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

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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED
31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

- The Group's revenue for the year ended 31 December 2020 (“**FY2020**” or “**Reporting Period**”) was approximately RMB1,597.7 million, decreased by approximately 17.1% from approximately RMB1,928.0 million in the corresponding period of 2019 (“**FY2019**”).
- The Group's earnings before interest, tax, depreciation and amortization (“**EBITDA**”) for the year ended 31 December 2020 decreased from approximately RMB741.9 million in the corresponding period of 2019 to approximately RMB563.3 million, representing a decrease of 24.0%. The EBITDA rate for the year ended 31 December 2020 decreased from approximately 38.5% in 2019 to approximately 35.3%.
- The Group's gross profit for the year ended 31 December 2020 was approximately RMB334.6 million, decreased by approximately 40.8% from approximately RMB565.0 million in the corresponding period of 2019. The gross profit margin for the year ended 31 December 2020 was approximately 20.9%, decreased by approximately 8.4 percentage points from approximately 29.3% in the corresponding period of 2019.
- The Group's net profit for the year ended 31 December 2020 was approximately RMB26.6 million, decreased by approximately 87.0% from approximately RMB205.0 million in the corresponding period of 2019.
- During the year ended 31 December 2020, the profit and total comprehensive income attributable to owners of the Company was approximately RMB19.7 million, decreased by approximately 90.3% from approximately RMB202.4 million in the corresponding period of 2019.

- During the year ended 31 December 2020, the basic and diluted earnings per share was approximately RMB0.07, decreased by approximately 90.8% from approximately RMB0.76 in the corresponding period of 2019.
- As at 31 December 2020, the Group had no bank borrowings (as at 31 December 2019: no bank borrowings).
- As at 31 December 2020, the Group’s total balance of cash and cash equivalents amounted to approximately RMB291.3 million (as at 31 December 2019: approximately RMB345.7 million). There was also fixed deposit of approximately RMB613.5 million (as at 31 December 2019: approximately RMB909.2 million). The liabilities of the Company were denominated in RMB, without any foreign currency liabilities.

The Board of Directors (“**Board**”) of Zhejiang New Century Hotel Management Co., Ltd. (the “**Company**”) wishes to announce the audited consolidated annual results of the Company and its subsidiaries (the “**Group**”) prepared under International Financial Reporting Standards (“**IFRSs**”) for the Reporting Period, together with the comparative figures for the corresponding period of 2019. These audited consolidated annual results have been reviewed by the Audit Committee of the Company and recommended approval by the Board. The auditor of the Company, PricewaterhouseCoopers, has agreed that the figures in respect of the Group’s annual results for the year ended 31 December 2020 contained in this announcement are consistent with the amounts set out in the Group’s audited consolidated financial statements for the year.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	Year ended 31 December	
		2020 RMB'000	2019 RMB'000
Revenue from contracts with customers	4	1,597,716	1,927,980
Cost of sales		(1,263,119)	(1,362,962)
Gross profit		334,597	565,018
Selling and marketing expenses		(88,082)	(106,018)
Administrative expenses		(164,513)	(168,062)
Net impairment losses on financial assets	13	(3,053)	(2,641)
Other income	5	28,721	40,299
Other gains – net	6	14,401	4,976
Operating profit		122,071	333,572
Finance income		27,945	41,554
Finance costs		(106,620)	(111,995)
Finance costs – net	7	(78,675)	(70,441)
Share of net (loss)/profit of associates and joint venture accounted for using the equity method		(4,356)	5,486
Profit before income tax		39,040	268,617
Income tax expense	8	(12,396)	(63,643)
Profit for the year		26,644	204,974
Other comprehensive income for the year, net of income tax		–	–
Profit and total comprehensive income for the year		26,644	204,974
Profit and total comprehensive income attributable to:			
– Owners of the Company		19,673	202,405
– Non-controlling interests		6,971	2,569
		26,644	204,974
Earnings per share for profit attributable to the owners of the Company for the year			
– Basic/diluted (in RMB per share)	9	0.07	0.76

CONSOLIDATED BALANCE SHEET

As at 31 December 2020

		As at 31 December	
		2020	2019
	Notes	RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment	11	790,693	661,163
Right-of-use assets	12	2,100,441	2,135,362
Investment properties		881	895
Intangible assets		13,879	6,143
Investments accounted for using the equity method		151,050	131,100
Financial assets at fair value through other comprehensive income		2,053	2,053
Loans receivable		8,926	–
Prepayment		24,800	–
Deferred tax assets		92,851	74,671
Restricted cash		578,522	375,000
Total non-current assets		3,764,096	3,386,387
Current assets			
Inventories		29,546	31,264
Trade and other receivables and prepayments	13	214,730	194,552
Loans receivable		24,804	–
Financial assets at fair value through profit or loss		205,539	–
Cash and cash equivalents		291,264	345,746
Restricted cash		35,004	534,177
Total current assets		800,887	1,105,739
Total assets		4,564,983	4,492,126

		As at 31 December	
		2020	2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital and share premium		1,145,375	1,145,375
Other reserves		327,012	315,373
Retained earnings		13,775	117,723
		<hr/>	<hr/>
Total equity attributable to owners of the Company		1,486,162	1,578,471
Non-controlling interests		60,604	11,572
		<hr/>	<hr/>
Total equity		1,546,766	1,590,043
		<hr/>	<hr/>
Liabilities			
Non-current liabilities			
Lease liabilities	12	1,897,800	1,950,150
Deferred income		17,676	18,862
Deferred tax liabilities		222	246
		<hr/>	<hr/>
Total non-current liabilities		1,915,698	1,969,258
		<hr/>	<hr/>
Current liabilities			
Contract liabilities	4	280,479	216,523
Lease liabilities	12	343,622	309,281
Trade and other payables	14	442,095	378,662
Current income tax liabilities		35,137	27,173
Current portion of long-term liabilities		1,186	1,186
		<hr/>	<hr/>
Total current liabilities		1,102,519	932,825
		<hr/>	<hr/>
Total liabilities		3,018,217	2,902,083
		<hr/>	<hr/>
Total equity and liabilities		4,564,983	4,492,126
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Notes	Attributable to owners of the Company				Total	Non-controlling interests	Total equity
		Share capital	Share premium	Other reserves	Retained earnings			
		RMB'000	RMB'000	RMB'000	RMB'000			
As at 1 January 2019		210,000	–	276,440	177,408	663,848	10,097	673,945
Changes in accounting policy – IFRS 16		–	–	–	(121,810)	(121,810)	–	(121,810)
Restated total equity at 1 January 2019		210,000	–	276,440	55,598	542,038	10,097	552,135
Comprehensive income								
Profit for the year		–	–	–	202,405	202,405	2,569	204,974
Total comprehensive income		–	–	–	202,405	202,405	2,569	204,974
Transactions with owners in their capacity as owners								
Capital injections from non-controlling shareholders		–	–	–	–	–	2,720	2,720
Dividends provided for or paid	10	–	–	–	(100,800)	(100,800)	(2,165)	(102,965)
Transactions with non-controlling interests		–	–	(547)	–	(547)	(5,598)	(6,145)
Appropriation to statutory reserve		–	–	39,480	(39,480)	–	–	–
Acquisition of a subsidiary		–	–	–	–	–	4,900	4,900
Termination of a subsidiary		–	–	–	–	–	(951)	(951)
Others								
Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs		70,000	865,375	–	–	935,375	–	935,375
As at 31 December 2019		<u>280,000</u>	<u>865,375</u>	<u>315,373</u>	<u>117,723</u>	<u>1,578,471</u>	<u>11,572</u>	<u>1,590,043</u>

