in use calculated there is an impairment loss recognition in 2019 amounting to k€ 239 in the "other equipment, operational and office equipment".

8 Intangible assets

	Goodwill	Trademarks, licences & other rights	Construction in progress	Total
Year ended 31 December 2019				
Opening gross book amount	4,136,846	4,679,943	669,758	9,486,547
Additions	145,152	527,670	145,811	818,634
Change in scope of consolidation	–	4,316,334	–	4,316,334
Disposals	–		(48,375)	(48,375)
Reclassifications	–	428,051	(431,582)	(3,531)
Exchange differences	–	(2,933)		(2,933)
Closing gross book amount	**4,281,999**	**9,949,066**	**335,612**	**14,566,677**
Opening accumulated depreciation	(1,651,482)	(2,956,216)	–	(4,607,697)
Amortisation charge	–	(821,121)	–	(821,121)
Ending accumulated depreciation	**(1,651,482)**	**(3,777,337)**	**–**	**(5,428,818)**
Net book amount as of Dec 31, 2019	**2,630,517**	**6,171,729**	**335,612**	**9,137,858**

The carrying amount of Goodwill relates to the pre-deal acquisition of InterCityHotel GmbH. At year end 2019 a goodwill impairment test has been performed. There was no impairment identified.

The goodwill addition is due to the step acquisition of Tunisian Hospitality during the current year and transaction price reflected the fair value of the goodwill. There was no impairment identified.

The trademarks, licenses & other rights increased by k€ 4,316 due to capitalization of the value customer contracts from the Tunisian Hospitality transaction.

None of the intangible assets are pledged as security.

Amortization charges have been recorded in to "Depreciation, amortization and impairment" in the consolidated income statement.

9 Business Combinations

On August 31, 2019, the Steigenberger Group acquired the remaining shares of Tunisian Hospitality in the context of a step acquisition from 50% to 100% for a purchase price of k€ 2,401. Before the acquisition Tunisian Hospitality had been recognised as joint venture with 50% share and accounted for using the equity method of accounting.

The enterprise value of Tunisian Hospitality is mainly based on three different management contracts with local hotels. The acquisition of Tunisian Hospitality is aimed to access the North African market.

9 Business Combinations (Continued)

At acquisition date the fair values of the assets and liabilities of Tunisian Hospitality were as follows:

	in k€
Net assets	1,420
Value Customer Contracts	4,316
Deferred taxes	-1,079
Equity	**4,658**

As part of accounting for the business combination, Steigenberger Group remeasures the previous held interest of 50% at fair value, corresponding to the purchase price of k€ 2,401 for the 50% of shares acquired in 2019. This amount is taken into account in the determination of goodwill, whereas the difference between fair value and the carrying amount of the old shares amounting to k€ 1,691 is recognized in finance income in the consolidated income statement and in other non-cash-effective expenses/income in the consolidated cash flow statement.

Old Shares Adjustment Fair Value

	in k€
FV	2,401
Carrying Amount	710
Gain	**1,691**
FV Shares	4,803
Equity	4,658
Goodwill	**145**

From the date of acquisition, Tunisian Hospitality contributed k€ 244 of revenues and k€ 157 of profit before income taxes from continuing operations to Steigenberger Group results.

10 Investments in associates and joint ventures

The movements in associates and joint ventures during the reporting period are as follows:

	Jan 1, 2019-Dec 31, 2019
Begin of period, 01.01.2019	**2,243,979**
Acquisition/Addition	15,166,147
Disposal	-709,285
Share of (loss)/profit	-611,256
Exchange differences	272,278
Other equity movements	-2,508
End of period, 31.12.2019	**16,359,356**

With the acquisition of Steigenberg DMCC, Dubai/UAE ("DMCC") the company gained joined control in the nominal capital of SME which is recognised as associated entity since November 1, 2016. SME's principal activities are in the hotel industry.

Furthermore, Steigenberger Group entered into the joint venture Aurea Palacio Hospitality Limited in India with MBD Group as of December 31, 2016. The joint venture was originally set up to take care of the operational business activities and portfolio development in India.

At the balance sheet date, Steigenberger Group held 50% of shares in the Sourcify GmbH, Frankfurt/Main (Germany). The electronic purchasing platform "Procure to pay" which had been successfully developed in prior years was outsourced as "Sourcify GmbH" in the year 2018. Since 2018, the Steigenberger Group has been offering the option of digital procurement not only to the hotels which belong to the company's own brands but also to other partners in the catering, nursing care and hospital sectors. Kloepfel Operations GmbH, who holds the other 50%, has become involved as a sales partner in Sourcify GmbH.

Steigenberger Group acquired 50% of the shares in Tunisia Hospitality in December 2016 and the remaining 50% shares in August 2019 to access the market in North Africa. Therefore, Tunisia Hospitality Group Limited is no longer accounted for at equity but fully consolidated in the consolidated financial statements as of December 31, 2019.

In February 2019, Steigenberger Group acquired 51% of the shares in Zleep for a purchase price of k€ 11,416. With the acquisition, Steigenberger Group included a fifth hotel brand in its House of Brands and contributed to the planned expansion strategy in Europe. On the date of the acquisition, the portfolio of Zleep comprised ten hotels in Denmark and one hotel in Sweden. After acquisition Steigenberger Group provided an additional capital contribution of k€ 3,750.

The group's interest in Zleep is accounted for using the equity method in the consolidated financial statements because the group has joint control only has joint control in the business and finance decisions due to voting right restrictions.

10 Investments in associates and joint ventures (Continued)

The share of the results of associates and the share of the assets and liabilities as at December 31, 2019 are as follows:

Name	Country of incorporation	Assets	Liabilities	Equity	Revenues	Profit/ (loss)	% Interest held
Steigenberger Middle East Hotels & Resorts S.A.E.	Egypt	3,769,861	698,855	3,071,006	1,730,673	1,046,608	50%
Aurea Palacio Hospitality Private Limited	India	93,455	2,016	91,439	3,261	-34,597	49%
Sourcify GmbH	Germany	1,433,756	487,119	946,637	1,004,548	-220,844	50%
Zleep Hotels A/S	Denmark	14,892,091	4,588,073	10,304,018	12,552,186	-2,638,268	51%
		20,189,164	**5,776,063**	**14,413,100**	**15,290,668**	**-1,847,101**	

* For Zleep Hotels A/S a period of 11 months is reflected.

Furthermore, Steigenberger Group identified k€ 2,166 as value of customer contracts, as well as k€ 3,273 as value of trademark from the investment in Zleep Hotels A/S as of December 31, 2019.

The reconciliation of the summarized financial information presented to the carrying amount of the interest in the associates & joint ventures is as follows:

	Steigenberger Middle East Hotels & Resorts S.A.E.	Aurea Palacio Hospitality Private Limited	Sourcify GmbH	Zleep Hotels A/S	Total
Net assets of the associates and joint venture	3,071,006	91,439	946,637	10,304,018	**14,413,100**
Proportion of the Group's ownership interest in the joint venture	50%	49%	50%	51%	
Participation in the net assets	1,535,503	44,805	473,318	5,255,049	
Goodwill	752,869			8,630,768	
Interim result elimination			-219,572		
Impairment		-29,671			
Other adjustments		-15,134	-3,394	-65,186	
Carrying amount of the Group's interest in the joint venture	**2,288,373**	**0**	**250,352**	**13,820,631**	**16,359,356**

11 Financial Instruments

The group holds the following financial instruments:

Financial assets	2019
	€
Financial assets at amortised cost	
Trade receivables	30,191,106
Other financial assets at amortised cost[1]	17,018,205
Other loans and receivables	75,000
Cash and cash equivalents	44,033,538
Financial assets at fair value through other comprehensive income (FVOCI)	1,800,000
	93,117,848

1 contains current and non-current positions.

Financial liabilities	2019
	€
Liabilities at amortised cost	
Trade payables and other financial liabilities	46,328,029
Non-current borrowings and other financial liabilities	15,722,682
Current and non-current Leasing Liabilities	1,412,883,313
	1,474,934,025

Net losses from financial instruments classified as Financial assets at amortised cost (AC) amount to k€ 838 and mainly relate to the additions to the provision for impairment of receivables.

Net gains relating to Financial assets at fair value through other comprehensive income (FVOCI) amount to k€ 474 and are recognized outside profit and loss in equity.

Net losses for Financial liabilities at amortised cost amounting to k€ 52,574 relate to interest expenses on lease liabilities (k€ 52,464) and interest expenses on borrowings (k€ 110).

11 Financial Instruments (Continued)

The valuation categories and carrying amounts of the financial assets and financial liabilities in accordance with IFRS 9 are presented as follows:

		Category IFRS 9	Carrying amount 31.12.	FVOCI	Fair Value 31.12.
Financial assets					
	Equity instruments	FVOCI	1,800,000	1,800,000[2]	1,800,000
	Trade receivables	AC	30,191,106		30,191,106
	Other financial assets[1]	AC	17,018,205		17,004,335
	Other loans and receivables	AC	75,000		75,000
	Cash and cash equivalents	AC	44,033,538		44,033,538
Financial liabilities					
	Non-current borrowings and other non-current	AC	15,722,682		15,722,682
	Current and Non-current Leasing liabilities	AC	1,412,883,313		98,367,506
	Trade Payables	AC	33,752,808		33,752,808
	Other current financial liabilities	AC	12,575,221		12,575,221

(1) Contains current and non-current positions.

(2) The Fair Value was determined on the basis of a purchase agreement and is classified as Level 2 in accordance with IFRS 13.

		Carrying amount 31.12.
Totals per category		
	Financial assets at Amortised Cost	91,303,978
	Financial assets FVOCI	1,800,000
	Financial liabilities at Amortised Cost	160,418,217

Trade receivables and cash and cash equivalents have short-term maturities. Their carrying amounts at the reporting date equal their fair values, as the impact of discounting is not significant.

Other financial assets are discounted where the impact of discounting is significant. In these cases, the fair value is determined based on expected future cash-flows and is classified as Level 2 fair value. Other financial assets include amongst others deposits paid on leased hotels and are carried at cost. As of December 31, 2019, also a restricted cash account was included.

Trade payables and other current financial liabilities have short periods to mature; therefore, the carrying amounts reported approximate the fair values. Other financial liabilities relate to accrued costs of various goods and services.

None of the financial assets that are fully performing have been renegotiated in the last year.

Interest income on impaired financial assets amounts to k€ 0.

12 Trade receivables and other financial assets

	Dec 31, 2019
Trade receivables	32,905,557
less: provision for impairment of receivables	-2,714,452
Trade receivables — net	*30,191,106*
Receivables from parent company	9,932,669
Receivables from other affiliated companies	493,749
Contract assets	445,584
Other current financial assets	2,957,488
Total current	*44,020,596*
Other non-current financial assets	4,988,714
Total non-current	4,988,714
Total	**49,009,310**

Non-current financial assets are due within an average of 2 years.

All other financial assets (except for Trade Receivables) are allocated to the Stage 1 pursuant the general approach of the impairment model (compare section 1.7 of the notes for details). As customers have a low risk of default and strong capacity to meet contractual cash flows, the financial assets are allocated to the category "Performing" (IFRS 7.35M).

At December 31, 2019 other non-current financial assets include bank deposits of k€ 416 that are restricted as well as shares in a German company of k€ 1,800.

The carrying amount of non-current financial assets corresponds to their fair value, as they earn market standard interest.

Movements on the group provision for impairment of trade receivables are as follows:

	Jan 1, 2019-Dec 31, 2019
Begin of period	**3,244,616**
Additions	475,450
Disposals	-760,961
Reversals	-344,482
End of period	**2,614,623**

For trade receivables without significant financing component, expected credit losses are determined using the simplified approach recognized as a risk provision item over the asset term pursuant to IFRS 9.5.5.15 (refer to Section 3.7).

12 Trade receivables and other financial assets (Continued)

Expected credit losses for trade receivables in the group comprise as follows:

31.12.2019	not overdue	1-30 days	30-60 days	past due 61-90 days	91 days-1 year	Total
Expected loss rate	0.01%	0.18%	0.35%	0.65%	0.94%	
Trade receivables gross carrying amount	3,919,378	16,052,019	3,948,912	1,146,783	5,223,843	30,290,936
Loss allowance	398	28,862	13,812	7,510	49,248	99,830
Trade receivables carrying amount 31.12.2019	3,918,980	16,023,157	3,935,100	1,139,274	5,174,595	30,191,106

01.01.2019	not overdue	1-30 days	30-60 days	past due 61-90 days	91 days-1 year	Total
Expected loss rate	0.02%	0.24%	0.43%	0.78%	1.41%	
Trade receivables gross carrying amount	3,700,920	14,712,772	5,893,871	1,005,362	3,648,970	28,961,895
Loss allowance	792	34,769	25,218	7,887	51,569	120,234
Trade receivables carrying amount 01.01.2019	3,700,128	14,678,003	5,868,653	997,475	3,597,401	28,841,660

The amount at end of the period includes k€ 100 related to loss allowances booked in the year.

The trade receivables past due 91 days include claims amounting to m€ 1.6 against the government.

The creation and release of provisions for impaired trade receivables have been included in 'other operating income/expenses' in the consolidated income statement.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The group does not hold any collateral as security.

13 Leases

Right-of-use assets

Set out below are the carrying amounts of right-of-use assets recognized by category of underlying assets and the movements during the period:

	Hotel Lease	FF&E	Office Lease	Parking Lot	IT Lease	Car Lease	Total
First application at January 1, 2019	1,362,060,236	4,207,203	7,660,508	4,701,579	694,656	1,564,790	1,380,888,972
Additions			700,005	52,081		673,458	1,425,544
Derecognitions	–	–				–	–
Depreciation expense	63,845,330	884,080	641,428	242,767	178,569	879,621	66,671,796
Impairment loss							–
Exchange adjustments							–
December 31, 2019	**1,298,214,906**	**3,323,124**	**7,719,084**	**4,510,893**	**516,087**	**1,358,626**	**1,315,642,719**

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets which varies between 1 and 39 years. The depreciation of right-of-use assets of k€ 66,672 for the period from January 1, 2019 to December 31, 2019 is included within *Depreciation, amortization and impairment* in the consolidated income statement.

Lease liabilities

The lease liabilities were discounted with the group's incremental borrowing rates as at the later of contract inception and January 1, 2019. In order to calculate the incremental borrowing rates, the interbank offering rates in the country of the respective lease asset for the corresponding duration were taken as the reference rate and a spread of the group's cost of debt (refer to note 11 Trade receivables and other financial assets) was added as a risk premium.

The following incremental borrowing rates have been used for the calculation:

Contract term	Interest
1 year	1.50%
2-5 years	2.00%
5-15 years	3.00%
15-25 years	3.50%
Over 25 years	4.00%

13 Leases (Continued)

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments at December 31, 2018 as follows:

Reconciliation lease liabilities	
Obligations from signed operating leases as of December 31, 2018	**1,814,810,671**
- Operating leases not yet commenced as of Dec 31, 2018	-520,056,941
= Adjusted operating leases as of December 31, 2018	**1,294,753,730**
+ Rents for extension options reasonably certain to be exercised	587,847,477
- Discounting with IBR at the initial application of IFRS 16	-573,145,628
- Other adjustments incl short-term leases, low-value assets	-22,521,595
+ Finance lease liabilities as of December 31, 2018	157,918,486
Total lease liabilities as of January 1, 2019	**1,444,852,470**

For the year ended December 31, 2019, changes in the lease liability are as follows:

	Total
First application at January 1, 2019	1,444,852,470
Additions	1,422,244
Repayments	85,855,056
Interest expense	52,463,655
December 31, 2019	**1,412,883,313**

The group had total cash outflows for leases of €k 111,047 in 2019.

The maturity analysis of lease liabilities is as follows:

	January 1, 2019	**December 31, 2019**
Less than one year	33,165,085	40,681,590
1 to 5 years	180,851,411	189,145,492
More than 5 years	1,230,835,973	1,183,056,232
Total lease liabilities	**1,444,852,470**	**1,412,883,313**

13 Leases (Continued)

In 2019 the following amounts were recognized in the group's consolidated income statement in relation to leases:

	December 31, 2019
Income from subleasing right-of-use assets	1,161,676
Depreciation expense of right-of-use assets	66,671,796
Interest expense on lease liabilities	52,463,655
Expense relating to short-term leases	19,560
Expense relating to leases of low-value assets	565,186
Variable lease payments	24,606,974
Total amount recognized in profit or loss	**145,488,847**

Some leases for hotel properties contain contingent rent payments that are based on the hotel's performance as defined by the agreement (e.g. revenue). These payment terms are common practice in the hospitality industry. Variable lease payments are recognized in the consolidated income statement in the period in which the condition that triggers those payments occurs.

In case variable leases include guaranteed amounts payable to the lessor, such guaranteed amounts are considered to be in-substance fixed payments and are therefore included in the lease liability.

The group has several lease contracts that include extension and termination options. Generally, lease agreements are concluded with an extension option of 5 to 10 years. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised. Based on historic experience and the current expectations, the group includes all extension options for hotel lease contracts in the determination of the lease liability (refer to section 3.19 (e)).

The group entered into several contracts with lessors to install furniture, fixtures and equipment in various leased hotels prior to the respective commencement date. Those transactions are classified as "failed" sale and leaseback transactions, as the control of the furniture, fixtures and equipment does not transfer to the lessor. Consequently, the received consideration from the lessor is accounted for as a financial liability. The installed assets are capitalized as property, plant and equipment and depreciated over the expected useful life. As of December 31, 2019, the carrying amount of those assets amounts to m€ 15.6 (refer to note 7 Property, plant and equipment).

The group has the obligation in almost all hotel lease contracts to renew furniture, fixtures and equipment over the term of the lease contract. The budget for the renewal investments usually amounts to 2-3% of the annual minimum lease payments. The group uses its annual operating profit to finance the reinvestment cycle of furniture, fixtures and equipment. At the end of the contract term, the group is obligated to return the furniture, fixtures and equipment to the lessor.

14 Other non-financial assets

	Dec 31, 2019	Current	Non-current
Deferred expenses and accrued charges		3,693,253	7,668,548
Downpayments on assets		501,632	
Tax receivables (other than income tax)		2,572,395	
Insurance policies not qualified as plan assets		435,834	
Miscellaneous receivables and Allowance for other assets		161,194	
Subtotal		7,364,307	7,668,548
Total		**15,032,855**	

The deferred expenses, accrued charges and down payments on assets mainly consist of major leasehold improvements of the hotels under operating lease. Instead of bearing a rent increase, Steigenberger has chosen to pay directly for the improvements and to allocate the cost over the respective lease term.

The miscellaneous receivables include a large number of small amounts relating to different topics and different hotels.

15 Inventories

	Dec 31, 2019
Raw materials and supplies	1,892,371
Goods	2,019,726
Total	**3,912,098**

There are no inventories pledged as securities.

Raw materials and supplies include mainly food supplies (k€ 822) as well as marketing, office materials and small operating equipments (k€ 1,037).

Inventories have not been written off. Costs of materials recognised as expenses in the reporting period amount to k€ 57,324.

16 Cash and cash equivalents

Cash and cash equivalents in total of k€ 44,034 include mainly k€ 41,178 cash in bank and k€ 2,845 cash at hand at year end.

17 Equity

The capital reserve mainly consists of the share premium paid upon issue of the shares as well as an additional payment of the shareholder in 2011 amounting to m€ 9.0. Pursuant to the waiver agreement concluded on September 12, 2011 by the company and D.H. *DEUTSCHE HOSPITALITY*, it was agreed to transfer the existing utilization of the shareholder loan of m€ 9.0 as an additional payment to capital reserves.

The restricted reserve is included in retained earnings. Together with the capital reserve the restricted reserve exceeds the legal threshold of 10% of the share capital. This reserve amounting to k€ 614 is not available for dividend distribution.

Other reserves include the exchange differences arising from the translation of the financial statements of the Swiss entity, DMCC, Tunisian Hospitality and the joint ventures SME and Zleep.

Retained earnings include the net income of the financial year as well as the income of the companies included in the consolidated financial statements achieved in the past to the extent it was not distributed as well as remeasurements of post employment benefit obligations. The transition effects due to first adoption IFRS 16 in the retained earnings amounts to k€ -19,841.

The following table shows the income and expenses directly recognised in other comprehensive income and the income tax effects thereon:

2019	Before income tax	Income tax	Net of income tax
Currency Translation adjustments	693,378	0	693,378
Remeasurements of Fair Value	473,740	-7,447	466,293
Remeasurements of post employment benefit obligations	-2,307,501	684,356	-1,623,146
Other Comprehensive Income	-1,140,383	676,908	-463,475

18 Other non-financial liabilities

	Dec 31, 2019	Current	Non-current
Contract liabilities		28,581,271	
Tax liabilities (other than income tax)		2,667,020	
Liabilities to staff (salary and wages, social and health contributions, holiday pay)		2,886,224	
Remuneration supervisory board		405,000	
Prepaid expenses		2,041,403	
Miscellaneous other liabilities		2,601,364	76,627
Subtotal		39,182,282	76,627
Total		**39,258,910**	

Contract liabilities received mainly relate to advance payments of guests and loyalty program.