<i>Notes</i>	Attributable to owners of the Company				Total	Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings			
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2020	280,000	865,375	315,373	117,723	1,578,471	11,572	1,590,043
Comprehensive income							
Profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,673</u>	<u>19,673</u>	<u>6,971</u>	<u>26,644</u>
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,673</u>	<u>19,673</u>	<u>6,971</u>	<u>26,644</u>
Transactions with owners in their capacity as owners							
Capital injections from non-controlling shareholders	-	-	-	-	-	44,704	44,704
Dividends provided for or paid	<i>10</i>	-	-	(112,000)	(112,000)	(2,288)	(114,288)
Transactions with non-controlling interests	-	-	18	-	18	(6,188)	(6,170)
Appropriation to statutory reserve	-	-	11,621	(11,621)	-	-	-
Acquisition of a subsidiary	-	-	-	-	-	6,188	6,188
Disposal of a subsidiary	-	-	-	-	-	(355)	(355)
As at 31 December 2020	<u>280,000</u>	<u>865,375</u>	<u>327,012</u>	<u>13,775</u>	<u>1,486,162</u>	<u>60,604</u>	<u>1,546,766</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended 31 December 2020

		Year ended 31 December	
		2020	2019
	Notes	RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations		647,074	823,001
Interest paid		(106,243)	(110,890)
Income tax paid		(22,655)	(64,231)
		<hr/>	<hr/>
Net cash generated from operating activities		518,176	647,880
Cash flows from investing activities			
Payments for the transaction with non-controlling interests		(6,170)	(6,145)
Payments for financial assets at fair value through profit or loss		(2,697,600)	(669,400)
Payments for property, plant and equipment, land use rights and intangible assets		(215,271)	(157,538)
Change of restricted cash – term deposit		318,087	(853,796)
Payment for financial assets at fair value through other comprehensive income		–	(2,053)
Loan to third parties		(34,000)	–
Payment for other equity investments		(52,200)	(4,050)
Payments to non-controlling interests due to the termination of a subsidiary		–	(951)
(Payment)/proceeds for acquisition of subsidiaries, net of cash acquired		(16,087)	1,630
Proceeds from sale of financial assets at fair value through profit or loss		2,503,517	669,400
Proceeds from sale of property, plant and equipment		811	124
Proceeds from disposal of a subsidiary		364	–
Investment income received	5	–	1,283
		<hr/>	<hr/>
Net cash used in investing activities		(198,549)	(1,021,496)

		Year ended 31 December	
		2020	2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from financing activities			
Proceeds from issuance of ordinary shares relating to the initial public offering, netting of listing expenses payment		–	951,764
Proceeds from borrowings		230,000	–
Repayment of borrowings		(230,000)	(190,500)
Dividends paid to the Company's shareholders	10	(112,000)	(100,800)
Dividends paid to non-controlling interests in subsidiaries		(2,288)	(2,165)
Principal elements of lease payments		(308,634)	(318,528)
Proceeds from capital injection of non-controlling interests		44,704	2,720
Net cash (used in)/generated from financing activities		<u>(378,218)</u>	<u>342,491</u>
Net decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		345,746	367,688
Exchange differences		4,109	9,183
Cash and cash equivalents at end of the year		<u>291,264</u>	<u>345,746</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1 GENERAL INFORMATION

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

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

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

These consolidated financial statements are presented in Renminbi thousands (RMB’000), unless otherwise stated. These consolidated financial statements have been reviewed by the Audit Committee and approved for issue by the Board of Directors (the “Board”) of the Company on 15 March 2021.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRS”) issued by International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared on a historical cost basis, except for the financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, which are measured at fair value.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

As at 31 December 2020, the Group’s current liabilities exceeded the current assets by RMB301,632 thousands and for the year ended 31 December 2020, the Group had a net profit of RMB26,644 thousands and a net operating cash flow of RMB518,176 thousands. In the opinion of the Board, the Group will have sufficient working capital to meet its working capital requirements for operation and repayment of debts as and when they fall due in the coming twelve months from 31 December 2020. Accordingly, the Board consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Revised conceptual framework	Revised conceptual framework for financial reporting

The Group also elected to adopt the following amendments early:

Amendments to IFRS 16	COVID-19-Related Rent Concessions
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The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods, except for the Amendment to IFRS 16 set out above.

The Group has early adopted Amendment to IFRS 16 COVID-19-Related Rent Concessions retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- a. the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- b. any reduction in lease payments affects only payments due on or before 30 June 2021; and
- c. there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. Rent concessions of RMB39,575 thousands have been accounted for as negative variable lease payments and recognised in the consolidated statement of comprehensive income for the year ended 31 December 2020, with a corresponding adjustment to the lease liability. There is no impact on the opening balance of equity at 1 January 2020.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. According to the preliminary assessment, these standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		Effective for annual periods beginning on or after
IFRS 17	Insurance contracts	1 January 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

(b) Useful lives of property, plant and equipment, right-of-use assets (including land use rights) and intangible assets

The Group determines the estimated useful lives for its properties, plant and equipment, land use rights and intangible assets (other than goodwill) based on the historical experience of the actual useful lives of property, plant and equipment, land use rights and intangible assets of similar nature and functions. The Group will revise the depreciation charges where useful lives are different from previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Current income taxes and deferred tax

The Group is subject to income taxes in different areas in the PRC. Significant judgement is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(d) Impairment of financial assets

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

4 SEGMENT INFORMATION AND REVENUE

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

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

- Hotel operation; and
- Hotel management.

Revenue from hotel operations primarily comprise revenues from providing room, food and beverage, sales of goods and products, providing room reservation services and other ancillary services.

Revenue from hotel management is derived from providing hotel management services.

The executive directors of the Company consider the business from a business perspective, and assesses the performance of the operating segments based on segment revenue and profit before income tax without allocation of finance costs, share of losses of investments accounted for using equity method, other income and other gains.

There was no information on separate segment assets and segment liabilities provided to the executive directors of the Company, as they do not use such information to allocate resources to or evaluate the performance of the operating segments.

(a) **Segment revenues**

The revenue of the Group for the years ended 31 December 2020 and 2019 is set out as follows:

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Hotel operation		
Room	620,401	805,862
Food and beverage	534,154	600,198
Ancillary services	214,272	243,096
Rental income	39,181	40,925
	<hr/>	<hr/>
Subtotal of hotel operation	1,408,008	1,690,081
Hotel management	189,708	237,899
	<hr/>	<hr/>
	1,597,716	1,927,980
	<hr/> <hr/>	<hr/> <hr/>
Revenue from contracts with customers:		
– Recognised at a point of time	612,948	706,114
– Recognised over time	945,587	1,180,941
	<hr/>	<hr/>
	1,558,535	1,887,055
	<hr/> <hr/>	<hr/> <hr/>
Revenue from other resources:		
– Rental income	39,181	40,925
	<hr/> <hr/>	<hr/> <hr/>

(b) Segment information

The segment information provided to senior executive management for the business segments for the years ended 31 December 2020 and 2019 are as follows:

Business segments	Year ended 31 December 2020		
	Hotel operation RMB'000	Hotel management RMB'000	Total RMB'000
Revenue			
Segment revenue	1,428,471	203,730	1,632,201
Inter-segment revenue	<u>(20,463)</u>	<u>(14,022)</u>	<u>(34,485)</u>
Segment revenue from external customers	<u>1,408,008</u>	<u>189,708</u>	<u>1,597,716</u>
Cost of sales	(1,240,136)	(22,983)	(1,263,119)
Selling and marketing expenses	(55,142)	(32,940)	(88,082)
Administrative expenses	(96,321)	(68,192)	(164,513)
Finance expense of leasing liabilities	(105,586)	(184)	(105,770)
Net impairment losses on financial assets	<u>(2,805)</u>	<u>(248)</u>	<u>(3,053)</u>
Segment (loss)/profit	<u>(91,982)</u>	<u>65,161</u>	<u>(26,821)</u>
Business segments	Year ended 31 December 2019		
	Hotel operation RMB'000	Hotel management RMB'000	Total RMB'000
Revenue			
Segment revenue	1,705,225	247,772	1,952,997
Inter-segment revenue	<u>(15,144)</u>	<u>(9,873)</u>	<u>(25,017)</u>
Segment revenue from external customers	<u>1,690,081</u>	<u>237,899</u>	<u>1,927,980</u>
Cost of sales	(1,335,094)	(27,868)	(1,362,962)
Selling and marketing expenses	(83,441)	(22,577)	(106,018)
Administrative expenses	(107,360)	(60,702)	(168,062)
Finance expense of leasing liabilities	(107,513)	(57)	(107,570)
Net impairment losses on financial assets	<u>(1,436)</u>	<u>(1,205)</u>	<u>(2,641)</u>
Segment profit	<u>55,237</u>	<u>125,490</u>	<u>180,727</u>

Sales between segments are carried out at arm's length and are eliminated on consolidation. The amounts provided to the executive directors of the Company with respect to segment revenue are measured in a manner consistent with that of the financial statements.

(c) **Contract liabilities**

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Advances from customers	270,968	209,822
Customer loyalty program	9,511	6,701
	280,479	216,523

(i) **Revenue recognised in relation to contract liabilities**

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year		
Advances from customers	209,822	190,563
Customer loyalty program	6,701	3,631
	216,523	194,194

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

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Aggregate amount of the transaction price allocated to long-term franchise hotel contracts that the performance obligations of which are partially or fully unsatisfied at the end of each year		
Expected to be recognised after next reporting year and beyond	124,557	86,703
Expected to be recognised within next reporting year	18,266	12,594
	142,823	99,297

The amount disclosed above does not include variable consideration which is constrained.

All other hotel management contracts are billed based on the actual performance of the managed hotels. For hotel operation services, they are rendered in short period of time and there is no unsatisfied performance obligation at the end of the respective periods.

5 OTHER INCOME

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants (i)	28,721	39,016
Investment income	—	1,283
	28,721	40,299
	28,721	40,299

- (i) There are no unfulfilled conditions or other contingencies attaching to these grants. The Group does not benefit directly from any other form of government assistance.

6 OTHER GAINS – NET

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Net losses on disposal of property, plant and equipment	(639)	(178)
Net fair value gains on financial assets at FVPL	11,456	—
Waived payables due to third parties	3,185	5,046
Others	399	108
	14,401	4,976
	14,401	4,976

- (i) The financial assets at FVPL are structured deposits, denominated in RMB, with expected rates of return ranging from 1.80% to 4.05% (2019: from 2.30% to 4.10%) per annum for the years ended 31 December 2020. They had initial terms ranging from 1 day to 365 days (2019: 1 day to 94 days). The returns on the structured deposits are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at FVPL. As at 31 December 2020, the Group had RMB205,539 thousands remaining balance regarding to the financial assets at FVPL (31 December 2019: Nil).

7 FINANCE COSTS – NET

Year ended 31 December

2020 2019

RMB'000 *RMB'000*

Finance income

– Interest income derived from bank deposits	1,023	8,990
– Interest income derived from term deposits	22,436	23,381
– Unrealised foreign exchange gains	162	9,183
– Realised foreign exchange gains	4,324	–
	<u>27,945</u>	<u>41,554</u>

Finance costs

– Interest expenses on bank borrowings	(473)	(3,173)
– Finance expense for lease liabilities	(105,770)	(107,570)
– Realised foreign exchange losses	(377)	(1,252)
	<u>(106,620)</u>	<u>(111,995)</u>

Finance costs – net

(78,675) (70,441)

8 INCOME TAX EXPENSE

Year ended 31 December

2020 2019

RMB'000 *RMB'000*

Current income tax	30,601	67,946
Deferred income tax	(18,205)	(4,303)
	<u>12,396</u>	<u>63,643</u>

The tax on the Group's profit before income tax differs from the theoretical amount that could arise using the statutory corporate income tax rate in the PRC is as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Profit before income tax	39,040	268,617
Tax calculated at statutory corporate income tax rate	9,760	67,154
Expenses not deductible for income tax purpose	–	559
Tax preferential on STE (a)	(1,178)	(496)
Accelerated tax deduction of R&D expenses	(2,324)	(1,037)
Tax losses for which no deferred income tax assets was recognised	7,930	254
Adjustments for current tax of prior periods	(2,881)	–
Utilisation of previous unrecognised tax losses	–	(1,419)
Effect of exclusion of share of loss/(profit) of joint ventures and associates	1,089	(1,372)
Income tax expense	12,396	63,643

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

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

9 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of shares in issue or deemed to be in issue during the financial year. Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. The diluted earnings per share for the years ended 31 December 2020 and 2019 are the same as the basic earnings per share as there is no dilutive potential share during the financial year.

	Year ended 31 December	
	2020	2019
Profit attributable to owners of the Company (<i>in RMB'000</i>)	19,673	202,405
Weighted average number of ordinary shares in issue or deemed to be in issue (<i>in '000 shares</i>)	280,000	266,767
Basic earnings per share (<i>in RMB per share</i>)	0.07	0.76

10 DIVIDENDS

On 25 March 2019, a final dividend for 2018 per share of RMB0.36 (before tax), totally RMB100,800 thousands, was declared to all shareholders of the Company. In July 2019, all dividends were paid to the shareholders.

On 20 May 2020, a final dividend for 2019 per share of RMB0.40 (before tax), totally RMB112,000 thousands, was declared to all shareholders of the Company. In July 2020, all dividends were paid to the shareholders.

The Board proposed that no cash dividend, no capital reserve capitalisation and other forms of distribution will be made for the year ended 31 December 2020. The profit distribution plan is subject to the shareholder's approval at the forthcoming annual general meeting of the Company.