19 Deferred income tax

The movement in deferred income tax assets and liabilities during the year is as follows (in €):

Gross movement on the deferred income tax account (+ income, -expense)	**Jan 1, 2019- Dec 31, 2019**
Begin of period	9,798,540
Opening balance adjustments	2,218,202
Exchange differences	-5,147
Acquisition of subsidiary	0
Income statement charge	9,424,649
Tax charged directly to equity	676,908
Other adjustments	2,468,358
End of period	**24,581,510**

The analysis of deferred income tax assets and deferred income tax liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Total	
December 31, 2019 *(all amounts in €)*	**Deferred tax assets**	**Deferred tax liabilities**
Intangible assets	2,026,237	3,169,051
Property, plant & equipment	233,000	9,235,780
Right-of-use-assets	–	395,885,906
Financial assets	–	–
Inventories	–	–
Receivables	90,250	91,797
Other assets	969,896	680,000
Retirement benefit obligations	3,848,737	938,409
Other provisions	3,260,620	4,592,700
Lease liabilities	425,464,539	–
Liabilities	5,385,038	1,993,710
Deferred income	–	952,000
Prepayed expenses	351,034	735,463
Tax loss carryforwards	1,226,975	–
Total before offsetting	**442,856,326**	**418,274,816**
Offsetting effects	-416,864,341	-416,864,341
Total	**25,991,985**	**1,410,475**

19 Deferred income tax (Continued)

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The group did not recognize deferred tax assets in respect of tax losses amounting to k€ 22,628 at December 31, 2019 that can be carried forward against future taxable income. Thereof an amount of k€ 12,358 relates to German losses for corporate income tax purposes (no losses for trade tax purposes) where it is not probable that the losses are usable in the future due to the restrictions of the tax law.

The not recognised losses expire as follows:

(all amounts in €)	**Dec 31, 2019**
Expiry within 1 year	–
Expiry in 2-5 years	–
Expiry later than 5 years	–
Unlimited carry forward	22,627,900
Total	**22,627,900**

Steigenberger has recognised deferred tax assets for entities which suffered a loss in the current period. Management assumes that these entities will realize profits in the near future, supporting the evidence of the deferred tax assets. The amount of deferred tax assets to be disclosed in accordance with IAS 12.82 amounts to k€ 0 as of December 31, 2019.

20 Retirement benefit obligations

Retirement benefit obligation result mainly from the German pension plan as this pension plan is the most significant plan in the group.

Furthermore, the group pays contributions to governmental and private pension insurance organizations based on legal regulations. The contributions are recognised as expense and amount to k€ 11,255 for 2019.

The amounts recognised in the balance sheet are determined as follows:

	Dec 31, 2019
Present value of funded obligations	4,783,211
Fair value of plan assets	-4,084,431
	698,779
Present value of unfunded obligations	**14,468,640**
Liability in the balance sheet	**15,167,419**

20 Retirement benefit obligations (Continued)

The movement in the defined benefit obligation over the year is as follows:

	Jan 1, 2019-Dec 31, 2019
Begin of period	17,036,946
Current service cost	582,991
Interest cost	259,241
Contributions by plan participants	174,826
Remeasurements:	2,200,016
due to changes in financial assumptions	1,688,854
due to changes in demographic assumptions	-2,540
due to experience	513,702
Exchange differences	55,524
Benefits paid	-1,057,693
End of period	**19,251,850**

The movement in the fair value of plan assets of the year is as follows:

	Jan 1, 2019-Dec 31, 2019
Begin of period	1,752,395
Interest income on plan assets	23,714
Remeasurements (due to changes in financial assumptions)	-127,482
Administration expenses	-4,517
Exchange differences	34,182
Employer contributions	2,477,911
Employee contributions	174,826
Benefits paid	-246,597
End of period	**4,084,431**

The movement in the pension provision is as follows:

	Jan 1, 2019-Dec 31, 2019
Begin of period	15,284,553
Exchange differences	21,341
Pension payments	-811,096
Additions	823,035
Remeasurements without effect on profit and loss	2,327,498
Allocation to plan assets/staff charges	-2,477,911
End of period	**15,167,421**

20 Retirement benefit obligations (Continued)

The amounts recognised in the consolidated income statement (staff costs and finance costs) were as follows:

	Jan 1, 2019-Dec 31, 2019
Current service cost	582,991
Interest cost	259,241
Interest income on plan assets	-23,714
Total	**818,518**

Current service costs and past service costs were included in staff cost, interest costs and interest income on plan assets are part of finance costs. The interest income on plan assets is determined by applying the discount rate for the defined benefit liability.

Remeasurements arising from changes in financial assumptions, in experience and demographics assumptions in 2019 are charged or credited to equity in other comprehensive income in the period in which they arise. In 2019 other comprehensive income increased by an amount of k€ 2,308 (before tax).

The principal actuarial assumptions used were as follows:

	Dec 31, 2019
Discount rate — Germany	0.76%
Discount rate — other	0.35%
Inflation rate	1.00%
Future salary increases	1.50%
Future pension increases	1.80%

If the discount rate used differed +0.25%/-0.25% from management's estimates, the defined benefit obligation for pension benefits would be an estimated 2.7% lower or 2.89% higher.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

20 Retirement benefit obligations (Continued)

Employee benefit obligations are determined on the years of service, the expected discount rate, estimated compensation increase and country specific mortality (for Germany by applying the guiding tables of Prof. Dr. Klaus Heubeck RT 2018 G).

The following table shows the different asset categories into which the plan assets are divided:

	Dec 31, 2019
Asset Category:	
Equity securities	5%
Debt instruments	6%
Property	5%
Others	84%
	100%

The asset category "Others" mainly consists of reinsurance policy from the German company. They do not include financial instruments issued by companies in the group or properties used by group companies. Plan assets serve solely to meet the defined benefit obligations. Funding these benefit obligations with assets provides security for future payments. Except for the swiss pension plan this takes place on a voluntary basis.

In addition to various actuarial risks such as interest rate risk, life-expectancy risk and the risk of inflations, the pension plans expose the group also to financial risks in connection with plan assets. The return on plan assets is assumed at the beginning of the period to be the discount rate, which was determined for the plan liabilities. The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. If the actual return on plan assets is less than the discount rates applied, the net obligation from the pension plan increases.

The amount of the net obligation depends to a large extent on the rates of interest, whereby the currently low-interest environment results in a relatively high net obligation. If yields on corporate bonds continue to decline, this would lead to a further increase in defined-benefit obligations, which could probably only be partly offset by positive developments in the market value of the corporate bonds held in plan assets.

Expected benefit payments for the year 2020 are k€ 1,030. The expected plan asset contributions amount to k€ 20.

The weighted duration of pension obligations was 14.96 years as of December 31, 2019.

21 Provisions for other liabilities and charges

	Anniversary bonus	Non-competition clause	Onerous contracts	GOP guarantee	Bonuses and severance payments	Restructuring expenses	Operating lease maintenance	Other	Total
Jan 01, 2019	7,404,325	2,405,540	–	162,534	5,946,031	203,670	441,454	5,652,517	**22,216,071**
Reclassifications	–	–	–	–	–	–	–	–	**–**
Change in scope of consolidation	–	–	–	–	–	–	–	–	**–**
Charged/(credited) to the income statement:									
– Additions	988,575	152,167	145,119	–	5,399,848	–	569,476	3,888,378	**11,143,562**
– Amounts reversed unused	–	–	–	–	(378,499)	–	(74,724)	(700,649)	**(1,153,872)**
– Unwinding of discount	272,734	73,107	–	–	–	–	–	3,886	**349,727**
– Exchange differences	546	–	–	6,209	–	–	–	47	**6,802**
Used during year	(395,920)	(149,642)	–	(168,743)	(5,529,173)	(203,670)	(190,902)	(3,408,608)	**(10,046,658)**
Dec 31, 2019	8,270,261	2,481,172	145,119	–	5,438,207	–	745,304	5,435,570	**22,515,633**
Analysis of total provisions:									
Current	617,767	149,642	145,119	–	5,438,207	–	745,304	5,319,852	**12,415,890**
Non-current	7,652,495	2,331,530	–	–	–	–	–	115,718	**10,099,743**
	8,270,261	**2,481,172**	**145,119**	**–**	**5,438,207**	**–**	**745,304**	**5,435,570**	**22,515,633**

Expected timing of outflows of economic benefits:

	Anniversary bonus	Non-competition clause	Onerous contracts	GOP guarantee	Bonuses and severance payments	Restructuring expenses	Operating lease maintenance	Other	Total
2020	617,767	149,642	145,119	–	5,438,207	–	745,304	5,319,852	**12,415,890**
2021	1,326,141	120,000	–	–	–	–	–	25,715	**1,471,856**
2022	1,438,167	120,000	–	–	–	–	–	25,715	**1,583,882**
2023	1,511,654	120,000	–	–	–	–	–	25,715	**1,657,369**
2024	1,454,145	120,000	–	–	–	–	–	25,715	**1,599,860**
2023 or later	1,922,388	1,851,530	–	–	–	–	–	12,858	**3,786,776**
Total	**8,270,261**	**2,481,172**	**145,119**	**–**	**5,438,207**	**–**	**745,304**	**5,435,570**	**22,515,633**

21 Provisions for other liabilities and charges (Continued)

The expected outflows after 2019 will increase by the unwinding of discounts in the future.

The employees of Steigenberger are entitled to receive special bonuses for long years of service. The provisions for service anniversary bonuses have been valued on the basis of an actuarial report with the present-value method using the 2018 G mortality tables of Prof. Dr. Klaus Heubeck and a discount rate of 0.76% per annum.

The provision for non-competition clause relates to an agreement with members of the Steigenberger family to refrain from commercial use of the name Steigenberger in exchange for periodic non-competition payments.

Provisions for warranties relate to current volumes of services sold by Steigenberger and are based on an estimate of costs to remedy the various qualitative issues that might occur weighted with a probability that any of these issues might occur.

Bonuses and severance payments comprise employee bonus and termination payments for members of the Management Board and employees.

Provisions for operating lease maintenance provide for the contractual obligations of periodic maintenance.

Other provisions include several smaller items. The unwinding of discount is included in finance expenses.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

22 Revenues

In relation to IFRS 15 Revenue from Contracts with Customers, Steigenberger Group classifies revenue among the following business models:

	Jan 1, 2019-Dec 31, 2019
Accommodation, Food & Beverages	457,844,902
Franchise Fees	4,991,965
Management Fees	6,159,489
Hotel services and other	1,807,659
Total	**470,804,015**

Upon receipt the invoices for accommodation and events becomes due for payments immediately, without deduction. Franchise and Management Fees shall be settled by the contractual partner within thirty days of receipt of the invoice.

22 Revenues (Continued)

The satisfaction of performance obligations usually correlates with the completion of the service. Payment is usually performed prior to the satisfaction of performance obligations (Pre-payments) or when the service has been rendered. The opening and closing balance of contract liabilities and contract assets were as follows:

	Contract liabilities	Contract assets
Opening balance as of Jan 1, 2019	19,174,784	289,709
Closing balance as of Dec 31, 2019	28,581,271	445,584

Contract liabilities mainly include advance payments. The additions amount to k€ 28,101 and the reductions are k€ 18,694.

In specific contracts, Steigenberger Group has agreed to minimum franchise or management fees to be paid by the contractual partner over the contract term. The transaction price to unfulfilled performance obligations in relation to those contracts were as follows:

Transaction price outstanding as of Dec 31, 2019	18,744,245
thereof to be recognized within 1 year	5,826,188
thereof to be recognized after 1 year	12,918,057

23 Other operating income

	Jan 1, 2019-Dec 31, 2019
Compensation received for damages (reimbursement of insurance claims and compensation for no-show)	9,627,481
Bonuses from suppliers	125,888
Recharge of administrative and personnel costs	41,516
Sales & services to staff	1,731,688
Reversal of provisions	1,153,872
Recharge of other costs	1,042,501
Release of specific allowances	789,979
Miscellaneous other operating income	12,871,768
Total	**27,384,693**

24 Personnel expenses

	Jan 1, 2019-Dec 31, 2019
Wages and salaries	121,932,765
Social security costs	23,447,925
Costs for pensions and other benefits	1,358,010
Total	**146,738,700**

In the reporting period 2019 the annual average number of employees was 3,335.

25 Other operating expenses

	Jan 1, 2019-Dec 31, 2019
Variable and other lease expenses	25,191,720
Repair & maintenance	20,709,077
Travel agency commissions	20,552,480
Administration costs	13,906,421
Marketing expenses	9,107,557
Legal and consulting expenses	7,987,582
Other expense staff (catering staff)	8,007,806
Cost of entertainment (music, decoration, etc.)	2,503,800
Car expenses	763,627
Travelling expenses	1,497,058
Others	7,805,875
Total	**118,033,005**

The lease and rent expenses cover the rent costs of variable lease payments and not capitalized low-value and short-term assets.

26 Finance income and expenses

Finance Income	Jan 1, 2019-Dec 31, 2019
Interest income on loans	334,768
Income from investments	1,691,202
Others	51,075
Subtotal	**2,077,044**

Finance Expenses	Jan 1, 2019-Dec 31, 2019
Interest expenses on lease liabilities	52,463,655
Interest expenses on other provisions	349,727
Interest expenses on pension provisions	321,646
Interest expenses on tax audit	96,587
Others	923,591
Subtotal	**54,155,206**
Net finance expenses	**(52,078,162)**

The net finance expenses do not include any foreign exchange differences.

27 Income taxes

The analysis of income taxes is as follows:

(+ expenses/- income) *(all amounts in k€)*	**Jan 1, 2019-Dec 31, 2019**
Current taxes	
Germany	6,553,715
Other countries	830,774
	7,384,489
Deferred taxes	
Germany	-9,381,074
Other countries	-43,575
	-9,424,649
Total	**-2,040,160**

Steigenberger Group's combined group statutory income tax rate for the reporting period 2019 amounted to 31.37%, comprising corporate income tax at a rate of 15%, the solidarity surcharge of 5.5% on corporate income tax, and adjusted trade income tax at an average multiplier of 444.2%.

The tax on the group's profit before tax differs from the theoretical amount that would arise using the group tax rate applicable to profits of the consolidated entities as follows:

(All amounts in €)	**Jan 1, 2019-Dec 31, 2019**
Loss before income taxes	**-16,430,100**
Group tax rate	31.37%
Tax at Germany's combined statutory income tax rate	**-5,154,122**
Change in liability for prior year tax	616,588
Tax effect of income that is not taxable for income tax purposes	-484,569
Recognition/use of previously unrecognised tax losses	-13,105
Tax effect of expenses that are not deductible for income tax purposes	2,399,610
Additional local taxes	27,892
Effects from tax rate differences	-72,438
Deductible temporary difference and tax losses, for which no DTA was recognized	393,924
Other adjustments	246,062
Income taxes (+ expenses/- income)	**-2,040,160**

During the reporting period k€ 677 deferred income taxes relating on the remeasurement of post employment benefit obligations and fair value adjustments have been recorded directly in other comprehensive income.

OTHER NOTES

28 Commitments

Steigenberger Hotels Aktiengesellschaft has assumed several guarantees and issued letters of guarantee for subsidiaries for the purposes of their business expansion. The guarantees that the company granted to third parties amounted to k€ 3,003. Provisions for these nominal contingent liabilities were not recorded as it is, on the basis of current planning calculations, are not expected to be utilized or burden the company.

The risk of utilization of the guarantees and letters of guarantee granted and, consequently, the risk of an outflow of liquidity is contrasted by the advantage provided by a possible extension of the group companies or management operations without external financing.

In their capacity as providers of hotel operations, the companies of the Steigenberger Group conclude long-term lease agreements with the hotel owners. While the lease periods involve a location-related risk, they serve to improve liquidity planning and facilitate strategic investment decisions.

29 Information on the consolidated statement of cash flows

The changes in lease liabilities arising from financing activities can be reconciled as follows:

	January 1, 2019	Cash flows*	New leases	Other	December 31, 2019
Current lease liabilities	**33,165,085**	-33,391,401	377,821	40,530,085	**40,681,590**
Non-current lease liabilities	**1,411,687,384**	–	1,044,423	-40,530,084	**1,372,201,723**
Total liabilities from financing activities	**1,444,852,470**	**-33,391,401**	**1,422,244**	**0**	**1,412,883,313**

* Consideration of principal payments without interest portion

In the cash flow statement a distinction is made between payment flows from operating activities, investing activities and financing activities.

Cash flows from operating activities represent the cash effects of transactions and other events relating to the principal revenue-producing activities. Cash flows from interests paid and received are included in operating activities. The cash flow from operating activities is reported using the indirect method. Please refer to the primary statement for further details.

The cash flows from investing activities is almost covered by the cash flow from operating activities, thus no additional external financing was necessary. The outflow from financing activities relates to the principal and interest of lease liabilities for the reporting period.

For the purpose of the statement of cash flows "cash and cash equivalents" is used as stated in the consolidated balance sheet.

30 Related party transactions

The following transactions were carried out with related parties:

(i) Sales of goods and services *(in EUR)*	**Jan. 1, 2019-Dec. 31, 2019**	
	Joint Ventures	**Ultimate parent company**
Sales of goods and services to joint ventures and related parties:		
SME	29,409	
D.H. Deutsche Hospitality Limited		271,994
Sourcify GmbH[1])	133,100	
	162,509	271,994

(ii) Outstanding balances arising from sale/purchase of goods/services *(in EUR)*	**Dec 31, 2019**	
	Joint Ventures	**Ultimate parent company**
Receivables due from joint ventures and related parties:		
SME	257,302	
D.H. Deutsche Hospitality Limited		5,994,827
Sourcify GmbH[1])	236,448	
	493,749	5,994,827
Payables due to joint ventures and related parties:		
SME	(60,257)	
Zleep Hotels A/S, Taastrup, Dänemark[2])	(13,606)	
	(73,864)	–

With respect to the loans interest income amounting to k€ 334 was reported within finance income.

(iii) Loans *(in EUR)*	**Dec 31, 2019**	
	Joint Ventures	**Ultimate parent company**
D.H. Deutsche Hospitality Limited		3,937,842
Sourcify GmbH[1])	75,000	
	75,000	**3,937,842**

30 Related party transactions (Continued)

(iv) Directors' remuneration *(in EUR)*	**Jan. 1, 2019-Dec. 31, 2019**
The total remuneration of the directors was as follows:	1,630,864
	1,630,864

(1) Acquisition of the shares in 2018

(2) Acquisition of the shares in 2019

Goods and services are sold to joint ventures on normal commercial terms and conditions. Sales to associates mainly consist of management fees.

Directors' remuneration represents only short-term employee benefits. The pension expenses are k€ 404.

Compensation expenses for supervisory board members in 2019 amount to k€ 405 and relate to short-term services.

31 Events after the balance sheet date

The following events of particular significance occurred after the end of the 2019 financial year:

- **Shareholder Change**

  On January 2, 2020, the leading hotel operator and franchisor Huazhu Group acquired effectively 100% shares of Steigenberger Hotels AG via the company Huazhu GmbH & Co. KG (Frankfurt am Main). Huazhu is one of the most successful hotel companies worldwide, with more than 5,000 hotels in over 400 cities. Its loyalty program boasts more than 139 million members. Huazhu operates 18 brands across market segments covering economy to upscale and servicing the needs of business and leisure travelers. Huazhu is also the ninth largest hotel company in the world by room count and the fifth largest by market capitalization. Deutsche Hospitality brands complement those of Huazhu, and the merged portfolio will be able to offer a wider range of brand choice to travelers, owners and franchisees. The acquisition of Deutsche Hospitality accelerates Huazhu's expansion strategy, driving revenue growth in the upscale segment in Asia, including China, while expanding Huazhu's international footprint.

- **Business Pipeline**

  January 2020 saw the conclusion of a lease agreement for a Zleep Hotel Frankfurt Airport in Kelsterbach (165 rooms). The hotel is planned to be opened in 2022.

31 Events after the balance sheet date (Continued)

- **Business Pipeline (Continued)**

  February 2020 a lease contract was signed for a Zleep Hotel in Prague with 170 rooms. Furthermore, a lease agreement was concluded for the Steigenberger Kongresshotel Gateway Gardens in Frankfurt near the airport with 527 rooms. The opening of these two Hotels will be expected in 2024.

  In 2020 the both Intercity Hotels Hannover central station as well as Hamburg Barmbeck will be opened.

- **Zleep Hotels**

  Steigenberger Hotels AG was informed by the minority shareholder of the Zleep Hotels A/S with the letter dated February 11, 2020, that he intended to exercise the agreed put option for the 49% shares. The letter is under legal review.

- **Corona Crisis and Going Concern**

  In the first weeks of 2020, the Corona crisis broke out in the Europe and worldwide. The Deutsche Hospitality suffers the economic consequences throughout the hotel industries from the drastic measures such as the travel restrictions, quarantines, lockdown of cities and tourist attractions, cancellation of events and thus booking declines and reservation reversals. At the end of first quarter, almost all the hotels of the group were forced to be closed step by step given the fact that the great concerns and issues for public health and emergency were rising. The group is facing declines in revenues and earnings in the first quarter in 2020. Regarding the current business restrictions and regulations, the management evaluates the worst-case scenario in revenues, assets and earnings and going concern issue on a weekly basis and handles the crisis actively mainly from the following perspectives:

  (a) Financing/Funding Arrangements with the Banks and the Shareholder

  The group applied a loan contract with KfW in the amount of m€ 35 with a duration of 60 months and entered into a loan contract with Commerzbank in the amount of m€ 12. Huazhu Group scheduled to issue a shareholder loan in amount of m€ 20 with a term of 12 months. The first tranche in amount of m€ 5 was via wire transferred.