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Office and electronic equipment <i>RMB'000</i>	Vehicles <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2019							
Cost	215,140	70,040	148,839	10,230	387,476	86,497	918,222
Accumulated depreciation	(16,059)	(35,532)	(91,337)	(6,821)	(180,717)	-	(330,466)
Net book amount	<u>199,081</u>	<u>34,508</u>	<u>57,502</u>	<u>3,409</u>	<u>206,759</u>	<u>86,497</u>	<u>587,756</u>
For the year ended 31 December 2019							
Opening net book amount	199,081	34,508	57,502	3,409	206,759	86,497	587,756
Additions	4,360	3,976	18,305	636	66,424	55,098	148,799
Acquisition of a subsidiary	-	-	2	-	-	-	2
Transferred from construction in progress	-	9,610	13,037	-	116,841	(139,488)	-
Disposals	-	(77)	(140)	(85)	-	-	(302)
Depreciation charge	(8,533)	(6,425)	(18,321)	(820)	(35,908)	-	(70,007)
Impairment loss	-	(614)	(467)	(6)	(3,998)	-	(5,085)
Closing net book amount	<u>194,908</u>	<u>40,978</u>	<u>69,918</u>	<u>3,134</u>	<u>350,118</u>	<u>2,107</u>	<u>661,163</u>
As at 31 December 2019							
Cost	219,500	82,429	178,367	10,055	555,264	2,107	1,047,722
Accumulated depreciation	(24,592)	(40,837)	(107,982)	(6,915)	(201,148)	-	(381,474)
Impairment loss (i)	-	(614)	(467)	(6)	(3,998)	-	(5,085)
Net book amount	<u>194,908</u>	<u>40,978</u>	<u>69,918</u>	<u>3,134</u>	<u>350,118</u>	<u>2,107</u>	<u>661,163</u>

	Buildings and facilities <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Office and electronic equipment <i>RMB'000</i>	Vehicles <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
For the year ended 31 December 2020							
Opening net book amount	194,908	40,978	69,918	3,134	350,118	2,107	661,163
Additions	1,745	19,644	22,952	1,440	133,677	29,498	208,956
Acquisition of a subsidiary	-	511	342	-	12,520	-	13,373
Transferred from construction in progress	-	504	2,493	-	23,780	(26,777)	-
Reclassification	(177)	-	231	-	(54)	-	-
Disposals	-	(305)	(903)	(242)	-	-	(1,450)
Disposal of a subsidiary	-	-	(21)	-	-	-	(21)
Depreciation charge	(8,578)	(7,820)	(23,084)	(891)	(50,955)	-	(91,328)
Closing net book amount	187,898	53,512	71,928	3,441	469,086	4,828	790,693
As at 31 December 2020							
Cost	220,944	102,369	198,162	10,255	723,594	4,828	1,260,152
Accumulated depreciation	(33,046)	(48,243)	(125,767)	(6,808)	(250,510)	-	(464,374)
Impairment loss (i)	-	(614)	(467)	(6)	(3,998)	-	(5,085)
Net book amount	187,898	53,512	71,928	3,441	469,086	4,828	790,693

(i) As at 31 December 2020 and 2019, impairment loss of RMB5,085 thousand were provided for 2 loss making hotels.

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

	Year ended 31 December	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Administrative expenses	3,309	2,159
Selling and marketing expenses	44	45
Cost of sales	87,975	67,803
	91,328	70,007

12 LEASES

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2019 <i>RMB'000</i>
<i>Right-of-use assets</i>		
Properties	1,780,113	1,693,098
Equipment and others	299,701	398,494
Land use rights	42,536	43,766
Favorable operating lease	7,154	5,040
Less: impairment loss	<u>(29,063)</u>	<u>(5,036)</u>
	<u>2,100,441</u>	<u>2,135,362</u>
<i>Lease liabilities</i>		
Current	343,622	309,281
Non-current	<u>1,897,800</u>	<u>1,950,150</u>
	<u>2,241,422</u>	<u>2,259,431</u>

Additions to the right-of-use assets in 2020 mainly represent the property and equipment lease contracts for newly set up hotels. The total additions of right-of-use assets during the year ended 31 December 2020 were RMB375,948 thousands (during the year ended 31 December 2019: RMB445,691 thousands).

As at 31 December 2020, the impairment loss of RMB29,063 thousand were provided for 3 loss-making hotels (as at 31 December 2019: RMB5,036 thousands). The impairment provision charge of RMB24,027 thousands during the year was included in cost of sales in the consolidated statement of comprehensive income.

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

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
<i>Depreciation charge of right-of-use assets</i>		
Properties	239,894	216,700
Equipment and others	103,426	100,451
Land use rights	1,230	1,188
Favorable operating lease	1,596	1,332
	<u>346,146</u>	<u>319,671</u>
	2020	2019
	RMB'000	RMB'000
Interest expense (included in finance cost) (Note 7)	105,770	107,570
Operating expenses	12,982	16,693
– relating to short-term leases (included in cost of goods sold and administrative expenses)	4,048	11,701
– relating to leases of low-value assets that are not shown above as short-term leases (included in cost of goods sold and administrative expenses)	6,243	2,192
– relating to variable lease payments not included in lease liabilities (included in administrative expenses)	2,691	2,800

The total cash outflow for leases for the year ended 31 December 2020 was RMB427,386 thousands (for the year ended 31 December 2019: RMB442,791 thousands).

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

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

(iv) **Variable lease payments**

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

(v) **Extension and termination options**

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

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

13 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables due from third parties	95,300	92,891
Trade receivables due from related parties	6,798	6,347
	102,098	99,238
Less: provision for impairment	(6,564)	(4,934)
Trade receivables – net	95,534	94,304
Deposits to suppliers	9,329	4,211
Other receivables due from related parties	1,267	831
Loan to a related party	902	–
VAT recoverable	57,361	46,489
Others	24,881	15,247
	93,740	66,778
Less: provision for other receivables	(4,978)	(4,368)
Other receivables – net	88,762	62,410
Prepayments	30,434	37,838
Total trade, other receivables and prepayments	214,730	194,552

(a) Trade receivables

As at 31 December 2020 and 2019, the fair values of the trade receivables of the Group approximate to their carrying amount and all the Group's trade receivables are denominated in RMB.

The Group allows a credit period of within 30-90 days to its customers. Aging analysis of trade receivables based on invoice date, before provision for impairment, were as follows:

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
– Up to 3 months	77,532	79,011
– 3 months to 1 year	14,926	12,900
– 1 year to 2 years	7,325	6,491
– 2 years to 3 years	1,679	24
– Over 3 years	636	812
	<u>102,098</u>	<u>99,238</u>

14 TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables:		
– Due to third parties	166,982	135,895
– Due to related parties	44,125	867
	<u>211,107</u>	<u>136,762</u>
Other payables due to related parties	7,789	10,219
Payables for purchase of property, plant and equipment	63,973	67,360
Customers' deposits	29,014	32,476
Accrued expenses	39,997	37,982
Staff salaries and welfare payables	77,827	87,900
Accrued taxes other than income tax	12,388	5,963
	<u>442,095</u>	<u>378,662</u>

As at 31 December 2020 and 2019, all trade and other payables of the Group were non-interest bearing. Their fair values approximate to their carrying amounts due to their short maturities.

As at 31 December 2020 and 2019, trade and other payables were all denominated in RMB.

As at 31 December 2020 and 2019, the aging analysis of the trade payables of the Group based on invoice date were as follows:

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
– Within 1 year	197,445	131,724
– 1 year to 2 years	7,791	3,132
– 2 years to 3 years	4,637	971
– Over 3 years	1,234	935
	<u>211,107</u>	<u>136,762</u>

FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Key Items of Consolidated Statement of Comprehensive Income		
Revenue	1,597,716	1,927,980
Gross profit	334,597	565,018
Net profit	26,644	204,974
Profit attributable to the owners of the Company	19,673	202,405
Basic/diluted earnings per share attributable to the owners of the Company (<i>in RMB</i>)	0.07	0.76

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Key Items of Consolidated Balance Sheet		
Total assets	4,564,983	4,492,126
Total liabilities	3,018,217	2,902,083
Total equity attributable to the owners of the Company	1,486,162	1,578,471

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2020, the unanticipated outbreak of COVID-19 (the “**pandemic**”) spurred on a turbulent and transformative period for the world, resulting in a historic recession in the global economy pandemic. Despite the PRC economy being under domestic and international pressure, China was one of the first countries in the world to succeed in epidemic prevention and control and resumed economic and social development in 2020. A new development mode was taking shape in the PRC with domestic circulation as the mainstay and mutual promotion of the domestic and international “dual circulation”. Following stringent epidemic control measures in the first quarter, an effective recovery of the market demand in the hotel industry was driven by: highly efficient and accurate COVID-19 testing, resumption of domestic flights and flights to popular destinations, consumers’ confidence in travelling to nearby and cross-province destinations and travelling for business and small scale conferences and exhibitions, as well as the support mechanism implemented by governments for the prevention and control of epidemics and the promotion of the economic domestic circulation.

As one of the leading enterprises in the hotel industry in the PRC, the Group actively responded and took appropriate measures in light of the pandemic and its continuing impact. On the one hand, the Group has always focused on the development strategy of the Company, clearly defined our development positioning, focused on our mission, implemented transformation, integrated internal and external resources, and achieved innovative chains in terms of space, management, services, marketing and business model. On the other hand, the Group has re-examined our corporate social responsibility development strategy and launched a new “Kaiyuan Cares” (至美開元) corporate social responsibility plan; strengthened our brand marketing and actively explored the model of selling products via live broadcast in our hotels to enhance their capacity of content-led trading. Leveraging its well-established organization mechanism and independent innovation advantages, the Group continued to maintain our leading position in the face of adversities.

During the Reporting Period, the Group recorded a revenue of approximately RMB1,597.7 million, representing a decrease of approximately 17.1% as compared to the same period last year, which was mainly attributable to the impact of the pandemic, and the gross profit of the Group was approximately RMB334.6 million, representing a decrease of approximately 40.8% as compared to the same period last year, and the EBITDA of the Group was approximately RMB563.3 million, representing a decrease of approximately 24.0% as compared to the same period last year, which was mainly attributable to the significant decrease in revenue due to the impact of the pandemic. Profit attributable to owners of the Company was approximately RMB19.7 million, representing a decrease of approximately 90.3% as compared with the same period of last year, which was mainly attributable to the significant decrease in profit due to a significant decrease in revenue, while expenses such as depreciation and amortisation increased as the number of hotels increased.

During the Reporting Period, the Group had 147 newly contracted hotels in total (2019: 150). The number of contracted hotels decreased due to the impact of the pandemic as compared to the same period last year, however the total amount of contracted hotels reflected a steady growth trend, which reflected the increasing influence of the “New Century Hotel” brand throughout the PRC. As at 31 December 2020, the Group’s hotel portfolio consisted of 311 hotels in operation (as at 31 December 2019: 216), with approximately 59,231 rooms (as at 31 December 2019: 44,785) throughout China, representing an increase of approximately 44.0% and approximately 32.3% as compared to 31 December 2019, respectively. Among the 311 hotels in operation, 228 were under full service management agreements, 40 were under franchise agreements, two were owned hotels, three were hotels managed by third parties, and 38 were under lease agreements. As at 31 December 2020, the Group had 278 hotels in the pipeline with over 50,000 rooms, representing an increase of approximately 16.3% and 12.0% respectively as compared to 31 December 2019.

The following table sets forth the number of hotels and hotel rooms in operation as at 31 December 2019 and 2020.

	As at 31 December 2020		As at 31 December 2019	
	No. of Hotels	No. Hotel Rooms	No. of Hotels	No. Hotel Rooms
Operated hotels	40	10,279	38	9,160
Managed hotels	271	48,952	178	35,625
Total	<u>311</u>	<u>59,231</u>	<u>216</u>	<u>44,785</u>

The following table sets forth the number of hotels and hotel rooms by hotel categories as at 31 December 2020.

	No. of operated hotels (No. of hotel rooms) in operation	No. of managed hotels (No. of hotel rooms) in operation	No. of operated hotels (No. of hotel rooms) under pipeline	No. of managed hotels (No. of hotel rooms) under pipeline	Total no. of hotels (No. of hotel rooms) in operation and under pipeline
Upscale business hotels	10(4,474)	42(14,041)	1(289)	35(10,251)	88(29,055)
Upscale resort hotels	4(830)	26(6,309)	–	39(8,034)	69(15,173)
Mid-scale full service hotels	10(2,707)	58(12,514)	–	78(17,634)	146(32,855)
Mid-scale select service hotels	16(2,268)	145(16,088)	1(150)	124(13,776)	286(32,282)
Total	<u>40(10,279)</u>	<u>271(48,952)</u>	<u>2(439)</u>	<u>276(49,695)</u>	<u>589(109,365)</u>

During the Reporting Period, hotels operating under the “New Century Hotel” brand received 15 awards and accolades including the Quality Award from the Zhejiang Provincial Government, improving our public and market recognition. New Century hotel group ranked 18th in terms of scale among global hotel groups, maintaining the industry leading position of the global top 30 hotel groups for five consecutive years; ranked first in terms of scale of full-service hotels among China hotel groups, and being included in top 60 of China hotel groups for six consecutive years.

Hotel operation segment

During the Reporting Period, the Group’s revenue generated from the hotel operation segment amounted to approximately RMB1,408.0 million, representing a decrease of approximately 16.7% as compared to the previous year. In spite of the pandemic, the Group strived to create a new driver for revenue growth by focusing on developing new hotel projects in the upscale and mid-scale markets. During the Reporting Period, Hangzhou Boao Grand New Century Hotel and Inner Mongolia Grand New Century Hotel, two upscale full-service hotels leased and operated by the Group, were opened in February 2020 and June 2020, respectively. Nanchang Qingshan Lake Manju Hotel, a mid-scale select service hotel, commenced operation in April 2020, while New Century Yuyao Manju Hotel converted from entrustment to leased operation and New Century Manju Hotel Wanda Plaza Minhang Shanghai ceased operation due to property issues. The leasing agreement of New Century Maison Changzhou Taihu Bay was terminated due to change in ownership of the hotel. As a result, the number of operated hotels increased from 38 as at the end of 2019 to 40 at the end of the Reporting Period.