  (b) Letter of Guarantee from the Shareholder

  China Lodging issued a Letter of Guarantee to ensure the liquidity of the group to meet all its obligations as fall for the next twelve months.

  (c) Deferred Payment Condition agreed with Business Partners

  In agreement with the lessors, most of the lease payments are deferred from April to July 2020. Current status and assumption of the measurements is to repay the deferred payments beginning of January 2021 and amortise repayment over the residual contract term. In order to support the franchise and management contract business partners, the group extended temporarily payment deadlines. All the deferred payment are without interest considerations.

31 Events after the balance sheet date (Continued)

- **Corona Crisis and Going Concern (Continued)**

  (d) Internal Cost Control

  The measure "short-time work" has been taken throughout the corporate offices and hotels in Germany as well as in other countries in various forms. The statutory short-time allowance has been claimed and collected. Special processes for safe health reason were implemented to ensure the critical work. Most of the associates are equipped to work from home office. The associates get overtime compensation through time off. The top management have taken voluntary salary cuts. There are further cost controls like recruitment freeze, postponed bonus payment and promotion stop.

  The investment plans and construction projects are temporarily postponed.

  (e) Using Tax Advantages from the Tax Authorities

  The advance payment for corporation income tax is applied to be reduced according to the Corona tax policies. The social security contribution payments are suspended.

  Based on the substantial measures carried out, the management is confident of group's cashflow situation through the crisis and assume group's positive going concern for the next twelve months. However, this worldwide public crisis triggers unavoidably impairment considerations to some content in 2020. An estimate of the financial effect cannot be made at this point.

REPORT OF INDEPENDENT AUDITORS

To the Steigenberger Hotels Aktiengesellschaft, Frankfurt/Main

We have audited the accompanying consolidated financial statements of Steigenberger Hotels Aktiengesellschaft, Frankfurt/Main, and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of December 31, 2019 and the related consolidated income statement, consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, including the related notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As discussed in Note 1, the accompanying consolidated financial statements do not include comparative figures for the prior year as required by IAS 1, 'Presentation of financial statements', which constitute a departure from International Financial Reporting Standards as issued by the International Accounting Standards Board.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Steigenberger Hotels Aktiengesellschaft and its subsidiaries as of December 31, 2019 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Frankfurt/Main, April 30, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

/s/ Thomas Heck
Wirtschaftsprüfer
(German Public Auditor)

/s/ ppa. Sonia Nixdorf
Wirtschaftsprüferin
(German Public Auditor)

The following is the text of a report set out on pages IC-1 to IC-2 received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. The information set out on pages IC-3 to IC-9 is the unaudited interim condensed consolidated financial information of the Group for the three months ended June 30, 2020, and does not form part of the Accountants' Report from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, as set out in Appendix IA to this prospectus, and is included herein for information purpose only.

Deloitte. 德勤

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF HUAZHU GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim condensed consolidated financial information of Huazhu Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages IC-3 to IC-9, which comprise the condensed consolidated balance sheet of the Group as of June 30, 2020 and the related condensed consolidated statement of comprehensive income (loss), and condensed consolidated statement of cash flows of the Group for the three-month period then ended and the explanatory note. The directors of the Company are responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("HKSRE 2410") issued by the Hong Kong Institute of Certified Public Accountants. A review of these interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As explained in Note 1 to the interim condensed consolidated financial information, the interim condensed consolidated financial information does not contain all the minimum disclosures of summarized interim financial data required by Accounting Standards Codification 270, Interim Reporting issued by the Financial Accounting Standards Board. It is not practical for us to quantify the extent of this omission.

Qualified Conclusion

Based on our review, except for the effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial information is not prepared, in all material respects, in accordance with U.S. GAAP.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
September 11, 2020

Unaudited Condensed Consolidated Balance Sheets
(RMB in millions, unless otherwise stated)

	As of December 31, 2019	As of June 30, 2020	
		(Unaudited)	*(US$ in million)*
ASSETS			
Current Assets:			
Cash and cash equivalents	3,234	3,699	524
Restricted cash	10,765	1,368	194
Short-term investments	2,908	1,504	213
Account receivable, net	218	426	60
Loan receivables, net	193	238	34
Amounts due from related parties	182	182	26
Inventories	57	92	13
Income tax receivables	–	3	0
Other current assets, net	699	854	121
Total current assets	18,256	8,366	1,185
Property and equipment, net	5,854	6,568	930
Intangible assets, net	1,662	5,928	839
Operating lease right-of-use assets	20,875	29,321	4,150
Finance lease right-of-use assets	–	1,792	254
Land use rights, net	215	211	30
Long-term investments	1,929	1,888	267
Goodwill	2,657	5,402	765
Loan receivables, net	280	270	38
Other assets, net	707	740	105
Deferred tax assets	548	857	121
Total assets	52,983	61,343	8,684
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term debt	8,499	5,821	824
Accounts payable	1,176	1,343	190
Amounts due to related parties	95	92	13
Salary and welfare payables	491	505	72
Deferred revenue	1,179	1,280	181
Operating lease liabilities, current	3,082	3,452	489
Finance lease liabilities, current	–	27	4
Accrued expenses and other current liabilities	1,856	1,700	241
Dividends payable	678	–	–
Income tax payable	231	131	18
Total current liabilities	17,287	14,351	2,032

Unaudited Condensed Consolidated Balance Sheets (Continued)
(RMB in millions, unless otherwise stated)

	As of December 31, 2019	As of June 30, 2020	
		(Unaudited)	*(US$ in million)*
Long-term debt	8,084	9,240	1,308
Operating lease liabilities, non-current	18,496	27,553	3,900
Finance lease liabilities, non-current	–	2,210	313
Deferred revenue	559	553	78
Other long-term liabilities	566	687	97
Retirement benefit obligations	–	123	17
Deferred tax liabilities	491	1,820	258
Total liabilities	45,483	56,537	8,003
Equity:			
Ordinary shares	0	0	0
Treasury shares	(107)	(107)	(15)
Additional paid-in capital	3,834	3,901	552
Retained earnings	3,701	1,011	144
Accumulated other comprehensive income (loss)	(49)	(69)	(10)
Total Huazhu Group Limited shareholders' equity	7,379	4,736	671
Noncontrolling interest	121	70	10
Total equity	7,500	4,806	681
Total liabilities and equity	52,983	61,343	8,684

Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)
(RMB in millions, except share and per share data, unless otherwise stated)

	For the three months ended June 30		
	2019	2020	
			(US$ in million)
	(Unaudited)	(Unaudited)	
Revenue			
Leased and owned hotels	2,001	1,236	175
Manachised and franchised hotels	803	676	96
Others	55	41	6
Net revenues	2,859	1,953	277
Operating costs and expenses:			
Hotel operating costs:			
Rents	646	833	118
Utilities	79	91	13
Personnel costs	453	508	72
Depreciation and amortization	237	320	45
Consumables, food and beverage	201	185	26
Others	127	198	28
Total hotel operating costs	1,743	2,135	302
Other operating costs	17	7	1
Selling and marketing expenses	102	107	15
General and administrative expenses	247	263	37
Pre-opening expenses	122	99	14
Total operating costs and expenses	2,231	2,611	369
Other operating income, net	29	164	23
Income (Loss) from operations	657	(494)	(69)
Interest income	41	26	4
Interest expense	(83)	(142)	(20)
Other income, net	135	21	3
Unrealized gains (losses) from fair value changes of equity securities	149	(34)	(5)
Foreign exchange gain (loss)	35	34	5
Income (Loss) before income taxes	934	(589)	(82)
Income tax (expense) benefit	(286)	68	10
Income (Loss) from equity method investments	(43)	(33)	(5)
Net income (loss)	605	(554)	(77)
Net loss attributable to noncontrolling interest	8	6	1
Net income (loss) attributable to Huazhu Group Limited	613	(548)	(76)

Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) (Continued)
(RMB in millions, except share and per share data, unless otherwise stated)

	For the three months ended June 30		
	2019	2020	
			(US$ in million)
	(Unaudited)	(Unaudited)	
Other comprehensive income:			
Gain arising from defined benefit plan, net of tax	–	4	1
Foreign currency translation adjustments, net of tax	(64)	43	6
Comprehensive income (loss)	541	(507)	(70)
Comprehensive loss attributable to noncontrolling interest	8	6	1
Comprehensive income (loss) attributable to Huazhu Group Limited	549	(501)	(69)
Earnings (Losses) per share/ADS:			
Basic	2.16	(1.91)	(0.27)
Diluted	2.05	(1.91)	(0.27)
Weighted average number of shares used in computation:			
Basic	284,029,267	286,473,344	286,473,344
Diluted	304,526,084	286,473,344	286,473,344

Unaudited Condensed Consolidated Statements of Cash Flows
(RMB in millions, unless otherwise stated)

	For the three months ended June 30		
	2019	2020	
			(In millions of US$)
	(Unaudited)	(Unaudited)	
Operating activities:			
Net income (loss)	605	(554)	(77)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Share-based compensation	31	38	5
Depreciation and amortization, and other	252	359	51
Impairment loss	–	16	2
Loss from equity method investments, net of dividends	43	33	5
Investment (income) loss	(194)	(11)	(1)
Changes in operating assets and liabilities	382	470	66
Other	42	161	23
Net cash provided by operating activities	1,161	512	74
Investing activities:			
Capital expenditures	(301)	(339)	(48)
Acquisitions, net of cash received	(25)	(0)	(0)
Purchase of long-term investments	(148)	(0)	(0)
Proceeds from maturity/sale of long-term investments	–	35	5
Loan advances	(149)	(24)	(3)
Loan collections	66	47	6
Other	4	–	–
Net cash used in investing activities	(553)	(281)	(40)
Financing activities:			
Net proceeds from issuance of ordinary shares upon exercise of options	7	0	0
Proceeds from debt	1,682	4,291	607
Repayment of debt	(2,756)	(2,930)	(414)
Other	13	(12)	(2)
Net cash (used in) provided by financing activities	(1,054)	1,349	191

Unaudited Condensed Consolidated Statements of Cash Flows (Continued)
(RMB in millions, unless otherwise stated)

	For the three months ended June 30		
	2019	2020	
			(In millions of US$)
	(Unaudited)	(Unaudited)	
Effect of exchange rate changes on cash, cash equivalents and restricted cash	54	12	2
Net (decrease) increase in cash, cash equivalents and restricted cash	(392)	1,592	227
Cash, cash equivalents and restricted cash at the beginning of the period	4,457	3,475	491
Cash, cash equivalents and restricted cash at the end of the period	4,065	5,067	718

NOTE TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PREPARATION

Huazhu Group Limited (the "Company") was incorporated in the Cayman Islands under the laws of the Cayman Islands on January 4, 2007. The principal business activities of the Company and its subsidiaries and consolidated variable interest entities (the "Group") are to develop leased and owned, manachised and franchised hotels mainly in the People's Republic of China ("PRC").

The interim condensed consolidated financial information of the Group for the three months ended June 30, 2020 has been prepared solely for the purpose of inclusion of certain financial information of the Group in the prospectus of the Company issued on September 11, 2020.

The interim condensed consolidated financial information of the Group has been prepared in accordance with the accounting principles generally accepted in the United States of America ("U.S. GAAP") except that the interim condensed consolidated financial information does not contain all the minimum disclosures of summarized interim financial data required by Accounting Standards Codification 270, Interim Reporting issued by the Financial Accounting Standards Board.

The information presented in Section C of this Appendix II is included on a voluntary basis and is not required to be disclosed under Chapter 4 of the Hong Kong Listing Rules as stated in the section headed "Waivers and Exemptions – Pro forma financial information" of this prospectus. The Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 4.29(1) and 4.29(6)(b) of the Hong Kong Listing Rules for the inclusion of Deutsche Hospitality Pro Forma in this Appendix II.

The information set out in this appendix does not form part of the accountants' report on the historical financial information of the Group for the each of the three years ended December 31, 2019 and for the three months ended March 31, 2020 (the "Accountants' Report") prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of Huazhu Group Limited (the "Company"), as set forth in Appendix IA to this prospectus and is included in this prospectus for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" of this prospectus and the Accountants' Report as set forth in Appendix IA, audited consolidated financial statements of Steigenberger Hotels Aktiengesellschaft (the "Deutsche Hospitality") as of and for the twelve months ended December 31, 2019 as set forth in Appendix IB and unaudited condensed consolidated financial information of the Group as of and for the three months ended June 30, 2020 as set forth in Appendix 1C to this prospectus.

For illustrative purpose only, the unaudited pro forma financial information in Section A below prepared in accordance with Rule 4.29 of the Listing Rules is set out here to provide prospective investors with further financial information on how the Global Offering might have affected the financial position of the Group as if the Global Offering had taken place on June 30, 2020; and the unaudited pro forma financial information in Section C below is set out here to provide prospective investors with further financial information on how the acquisition of Deutsche Hospitality (the "Acquisition"), which took place on January 2, 2020 might have affected the financial performance of the Group for the year ended December 31, 2019 and the financial position of the Group as of December 31, 2019 as if the Acquisition had taken place on January 1, 2019 and December 31, 2019 respectively.

The accompanying unaudited pro forma financial information of the Group and the Enlarged Group (as defined in section C below) which includes Deutsche Hospitality is based on currently available information along with a number of assumptions, estimates and uncertainties. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Group and the Enlarged Group has been prepared for illustrative purpose only and because of its hypothetical nature, it does not purport to describe the actual results of the Group that would have been attained had the Global Offering and the Acquisition taken effect at the dates indicated herein.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS LESS LIABILITIES OF THE GROUP ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY

The following unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to ordinary shareholders of the Company prepared in accordance with Rule 4.29 of the Listing Rules is set out to illustrate the effect of the Global Offering on the unaudited consolidated net tangible assets less liabilities of the Group attributable to the ordinary shareholders of the Company as of June 30, 2020, as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to ordinary shareholders of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets less liabilities of the Group, had the Global Offering been completed as of June 30, 2020 or at any future dates. It is prepared based on the unaudited consolidated net tangible assets less liabilities of the Group attributable to ordinary shareholders of the Company as of June 30, 2020 as derived from Appendix IC to this prospectus, and adjusted as described below.

	Unaudited consolidated net tangible assets less liabilities of the Group attributable to ordinary shareholders of the Company as of June 30, 2020	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to ordinary shareholders of the Company as of June 30, 2020	Unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to ordinary shareholders of the Company per Share	Unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to ordinary shareholders of the Company per ADS	Unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to ordinary shareholders of the Company per Share	Unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to ordinary shareholders of the Company per ADS
	(in millions of RMB) (Note 1)	*(in millions of RMB) (Note 2)*	*(in millions of RMB)*	*RMB (Note 3)*	*RMB (Note 4)*	*HK$ (Note 5)*	*HK$ (Note 5)*
Based on the indicative offer price of HK$368.00 per Offer Share	(6,594)	6,497	(97)	(0.32)	(0.32)	(0.36)	(0.36)

Notes:

(1) The unaudited consolidated net tangible assets less liabilities of the Group attributable to ordinary shareholders of the Company as of June 30, 2020 is derived from Appendix IC to this prospectus, which is based on the unaudited consolidated net assets of the Group attributable to ordinary shareholders of the Company as of June 30, 2020 of RMB4,736 million with adjustments for goodwill and intangible assets attributable to the ordinary shareholders of the Company of RMB5,402 million and RMB5,928 million, respectively.

(2) The estimated net proceeds from the Global Offering are based on 20,422,150 Offer Shares at the indicative offer price of HK$368.00 per Offer Share after deduction of the estimated listing and share issue costs (including underwriting fees and other related expenses) expected to be incurred by the Company subsequent to June 30, 2020 and without taking into account any allotment, issuance of any Shares upon the conversion of the Company's convertible senior notes due 2022 or convertible senior notes due 2026 and issuance of any Shares upon the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of restricted stocks ("RSs") or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs by the Company. For the purpose of calculating the estimated net proceeds from the Global Offering, the translation of Hong Kong dollars into Renminbi was made at the exchange rate of HK$1.00 to RMB0.8857, which is derived from the respective exchange rate of Hong Kong dollars and Renminbi against U.S. Dollars on August 28, 2020 set forth in the H.10 statistical release of the Federal Reserve Board. No representation is made that Hong Kong dollars have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

(3) The unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to ordinary shareholders of the Company per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 306,926,800 Shares were in issue assuming that the Global Offering had been completed on June 30, 2020 without taking into account any allotment, issuance of any Shares upon the conversion of the Company's convertible senior notes due 2022 or convertible senior notes due 2026 and issuance of any Shares upon the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of RSs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs by the Company.

(4) The unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to ordinary shareholders of the Company per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents one Share.

(5) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to ordinary shareholders of the Company, the balances stated in Renminbi are converted into Hong Kong dollars at the exchange rate of RMB1.00 to HK$1.1290, which is derived from the respective exchange rate of Hong Kong dollars and Renminbi against U.S. Dollars on August 28, 2020 set forth in the H.10 statistical release of the Federal Reserve Board. No representation is made that Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.

(6) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to the ordinary shareholders of the Company to reflect any trading result or other transactions of the Group entered into subsequent to June 30, 2020.

B. REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information presented in Section A above prepared for the purpose of incorporation in this prospectus.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF HUAZHU GROUP LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Huazhu Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets less liabilities as at June 30, 2020 and related notes as set out on pages II-1 to II-3 of Appendix II to the prospectus issued by the Company dated September 11, 2020 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-3 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of Global Offering on the Group's financial position as at June 30, 2020 as if the Global Offering had taken place at June 30, 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's unaudited condensed consolidated financial information as of and for the three months ended June 30, 2020, on which a review report set out in Appendix IC to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at June 30, 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
September 11, 2020

C. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) Basis of Preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group

The following is an illustrative of the unaudited pro forma financial information of the Group upon completion of the acquisition of all shares in Deutsche Hospitality, comprising the unaudited pro forma consolidated statement of income for the year ended December 31, 2019 and the unaudited pro forma consolidated balance sheet as of December 31, 2019 of the Group including Deutsche Hospitality (collectively the "Enlarged Group") (collectively the "Unaudited Pro Forma Financial Information of the Enlarged Group"). The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared in accordance with paragraph 4.29 of the Listing Rule with consideration of the waiver obtained from strict compliance with Rules 4.29(1) and 4.29(6)(b) of the Hong Kong Listing Rules for the inclusion of Deutsche Hospitality pro forma financial information for the purpose of illustrating the effect of the acquisition of all shares in Deutsche Hospitality as if the Acquisition had been taken place on January 1, 2019 for the unaudited pro forma consolidated statement of income for the year ended December 31, 2019 and on December 31, 2019 for the unaudited pro forma consolidated balance sheet of the Enlarged Group as of December 31, 2019.

The Unaudited Pro Forma Financial Information of the Enlarged Group is prepared based on (i) the audited consolidated statement of comprehensive income (loss) of the Group for the year ended December 31, 2019 and the audited consolidated balance sheet of the Group as of December 31, 2019 as extracted from the Accountants' Report of the Group as set out in Appendix IA to this prospectus; and (ii) the audited consolidated income statement of Deutsche Hospitality for the year ended December 31, 2019 and the audited consolidated balance sheet of Deutsche Hospitality as of December 31, 2019 as extracted from the consolidated financial statements of Deutsche Hospitality as set out in Appendix IB to this prospectus. Unaudited pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition; (ii) factually supportable as if the Acquisition had been undertaken on January 1, 2019 for the unaudited pro forma consolidated statement of income and on December 31, 2019 for the unaudited pro forma consolidated balance sheet; and (iii) with respect to unaudited pro forma consolidated statement of income, except for the pro forma adjustment on elimination of the transaction costs set out in Note [E], have a continuing impact on consolidated results of the Enlarged Group.

The historical financial statements of the Group were prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The historical financial statements of Deutsche Hospitality were prepared in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and were originally presented in Euro (EUR). For the pro forma consolidated statement of income for the year ended December 31, 2019 and the pro forma balance sheet as of December 31, 2019, the Deutsche Hospitality statements have been converted into U.S. GAAP, and converted to Renminbi (RMB) using an exchange rate of 7.8160, which is derived from the respective exchange rate of European dollars and Renminbi against U.S. Dollars on December 31, 2019 set forth in the H.10 statistical release of Federal Reserve Board.

There were no transactions between the Group and Deutsche Hospitality during the period presented in the Unaudited Pro Forma Financial Information of the Enlarged Group that would need to be eliminated.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared by the directors of the Company (the "Directors") based on a number of assumptions, estimates and uncertainties for illustrative purposes only and, because of its hypothetical nature, it does not purport to give a true picture of the actual results of the Enlarged Group for the year ended December 31, 2019 that would have been attained had the Acquisition been completed on January 1, 2019 and the financial position of the Enlarged Group as of December 31, 2019 that would have been attained had the Acquisition been completed on December 31, 2019. Further, the Unaudited Pro Forma Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial results.

(2) Unaudited Pro Forma Financial Information of the Enlarged Group

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME OF THE ENLARGED GROUP FOR THE YEAR ENDED DECEMBER 31, 2019 (In millions, except share and per share data)

		Deutsche Hospitality						
	The Group	IFRS	GAAP Adjustment/ Conforming	U.S. GAAP	U.S. GAAP	Pro Forma Adjustments	Notes	Pro Forma Results
	Note [A] *RMB*	*Note [B]* *EUR*	*Note [C]* *EUR*	*EUR*	*RMB*	*RMB*		*RMB*
Revenues:								
Leased and owned hotels	7,718	–	470	470	3,674	–		11,392
Manachised and franchised hotels	3,342	–	11	11	86	–		3,428
Others	152	–	3	3	23	–		175
Revenues	–	471	(471)	–	–	–		–
Total revenues	11,212	471	13	484	3,783	–		14,995
Other operating income	–	27	(27)	–	–	–		–
Operating costs and expenses:								
Hotel operating costs	7,190	–	393	393	3,072	19	[D]	10,281
Other operating costs	57	–	–	–	–	–		57
Selling and marketing expenses	426	–	50	50	391	–		817
General and administrative expenses	1,061	–	43	43	336	(70)	[E]	1,327
Pre-opening expenses	502	–	0	0	0	–		502
Other operating expenses	–	118	(118)	–	–	–		–
Cost of materials and services	–	110	(110)	–	–	–		–
Personnel expenses	–	147	(147)	–	–	–		–
Depreciation, amortization and impairment	–	86	(86)	–	–	–		–
Total operating costs and expenses	9,236	461	25	486	3,799	(51)		12,984
Other operating income (expenses), net	132	–	15	15	117	–		249

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME OF THE ENLARGED GROUP
FOR THE YEAR ENDED DECEMBER 31, 2019 (Continued)
(In millions, except share and per share data)

		Deutsche Hospitality						
	The Group	IFRS	GAAP Adjustment/ Conforming	U.S. GAAP	U.S. GAAP	Pro Forma Adjustments	Notes	Pro Forma Results
	Note [A]	*Note [B]*	*Note [C]*					
	RMB	*EUR*	*EUR*	*EUR*	*RMB*	*RMB*		*RMB*
Income (Loss) from operations	2,108	37	(24)	13	101	51		2,260
Interest income	160	–	0	0	0	–		160
Interest expenses	315	–	13	13	102	–		417
Other income (expense), net	331	–	0	0	0	–		331
Unrealized gains (losses) from fair value changes of equity securities	316	–	2	2	16	–		332
Foreign exchange (loss)	(35)	–	(0)	(0)	(0)	–		(35)
Finance income	–	2	(2)	–	–	–		–
Finance expenses	–	54	(54)	–	–	–		–
Share of profit (loss) of associates	–	(1)	1	–	–	–		–
Income (Loss) before income taxes	2,565	(16)	18	2	15	51		2,631
Income tax expense (benefit)	640	(2)	5	3	23	16	[F]	679
Income (Loss) from equity method investments	(164)	–	(1)	(1)	(8)	–		(172)
Net income (loss)	1,761	–	(2)	(2)	(16)	35		1,780
Loss for the year	–	(14)	14	–	–	–		–
Less: net (loss) income attributable to noncontrolling interest	(8)	–	–	–	–	–		(8)
Net income attributable to Huazhu Group Limited/Deutsche Hospitality	1,769	(14)	12	(2)	(16)	35		1,788
Earnings per share:								
Basic	6.22							6.29
Diluted	5.94							6.01
Weighted average number of shares used in computation:								
Basic	284,305,138							284,305,138
Diluted	304,309,890							304,309,890

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP AS OF DECEMBER 31, 2019 (In millions)

		Deutsche Hospitality						
	The Group	IFRS	GAAP Adjustment/ Conforming	U.S. GAAP	U.S. GAAP	Pro Forma Adjustments	Notes	Pro Forma Results
	Note [A]	*Note [B]*	*Note [C]*					
	RMB	*EUR*	*EUR*	*EUR*	*RMB*	*RMB*		*RMB*
ASSETS								
Current assets:								
Cash and cash equivalents	3,234	44	–	44	344	–		3,578
Restricted cash	10,765	–	–	–	–	(5,393)	[G]	5,372
Short-term investments measured at fair value	2,908	–	0	0	0	–		2,908
Accounts receivable, net	218	–	30	30	235	–		453
Loan receivables, net	193	–	–	–	–	–		193
Amounts due from related parties	182	–	10	10	78	(77)	[G]	183
Inventories	57	4	–	4	31	–		88
Other current assets	699	7	4	11	86	–		785
Trade receivables	–	30	(30)	–	–	–		–
Current income tax receivables	–	1	–	1	8	–		8
Other current financial assets	–	13	(13)	–	–	–		–
Contract assets	–	1	(1)	–	–	–		–
Total current assets	18,256	100	–	100	782	(5,470)		13,568
Property and equipment, net	5,854	–	75	75	586	–		6,440
Intangible assets, net	1,662	9	(3)	6	47	4,156	[H]	5,865
Operating lease right-of-use assets	20,875	–	1,103	1,103	8,621	–		29,496
Land use rights, net	215	–	–	–	–	–		215
Long-term investments	1,929	–	18	18	141	–		2,070
Goodwill	2,657	–	3	3	23	2,664	[H]	5,344
Loan receivables, net	280	–	3	3	23	–		303
Other non-current assets	707	8	–	8	63	(156)	[G]	614
Deferred income tax assets	548	26	(4)	22	172	–		720
Property, plant and equipment	–	75	(75)	–	–	–		–
Right-of-use assets	–	1,316	(1,316)	–	–	–		–
Finance lease right-of-use assets	–	–	230	230	1,798	–		1,798
Loans to affiliated and associated companies	–	0	(0)	–	–	–		–
Amounts due from related parties, non-current	–	–	0	0	0	–		0
Investments in associates and joint ventures	–	16	(16)	–	–	–		–
Other non-current financial assets	–	5	(5)	–	–	–		–
Total assets	52,983	1,555	13	1,568	12,256	1,194		66,433

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP AS OF DECEMBER 31, 2019 (Continued)

(In millions)

		Deutsche Hospitality						
	The Group	IFRS	GAAP Adjustment/ Conforming	U.S. GAAP	U.S. GAAP	Pro Forma Adjustments	Notes	Pro Forma Results
	Note [A] *RMB*	*Note [B]* *EUR*	*Note [C]* *EUR*	*EUR*	*RMB*	*RMB*		*RMB*
LIABILITIES AND EQUITY								
Current liabilities:								
Short-term debt	8,499	–	–	–	–	–		8,499
Accounts payable	1,176	–	34	34	266	–		1,442
Amounts due to related parties	95	–	0	0	0	–		95
Salary and welfare payables	491	–	10	10	78	–		569
Deferred revenue	1,179	–	31	31	242	–		1,421
Operating lease liabilities, current	3,082	–	38	38	297	–		3,379
Accrued expenses and other current liabilities	1,856	10	13	23	180	–		2,036
Dividends payable	678	–	–	–	–	–		678
Income tax payable	231	–	2	2	16	–		247
Current income tax liabilities	–	2	(2)	–	–	–		–
Trade payables	–	34	(34)	–	–	–		–
Current leasing liabilities	–	41	(41)	–	–	–		–
Finance lease liabilities, current	–	–	3	3	23	–		23
Contract liabilities	–	29	(29)	–	–	–		–
Other financial liabilities	–	13	(13)	–	–	–		–
Current provisions	–	12	(12)	–	–	–		–
Total current liabilities	17,287	141	–	141	1,102	–		18,389
Long-term debt	8,084	–	16	16	125	–		8,209
Operating lease liabilities, non-current	18,496	–	1,095	1,095	8,559	–		27,055
Deferred revenue	559	–	–	–	–	–		559
Other non-current liabilities	566	0	10	10	78	–		644
Deferred income tax liabilities	491	1	0	1	8	1,296	[H]	1,795
Non-current leasing liabilities	–	1,372	(1,372)	–	–	–		–
Finance lease liabilities, non-current	–	–	277	277	2,165	–		2,165
Non-current borrowings and other financial liabilities	–	16	(16)	–	–	–		–
Retirement benefit obligations	–	15	(0)	15	117	–		117
Non-current provisions	–	10	(10)	–	–	–		–
Total liabilities	45,483	1,555	0	1,555	12,154	1,296		58,933

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP
AS OF DECEMBER 31, 2019 (Continued)
(In millions)

		Deutsche Hospitality						
	The Group	IFRS	GAAP Adjustment/ Conforming	U.S. GAAP	U.S. GAAP	Pro Forma Adjustments	Notes	Pro Forma Results
	Note [A] *RMB*	*Note [B]* *EUR*	*Note [C]* *EUR*	*EUR*	*RMB*	*RMB*		*RMB*
Equity:								
Ordinary shares	0	–	–	–	–	–		0
Treasury shares	(107)	–	–	–	–	–		(107)
Additional paid-in capital	3,834	–	–	–	–	–		3,834
Retained earnings (accumulated deficit)	3,701	(29)	18	(11)	(86)	86	[I]	3,701
Accumulated other comprehensive income(loss)	(49)	–	12	12	94	(94)	[I]	(49)
Subscribed share capital	–	12	–	12	94	(94)	[I]	–
Capital reserves	–	13	(13)	–	–	–		–
Other reserves	–	4	(4)	–	–	–		–
Total Huazhu Group Limited/Deutsche Hospitality shareholders' equity	7,379	0	13	13	102	(102)		7,379
Noncontrolling interest	121	–	–	–	–	–		121
Total equity	7,500	0	13	13	102	(102)		7,500
Total liabilities and equity	52,983	1,555	13	1,568	12,256	1,194		66,433

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. Basis of Pro Forma Presentation

As of January 2, 2020, the agreed closing date, the legal title of Deutsche Hospitality was transferred to the Group, and meanwhile the Group paid all the initial aggregated consideration. Accordingly, the Group obtained the effective control of Deutsche Hospitality, therefore the Group determined the acquisition date to be January 2, 2020.

The Group has engaged a third party valuation specialist firm with the assessment of purchase price allocation as of the closing date, and then performed results with identifiable intangible assets and goodwill based on the unaudited financial information of Deutsche Hospitality as of January 2, 2020. For purposes of the Unaudited Pro Forma Financial Information of the Enlarged Group for the year 2019 presented herein, the Group has (i) assumed that the carrying value of all assets and liabilities other than the intangible assets and goodwill identified upon acquisition approximated their respective acquisition-date fair values, (ii) performed a valuation of Deutsche Hospitality's identifiable intangible assets as of January 2, 2020 and assumed that such values will approximate the fair value of those assets as of December 31, 2019, (iii) calculated the amortization of identifiable intangible assets related to the acquisition of Deutsche Hospitality based on the valuation of Deutsche Hospitality's identifiable intangible assets as of January 2, 2020 and (iv) computed the value of goodwill based on a total purchase price, after deducting the assets and liabilities identified in (i) and (ii) above.

Intangible asset identified represents the brand names of Deutsche Hospitality with indefinite life, franchise agreements which are expect to be amortized over remaining contract terms, and non-compete agreement which is expected to be amortised over 2 years. a) The fair value of brand names of Deutsche Hospitality was established using a form of valuation approach known as the "relief from royalty method", which applied an estimated royalty rate to derive the expected after-tax royalty cash flows from the brand names, discounted to present value. Inputs used in the relief from royalty method included the discount rate of 8.5%, the estimated income tax rate of 31.1% and the estimated royalty rates ranging from 1.5% to 3% depending on different brands; b) The fair value of franchise agreements was established using a form of income approach known as the "multi-period excess earning method". In applying this method, the earnings expected to be generated by the intangible asset are forecasted over the estimated duration of the intangible asset. The earnings are then adjusted by taxes and the required return for the use of the contributory assets. The after-tax excess cash flows are then present-valued to estimate the value of the intangible asset as of the estimate date. Inputs used in the excess earnings method included the discount rate of 8.5%, the estimated income tax rate of 31.1%, and the estimated life of franchise agreements of remaining contract terms; c) The fair value of non-compete agreement was established using a form of income approach known as the "comparative method" under which fair value of the non-compete agreement was calculated by comparing the net cash flows in an environment of competition between the contractual parties, with the net cash flow when the clause avails, and by taking into account the probability of competing in absence of such clause. Similar to all other intangible assets, after-tax cash flows need to be discounted at 8.5% under the comparative method, to conclude the present value of the after-tax cash flows of the business.

The fair value of deferred tax liability associated with the identified intangible asset was estimated using the fair value of the intangible asset identified multiplied by the statutory income tax rate of the Deutsche Hospitality's subsidiaries that hold the contracts and trademarks.

1. Basis of Pro Forma Presentation (Continued)

The total purchase price consisted of the following:

	Amount
	(EUR'000)
Total purchase price	**719,877**

Under the acquisition method of accounting, the net assets of Deutsche Hospitality acquired pursuant to the acquisition were recorded at their fair values as of the date of the closing of the acquisition based on purchase price allocation results prepared by a third-party appraiser. The pro forma adjustments that are reflected in the purchase price allocation are shown below:

	Amount	Amortization period
	(EUR'000)	
Tangible assets and liabilities acquired		
Property and equipment, net	75,058	2-25 years
Operating lease right-of-use assets	1,103,057	The lease terms
Finance lease right-of-use assets	229,681	Shorter of estimated useful lives of the assets and the lease terms
Other assets	151,320	
Lease liabilities, current	(37,934)	
Lease liabilities, non-current	(1,094,967)	
Other liabilities	(422,685)	
Intangible assets acquired	6,507	3-10 years
Intangible assets identified in this transaction		
Non-compete agreement	1,289	2 years
Franchise agreements	34,628	Remaining contract terms
Brand names	495,814	Indefinite life
Goodwill recognized in this transaction	343,477	
Deferred tax liabilities	(165,368)	
	719,877	

The unaudited pro forma financial information of the Enlarged Group is based on assumptions and adjustments that are described in the accompanying notes. Other than as disclosed in the notes thereto, the unaudited pro forma financial information of the Enlarged Group does not reflect any additional liabilities, off-balance sheet commitments or other obligations that may become payable after the date of such financial data.

2. Pro Forma Adjustments

The Group's unaudited pro forma consolidated financial statements give effect to the following pro forma adjustments on the unaudited financial statements:

Note [A]: The amounts are extracted from the audited consolidated financial statements of the Group for the year ended December 31, 2019 as extracted from the Accountants' Report of the Group as set out in Appendix IA to this prospectus.

Note [B]: The amounts are extracted from the audited consolidated financial statements of the Deutsche Hospitality as of and for the twelve months ended December 31, 2019 as set out in Appendix IB to this prospectus. The audit report was qualified since the consolidated financial statements did not include comparative figures for the year before 2019 as required by International Accounting Standards 1, "Presentation of financial statements", which constitute a departure from IFRS. The Directors of the Company believe the consolidated financial statements of the Deutsche Hospitality as of and for the twelve months ended December 31, 2019 are sufficient and the disclosure for illustrative purposes has been appropriately made to prevent the pro forma financial information from being misleading.

Note [C]: As the financial statements of the Deutsche Hospitality were prepared in accordance with IFRS, the Directors made several adjustments to convert the financial statements of the Deutsche Hospitality from IFRS to U.S. GAAP, and to conform its presentation to the Group's presentation. Below are the GAAP conversion and conforming adjustments in Unaudited Pro Forma Financial Information of the Enlarged Group. Refer to "GAAP Adjustment/Conforming" column within the pro forma consolidated statement of income and the pro forma consolidated balance sheet of the Enlarged Group for additional details.

- To adjust hotel operating costs of EUR17 million of Deutsche Hospitality regarding to operating lease in order to reflect the differences in amortization method between U.S. GAAP and IFRS. The differences mainly come from the subsequent accounting for operating lease ROU asset and lease expense between U.S. GAAP and IFRS. The Group adopted ASC 842 and Deutsche Hospitality adopted IFRS 16 on January 1, 2019. For operating lease under ASC 842, lease expense generally results in a straight-line expense profile that is presented as a single line in the income statement. As interest on the lease liability is generally declining over the lease term, amortization of the ROU asset is increasing over the lease term to provide a constant expense profile. For finance leases under ASC 842, the ROU asset is generally amortized on a straight-line basis. This amortization, when combined with the interest on the lease liability, results in a front-loaded expense profile. Interest and amortization are presented separately in the income statement. EUR17 million adjustment is to adjust the different expense profile for operating leases from a front-loaded expense profile under IFRS 16 to a constant expense profile under ASC 842.

2. Pro Forma Adjustments (Continued)

- To reclassify the revenues of EUR471 million of Deutsche Hospitality to leased and owned hotels, manachised and franchised hotels and others in order to conform to the Group's presentation.

- To reclassify the cost of materials and services of EUR110 million, personnel expenses of EUR147 million, depreciation, amortization and impairment of EUR86 million, other operating income of EUR27 million, other operating expenses of EUR118 million, finance income of EUR2 million and finance expenses of EUR54 million of Deutsche Hospitality in order to conform to the Group's presentation.

- To reclassify the other current financial assets and contract assets of Deutsche Hospitality to amounts due from related parties, other current assets and short-term investments measured at fair value in order to conform to the Group's presentation.

- To reclassify the goodwill of Deutsche Hospitality existed before this acquisition from intangible assets to goodwill in order to conform to the Group's presentation.

- To reclassify the investments in associates and joint ventures and other non-current financial assets of Deutsche Hospitality to long term investments and loan receivables in order to conform to the Group's presentation.

- To reclassify the contract liabilities, other financial liabilities and current provisions of Deutsche Hospitality to deferred revenue, accrued expenses and other current liabilities and salary and welfare payable in order to conform to the Group's presentation.

- To reclassify the non-current borrowings and other financial liabilities and non-current provision of Deutsche Hospitality to long-term debt and other long-term liabilities in order to conform to the Group's presentation.

- To reclassify the right-of-use assets, current leasing liabilities and non-current leasing liabilities of Deutsche Hospitality to operating lease right-of-use assets, finance lease right-of-use assets, operating lease liabilities and finance lease liabilities in order to conform to the Group's presentation.

- To reflect the tax impact on the adjustments.

2. Pro Forma Adjustments (Continued)

Note [D]: The Directors calculated the additional amortization of identifiable intangible assets related to the acquisition of Deutsche Hospitality to be RMB19 million for the year ended December 31, 2019. The calculation uses the straight-line method over the estimated useful lives.

Note [E]: Prior to the actual completion of the Acquisition on January 2, 2020, the Group and Deutsche Hospitality incurred RMB66 million and RMB4 million, respectively, transaction costs directly related to the Acquisition and these costs have been recognized as general and administrative expenses in the financial statements for the year ended December 31, 2019 of both entities. Considering these transaction costs were incurred before the completion of the Acquisition and the Group would charge such expenses to the consolidated statement of income upon incurred, with the assumed completion of Acquisition on January 1, 2019, the first day of the relevant year, for pro forma purposes, they were eliminated from the pro forma consolidated statement of income.

These transaction costs are non-recurring in nature and do not have a continuing effect on the financial results for the Enlarged Group after the Acquisition.

Note [F]: For pro forma purpose, the Group recorded Deutsche Hospitality's income tax benefits related to the pro forma amortization of the intangible assets, and the tax impact resulting from Note [E], based on the statutory income tax rate.

Note [G]: To reflect the settlement of the purchase price of EUR720 million (RMB5,626 million).

Note [H]: To reflect the intangible assets identified, related deferred tax liabilities and goodwill recognized in this transaction.

Note [I]: To eliminate the Deutsche Hospitality's subscribed share capital, capital reserves, other reserves and accumulated deficit balances.

Note [J]: Other than the above adjustments, no adjustments have been made to reflect any trading results or other transactions of the Group and Deutsche Hospitality entered into subsequent to March 31, 2020.

D. REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information presented in Section C above prepared for the purpose of incorporation in this prospectus.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF HUAZHU GROUP LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Huazhu Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of income for the year ended December 31, 2019 and unaudited pro forma consolidated balance sheet as of December 31, 2019 and related notes as set out on pages II-7 to II-17 of Appendix II to the prospectus issued by the Company dated September 11, 2020 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-7 to II-17 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the transaction of Steigenberger Hotels Aktiengesellschaft (the "Deutsche Hospitality") on the Group's financial performance for the year ended December 31, 2019 as if the transaction had taken place at January 1, 2019 and on the financial position as of December 31, 2019 as if the transaction had taken place at December 31, 2019. As part of this process, information about the Group's financial position and financial performance has been extracted by the Directors from the Group's historical financial information for each of the three years ended December 31, 2019 and the three months ended March 31, 2020, on which an accountants' report set out in Appendix IA and audited consolidated financial statements of Deutsche Hospitality as of and for the twelve months ended December 31, 2019 on which an audit opinion set out in Appendix IB to the Prospectus have been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") with consideration of the waiver obtained from strict compliance with Rules 4.29(1) and 4.29(6)(b) of the Listing Rules (the "Modified Rules 4.29") for the inclusion of Deutsche Hospitality pro forma financial information and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with the Modified Rules 4.29 as mentioned above and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at January 1, 2019 or December 31, 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
September 11, 2020

The following is the text of a valuation report, prepared for the purpose of incorporation in this prospectus, received from D&P China (HK) Limited, an independent property valuer, in connection with its opinion of value of the property interests of the Group as at 30 June 2020.

DUFF & PHELPS

11 September 2020

Huazhu Group Limited
Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman,
KY1-1111, Cayman Islands

Dear Sirs,

In accordance with the instruction of Huazhu Group Limited (the "Company") or its subsidiaries (collectively hereinafter referred to as the "Group") to provide our opinion of the market value of various property interests in the People's Republic of China (the "PRC") (or hereafter referred as the "Properties" or the "Property Interests"). We confirm that we have carried out inspection of the Properties, made relevant enquiries and obtained such further information as we consider necessary for providing the market values of such property interests as of 30 June 2020 (referred to as the "valuation date").

This letter which forms part of our valuation report explains the basis and methodologies of valuation, and clarifies our assumptions made, title investigation of property interests and the limiting conditions.