Owned hotels

As at 31 December 2020, we owned two hotels with 382 hotel rooms, accounted for approximately 0.6% of the total hotel rooms in operation.

Leased hotels

In the Reporting Period, while enhancing the brand value by expanding the national hotel network rapidly with the entrusted management model, we actively sought opportunities of leasing hotels at reasonable rents to create a new driver for revenue and profit growth. Four new leased hotels commenced operation during the Reporting Period. As at 31 December 2020, we had 38 leased hotels with 9,897 hotel rooms, accounting for approximately 16.7% of the total hotel rooms in operation.

Operating data

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

Item	Year ended 31 December					
	Average		ADR (RMB)		RevPAR (RMB)	
	Occupancy Rate (%)					
	2020	2019	2020	2019	2020	2019
Upscale business hotels	41.9	62.4	426.2	465.9	178.8	290.9
Upscale resort hotels	49.1	57.1	599.7	676.1	294.6	385.8
Mid-scale full service hotels	42.7	60.4	325.3	353.1	138.8	213.1
Mid-scale select service hotels	53.7	62.1	277.6	315.5	149.0	196.1

Due to the aforementioned impact of the pandemic, the occupancy rate and average room rate of all types of hotels have declined significantly. As the impact of the pandemic relatively eased in the second half of 2020, the RevPAR of all types of hotels rebounded significantly in the second half of 2020 and reached the combined annual levels for each type of hotels as set out above. Among which, the RevPAR of upscale business hotels was RMB239.9 in the second half of 2020, representing an increase of 103.8% from RMB117.7 in the first half of 2020, the RevPAR of upscale resort hotels was RMB351.8 in the second half of 2020, representing an increase of 89.8% from RMB185.4 of the first half of 2020, and the RevPAR of mid-scale full service hotels was RMB181.5 in the second half of 2020, representing an increase of 88.5% from RMB96.3 of the first half of 2020.

F&B services

	Year ended 31 December	
	2020	2019
Average spending per customer (RMB)	128.6	129.4
Utilization rate of seats	51.7%	72.4%
Revenue per sq.m. of banquet rooms (RMB)	8,738.7	10,378.7

In 2020, as travelling was restricted due to the pandemic, the demand of conference decreased significantly. With easing of travelling restriction in the second half of 2020, wedding banquets and short and local trips significantly increased. In the second half of 2020, the utilization rate of seats was 67.18%, representing a decrease of just 6.06% from 73.24% in the second half of 2019 and a significant increase when compared to the year-on-year decrease of 34.9% recorded in the first half of 2020. Revenue per sq.m. of banquet rooms was RMB5,727.75 in the second half of 2020, representing an increase of 14.87% from RMB4,986.41 in the second half of 2019.

Hotel Management Segment

During the Reporting Period, the Group recorded a revenue of approximately RMB189.7 million from the hotel management segment, representing a year-on-year decrease of approximately 20.3%. Although the number of managed hotels from new openings increased during the Reporting Period, after the outbreak of the pandemic, the Group proactively waived the management fees of all entrusted hotels from 24 January to 31 March 2020; and subsequently from 1 April to 30 June 2020, the performance of each hotel also dropped significantly, with the revenue of the hotel management segment recording a year-on-year decrease of 44.7% in the first half of 2020. In the second half of 2020, as the pandemic was gradually brought under control in the PRC, the performance of all hotels gradually recovered, and the revenue of the hotel management segment recovered to a year-on-year decrease of 2.9% for the Reporting Period.

Corporate Strategies and Future Development Outlook

During the Reporting Period, in view of the normalisation of pandemic control measures and the revival of domestic tourism, fresh demand for tourism spending had accumulated continuously. Basing on our development strategy, the Group focused on the demand for residents' tourism and faced the challenges of the industry in a reformed, open and innovative manner, consolidating our core competitiveness. Looking ahead, there will continue to be challenges and opportunities in the hotel industry in China. The impact of the pandemic is extensive and far-reaching. Although the global economy is likely to see a general recovery in the near future, the external environment is still complex and volatile and the probability of a significant economic recovery is low. In terms of the domestic economy, as the 14th Five-year Plan begins, the PRC government's economic work will closely align with the targets and goals of the 14th Five-year Plan and we expect China will strive to promote reform and innovation and accelerate the establishment of a new development landscape. Meanwhile, as the spending power of residents on tourism and the demand for diverse tourism cultural products continue to grow, it will be a challenge for the hotel industry to develop in both quality and scale, presenting an opportunity for the industry to increase its overall competitiveness.

The Company will adhere to our development strategy of "leading upscale development and winning in mid-scale market", facilitate project development through diversified cooperation, and strengthen strategic cooperation, joint venture and alliance to promote regional development. The Company will improve channel construction, accelerate the establishment of presence throughout the country and expansion to strategic cities, improve the development of key brand projects and improve quality control, maintain the Group's competitive edge in the upscale hotel market and fully promote the rapid development of mid-scale hotels.

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

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

FINANCIAL REVIEW

Revenue

Comparison between the financial information of the Group during the Reporting Period and that of the corresponding period in 2019 is as follow:

	Year ended 31 December			
	2020		2019	
	<i>RMB'000</i>	% of total revenue	<i>RMB'000</i>	% of total revenue
Hotel operation				
Room	620,401	38.8%	805,862	41.8%
Food and beverage	534,154	33.4%	600,198	31.2%
Ancillary services	214,272	13.4%	243,096	12.6%
Rental income	39,181	2.5%	40,925	2.1%
Subtotal of hotel operation	1,408,008	88.1%	1,690,081	87.7%
Hotel Management	189,708	11.9%	237,899	12.3%
Total	1,597,716	100.0%	1,927,980	100.0%

Hotel Operation

During the Reporting Period, the revenue for the hotel operation segment decreased by approximately 16.7% from approximately RMB1,690.1 million in FY2019 to approximately RMB1,408.0 million in FY2020, primarily due to (i) an approximately 23.0% decrease in revenue from accommodation services from approximately RMB805.9 million in FY2019 to approximately RMB620.4 million in FY2020; (ii) an approximately 11.8% decrease in the revenue from our ancillary services from approximately RMB243.1 million in FY2019 to approximately RMB214.3 million in FY2020; and (iii) an approximately 11.0% decrease in the revenue from F&B services from approximately RMB600.2 million in FY2019 to RMB534.2 million in FY2020.

The decrease in revenue for the hotel operation segment was largely due to travel restrictions related to the pandemic, which led to a decrease of 16.1 percentage points in the room occupancy rate from 61.2% in FY2019 to 45.1% in FY2020, and a 9.2% decrease in ADR from RMB416.67 in FY2019 to RMB378.29 in FY2020. This also caused year-on-year decreases in revenues from F&B and ancillary services.