No third party shall have the right of reliance on this valuation report and neither receipt nor possession of this valuation report by any third party shall create any express or implied third-party beneficiary rights.

BASIS OF VALUATION

Our valuation is our opinion of the ***Market Value*** which is defined in accordance with the HKIS Valuation Standards of the Hong Kong Institute of Surveyors to mean "the estimated amount for which an asset or liability should exchange on the Valuation Date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Market Value is understood as the value of an asset and liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

This estimate specifically excludes an estimated price inflated or deflated by special considerations or concessions granted by anyone associated with the sale, or any element of special value.

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PROPERTY APPRAISED

The Properties comprise 10 properties located in Nanjing City, Suzhou City, Wuxi City, Chengdu City, Tianjin, Shanghai, Huzhou City and Ya'an City in the PRC. As advised, the Properties are held by 10 companies which are all 100%-owned subsidiaries of the Group. The salient details of the Properties are tabulated below:

No.	Company Name	Property Address	Nature	Site Area	Gross Floor Area ("GFA")	Year Built
				(sq.m.)	*(sq.m.)*	
1.	Nanjing Yiya Hotel Management Co., Ltd. 南京宜雅酒店管理有限公司	Hotel Ibis Nanjing Zhonghua located at No. 88, Block 03, No. 1 Zhonghua Road, Baixia District, Nanjing City, Jiangsu Province, the PRC 中國江蘇省南京市白下區中華路1號03幢88號之「宜必思南京夫子廟酒店」	Hotel	871.80	9,493.88	2010
2.	Suzhou Ibis Hotel Co., Ltd. 蘇州宜必思酒店有限公司	Ibis Suzhou Park International Expo Center Hotel located at No. 292 Suzhou Avenue East, Suzhou Industrial Park, Suzhou City, Jiangsu Province, the PRC 中國江蘇省蘇州市蘇州工業園區蘇州大道東292號之「宜必思蘇州園區國際博覽中心酒店」	Hotel	4,261.29	7,988.18	Early 2010's
3.	Wuxi Ibis Hotel Co., Ltd. 無錫宜必思酒店有限公司	Ibis Wuxi HI Tech located at No. 303 Xinguang Road, east side of New District Hospital, Wuxi City, Jiangsu Province, the PRC 中國江蘇省無錫市新區醫院東側新光路303號之「宜必思無錫新區假日廣場酒店」	Hotel	4,229.70	7,399.03	About 2007
4.	Chengdu Kehua Ibis Hotel Co., Ltd. 成都科華宜必思酒店有限公司	Ibis Chengdu Kehua Hotel located at Block 1, No 10 Hangkong Road, Wuhou District, Chengdu City, Sichuan Province, the PRC 中國四川省成都市武侯區航空路10號1棟之「宜必思成都科華中路酒店」	Hotel	1,349.83	6,744.13	In the late 2000's
5.	Tianjin Ibis Hotel Co., Ltd. 天津宜必思酒店有限公司	Ibis Tianjin Teda located at No. 30 Third Avenue, Tianjin Development Zone, Tianjin, the PRC 中國天津開發區第三大街30號之「宜必思天津開發區泰達酒店」	Hotel	6,000.80	7,180.56	2004

No.	Company Name	Property Address	Nature	Site Area	Gross Floor Area ("GFA")	Year Built
				(sq.m.)	*(sq.m.)*	
6.	Chengdu Ibis Hotel Co., Ltd. 成都宜必思酒店有限公司	Ibis Chengdu Yongfeng Hotel located at No. 1, Section 4, South Second Ring Road, High-tech Zone, Chengdu City, Sichuan Province, the PRC 中國四川省成都市高新區二環路南四段1號之「宜必思成都永豐酒店」	Hotel	3,523.26	9,039.75	About 2010
7.	Ya'an Ibis Hotel Co., Ltd. 雅安宜必思酒店有限公司	Ibis Ya An Langqiao located at Building 1, No. 36 Yanjiangzhong Road, Yucheng District, Ya'an City, Sichuan Province, the PRC 中國四川省雅安市雨城區沿江中路36號1棟-1-7層之「宜必思雅安廊橋酒店」	Hotel	1,817.43	6,068.19	2009
8.	Lishan Senbao (Shanghai) Investment Management Co., Ltd. (力山森堡(上海)投資管理有限公司)	Workshops located at 4th and 5th Floor, Block 57, No. 461 Hongcao Road, Xuhui District, Shanghai, the PRC 中國上海徐匯區虹漕路461號57幢4、5樓之廠房	Industrial	898.5	1,572.33	2002
9.	Changxing Longguan Cultural Development Co., Ltd. 長興龍觀文化發展有限公司	A CIP site known as "Changxing Huajiantang Boutique Resort" located at Jinshan Village, Shuikou Township, Changxing County, Huzhou City, Zhejiang Province, the PRC 中國浙江省湖州市長興縣水口鄉金山村之在建工程項目「長興花間堂精品度假酒店」	Hotel	22,881.00	8,673.8 (planned)	Scheduled in August 2020
10.	Huazhu Enterprise Management Co., Ltd. 華住企業管理有限公司	A CIP site located at Fenghua Road near Tianchuang Road, Jiading District, Shanghai, the PRC 中國上海嘉定區豐華路近天創路之在建工程項目	Science Research Design Land	32,227.00	84,115.30 (planned)	Scheduled in the end of 2021

VALUATION METHODOLOGY

Hotel Valuation:

For hotel properties, we have considered income approach. We have relied on the operating performance provided by the Company, in which the potential net income generated from operating the property after deducting the operating and non-operating expenses have been taking into account. The incomes and expenses are estimated by the Company with regards to the latest operation results and the changes in market conditions. We have then capitalized the income stream at an appropriate rate to arrive at the market value of the Property.

Industrial Valuation:

The industrial property was valued by the direct comparison method where comparison based on prices realized on actual sales or market price information of comparable properties is made. Comparable properties of similar size, character and location are analyzed and carefully weighed against all the respective advantages and disadvantages of the property interest in order to arrive at a Market Value.

CIP Valuation:

For construction in progress (the "CIP") sites, we have determine the current land value by using market approach by making reference to the similar transactions in the locality. The land value will be added with the provided construction cost incurred of the construction works as of the valuation date.

We have relied on the construction status and expected completion date of each portion of the property provided to assess the Market Value in existing state as at the valuation date and we did not find any material inconsistency from those of other similar developments.

TITLE INVESTIGATION

We have been provided with copies of documents in relation to the title of the property interests located in the PRC. However, due to the current registration system of the PRC, no investigation has been made for the legal title or any liabilities attached to the Properties. We have also not scrutinized the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us.

We have relied to a considerable extent on the information provided by the Company and the PRC legal opinion provided by the PRC legal adviser, JunHe LLP, on the PRC Law regarding the Properties located in the PRC.

All legal documents disclosed in this letter and valuation particulars are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this letter and valuation particulars.

ASSUMPTIONS

Our valuations have been made on the assumption that the owner sells the property interests on the market in its existing state without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the values of the property interests.

No allowance has been in our valuations for any charges, mortgages or amounts owing on the Properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, all the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have assumed that the owner(s) of the property interests have free and uninterrupted rights to use, lease or mortgage the property interests. We have also assumed that the property interests are freely disposable and transferable.

It is assumed that all applicable zoning, land use regulations and other restrictions have been complied with unless a non-conformity has been stated, defined and considered in the valuation particulars. Further, it is assumed that the utilization of the land and improvements is within the boundaries of the property interests described and that no encroachment or trespass exists unless noted in the valuation particulars.

Other special assumptions of the Properties, if any, have been stated in the footnotes of the valuation particulars.

LIMITING CONDITIONS

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us by the Group on such matters as statutory notices, easements, tenure, occupancy, site areas and floor areas and all other relevant matters. Dimensions and areas included in the valuation particulars are based on information contained in the documents provided to us and are only approximations.

Having examined all relevant documentation, we have had no reason to doubt the truth and accuracy of the information provided to us. We have assumed that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

We have not carried out detailed site measurements to verify the land areas or building areas in respect of the properties but have assumed that the areas provided to us are correct. All dimensions and areas are approximations only.

Our Mr. Leo Liang and Ms. Valerie Li have inspected majority of the Properties from 22 July to 23 July 2020 and 27 July to 28 July 2020. No structural survey has been made and we are therefore unable to report as to whether the Properties are or are not free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

No site investigations have been carried out to determine the suitability of the ground conditions or the services for the sites.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licenses, consents, or other legislative, or administrative authority from any local, provincial, or national government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.

REMARKS

In valuing the Properties, we have complied with all the requirements contained in Paragraph 34(2) and (3) of Schedule 3 of the Companies (WUMP) Ordinance (Cap. 32), Chapter 5 and Practice Note 12 to the Listing Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards (2017 Edition) published by the Hong Kong Institute of Surveyors and Rule 11 of the Codes on Takeovers and Mergers and Share Buy-backs. We confirm that we are an independent qualified valuer, as referred to Rule 11 of The Codes on Takeovers and Mergers and Share Buy-Backs published by the Securities and Futures Commission.

We hereby certify that we have neither present nor prospective interest in the Properties or the values reported. This valuation report is issued subject to our Assumptions and Limiting Conditions.

Unless otherwise stated, all monetary amount stated in this report is in Renminbi (RMB).

Yours faithfully,
For and on behalf of
D&P China (HK) Limited

Calvin K.C. Chan
CFA, MRICS, MHKIS, MCIREA, RPS (GP)
Director

Notes:

Mr. Calvin K. C. Chan, who is a Chartered Surveyor and Registered Professional Surveyor, has over 25 years' experience in valuation of properties in Hong Kong and China. Mr. Chan has been admitted to the Hong Kong Institute of Surveyors' approved List of Property Valuers to undertake valuation for incorporation or reference in Listing Particulars and Circulars and valuation in connection with that takeovers and mergers.

Ms. Valerie Li, who is a RICS Chartered Surveyor, has over 15 years' experience in valuation of properties in China.

Ms. Leo Liang, who is a Member of CIREA, has over 10 years' experience in valuation of properties in China.

SUMMARY OF VALUES

Properties held for owner occupation

No.	Property	Market Value in existing state as of 30 June 2020
		(RMB)
1.	Hotel Ibis Nanjing Zhonghua located at No. 88, Block 03, No. 1 Zhonghua Road, Baixia District, Nanjing City, Jiangsu Province, the PRC 中國江蘇省南京市白下區中華路1號03幢88號之「宜必思南京夫子廟酒店」	174,000,000
2.	Ibis Suzhou Park International Expo Center Hotel located at No. 292 Suzhou Avenue East, Suzhou Industrial Park, Suzhou City, Jiangsu Province, the PRC 中國江蘇省蘇州市蘇州工業園區蘇州大道東292號之「宜必思蘇州園區國際博覽中心酒店」	110,000,000
3.	Ibis Wuxi HI Tech located at No. 303 Xinguang Road, east side of New District Hospital, Wuxi City, Jiangsu Province, the PRC 中國江蘇省無錫市新區醫院東側新光路303號之「宜必思無錫新區假日廣場酒店」	44,000,000
4.	Ibis Chengdu Kehua Hotel located at Block 1, No 10 Hangkong Road, Wuhou District, Chengdu City, Sichuan Province, the PRC 中國四川省成都市武侯區航空路10號1棟之「宜必思成都科華中路酒店」	72,000,000
5.	Ibis Tianjin Teda located at No. 30 Third Avenue, Tianjin Development Zone, Tianjin, the PRC 中國天津開發區第三大街30號之「宜必思天津開發區泰達酒店」	124,000,000
6.	Ibis Chengdu Yongfeng Hotel located at No. 1, Section 4, South Second Ring Road, High-tech Zone, Chengdu City, Sichuan Province, the PRC 中國四川省成都市高新區二環路南四段1號之「宜必思成都永豐酒店」	105,000,000
7.	Ibis Ya An Langqiao located at Building 1, No. 36 Yanjiangzhong Road, Yucheng District, Ya'an City, Sichuan Province, the PRC 中國四川省雅安市雨城區沿江中路36號1棟-1-7層之「宜必思雅安廊橋酒店」	45,000,000

No.	Property	Market Value in existing state as of 30 June 2020
		(RMB)
8.	Workshops located at 4th and 5th Floor, Block 57, No. 461 Hongcao Road, Xuhui District, Shanghai, the PRC 中國上海徐匯區虹漕路461號57幢4、5樓之廠房	22,600,000
9.	A CIP site known as "Changxing Huajiantang Boutique Resort" located at Jinshan Village, Shuikou Township, Changxing County, Huzhou City, Zhejiang Province, the PRC 中國浙江省湖州市長興縣水口鄉金山村之在建工程項目「長興花間堂精品度假酒店」	100,300,000
10.	A CIP site located at Fenghua Road near Tianchuang Road, Jiading District, Shanghai, the PRC 中國上海嘉定區豐華路近天創路之在建工程項目	189,500,000
	Total:	986,400,000

VALUATION PARTICULARS

Properties held for Owner Occupation

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2020
1.	Hotel Ibis Nanjing Zhonghua located at No. 88, Block 03, No. 1 Zhonghua Road, Baixia District, Nanjing City, Jiangsu Province, the PRC 中國江蘇省南京市白下區中華路1號03幢88號之「宜必思南京夫子廟酒店」	The Property comprises a 14-storey hotel development erected on a land parcel with a site area of about 871.8 square metres. The building of the Property was completed in 2010. The total gross floor area of the Property is about 9,493.88 square metres. The land use rights of the property have been granted for a term expiring on 29 April 2041 for accommodation and catering purposes.	As advised, the Property was operated as a hotel as of the valuation date.	RMB174,000,000

Notes:

1. Pursuant to a State-owned Land Use Certificate (國有土地使用證), Ning Bai Guo Yong (2011) Di No. 00352, issued by the People's Government of Nanjing City (南京市人民政府), dated 12 January 2011, the land use rights of the property with a site area of 871.8 square metres are held by Nanjing Yiya Hotel Management Co., Ltd. (南京宜雅酒店管理有限公司) ("Nanjing Yiya") for a term expiring on 29 April 2041 for accommodation and catering purposes.

2. Pursuant to a Building Ownership Certificate (房屋所有權證), Ning Fang Quan Zheng Bai Zhuan Zi Di No. 349340, issued by Nanjing Real Estate Management Bureau (南京房產管理局) dated 8 June 2010, the building ownership rights of the property with a total gross floor area of 9,493.88 square metres are held by Nanjing Yiya.

3. The property is situated along Zhonghua Road close to the junction with Jinxiufang and the junction with Qinhuai River with 10 minutes' drive from Nanjing downtown area. The immediately neighborhood intermingled with shopping malls, restaurants, commercial buildings and public transit and train station.

4. Nanjing Yiya is an indirectly wholly-owned subsidiary of the Company.

5. The PRC legal opinion states, inter alias, that:

   a. Nanjing Yiya possesses the proper title of the land use rights and building ownership rights of the property.

   b. The property is not subject to any encumbrances.

6. Our valuation has been made on the following basis and analysis:

   In the valuation of the Property in its existing state, income approach was adopted. We have relied on the operating performance provided by the Company, in which the potential net income generated from operating the Property after deducting the operating and non-operating expenses have been taking into account. The incomes and expenses are estimated by the Company with regards to the latest operation results and the changes in market conditions. We have then capitalized the income stream at an appropriate rate to arrive at the market value of the Property. We have adopted 8% as discount rate. In 2019, the average occupancy rate and room rate of the Property was 85% and RMB239 per room. According to China Hotel Industry Study 2019, the average occupancy rate and room rate of Nanjing city was 73% and RMB620 per room.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2020
2.	Ibis Suzhou Park International Expo Center Hotel located at No. 292 Suzhou Avenue East, Suzhou Industrial Park, Suzhou City, Jiangsu Province, the PRC 中國江蘇省蘇州市蘇州工業園區蘇州大道東292號之「宜必思蘇州園區國際博覽中心酒店」	The Property comprises a 8-storey hotel development including a basement erected on a land parcel with a site area of about 4,261.29 square metres. The building of the Property was completed in early 2010's. The total gross floor area of the Property is about 7,988.18 square metres, including a basement area of 1,998.45 square metres. The land use rights of the property have been granted for a term expiring on 6 November 2046 for catering and hotel purposes.	As advised, the Property was operated as a hotel as of the valuation date.	RMB110,000,000

Notes:

1. Pursuant to a State-owned Land Use Certificate (國有土地使用證), Su Gong Yuan Guo Yong (2007) Di No. 01038, issued by the People's Government of Suzhou City (蘇州市人民政府), dated 5 March 2007, the land use rights of the property with a site area of 4,261.29 square metres are held by Suzhou Ibis Hotel Co., Ltd. (蘇州宜必思酒店有限公司) ("Suzhou Ibis") for a term expiring on 6 November 2046 for catering and hotel purposes.

2. Pursuant to a Building Ownership Certificate (房屋所有權證), Su Fang Quan Zheng Yuan Qu Zi Di No. 00548378, issued by Suzhou City Housing and Township Construction Bureau (蘇州市住房和城鄉建設局) registered on 6 May 2014, the building ownership rights of the property with a total gross floor area of 7,988.18 square metres are held by Suzhou Ibis Hotel Co., Ltd. (蘇州宜必思酒店有限公司) ("Suzhou Ibis").

3. The property is situated on the north of Suzhou Avenue East closed to Suzhou City centre with 20 minutes' drive from Suzhou ancient city. The immediately neighborhood intermingled with shopping malls, Suzhou Industrial Park Railway, Suzhou International Expo Center, Baitang Ecological and Botanical Park (白塘生態植物公園) and Jinjidun Park.

4. Suzhou Ibis is an indirectly wholly-owned subsidiary of the Company.

5. The PRC legal opinion states, inter alias, that:

   a. Suzhou Ibis possesses the proper title of the land use rights and building ownership rights of the property.

   b. The property is not subject to any encumbrances.

6. Our valuation has been made on the following basis and analysis:

   In the valuation of the Property in its existing state, income approach was adopted. We have relied on the operating performance provided by the Company, in which the potential net income generated from operating the Property after deducting the operating and non-operating expenses have been taking into account. The incomes and expenses are estimated by the Company with regards to the latest operation results and the changes in market conditions. We have then capitalized the income stream at an appropriate rate to arrive at the market value of the Property. We have adopted 8% as discount rate. In 2019, the average occupancy rate and room rate of the Property was 83% and RMB255 per room. According to China Hotel Industry Study 2019, the average occupancy rate and room rate of Suzhou city was 63% and RMB738 per room.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2020
3.	Ibis Wuxi HI Tech located at No. 303 Xinguang Road, east side of New District Hospital, Wuxi City, Jiangsu Province, the PRC 中國江蘇省無錫市新區醫院東側新光路303號之「宜必思無錫新區假日廣場酒店」	The Property comprises a 7-storey hotel development with a basement erected on a land parcel with a site area of about 4,229.70 square metres. The building of the Property was completed in about 2007. The total gross floor area of the Property is about 7,399.03 square metres. The land use rights of the property have been granted for a term expiring on 30 March 2045 for commercial purposes.	As advised, the Property was operated as a hotel as of the valuation date.	RMB44,000,000

Notes:

1. Pursuant to a State-owned Land Use Certificate (國有土地使用證), Xi Xin Guo Yong (2005) Di No. 168, issued by the People's Government of Wuxi City (無錫市人民政府), dated 28 April 2005, the land use rights of the property with a site area of 4,229.70 square metres are held by Wuxi Ibis Hotel Co., Ltd. (無錫宜必思酒店有限公司) ("Wuxi Ibis") for a term expiring on 30 March 2045 for commercial purposes.

2. Pursuant to a Building Ownership Certificate (房屋所有權證), Xi Fang Quan Zheng Xin Zi Di No. 65041392, issued by Wuxi City Real Estate Management Bureau (無錫市房產管理局) dated 8 May 2007, the building ownership rights of the property with a total gross floor area of 7,399.03 square metres are held by Wuxi Ibis.

3. The property is situated on the north-west side of Xinguang Road closed to the junction with Changjiang North Road with 3 minutes' drive from Airport Road Elevated Bridge. The immediately neighborhood intermingled with hotels, commercial buildings and residential developments.

4. Wuxi Ibis is an indirectly wholly-owned subsidiary of the Company.

5. The PRC legal opinion states, inter alias, that:

   a. Wuxi Ibis possesses the proper title of the land use rights and building ownership rights of the property.

   b. The property is not subject to any encumbrances.

6. Our valuation has been made on the following basis and analysis:

   In the valuation of the Property in its existing state, income approach was adopted. We have relied on the operating performance provided by the Company, in which the potential net income generated from operating the Property after deducting the operating and non-operating expenses have been taking into account. The incomes and expenses are estimated by the Company with regards to the latest operation results and the changes in market conditions. We have then capitalized the income stream at an appropriate rate to arrive at the market value of the Property. We have adopted 8% as discount rate. In 2019, the average occupancy rate and room rate of the Property was 70% and RMB148 per room. According to China Hotel Industry Study 2019, the average occupancy rate and room rate of Wuxi city was 60% and RMB456 per room.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2020
4.	Ibis Chengdu Kehua Hotel located at Block 1, No 10 Hangkong Road, Wuhou District, Chengdu City, Sichuan Province, the PRC 中國四川省成都市武侯區航空路10號1棟之「宜必思成都科華中路酒店」	The Property comprises a 22-storey hotel development including a basement erected on a land parcel with a site area of about 1,349.83 square metres. The building of the Property was completed in late 2000's. The total gross floor area of the Property is about 6,744.13 square metres including a basement area of 159.55 square metres. The land use rights of the property have been granted for a term expiring on 26 August 2043 for catering and hotel or commercial purposes.	As advised, the Property was operated as a hotel as of the valuation date.	RMB72,000,000

Notes:

1. Pursuant to 12 State-owned Land Use Certificates (國有土地使用證), Wu Guo Yong (2012) Di Nos. 5442-5453, issued by the People's Government of Chengdu City (成都市人民政府), dated 22 March 2012, the land use rights of the property with a total site area of 1,349.83 square metres are held by Chengdu Kehua Ibis Hotel Co., Ltd. (成都科華宜必思酒店有限公司) ("Chengdu Kehua Ibis") for a term expiring on 26 August 2043 for catering and hotel or commercial purposes.

2. Pursuant to 17 Building Ownership Certificates (房屋所有權證), Cheng Fang Quan Zheng Jian Zheng Zi Di Nos. 2141591, 2141601, 2141606, 2141610, 2141614, 2141619, 2141632, 2141635, 2141639, 2141644, 2141652, 2141656, 2141658, 2141660, 2141662, 2141665 and 2141669 issued by Chengdu City Real Estate Management Bureau (成都市房產管理局) dated 12 December 2009, the building ownership rights of the property with a total gross floor area of 6,744.13 square metres are held by Chengdu Kehua Ibis.

3. The property is situated on the south side of Hangkong Road in city centre, closed to the junction with Kehua Middle Road with 3 minutes' drive from 2nd Ring Elevated Road. The immediately neighborhood intermingled with tourism spots, commercial buildings and shopping malls.

4. Chengdu Kehua Ibis is an indirectly wholly-owned subsidiary of the Company.

5. The PRC legal opinion states, inter alias, that:

   a. Chengdu Kehua Ibis possesses the proper title of the land use rights and building ownership rights of the property.

   b. The property is not subject to any encumbrances.

6. Our valuation has been made on the following basis and analysis:

   In the valuation of the Property in its existing state, income approach was adopted. We have relied on the operating performance provided by the Company, in which the potential net income generated from operating the Property after deducting the operating and non-operating expenses have been taking into account. The incomes and expenses are estimated by the Company with regards to the latest operation results and the changes in market conditions. We have then capitalized the income stream at an appropriate rate to arrive at the market value of the Property. We have adopted 8% as discount rate. In 2019, the average occupancy rate and room rate of the Property was 95% and RMB172 per room. According to China Hotel Industry Study 2019, the average occupancy rate and room rate of Chengdu city was 67% and RMB710 per room.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2020
5.	Ibis Tianjin Teda located at No. 30 Third Avenue, Tianjin Development Zone, Tianjin, the PRC 中國天津開發區第三大街30號之「宜必思天津開發區泰達酒店」	The Property comprises a 2 blocks of 5-and 6-storey hotel development erected on a land parcel with a site area of about 6,000.80 square metres. The building of the Property was completed in 2004. The total gross floor area of the Property is about 7,180.56 square metres. The land use rights of the property have been granted for a term expiring on 17 August 2052 for catering and hotel purposes.	As advised, the Property was operated as a hotel as of the valuation date.	RMB124,000,000

Notes:

1. Pursuant to a Realty Title Certificate (房地產權證), Fang Di Zheng Jin Zi Di No. 114030903951, issued by the People's Government of Tianjin City (天津市人民政府), dated 19 June 2009, the land use rights and the building ownership rights of the property with a site area of 6,000.80 square metres and a total gross floor area of 7,180.56 square metres are held Tianjin Ibis Hotel Co., Ltd. (天津宜必思酒店有限公司) ("Tianjin Ibis") for a term expiring on 17 August 2052 for catering and hotel purposes.

2. The property is situated on the north-east side of Yongfeng Street closed to the junction with Taihua Road, with 9 minutes' drive from S11 Haibin Expressway. The immediately neighborhood intermingled with commercial development, golf club, Taifeng Park and Tanggu Forest Park.

3. Tianjin Ibis is an indirectly wholly-owned subsidiary of the Company.

4. The PRC legal opinion states, inter alias, that:

   a. Tianjin Ibis possesses the proper title of the land use rights and building ownership rights of the property.

   b. The property is not subject to any encumbrances.

5. Our valuation has been made on the following basis and analysis:

   In the valuation of the Property in its existing state, income approach was adopted. We have relied on the operating performance provided by the Company, in which the potential net income generated from operating the Property after deducting the operating and non-operating expenses have been taking into account. The incomes and expenses are estimated by the Company with regards to the latest operation results and the changes in market conditions. We have then capitalized the income stream at an appropriate rate to arrive at the market value of the Property. We have adopted 8% as discount rate. In 2019, the average occupancy rate and room rate of the Property was 86% and RMB213 per room. According to China Hotel Industry Study 2019, the average occupancy rate and room rate of Tianjin city was 61% and RMB616 per room.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2020
6.	Ibis Chengdu Yongfeng Hotel located at No. 1, Section 4, South Second Ring Road, High-tech Zone, Chengdu City, Sichuan Province, the PRC 中國四川省成都市高新區二環路南四段1號之「宜必思成都永豐酒店」	The Property comprises a 8-storey hotel development including a basement erected on a land parcel with a site area of about 3,523.26 square metres. The building of the Property was completed in about 2010. As advised, the Property had just completed a renovation work in June 2020. The total gross floor area of the Property is about 9,039.75 square metres including a basement area of 1,401.61 square metres. The land use rights of the property have been granted for a term expiring on 18 May 2040 for commercial purposes.	As advised, the Property was operated as a hotel as of the valuation date.	RMB105,000,000

Notes:

1. Pursuant to a State-owned Land Use Certificate (國有土地使用證), Cheng Gao Guo Yong (2007) Di No. 3113, issued by the People's Government of Chengdu City (成都市人民政府), dated 28 June 2007, the land use rights of the property with a site area of 3,523.26 square metres are held by Chengdu Ibis Hotel Co., Ltd. (成都宜必思酒店有限公司) ("Chengdu Ibis") for a term expiring on 18 May 2040 for commercial purposes.

2. Pursuant to a Building Ownership Certificate (房屋所有權證), Cheng Fang Quan Zheng Jian Zheng Zi Di No. 2354630, issued by Chengdu City Real Estate Management Bureau (成都市房產管理局) dated 13 June 2010, the building ownership rights of the property with a total gross floor area of 9,039.75 square metres are held by Chengdu Ibis.

3. As advised, the property has undergone renovation from Oct 2019 to June 2020. Upon completion of the renovation, the property will be operated into two different hotel, known as "Ibis Hotel" and "HanTing Hotel". The lobbies on Level 1 and 126 rooms on Level 2 to Level 4 will be operated by Ibis Hotel, while the 116 rooms on Level 5 to Level 7 will be operated by HanTing Hotel. The renovation fee incurred as of the valuation date for Ibis Hotel portion was RMB9,660,000, while the HanTing portion was RMB11,320,000.

4. The property is situated on the south-west side of 2nd Ring Elevated Road with 16 minutes' drive from city center. The immediately neighborhood intermingled with commercial buildings, shopping mall and tourism spots.

5. Chengdu Ibis is an indirectly wholly-owned subsidiary of the Company.

6. The PRC legal opinion states, inter alias, that:

   a. Chengdu Ibis possesses the proper title of the land use rights and building ownership rights of the property.

   b. The property is not subject to any encumbrances.

7. Our valuation has been made on the following basis and analysis:

   In the valuation of the Property in its existing state, income approach was adopted. We have relied on the operating performance provided by the Company, in which the potential net income generated from operating the Property after deducting the operating and non-operating expenses have been taking into account. The incomes and expenses are estimated by the Company with regards to the latest operation results and the changes in market conditions. We have then capitalized the income stream at an appropriate rate to arrive at the market value of the Property. We have adopted 8% as discount rate. In 2019, the average occupancy rate and room rate of the Property was 62% and RMB158 per room. According to China Hotel Industry Study 2019, the average occupancy rate and room rate of Chengdu city was 67% and RMB710 per room.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2020
7.	Ibis Ya An Langqiao located at Building 1, No. 36 Yanjiangzhong Road, Yucheng District, Ya'an City, Sichuan Province, the PRC 中國四川省雅安市雨城區沿江中路36號1棟-1-7層之「宜必思雅安廊橋酒店」	The Property comprises a 8-storey hotel development including a basement erected on a land parcel with a site area of about 1,817.43 square metres. The building of the Property was completed in 2009. The total gross floor area of the Property is about 6,068.19 square metres including a basement area. The land use rights of the property have been granted for a term expiring on 7 August 2046 for commercial services purposes.	As advised, the Property was operated as a hotel as of the valuation date.	RMB45,000,000

Notes:

1. Pursuant to a State-owned Land Use Certificate (國有土地使用證), Ya Shi Guo Yong (2008) Di No. 18382, issued by the People's Government of Ya'an City (雅安市人民政府), dated 14 April 2008, the land use rights of the property with a site area of 1,817.43 square metres are held by Ya'an Ibis Hotel Co., Ltd. (雅安宜必思酒店有限公司) ("Ya'an Ibis") for a term expiring on 7 August 2046 for commercial services purposes.

2. Pursuant to a Building Ownership Certificate (房屋所有權證), Ya Fang Quan Zheng Jian Zheng Zi Di No. 0088040, issued by Ya'an City Real Estate Management Bureau (雅安市房地產管理局) dated 29 June 2012, the building ownership rights of the property with a total gross floor area of 6,068.19 square metres are held by Ya'an Ibis.

3. The property is situated along Xikang Road East Section close to the junction with Dabei Street and Qingyi River, with 17 minutes' drive from Yakang Expressway Entrance. The immediately neighborhood intermingled with tourism spots and commercial developments.

4. Ya'an Ibis is an indirectly wholly-owned subsidiary of the Company.

5. The PRC legal opinion states, inter alias, that:

   a. Ya'an Ibis possesses the proper title of the land use rights and building ownership rights of the property.

   b. The property is not subject to any encumbrances.

6. Our valuation has been made on the following basis and analysis:

   In the valuation of the Property in its existing state, income approach was adopted. We have relied on the operating performance provided by the Company, in which the potential net income generated from operating the Property after deducting the operating and non-operating expenses have been taking into account. The incomes and expenses are estimated by the Company with regards to the latest operation results and the changes in market conditions. We have then capitalized the income stream at an appropriate rate to arrive at the market value of the Property. We have adopted 9% as discount rate. In 2019, the average occupancy rate and room rate of the Property was 67% and RMB183 per room. According to China Hotel Industry Study 2019, the average occupancy rate and room rate of nearby city, Chengdu City, was 67% and RMB710 per room.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2020
8.	Workshops located at 4th and 5th Floor, Block 57, No. 461 Hongcao Road, Xuhui District, Shanghai, the PRC 中國上海徐匯區虹漕路461號57幢4、5樓之廠房	The Property comprises a workshop on 4th and 5th floor of a 5-storey building erected on a land parcel with a site area of about 898.5 square metres. The buildings of the Property was built in 2002. The gross floor area of the property is approximately 1,572.33 square metres. The land use rights of the Property have been granted for a term commencing on 6 February 2005 and expiring on 24 March 2052 for industrial purposes.	As advised by the Company, the Property was occupied as industrial purposes as of the valuation date.	RMB22,600,000

Notes:

1. Pursuant to two Realty Title Certificates (房地產權證), Hu Fang Di Xu Zi (2005) Di Nos. 006923 and 007241, issued by Shanghai Housing and Land Resources Administration Bureau (上海市房屋土地資源管理局), both dated 6 February 2005, the land use rights and the building ownership rights of the property with a total gross floor area of 1,572.33 square metres are held Lishan Senbao (Shanghai) Investment Management Co., Ltd. (力山森堡(上海)投資管理有限公司) ("Lishan Senbao") for a term commencing on 6 February 2005 and expiring on 24 March 2052 for industrial purposes.

2. The property is located along Hongcao Road closed to the junction with Qinzhou North Road, with 20 minutes' drive from Hongqiao Airport and Hongqiao Railway Station. The immediately neighborhood intermingled with commercial buildings, science and technology parks, hospitals and office buildings.

3. Lishan Senbao is an indirectly wholly-owned subsidiaries of the Company.

4. The PRC legal opinion states, inter alias, that:

   a. Lishan Senbao possesses the proper title of the land use rights and building ownership rights of the property.

   b. The property is seized by the People's Court of Huangpu District from 25 July 2016 to 25 July 2019.

5. Our valuation has been made on the following basis and analysis:

   In the valuation of the property in its existing state, we had made reference to various recent industrial sales within the same vicinity. The industrial sales comparable are selected as they have characteristics comparable to the subject Property. The price range of the comparables from RMB13,000 to RMB16,000 per square metre on gross floor area. The unit rate assumed by us is consistent with the sales prices of relevant comparables after due adjustments. Due adjustments to the unit rates of those sales prices have been made to reflect to the difference in transaction time, location and size, etc. In the course of our valuation, we have adopted average unit rate of RMB14,400 per square metre on gross floor area.

VALUATION PARTICULARS

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as of 30 June 2020
9.	A CIP site known as "Changxing Huajiantang Boutique Resort" located at Jinshan Village, Shuikou Township, Changxing County, Huzhou City, Zhejiang Province, the PRC 中國浙江省湖州市長興縣水口鄉金山村之在建工程項目「長興花間堂精品度假酒店」	The Property comprises 27 blocks of 1- to 2-storey hotel rooms within a hotel development known as "Changxing Huajiantang Boutique Resort" erected on five land parcels with a total site area of about 22,881 square metres. As advised, the Property was undergoing construction works and expected to be completed in August 2020. The planned total gross floor area of the Property is about 9,221.60 sq.m., inclusive of 547.8 square metres of the basement. The land use rights of the property have been granted for a term expiring on 9 May 2055 for commercial purpose and 2 December 2058 for accommodation and catering purposes.	As advised by the Company, the Property was under construction as of the Valuation Date.	RMB100,300,000

Notes:

1. Pursuant to a Stated-owned Land Use Rights Grant Contract (國有土地使用權出讓合同), No. 3305222015A21006, dated 28 February 2015, the land use rights of a land parcel (Lot No. 2015-3) of the Property with a site area of 20,338 square metres have been granted from Changxing Land and Resources Bureau (長興國土資源局) (the "Grantor") to Changxing Longguan Cultural Development Co., Ltd. (長興龍觀文化發展有限公司) ("Changxing Longguan") (the "Grantee") for commercial purposes for a term of 40 years at a consideration of RMB 10,840,000.

2. Pursuant to 4 Stated-owned Land Use Rights Grant Contracts (國有土地使用權出讓合同), Nos. 3305222018A21309 to 330522018A21312, all dated 11 October 2018, the land use rights of 4 land parcels (Lot Nos. 2018-89 to 2018-92) of the Property with a total site area of 2,543.00 square metres have been granted from Changxing Land and Resources Bureau (長興國土資源局) (the "Grantor") to Changxing Longguan (the "Grantee") for hotel purposes for a term of 40 years at a total consideration of RMB2,950,000.

3. Pursuant to a State-owned Land Use Certificates (國有土地使用證), Chang Tu Guo Yong (2015) Di No. 20007036 issued by the People's Government of the Changxing County of Zhejiang Province (浙江省長興縣人民政府), dated 3 August 2015, the land use rights of a land parcel (Lot No. 2015-3) of the Property with a site area of 20,338 square metres have been granted to Changxing Longguan for a term expiring on 9 May 2055 for commercial purposes.

4. Pursuant to 4 Realty Title Certificates (房地產權證), Zhe (2019) Chang Xing Xian Bu Dong Chan Quan Di Nos. 0019393-0019396 issued by Changxing County Natural Resources and Planning Bureau (長興縣自然資源和規劃局) dated 24 July 2019, the land use rights of 4 land parcels (Lot Nos. 2018-89 to 2018-92) of the Property with a total site area of 2,543.00 square metres have been granted to Changxing Longguan for a term expiring on 2 December 2058 for accommodation and catering purposes.

5. As advised by the Company, the construction works of the structures of the property is expected to be completed in August 2020 and open in September 2020. The total construction cost of the property should be RMB83,000,000, while the outstanding cost to be incurred as of the valuation date was about RMB11,500,000. We have taken into account these costs in the course of our valuation.

6. The market value of the Property as if complete as of the valuation date according to the development plan provided by the Company would be approximately RMB113,600,000. The calculation is based on the total construction cost provided by the Company plus the assessed land value.

7. The property is situated close to 116 Township Road with 30 minutes' drive from city center. The immediately neighborhood intermingled with hotel and tourism area.

8. Changxing Longguan is indirectly wholly-owned subsidiary of the Company.

9. The PRC legal opinion states, inter alias, that:

   a. Changxing Longguan possesses the proper title of the land use rights of the property.

   b. The property is not subject to any encumbrances.

10. Our valuation has been made on the following basis and analysis:

    In the valuation of the property in its existing state, we had made reference to various recent land sales within the same vicinity. The land sales comparable are selected as they have characteristics comparable to the subject Property. The price range of the comparables from RMB1,407 to RMB1,544 per square metre on site area. The unit rate assumed by us is consistent with the sales prices of relevant comparables after due adjustments. Due adjustments to the unit rates of those sales prices have been made to reflect to the difference in transaction time, location and tenure. In the course of our valuation, we have adopted average unit rate of RMB1,337 per square metre on site area. To reflect the property's market value in its existing state, we have added in the construction cost incurred provided by the Company.

VALUATION PARTICULARS

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as of 30 June 2020
10.	A CIP site located at Fenghua Road near Tianchuang Road, Jiading District, Shanghai, the PRC 中國上海嘉定區豐華路近天創路之在建工程項目	The Property comprises a 9-storey science and research building together with a basement level erected on a land parcel with a site area of about 32,227.00 square metres. As advised, the Property was undergoing construction works and expected to be completed at the end of 2021. The planned total gross floor area of the Property is about 84,115.30 sq.m., inclusive of 35,462.80 square metres of the basement. The land use rights of the property have been granted for a term expiring on 14 November 2068 for science, research and design purposes.	As advised by the Company, the Property was under construction as of the Valuation Date.	RMB189,500,000

Notes:

1. Pursuant to a Stated-owned Land Use Rights Grant Contract 2.0 (國有土地使用權出讓合同2.0版), No. 132019000402, the land use rights of the Property with a site area of 32,226.7 square metres have been granted from Shanghai Jiading District Planning and Natural Resources Bureau (上海市嘉定區規劃和自然資源局) (the "Grantor") and Huazhu Enterprise Management Co., Ltd. (華住企業管理有限公司) ("Huazhu Enterprise") (the "Grantee") to for science, research and design purposes for a term of 50 years at a consideration of RMB75,850,000.

2. Pursuant to a Realty Title Certificate (不動產權證), Hu (2019) Jia Zi Bu Dong Chan Quan Di No. 029169, issued by Shanghai Jiading District Planning and Natural Resources Bureau (上海市嘉定區規劃和自然資源局), dated 22 July 2019, the land use rights of the property with a site area of 32,227.00 square metres are held Huazhu Enterprise for a term expiring on 14 November 2068 for science, research and design purposes.

3. Pursuant to a Decision on the issuance of the "Land for Construction Land Planning Permit" of No. 0804 Jiangqiao Town, Jiading District (關於核發嘉定區江橋鎮0804號地塊《建設用地規劃許可證》的決定), Hu Jia Gui Tu Xu Di [2018] No. 188, issued by Shanghai Jiading District Planning and Natural Resources Bureau (上海市嘉定區規劃和自然資源局), dated 10 September 2018, the planning of the construction works of the property have been approved.

4. Pursuant to a Construction Works Commencement Permit (建築工程施工許可證), No.1902JD0069D01 issued by Shanghai Jiading District Construction and Management Committee (上海市嘉定區建設和管理委員會), dated 15 August 2019, the commencement of the construction works of the property have been approved.

5. As advised by the Company, the property was undergoing construction works and expected to be completed at the end of 2021. The total construction cost of the property is about RMB880,752,000, while the cost incurred as of the valuation date was about RMB 101,800,000. We have taken into account these costs in the course of our valuation.

6. The market value of the Property as if complete as of the valuation date according to the development plan provided by the Company would be approximately RMB968,500,000. The calculation is based on the total construction cost provided by the Company plus the assessed land value.

7. The property is situated along Fenghua Road with 45 minutes' drive from city center. The immediately neighborhood intermingled with industrial properties.

8. Huazhu Enterprise is indirectly wholly-owned subsidiary of the Company.

9. The PRC legal opinion states, inter alias, that:

   a. Huazhu Enterprise possesses the proper title of the land use rights of the property.

   b. The property is not subject to any encumbrances.

10. Our valuation has been made on the following basis and analysis:

    In the valuation of the property in its existing state, we had made reference to various recent land sales within the same vicinity. The land sales comparable are selected as they have characteristics comparable to the subject Property. The price range of the comparables from RMB1,802 to RMB1,980 per square metre on site area. The unit rate assumed by us is consistent with the sales prices of relevant comparables after due adjustments. Due adjustments to the unit rates of those sales prices have been made to reflect to the difference in transaction time, location and tenure. In the course of our valuation, we have adopted average unit rate of RMB1,814 per square metre on maximum permitted gross floor. To reflect the property's market value in its existing state, we have added in the construction cost incurred provided by the Company.