Hotel Management

During the Reporting Period, the revenue for the hotel management segment decreased by approximately 20.3% from approximately RMB237.9 million in FY2019 to approximately RMB189.7 million in FY2020. Despite an increase of approximately 52.2% in the number of managed hotels from 178 to 271 (among which, the number of managed mid-scale select service hotels increased from 86 to 145, representing an increase of approximately 68.6%), the performance of hotels declined due the impact of the pandemic, which resulted in a year-on-year decrease in the revenue for the hotel management segment.

Gross Profit and Gross Profit Margin

Based on the foregoing, during the Reporting Period, the gross profit of the Group was approximately RMB334.6 million, representing a decrease of approximately 40.8% over the same period of 2019, and the gross profit margin was approximately 20.9%, representing a decrease of 8.4 percentage points as compared to the gross profit margin for the same period in 2019, which was primarily due to a significant decrease in operating income, given costs such as asset depreciation and amortisation and maintenance increased as the number of leased hotels increased, while the decrease in other costs did not match the significant decrease in operating income in the Reporting Period.

Selling and Marketing Expenses

Selling and marketing expenses decreased by approximately 16.9% from approximately RMB106.0 million in FY2019 to approximately RMB88.1 million in FY2020. The decrease was primarily due to the decrease in operating income in the Reporting Period.

Administrative expenses

Administrative expenses decreased by approximately 2.1% from approximately RMB168.1 million in FY2019 to approximately RMB164.5 million in FY2020.

Other Income and Other Gains

During the Reporting Period, other income and other gains were approximately RMB43.1 million, representing a decrease of approximately RMB2.2 million over FY2019. The other income and other gains of the Company mainly represent the government grants received and gains on the structured deposits.

Taxation

During the Reporting Period, the effective tax rate was approximately 31.8%, as compared to approximately 23.7% over the same period in 2019, representing an increase of 8.1 percentage points, which was mainly due to the deferred income tax assets of some long-term loss making hotels not recognised in the year.

Net Profit and Total Comprehensive Income

Due to the reasons mentioned above, during the Reporting Period, the net profit and total comprehensive income decreased by approximately 87.0% from approximately RMB205.0 million in FY2019 to approximately RMB26.6 million in FY2020. The profit attributable to the owners of the Company decreased by approximately 90.3% from approximately RMB202.4 million in 2019 to approximately RMB19.7 million in FY2020.

Total Cash and Cash Equivalents

As at 31 December 2020, our Group's total balance of cash and cash equivalents amounted to approximately RMB291.3 million (as at 31 December 2019: approximately RMB345.7 million). There was also fixed deposits of approximately RMB613.5 million (as at 31 December 2019: approximately RMB909.2 million). The liabilities of the Company were in Renminbi and there were no foreign currency liabilities as at 31 December 2020.

Property, Plant and Equipment

The property, plant and equipment of the Group mainly included leasehold improvements, construction in progress, building and facilities, machinery and equipment, office and electronic equipment and vehicles. As at 31 December 2020, the property, plant and equipment of the Group amounted to approximately RMB790.7 million, representing an increase of approximately RMB129.5 million from approximately RMB661.2 million as of 31 December 2019, primarily attributable to the Group's newly leased hotel projects and the acquisition of renovation and related mobile assets during the Reporting Period.

Trade and Other Receivables and Prepayments

The Group's trade receivables primarily consisted of management fees receivable and receivables from our corporate customers for room and meetings, incentives, conferences and exhibitions (MICE) services. Other receivables were mainly composed of (i) VAT recoverable; (ii) deposits to suppliers; (iii) receivables from related parties and (iv) others.

As at 31 December 2020, the Group's trade receivables – net were approximately RMB95.5 million, representing an increase of approximately RMB1.2 million from approximately RMB94.3 million as at 31 December 2019, primarily attributable to the newly increased hotels.

As at 31 December 2020, the Group's other receivables, other current assets and prepayments were approximately RMB119.2 million in total, representing an increase of approximately RMB19.0 million as compared to approximately RMB100.2 million as of 31 December 2019, primarily attributable to an increase of approximately RMB26.4 million in other receivables (mainly comprised: (i) increase in VAT recoverable of approximately RMB10.9 million for hotel renovation acquired during the year; and (ii) a payment of approximately RMB5.0 million as earnest money for a lease). Besides the amount mentioned above, the Company also recorded a long-term prepayment of RMB24.8 million for acquisition of an equity interest. The balance was recorded as a non-current asset.

Loans receivable

The Group's loans receivable were mainly funds lent to independent third parties with the total principal amounting to RMB34.0 million. There was no such business in 2019.

Trade and Other Payables

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

As at 31 December 2020, the total trade payables of the Group amounted to approximately RMB211.1 million, representing an increase of approximately RMB74.3 million as compared with that of approximately RMB136.8 million as at 31 December 2019, mainly attributable to outstanding related party rent payables of approximately RMB42.0 million. As at 31 December 2020, the other payables of the Group amounted to approximately RMB231.0 million, representing a decrease of approximately RMB10.9 million as compared with that of approximately RMB241.9 million as at 31 December 2019, mainly attributable to a decrease of approximately RMB10.1 million in outstanding salaries and welfare payables as at the end of the Reporting Period.

Contract Liabilities

The Group's contract liabilities were substantially comprised of advances from customers and reward points under the customer loyalty program. Advances from customers primarily comprised prepayment received from prepaid card holders, advances from banquet customers and prepayment received from leasing agreements. Our customer loyalty program primarily involved a promotion program under which customers may accumulate points for hotel service purchases made, which entitle them to discounts on future hotel service purchases.

The Group's contract liabilities increased from approximately RMB216.5 million as at 31 December 2019 to approximately RMB280.5 million as at 31 December 2020, primarily due to the advance receipts from the general customer base of the newly increased hotels.

Use of Proceeds from Initial Public Offering

The H shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 11 March 2019 (“**Listing Date**”). Based on the offer price of HK\$16.5 per share, the proceeds raised by the Company from the listing amounted to approximately HK\$1,155.0 million. As stated in the Company's prospectus dated 26 February 2019, the amount of net proceeds earmarked was approximately HK\$1,120.0 million.

On 20 March 2020, the Board resolved to change the use of proceeds (the “**Reallocation**”) and the Reallocation was approved at the 2019 annual general meeting by way of an ordinary resolution on 20 May 2020. For details of the Reallocation, please refer to the announcement of the Company regarding the change in the use of proceeds dated 20 March 2020 and the circular for the 2019 annual general meeting of the Company dated 21 April 2020.