MEMORANDUM OF ASSOCIATION

Our Memorandum of Association, as currently in effect, states, inter alia, that the liability of the members of our Company is limited, that the objects for which our Company is established are unrestricted and our Company shall have full power and authority to carry out any object not prohibited by the Cayman Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix VI in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection".

ARTICLES OF ASSOCIATION

Our Articles of Association, as currently in effect, include provisions to the following effect:

Meetings

An annual general meeting of our Company shall be held in each year.

Subject to our Company's regulatory requirements, an annual general meeting and any extraordinary general meeting shall be called by not less than five clear days' notice in writing. Notice of every general meeting will be given to all of our Shareholders other than those that, under the provisions of our Articles of Association or the terms of issue of the ordinary shares they hold, are not entitled to receive such notices from us, and also to our principal external auditors. Extraordinary general meetings may be called only by (i) the chairman of our Board of Directors, or (ii) a majority of our Board of Directors and may not be called by any other person.

Notwithstanding that a meeting is called by shorter notice than that mentioned above, but, subject to applicable regulatory requirements, it will be deemed to have been duly called, if it is so agreed (i) in the case of a meeting called as an annual general meeting by all of our Shareholders entitled to attend and vote at the meeting; and (ii) in the case of any other meeting, by our Shareholders together holding not less than 95% of the voting rights represented by the issued voting shares giving that right.

One Shareholder present in person or by proxy that represent not less than one-third in nominal value of the total issued voting shares will constitute a quorum. No business other than the appointment of a chairman may be transacted at any general meeting unless a quorum is present at the commencement of business. However, the absence of a quorum will not preclude the appointment of a chairman. If present, the chairman of our Board of Directors shall be the chairman presiding at any shareholders meetings.

A corporation being a Shareholder shall be deemed for the purpose of our Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the Directors or other governing body of such corporation to act as its representative at the relevant general meeting or at any relevant general meeting of any class of our Shareholders. Such duly authorized representative shall be entitled to exercise the same powers on behalf of the corporation that he represents as that corporation could exercise if it were our individual shareholder.

The quorum for a separate general meeting of the holders of a separate class of shares is described in "– Modification of Rights" below.

Our Articles of Association do not allow our Shareholders to approve matters to be determined at shareholders meetings by way of written resolutions without a meeting.

Voting Rights Attaching to the Shares

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting every Shareholder who is present in person or by proxy (or, in the case of a Shareholder being a corporation, by its duly authorized representative) shall have one vote on a show of hands, and on a poll every Shareholder holding shares present in person or by proxy (or, in the case of a Shareholder being a corporation, by its duly appointed representative) shall have one vote for each fully paid share of which such Shareholder is the holder.

No Shareholder shall be entitled to vote or be reckoned in a quorum, in respect of any share, unless such Shareholder is duly registered as our Shareholder at the applicable record date for that meeting and all calls or instalments due by such Shareholder to us have been paid.

If a recognized clearing house (or its nominee(s)), being a corporation, is our shareholder, it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting or at any meeting of any class of shareholders provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision is entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of our shares held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

While there is nothing under the laws of the Cayman Islands which specifically prohibits or restricts the creation of cumulative voting rights for the election of our Directors, it is not a concept that is accepted as a common practice in the Cayman Islands, and our Company has made no provisions in our Articles to allow cumulative voting for such elections.

Pre-Emption Rights

There are no pre-emption rights applicable to the issue of new shares under either Cayman Islands law or our Memorandum and Articles.

Liquidation Rights

Our Company may only be wound up voluntarily by special resolution, meaning a majority of not less than two-thirds of votes cast at a shareholders meeting.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if we are wound up and the assets available for distribution among our Shareholders are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu among those Shareholders in proportion to the amount paid up at the commencement of the winding up on the Shares held by them, respectively and (ii) if we are wound up and the assets available for distribution among the Shareholders as such are insufficient to repay the whole of the paid-up capital, those assets shall be distributed so that, as nearly as may be, the losses shall be borne by the Shareholders in proportion to the capital paid up at the commencement of the winding up on the shares held by them, respectively.

If we are wound up, the liquidator may with the sanction of our special resolution and any other sanction required by the Cayman Companies Law, divide among our shareholders in specie or kind the whole or any part of our assets (whether or not they shall consist of property of the same kind) and may, for such purpose, set such value as the liquidator deems fair upon any property to be divided and may determine how such division shall be carried out as between the shareholders or different classes of shareholders. The liquidator may also vest the whole or any part of these assets in trustees upon such trusts for the benefit of the Shareholders as the liquidator shall think fit, but so that no Shareholder will be compelled to accept any assets, shares or other securities upon which there is a liability.

Modification of Rights

Except with respect to share capital (as described below) and the location of the registered office, alterations to our Memorandum and Articles of Association may only be made by special resolution, meaning a majority of not less than two-thirds of votes cast at a shareholders meeting.

Subject to the Cayman Companies Law, all or any of the special rights attached to shares of any class (unless otherwise provided for by the terms of issue of the shares of that class) may be varied, modified, abrogated or, with the sanction of a special resolution, passed at a separate general meeting of the holders of the shares of that class. The provisions of our Articles of Association relating to general meetings shall apply similarly to every such separate general meeting, but so that the quorum for the purposes of any such separate general meeting or at its adjourned meeting shall be a person or persons together holding (or represented by proxy) on the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, that every holder of shares of the class shall be entitled on a poll to one vote for every such share held by such holder and that any holder of shares of that class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

Alteration of Capital

We may from time to time by ordinary resolution:

- increase our capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe;

- consolidate and divide all or any of our share capital into shares of larger amount than our existing shares;

- cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Cayman Companies Law;

- sub-divide our shares or any of them into shares of smaller amount than is fixed by our Memorandum of Association, subject nevertheless to the Cayman Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such subdivision, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as we have power to attach to unissued or new shares;

- divide shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares, attach to the shares respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions that in the absence of any such determination in general meeting may be determined by our Directors; and

- we may, by special resolution, subject to any confirmation or consent required by the Cayman Companies Law, reduce our share capital or any capital redemption reserve in any manner authorized by law.

Transfer of Shares

Subject to any applicable restrictions set forth in our Articles of Association, including, for example, our Board's discretion to refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve, or any share issued under the Share Incentive Plans for employees upon which a restriction on transfer imposed thereby still subsists, any of our shareholders may transfer all or any of his or her shares by an instrument of transfer in the usual or common form or in a form prescribed by the NASDAQ or in another form that our Directors may approve.

Our Directors may decline to register any transfer of any share which is not paid up or on which we have a lien. Our Directors may also decline to register any transfer of any share unless:

- the instrument of transfer is lodged with us accompanied by the certificate for the shares to which it relates and such other evidence as our Directors may reasonably require to show the right of the transferor to make the transfer;

- the instrument of transfer is in respect of only one class of share;

- the instrument of transfer is properly stamped (in circumstances where stamping is required);

- in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four; and

- fee of such maximum sum as the NASDAQ may determine to be payable or such lesser sum as our Directors may from time to time require is paid to us in respect thereof.

If our Directors refuse to register a transfer, they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on notice being given by advertisement in such one or more newspapers or by any other means in accordance with the requirements of the NASDAQ, be suspended and the register closed at such times and for such periods as our Directors may from time to time determine; provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as our Directors may determine.

Share Repurchase

We are empowered by the Cayman Companies Law and our Articles of Association to purchase our own shares, subject to certain restrictions. Our Directors may only exercise this power on our behalf, subject to the Cayman Companies Law, our Memorandum and Articles of Association and to any applicable requirements imposed from time to time by the NASDAQ, the SEC, or by any other recognized stock exchange on which our securities are listed.

Dividends

Subject to the Cayman Companies Law, our Directors may declare dividends in any currency to be paid to our Shareholders. Dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our Directors determine is no longer needed. Our Board of Directors may also declare and pay dividends out of the share premium account or any other fund or account that can be authorized for this purpose in accordance with the Cayman Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provides (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for this purpose as paid up on that share and (ii) all dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

Our Directors may also pay any dividend that is payable on any shares semi-annually or on any other dates, whenever our financial position, in the opinion of our Directors, justifies such payment.

Our Directors may deduct from any dividend or bonus payable to any Shareholder all sums of money (if any) presently payable by such Shareholder to us on account of calls or otherwise.

No dividend or other money payable by us on or in respect of any share shall bear interest against us.

In respect of any dividend proposed to be paid or declared on our share capital, our Directors may resolve and direct that (i) such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that our Shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof if our Directors so determine) in cash in lieu of such allotment or (ii) the Shareholders entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid up in lieu of the whole or such part of the dividend as our Directors may think fit. Our Directors may also resolve in respect of any particular dividend that, notwithstanding the foregoing, a dividend may be satisfied wholly in the form of an allotment of Shares credited as fully paid up without offering any right to Shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend interest or other sum payable in cash to the holder of Shares may be paid by check or warrant sent by mail addressed to the holder at his registered address, or addressed to such person and at such addresses as the holder may direct. Every check or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such Shares, and shall be sent at his or their risk and payment of the check or warrant by the bank on which it is drawn shall constitute a good discharge to us.

All dividends unclaimed for one year after having been declared may be invested or otherwise made use of by our Board of Directors for the benefit of our Company until claimed. Any dividend unclaimed after a period of six years from the date of declaration of such dividend shall be forfeited and reverted to us.

Whenever our Directors have resolved that a dividend be paid or declared, our Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe for our securities or securities of any other company. Where any difficulty arises with regard to such distribution, our Directors may settle it as they think expedient. In particular, our Directors may issue fractional certificates, ignore fractions altogether or round the same up or down, fix the value for distribution purposes of any such specific assets, determine that cash payments shall be made to any of our Shareholders upon the footing of the value so fixed in order to adjust the rights of the parties, vest any such specific assets in trustees as may seem expedient to our Directors, and appoint any person to sign any requisite instruments of transfer and other documents on behalf of the persons entitled to the dividend, which appointment shall be effective and binding on our Shareholders.

Untraceable Shareholders

We are entitled to sell any shares of a Shareholder who is untraceable, provided that:

- all checks or warrants in respect of dividends of such Shares, not being less than three in number, for any sums payable in cash to the holder of such Shares have remained un-cashed for period of 12 years prior to the publication of the advertisement and during the three months referred to in third bullet point below;

- we have not during that time received any indication of the whereabouts or existence of the Shareholder or person entitled to such shares by death, bankruptcy or operation of law; and

- we have caused an advertisement to be published in newspapers in the manner stipulated by our Articles of Association, giving notice of our intention to sell these shares, and a period of three months has elapsed since such advertisement and the NASDAQ has been notified of such intention.

The net proceeds of any such sale shall belong to us, and when we receive these net proceeds we shall become indebted to the former Shareholder for an amount equal to such net proceeds.

Disclosure of Directors' Interests

No Director or proposed or intending Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or our Shareholders for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established provided that such Director shall disclose the nature of his interest in any contract or arrangement in which he is interested in the manner set out below.

A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the meeting of our Board at which the question of entering into the contract or arrangement is first considered, if he knows his interest then exists, or in any other case at the first meeting of our Board after he knows that he is or has become so interested. A general notice to our Board by a Director to the effect that:

(a) he is a member or officer of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with that company or firm; or

(b) he is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with a specified person who is connected with him,

shall be deemed to be a sufficient declaration of interest in relation to any such contract or arrangement, provided that no such notice shall be effective unless either it is given at a meeting of our Board or our Director takes reasonable steps to secure that it is brought up and read at the next Board meeting after it is given.

Following a declaration being made in the manner set out above, subject to any separate requirement for approval by the audit committee of our Company under applicable law or the listing rules of any recognized stock exchange on which our securities are listed, and unless disqualified by the chairman of the relevant Board meeting, a Director may vote in respect of any contract or proposed contract or arrangement in which such Director is interested and may be counted in the quorum at such meeting.

Directors' Remuneration

Our Directors shall receive such remuneration as our Board may from time to time determine. Each Director shall be entitled to be repaid or prepaid all traveling, hotel and incidental expenses reasonably incurred or expected to be incurred by him in attending meetings of our Board or committees of our Board or general meetings or separate meetings of any class of shares or of debenture of our Company or otherwise in connection with the discharge of his duties as a Director.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of our Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as our Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to our Articles of Association.

Borrowing Powers

Our Board may exercise all the powers of our Company to raise or borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of our Company and, subject to the Cayman Companies Law, to issue debentures, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

Shareholding qualification for Directors

There are no age limitations or retirement requirements and no share ownership qualifications for our Directors unless so fixed by our Shareholders in a general meeting.

Disclosure of shareholder ownership

There are no provisions in our Memorandum and Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

Limitations on the right to own Shares

There are no limitations on the right to own our Shares.

UNDERTAKING TO THE HONG KONG STOCK EXCHANGE

We have undertaken to the Hong Kong Stock Exchange that we will give at least 14 clear days' notice for a general meeting.

SUMMARY OF CAYMAN COMPANIES LAW AND TAXATION

Introduction

The Cayman Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on January 4, 2007 under the Cayman Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

Share Capital

The Cayman Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

(a) paying distributions or dividends to members;

(b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law);

(d) writing-off the preliminary expenses of the company;

(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

Dividends and Distributions

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

Disposal of Assets

The Cayman Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

Accounting and Auditing Requirements

The Cayman Companies Law requires that a company shall cause to be kept proper books of account with respect to:

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the company; and

(c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

Inspection of Books and Records

Members of a company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

Special Resolutions

The Cayman Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

Subsidiary Owning Shares in Parent

The Cayman Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

Mergers and Consolidations

The Cayman Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Financial Secretary of the Cayman Islands:

(a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

    i. on or in respect of the Shares, debentures or other obligations of the Company; or

    ii. by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The undertaking is for a period of twenty years from 16 March 2010.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

General

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of Our Company

We were incorporated in the Cayman Islands under the Cayman Companies Law as exempted company with limited liability on January 4, 2007. We have established a principal place of business in Hong Kong at Unit 417, 4th Floor, Tower Two Lippo Centre, 89 Queensway, Admiralty, Hong Kong and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on July 17, 2020 under the same address. Mr. Chik Kee Won (溫捷基先生) has been appointed as our authorized representative for the acceptance of service of process and notices on our behalf in Hong Kong.

As we were incorporated in the Cayman Islands, our operations are subject to the relevant laws of the Cayman Islands and our constitution comprising our Memorandum and the Articles. A summary of certain provisions of our constitution and relevant aspects of the Cayman Companies Law is set out in Appendix IV to this prospectus.

2. Changes in our share capital

As at the Latest Practicable Date, the authorized share capital of our Company was US$900,000 divided into 8,000,000,000 Shares of par value of US$0.0001 each and 1,000,000,000 Preferred Shares of par value US$0.0001. The following sets out the changes in our Company's share capital within the two years immediately preceding the issue of this prospectus.

In May 2018, we effected a four-for-one ADS split, pursuant to which each of our ADS represents one Share.

On September 13, 2018, we allotted and issued 33,456 Shares of a par value of US$0.0001 each in the capital of the Company pursuant to the vesting of the restricted stocks granted under the Share Incentive Plans.

On October 9, 2018, we allotted and issued 100,000 Shares of a par value of US$0.0001 each in the capital of the Company pursuant to the exercise of share options granted under the Share Incentive Plans.

On November 13, 2018, we allotted and issued 15,404 Shares of a par value of US$0.0001 each in the capital of the Company pursuant to the vesting of the restricted stocks granted under the Share Incentive Plans.

On January 14, 2019, we allotted and issued 207,542 Shares of a par value of US$0.0001 each in the capital of the Company pursuant to the vesting of the restricted stocks granted under the Share Incentive Plans.

On March 21, 2019, we allotted and issued 20,477 Shares of a par value of US$0.0001 each in the capital of the Company.

On April 1, 2019, we allotted and issued 100,000 Shares of a par value of US$0.0001 each in the capital of the Company pursuant to the exercise of share options granted under the Share Incentive Plans.

On May 23, 2019, we allotted and issued 100,000 Shares of a par value of US$0.0001 each in the capital of the Company pursuant to the exercise of share options granted under the Share Incentive Plans.

On June 4, 2019, we allotted and issued 21,776 Shares of a par value of US$0.0001 each in the capital of the Company pursuant to the vesting of the restricted stocks granted under the Share Incentive Plans.

On August 9, 2019, we allotted and issued 5,817 Shares of a par value of US$0.0001 each in the capital of the Company.

On October 28, 2019, we allotted and issued 110,298 Shares of a par value of US$0.0001 each in the capital of the Company pursuant to the exercise of share options granted under the Share Incentive Plans.

On November 5, 2019, we allotted and issued 200,000 Shares of a par value of US$0.0001 each in the capital of the Company pursuant to the exercise of share options granted under the Share Incentive Plans.

On December 31, 2019, we allotted and issued 2,000,000 Shares of a par value of US$0.0001 each in the capital of the Company to our depositary bank.

On January 2, 2020, we allotted and issued 184,487 Shares of a par value of US$0.0001 each in the capital of the Company.

On February 19, 2020, we allotted and issued 20,532 Shares of a par value of US$0.0001 each in the capital of the Company.

On March 13, 2020, we allotted and issued 348,245 Shares of a par value of US$0.0001 each in the capital of the Company.

On April 30, 2020, we allotted and issued 21,776 Shares of a par value of US$0.0001 each in the capital of the Company pursuant to the vesting of restricted stocks granted under the Share Incentive Plans.

On August 5, 2020, we allotted and issued 180 Shares of a par value of US$0.0001 each in the capital of the Company to our depositary bank.

Immediately before the Global Offering, the issued share capital of our Company will consist of 300,986,245 Shares of a par value of US$0.0001 each, all fully paid or credited as fully paid and 7,699,013,755 Shares of a par value of US$0.0001 each will remain unissued.

Immediately following the completion of the Global Offering (but not taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or pursuant to the Share Incentive Plans), our issued share capital will be 32,140.8395 divided into 321,408,395 Shares, all fully paid or credited as fully paid and 7,678,591,605 Shares will remain unissued.

Save as disclosed above, there has been no alteration in our share capital within the two years immediately preceding the date of this prospectus.

3. Changes in the share capital of our Major Subsidiaries

A summary of the corporate information and particulars of our Major Subsidiaries are set out in the Accountants' Report set out in Appendix IA to this prospectus.

The following sets out the changes in the share capital of our Major Subsidiaries during the two years immediately preceding the date of this prospectus:

On October 30, 2018, the registered capital of Huazhu Hotel Management (Ningbo) Co., Ltd. (華住酒店管理(寧波)有限公司) was increased from RMB10,000,000 to RMB200,000,000.

On January 9, 2019, the registered share capital of H-World Information and Technology Co., Ltd. (盟廣信息技術有限公司) was increased from RMB50,000,000 to RMB51,000,000.

On February 28, 2019, the registered share capital of H-World Information and Technology Co., Ltd. (盟廣信息技術有限公司) was increased from RMB51,000,000 to RMB51,127,500.

On December 2, 2019, the registered capital of HanTing Xingkong (Shanghai) Hotel Management Co., Ltd. (漢庭星空(上海)酒店管理有限公司) was increased from USD108,000,000 to USD138,000,000.

On December 2, 2019, the registered capital of HanTing Technology (Suzhou) Co., Ltd. (漢庭科技(蘇州)有限公司) was changed from USD30,000,000 to RMB201,346,500.

On July 21, 2020, the registered capital of HanTing Technology (Suzhou) Co., Ltd. (漢庭科技(蘇州)有限公司) was increased from RMB201,346,500 to RMB301,346,500.

Save as disclosed above, there has been no alteration in the share capital of our Major Subsidiaries within the two years immediately preceding the date of this prospectus.

For details of our Major Subsidiaries, please see the section headed "History and Corporate Structure – Major Subsidiaries" of this prospectus.

4. Share Incentive Plans

In February 2007, our Board of Directors and our Shareholders adopted our 2007 Global Share Plan to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentives to selected employees, directors, and consultants and to promote the success of our business. Our 2007 Global Share Plan was subsequently amended in December 2007. Ten million Shares may be issued under the Amended and Restated 2007 Global Share Plan.

In June 2007, our Board of Directors and our Shareholders adopted our 2008 Global Share Plan with the same purpose as our 2007 Global Share Plan. Our 2008 Global Share Plan was subsequently amended in October 2008. Seven million Shares may be issued under the Amended and Restated 2008 Global Share Plan.

In September 2009, our Board of Directors and our Shareholders adopted our 2009 Share Incentive Plan with purposes similar to our 2007 Global Share Plan and 2008 Global Share Plan. Our 2009 Share Incentive Plan was subsequently amended in October 2009, August 2010, March 2015 and May 2018. 43 million Shares may be issued under the Amended 2009 Share Incentive Plan.

(a) Plan Administration

The compensation committee administers the Share Incentive Plans. Our employee share option plan administration committee, currently comprised solely of Mr. Ji Qi, has been delegated certain authorities, among others, to grant, in its sole discretion, options, restricted stocks and restricted stock units to be issued under the respective share incentive plans to any of our employees and consultants except for our directors and executive officers, and the aggregate number of shares covered by any single grant it makes shall not exceed 500,000 Shares.

(b) Types of Awards

The following briefly describes the principal features of the various awards that may be granted under our Amended and Restated 2007 Global Share Plan and Amended and Restated 2008 Global Share Plan.

Options. Each option agreement must specify the exercise price. The exercise price of an option must not be less than 100% of the fair market value of the underlying shares on the option grant date, and a higher percentage may be required. The term of an option granted under the Amended and Restated 2007 Global Share Plan and the Amended and Restated 2008 Global Share Plan must not exceed ten years from the date the option is granted, and a shorter term may be required.

Share Purchase Rights. A share purchase right is a right to purchase restricted stock. Each share purchase right under the Amended and Restated 2007 Global Share Plan and the Amended and Restated 2008 Global Share must be evidenced by a restricted stock purchase agreement between the purchaser and our Company. The purchase price will be determined by the administrator. The share purchase rights will automatically expire if not exercised by the purchaser within 30 days after the grant date.

The following briefly describes the principal features of the various awards that may be granted under the Amended 2009 Share Incentive Plan:

Options. The purchase price per share under an option will be determined by a committee appointed by our Board and set forth in the award agreement. The term of an option granted under the Amended 2009 Share Incentive Plan must not exceed ten years from the grant date, and a shorter term may be required.

Restricted Stock and Restricted Stock Units. An award of restricted stock is a grant of our Shares subject to restrictions the committee appointed by our Board may impose. A restricted stock unit is a contractual right that is denominated in our Shares, each of which represents a right to receive the value of a share or a specified percentage of such value upon the terms and conditions set forth in the Share Incentive Plan and the applicable award agreement.

Other Stock-based Awards. The committee is authorized to grant other stock-based awards that are denominated or payable in or otherwise related to our Shares such as stock appreciation rights and rights to dividends and dividend equivalents. Terms and conditions of such awards will be determined by the committee appointed by our Board. Unless the awards are granted in substitution for outstanding awards previously granted by an entity that we acquired or combined, the value of the consideration for the Shares to be purchased upon the exercise of such awards shall not be less than the fair market value of the underlying Shares on the grant date.

(c) Vesting Schedule

As of the date of this prospectus, our Company has entered into option agreements and restricted stock award agreements respectively under the Share Incentive Plans. Pursuant to our typical option agreement, 50% of the options granted shall vest on the second anniversary of the vesting commencement date specified in the corresponding option agreement, and 1/48 of the options shall vest each month thereafter over the next two years on the first day of each month, subject to the optionee's continuing to provide services to us. Pursuant to our typical restricted stock award agreement, 50% of the restricted stock granted shall vest on the second anniversary of the vesting commencement date specified in the corresponding restricted stock award agreement, and 1/8 of the restricted stock shall vest each six-month period thereafter over the next two years on the last day of each six-month period, subject to the grantee's continuing to provide services to us. For certain grants, our Company may also apply different vesting schedules set forth in the relevant agreements between the grantees and our Company. For example, certain restricted stocks granted shall vest over a period of ten years in equal yearly installments.

(d) Termination of the Share Incentive Plans

The Amended and Restated 2007 Global Share Plan and the Amended and Restated 2008 Global Share Plan terminated in 2017 and 2018, respectively. The Amended 2009 Share Incentive Plan will terminate in 2029. Our Board of Directors may amend, suspend, or terminate the Amended 2009 Share Incentive Plan at any time. No amendment, alteration, suspension, or termination of these plans shall materially and adversely impair the rights of any participant with respect to an outstanding award, unless mutually agreed otherwise between the participant and the administrator.

(e) Grant of Awards

The following tables summarize options, restricted stocks and outstanding options that our Company has granted to our Directors and executive officers and to other individuals under our Company's Share Incentive Plans as of the Latest Practicable Date.

Details of options granted

Name	Shares Underlying Options Awarded	Exercise Price (US$/Share)	Date of Grant	Date of Expiration
Ji Qi	400,000	1.53	October 1, 2009	October 1, 2019
	436,348	2.7525	July 17, 2012	July 17, 2018
Zhao Tong Tong	100,000	1.53	October 1, 2009	October 1, 2019
John Wu Jiong	100,000	1.53	October 1, 2009	October 1, 2019
Zhang Min	1,470,000	1.40	October 1, 2007	October 1, 2017
	300,000	1.53	November 20, 2009	November 20, 2019
	207,784	2.7525	July 17, 2012	July 17, 2018
Jin Hui[(1)]	*	0.50	February 4, 2007	February 4, 2017
	*	4.265	March 31, 2011	March 31, 2017
	*	5.415	May 13, 2014	May 13, 2020
	*	4.925	March 31, 2015	March 31, 2021
Liu Xinxin	*	5.415	May 13, 2014	May 13, 2020
Other individuals as a group[(2)]	16,916,570	0.50-5.415	February 4, 2007 – April 1, 2015	February 4, 2017 – April 1, 2021

Notes:

(1) Further details of the outstanding share options held by Mr. Jin Hui are set out in the below table headed "Details of all outstanding options". All of the other share options granted to Mr. Jin Hui have expired.

(2) All options granted to "other individuals as a group" have expired, save for those granted to one individual, Mr. Zhu Yanjun. Further details of the outstanding share options held by Mr. Zhu Yanjun are set out in the below table headed "Details of all outstanding options".

Details of all outstanding options

As of the Latest Practicable Date, there were only two holders of outstanding share options granted under our Company's Share Incentive Plans and the details are set out below:

Name	Residential address	Shares Underlying Outstanding Options Awarded	Consideration	Exercise Price (US$/Share)	Date of Grant	Date of Expiration
Jin Hui	Room 101, No.44, Lane 2098, Jinshajiang Road, Putuo District, Shanghai, PRC	33,056	Nil	4.925	March 31, 2015	March 31, 2021
Zhu Yanjun (朱燕軍)	No.25, Unit 2, 12/F, Jiuxianqiao 1st street, Chaoyang District, Beijing, PRC	1,012	Nil	4.915	April 1, 2015	April 1, 2021

Details of restricted stocks granted

Name	Shares Underlying Restricted Stocks Awarded	Date of Grant
Ji Qi	200,000	August 6, 2011
	893,844	July 17, 2012
	1,697,187	March 17, 2015
	1,098,224	March 26, 2015
Zhang Shangzhi	*	January 18, 2012
	*	January 10, 2013
	*	December 10, 2014
	*	March 13, 2017
Zhang Min	313,944	July 17, 2012
	73,188	March 16, 2015
	907,983	March 17, 2015
	587,539	March 26, 2015
Shang Jian	*	May 5, 2014
Jin Hui	*	March 31, 2011
	*	July 2, 2012
	*	July 1, 2013
	*	July 17, 2014
	*	March 26, 2015
Liu Xinxin	*	January 10, 2013
	*	July 1, 2013
	*	July 17, 2014
	*	March 26, 2015
	*	March 17, 2017
	*	March 27, 2018
	*	March 7, 2019
	*	March 18, 2020
Teo Nee Chuan	*	January 15, 2016
	*	March 18, 2020
Other individuals as a group	11,780,344	February 7, 2011 – April 24, 2020

* Upon exercise of all options granted and vesting restricted stock granted, would beneficially own less than 1% of our outstanding Shares.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this prospectus that are or may be material:

(a) Share purchase agreement entered into between D.H. Deutsche Hospitality Limited (the "**Seller**") as the seller, Huazhu GmbH & Co. KG (the "**Purchaser**") as the purchaser and Huazhu Group Limited as the purchaser guarantor dated November 4, 2019, pursuant to which the Seller agreed to sell the entire registered share capital of Steigenberger Hotels Aktiengesellschaft to the Purchaser at a preliminary share purchase price of EUR719,877,152 subject to adjustments specified therein;

(b) Facilities agreement dated December 18, 2019 between (a) China Lodging Holdings (HK) Limited 中國住宿控股(香港)有限公司 (the "**Borrower**") as borrower (b) Huazhu Group Limited, (c) Huazhu GmbH & Co. KG. represented by its general partner Huazhu Investment GmbH, China Lodging Holdings Singapore Pte. Ltd., China Lodging Investment Limited, ACL Greater China Limited, Ibis China Investment Limited and Starway Hotels (Hong Kong) Limited 星程酒店發展(香港)有限公司 as original guarantors, (d) JPMorgan Chase Bank, N.A., acting through its Hong Kong Branch, Deutsche Bank AG, Singapore branch and Morgan Stanley Senior Funding, Inc. as mandated lead arrangers and bookrunners and original lenders (altogether, the "**Lenders**"), (e) Deutsche Bank AG, Hong Kong Branch acting as agent (the "**Facilities Agreement**"), pursuant to which, the Lenders agreed to make available to the Borrower a term facility in an aggregate amount of EUR440 million and a revolving credit facility in an aggregate amount of USD500 million to the Borrower;

(c) Intercreditor agreement entered into between (a) China Lodging Holdings (HK) Limited 中國住宿控股(香港)有限公司 as the original debtor, (b) JPMorgan Chase Bank, N.A., acting through its Hong Kong Branch, Deutsche Bank AG, Singapore Branch and Morgan Stanley Senior Funding, Inc. (the "**Senior Arrangers**") as senior arrangers and original senior lenders, (c) Deutsche Bank AG, Hong Kong Branch as original senior agent and (d) DB Trustees (Hong Kong) Limited as security agent, dated December 19, 2019 (the "**Intercreditor Agreement**"), pursuant to which all parties thereto agreed to the ranking and priority in relation to liabilities owed by any member of the Group as principal debtor or guarantor or surety to certain creditors including the Senior Arrangers, Lenders (as defined in the Facilities Agreement) and senior noteholders of any notes, securities or debt instruments permitted to be issued by any member of the Group under the terms of the Facilities Agreement under certain conditions;

(d) Charge over shares between Huazhu Group Limited (the "**Chargor**") as chargor and DB Trustees (Hong Kong) Limited (the "**Security Agent**") as security agent dated January 3, 2020, pursuant to which the Chargor agreed to charge shares in China Lodging Holdings Singapore Pte. Ltd. legally and beneficially owned by the Chargor and all ancillary rights and benefits arising pursuant to such shares to the Security Agent by way of first fixed charge as continuing security for the irrevocable and unconditional payment and discharge of secured obligations under the Intercreditor Agreement;

(e) Composite share charge between (a) Huazhu Group Limited, China Lodging Investment Limited and China Lodging Holdings (HK) Limited 中國住宿控股(香港)有限公司 (altogether, the "**Chargors**") as chargors and (b) DB Trustees (Hong Kong) Limited (the "**Security Agent**") as security agent dated January 3, 2020, pursuant to which each Chargor agreed to charge part of the issued share capital of certain subsidiaries of the Company legally and beneficially owned by the respective Chargor and all ancillary rights and benefits arising pursuant to such shares to the Security Agent by way of first fixed charge as continuing security for the irrevocable and unconditional payment and discharge of secured obligations under the Intercreditor Agreement;

(f) Security assignment of intercompany loans between China Lodging Holdings (HK) Limited 中國住宿控股(香港)有限公司 (the "**Assignor**") as assignor and DB Trustees (Hong Kong) Limited (the "**Security Agent**") as security agent dated January 3, 2020, pursuant to which the Assignor agreed to assign absolutely to the Security Agent all its rights, title, benefits and interest to or in loan agreements or other documents entered into between the Assignor as lender and any other member of the Group and certain receivables, as continuing security for the irrevocable and unconditional payment or discharge of secured obligations under the Intercreditor Agreement;

(g) Charge over account between China Lodging Holdings (HK) Limited 中國住宿控股(香港)有限公司 (the "**Chargor**") as chargor and DB Trustees (Hong Kong) Limited (the "**Security Agent**") as security agent dated January 3, 2020, pursuant to which the Chargor agreed to charge all its rights, title, benefits and interest to or in, certain bank accounts held in its name and all monies standing to the credit of such bank accounts and the debt represented by them, legally and beneficially owned by the Chargor to the Security Agent as continuing security for the irrevocable and unconditional payment or discharge of secured obligations under the Intercreditor Agreement;

(h) Supplemental registration rights agreement entered into between Huazhu Group Limited and Trip.com Group Limited dated August 3, 2020 (the "**Supplemental Registration Rights Agreement**"), pursuant to which the Company provided certain additional registration rights to Trip.com Group Limited with respect to resales of any ADSs deliverable upon exchange of 1.50% exchangeable senior notes due 2027 issued by Trip.com Group Limited or upon certain enforcement, as well as the Shares represented thereby, by noteholders under the Securities Act. Please refer to the section headed "Share Capital – Registration Rights" for further details of the Supplemental Registration Rights Agreement; and

(i) the Hong Kong Underwriting Agreement.

2. Intellectual Property Rights of our Group

We believe the protection of our trademarks, copyrights, patents, domain names, and similar intellectual property critical to our success. We rely on trademark, fair trade practice, copyrights, and trade secret protection laws in China and other jurisdictions, as well as confidentiality and invention assignment agreement with our employees to protect our proprietary rights.

As of the Latest Practicable Date, we had over 2,200 registered or applied for registration inside and outside China, a number of which we consider material to our business and future development, including registered trademarks and trademarks being applied for registration consisting of brands (and related logos or texts) for "Huazhu" (华住), "H Rewards" (华住会), "HanTing Hotel" (汉庭酒店), "JI Hotel" (全季酒店), "桔子酒店", "桔子水晶", "Joya Hotel" (禧玥酒店), "Blossom Hill" (), "Manxin Hotel" (漫心酒店), "Hi Inns" (), "Starway Hotels" (), "Elan" (怡莱), "Deutsche Hospitality" (), "Steigenberger Hotels & Resorts" (), "Maxx by Steigenberger" (), "IntercityHotel" (), and "Zleep Hotels" (). Also, we have been licensed by Accor to use the registered trademarks in the PRC, Taiwan and Mongolia, consisting of brands (and related logos) for "Grand Mercure" (), "Mercure" (), "Novotel" (), "Ibis" (), and "Ibis Styles" (). In addition to trademarks, we owned 13 patents, 121 registered copyrights and 819 national and international top-level domain names, including "Huazhu.com".

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND MAJOR SHAREHOLDERS

1. Disclosure of Interests

Please refer to the section headed "Major Shareholders" for disclosure of interests of directors, executive officers and major shareholders.

2. Particulars of Service Contracts

We have signed appointment letters with our Directors and entered into an employment agreement with each of our executive officers. Each of our named executive officers is employed for a specified time period, which will be automatically extended unless either we or the named executive officer gives prior notice to terminate such employment. We may terminate the employment for cause, at any time, without notice or remuneration, for certain acts, including but not limited to the conviction of a criminal offence and negligent or dishonest acts to our detriment, or misconduct or a failure to perform agreed duties. Without the foregoing causes, we may also terminate an executive officer's employment in accordance with the applicable law of the jurisdiction where the executive officer is based, and in such case of termination by us, we will provide severance payments to the executive officer as expressly required by such applicable law. A named executive officer may terminate his or her employment at any time with a one-month prior written notice.

Each named executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence, and not to use, except as required in the performance of his or her duties in connection with the employment, any of our confidential information or trade secrets or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. Each named executive officer also agrees to comply with all material applicable laws and regulations related to his or her responsibilities at our Company as well as all material written corporate and business policies and procedures of our Company.

We have also entered into indemnification agreements with some of our Directors and executive officers, agreeing to indemnify them against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our Company.

Each of our Directors has been nominated pursuant to our Articles of Association. Each of our Directors shall hold office until the expiration of such Director's term as provided in the written agreement or until such Director's successor is elected or appointed and duly qualified. Compensation is payable to our Directors under the current arrangement. We pay compensation and grant share-based awards to our Directors under the current arrangement. Please refer to "Share Incentive Plans" above.

Remuneration of Director

Please refer to "Directors and Senior Management – Remuneration of Directors and Senior Management".

Others

Save as disclosed above, none of the Directors has entered into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

3. Disclosures relating to Directors and Experts

Save as disclosed in this sub-section and the section headed "Major Shareholders" of this prospectus:

(a) none of our Directors nor any of the parties listed in the paragraph headed "D. Other Information – 6. Qualification of Experts" below is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to us;

(b) save in connection with the Underwriting Agreements, none of our Directors nor any of the parties listed in the paragraph headed "D. Other Information – 6. Qualification of Experts" below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;

(c) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed "D. Other Information—6. Qualification of Experts" below: (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and

(d) none of the Directors or any of the persons whose names are listed under the paragraph headed "D. Other Information—7. Consents of Experts" below had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of the Company and any of the Major Subsidiaries within the two years immediately preceding the date of this prospectus.

4. Disclaimers

None of our Directors or their respective associates (as defined under the Listing Rules) or any of our Shareholders (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest suppliers or our five largest customers.

D. OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries under the laws of the Cayman Islands or PRC.

2. Litigation

As of the Latest Practicable Date, save as disclosed in the sub-section headed "Business—Legal and Administrative Proceedings" of this prospectus, we are not aware of any other litigation or arbitration proceedings of material importance pending or threatened against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

3. Joint Sponsors

The Joint Sponsors have applied on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Global Offering (including the additional Shares that may be issued pursuant to the exercise of the Over-allotment Option), and the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options, the vesting of or vested but outstanding restricted stocks, or other awards that have been or may be granted from time to time. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

The Joint Sponsors satisfy the independence criteria applicable to sponsor set out in Rule 3A.07 of the Hong Kong Listing Rules.

The fee payable to each of the Joint Sponsors in respect of its services as sponsor for the Listing is approximately US$500,000 and payable by us.

4. Preliminary Expenses

The preliminary expenses incurred by us in relation to our incorporation were approximately USD2,955 and were paid by us.

5. Promoter

We have no promoter for the purpose of the Hong Kong Listing Rules. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

6. Qualification of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Goldman Sachs (Asia) L.L.C.	Licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance), Type 9 (asset management) regulated activities as defined under the SFO
CMB International Capital Limited	Licensed corporation under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft	Member of the Chamber of Public Accountants (Wirtschaftsprüferkammer), Berlin, Germany
JunHe LLP	PRC legal advisor
Maples and Calder (Hong Kong) LLP	Cayman Islands legal advisor
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Independent industry consultants
D&P China (HK) Limited	Independent Property Valuer

7. Consents of Experts

Each of the persons named in "—6. Qualification of experts" in this section has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion and/or the references to its name included in this prospectus in the form and context in which it is respectively included.

8. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance insofar as applicable.

9. Miscellaneous

(a) Save as disclosed in the sub-sections headed "A. Further Information about our Group—2. Changes in our share capital", "A. Further Information about our Group—3. Changes in the share capital of our Major Subsidiaries" and "A. Further Information about our Group—4. Share Incentive Plans" in this section, the section headed "Financial Information—Outstanding Indebtedness" and the section headed "Underwriting" of this prospectus or otherwise waived or exempted from disclosure pursuant to the waivers and exemptions disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:

(i) no share or loan capital of the Company or any of the Major Subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no founders or management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued;

(iv) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company or any of the Major Subsidiaries; and

(v) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of its subsidiaries.

(b) Save for the convertible notes as disclosed in the section headed "Financial Information—Outstanding Indebtedness", our Company and the Major Subsidiaries had not issued any debentures nor did it have any outstanding debentures nor any convertible debt securities.

(c) Our Directors confirm that, save as disclosed in the sections headed "Business", "Risk Factors" and "Financial Information" of this prospectus:

(i) there has been no material adverse change in the financial or trading position or prospects of the Group since March 31, 2020 (being the date to which the latest audited consolidated financial statements of the Group were prepared);

(ii) there is no arrangement under which future dividends are waived or agreed to be waived; and

(iii) there has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this prospectus.

(d) There are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from outside Hong Kong.

(e) Our principal register of members will be maintained by our principal registrar, Conyers Trust Company (Cayman) Limited, in the Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Share Registrar and may not be lodged in the Cayman Islands.

(f) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.

(g) The English and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

(a) a copy of the **GREEN** Application Form;

(b) a copy of each of the material contracts referred to in the section headed "Statutory and General Information – B. Further Information About Our Business – 1. Summary of Material Contracts" in Appendix V to this prospectus; and

(c) the written consents referred to in the section headed "Statutory and General Information – D. Other Information – 7. Consents of experts" in Appendix V to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Cleary Gottlieb Steen & Hamilton (Hong Kong) at 37/F, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) our Memorandum and Articles;

(b) the Accountants' Report for the three years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020 issued by Deloitte Touche Tohmatsu, the text of which is set out in Appendix IA to this prospectus;

(c) the audited consolidated financial statements of our Company for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020;

(d) the audited consolidated financial statements of Steigenberger Hotels AG as of and for the twelve months ended December 31, 2019 issued by Deutsche Hospitality and audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, the text of which is set out in Appendix IB to this prospectus;

(e) the report on review of interim condensed consolidated financial information of the Group for the three months ended June 30, 2020 received from Deloitte Touche Tohmatsu, the text of which is set out in Appendix IC to this prospectus;

(f) the report on the unaudited pro forma financial information received from Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this prospectus;

(g) the property valuation report issued by D&P China (HK) Limited in respect of the owned properties of the Group, the text of which is set out in Appendix III to this prospectus;

(h) the legal opinions issued by JunHe LLP, our PRC legal adviser, in respect of certain aspects of the Group and the property interests of the Group;

(i) the letter of advice issued by Maples and Calder (Hong Kong) LLP, our Cayman Islands legal adviser, in respect of certain aspects of the Cayman Companies Law referred to in Appendix IV to this prospectus;

(j) the Cayman Companies Law;

(k) the Frost & Sullivan Report;

(l) the material contracts referred to in the section headed "Statutory and General Information – B. Further Information about our Business – 1. Summary of Material Contracts" in Appendix V to this prospectus; and

(m) the written consents referred to in the section headed "Statutory and General Information – D. Other Information – 7. Consents of Experts" in Appendix V to this prospectus.

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