The net proceeds utilized by the Group from the Listing Date up to 31 December 2020 were as follows:

Use of net proceeds	Amount of net proceeds earmarked as at Listing Date (HK\$ million)	Amount of net proceeds as at Listing Date		Utilised amount of net proceeds from the Listing Date up to 31 December 2020	Unutilized Net Proceeds (RMB million)	Estimated Utilization Timetable ⁽⁵⁾
		after Reallocation	(RMB million)*	(RMB million)		
Development of our upscale business and resort hotels	280.0 ⁽¹⁾	171.5	146.8	146.8	0.0	N/A
Development of our mid-scale hotels	392.0 ⁽²⁾	111.6	95.6	13.0	82.6	On or before 31 December 2021
Brand building and promotion including but not limited to, engaging in marketing and promotional activities, sponsorship of industry events and advertising	112.0 ⁽³⁾	0.0	0.0	0.0	0.0	N/A
Recruitment of more talent and strengthening our implementation of training to our staff and recruitment programs for supporting our business expansion	56.0	56.0	48.0	2.4	45.6	On or before 31 December 2021
Development of our information technology system by upgrading existing operational and IT system infrastructure	168.0 ⁽⁴⁾	68.0	58.2	2.9	55.3	On or before 31 December 2021
General corporate purposes and working capital	112.0	414.0	354.4	183.9	170.5	On or before 31 December 2022
Strategical development of the Group's business through business acquisition and business collaboration	–	298.9	255.9	24.8	231.1	On or before 31 December 2021
Total	1,120.0	1,120.0	958.9	373.8	585.1	

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

Notes:

- (1) The unutilized net proceeds of HK\$108.5 million were reallocated to the “strategic development of the Group’s business through business acquisitions and business cooperation”.
- (2) The unutilized net proceeds of HK\$190.4 million were reallocated to the “strategic development of the Group’s business through business acquisitions and business cooperation”, and HK\$90.0 million was reallocated to “general corporate purposes and working capital”.
- (3) The unutilized net proceeds of HK\$112.0 million were reallocated to “general corporate purposes and working capital”.
- (4) The unutilized net proceeds of HK\$100.0 million were reallocated to “general corporate purposes and working capital”.
- (5) The expected utilization time of the unutilized net proceeds is based on the Group’s assessment of future market conditions, and may vary according to the development of current and future market conditions.

OTHER INFORMATION

HUMAN RESOURCES AND TRAINING

As at 31 December 2020, the total number of employees of the Group was approximately 4,673. For the Reporting Period, the total remuneration of employees (including the remuneration of Directors of the Company, but excluding the remuneration of independent non-executive Directors) was approximately RMB443.6 million (2019: RMB530.3 million). Employees’ compensations of the Company include basic wages, allowance and performance bonus. The Company established a scientific and reasonable compensation distribution system where the income of the employees is directly proportional to the value created by them for the Company.

The Group puts great emphasis on human resources development, focuses on the long-term cultivation and training of management talents at all levels, and commits to the close integration of our cultivation and training work with the actual development needs of our Group. During the Reporting Period, the number of participants and the scale of our reserve managerial training program and middle-level successor training increased significantly as compared with last year. With the aim to develop our middle to senior level managers to be outstanding, creative, skillful and at the same time equip with international vision, the Group provides them with training that integrates theory and practice. In order to achieve the objective of platform sharing and resources integration, the Group has established a human resources sharing service center to facilitate the allocation of personnel among hotels and hence improve the efficiency of human resources management of the Group. As at 31 December 2020, all units of the Group have commenced using the sharing system. The Company continued to implement the “Hundred City & Thousand School into New Century” project, while all 2019 management trainees who participated in the “dual election internship” have been promoted to managerial positions. Cooperation with educational institutions was deepened during the Reporting Period with total of 36 candidates was admitted to the M36 elite class jointly organised by the Group and the Tourism College of Zhejiang, and both parties cooperated to apply for joining the Zhejiang Province Tourism Industry-Education Integration Alliance (浙江省旅遊產教聯盟) and jointly established the Kaiyuan Hotel Management College (開元酒店管理學院). The Group and the College of Tourism, Huangshan University agreed on a memorandum of understanding to cooperate in activities such as launching “star chefs’ lectures

in campus” and mutual recruitment of personnel. We have established cooperation with 50 universities and colleges by the end of 2020. In terms of the cultivation of professional talents within the Group, we have conducted various trainings during the Reporting Period, including marketing revenue management training camp, vacation partner training camp, training for senior banquet service officers, New Century star chef, New Century quality control officers, brand communication practice training camp, vitality experts and engineering exchange. Meanwhile, the Company actively responded to the policy of human resources and social security departments of the government on establishment of vocational skill level certification pilot unit. During the Reporting Period, the Company applied for and passed rating qualification for four types of work including waiter, Chinese cooking, room attendant and front office host. This will provide standardised basis for training and assessment of skilled employees of the Company. Our systematic internal training program has supplied us with a sufficient number of qualified managers and other employees to meet the continuous needs for skilled employees.

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

CORPORATE GOVERNANCE

During the Reporting Period, the Company has adopted the principles and code provisions set out in the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) to implement the good corporate governance practices of the Company and has complied with the relevant code provisions.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules to regulate the securities transactions by Directors and Supervisors of the Company.

The Company has made specific enquiries to all the Directors and Supervisors of the Company, and all of them have confirmed that they have been in compliance with the Model Code during the Reporting Period.

The Company has also established written guidelines (the “**Written Guidelines**”) no less exacting than the Model Code for securities transactions conducted by employees who are likely to possess inside information in relation to the Company or its securities. No incident of non-compliance of the Written Guidelines by the employees was noted by the Company.

Audit Committee

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

The audit committee has reviewed the annual results of the Group for the year ended 31 December 2020 and recommended its approval by the Board. The annual results of the Group for the year ended 31 December 2020 were also reviewed by the external auditor of the Company, PricewaterhouseCoopers. The audit committee also reviewed with the management of the Group regarding the accounting principles and practices adopted by the Group, and discussed with them the internal controls, risk management and financial reporting matters.

Purchase, sale or redemption of listed securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities in the Reporting Period.

Final Dividend

The Board proposed that no cash dividend will be paid in respect of the year ended 31 December 2020 and no capital reserve capitalisation and other forms of distribution will be made (2019: RMB0.40 per share (tax included) for a total dividend of RMB112 million).

Annual general meeting

The AGM will be held on Wednesday, 30 June 2021. The notice of the AGM will be published on the websites of the Company (www.kaiyuanhotels.com) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and sent to shareholders of the Company within the prescribed time and in such manner in accordance with the requirements of the Listing Rules.

Closure of register of members

In order to determine the entitlement of shareholders of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 25 June 2021 to Wednesday, 30 June 2021, both days inclusive, during which period no transfer of shares in the Company will be registered. To be eligible to attend and vote at the AGM or any adjournment thereof, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 24 June 2021.

Subsequent Event

On 18 January 2021 (after trading hours), the Board received a letter from the Kunpeng Asia Limited (the “**Offeror**”) that, subject to the satisfaction of the pre-condition, voluntary conditional offers (the “**Offers**”) will be made by the Offeror for the H Shares and the Domestic Shares other than those owned, controlled or agreed to be acquired by the Offeror and its Concert Parties (as defined in the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”)) who have undertaken not to accept the Offers in accordance with the Takeovers Code which, if implemented, will result in the voluntary withdrawal of the listing of the H Shares from the Stock Exchange. As at 5 February 2021, the pre-condition to the Offers has been satisfied. Please refer to the announcements dated 20 January 2021, 27 January 2021, 29 January 2021, 5 February 2021 and 8 February 2021 jointly issued by the Offeror and the Company in relation to, among other things, the Offers for further details.

Publication of annual results

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

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

Hangzhou, the PRC, 15 March 2021

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