

China Lodging Group, Ltd  
Form 20-F  
April 21, 2017  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 20-F**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2016**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from            to**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report . . . . .

Commission file number: 001-34656

# China Lodging Group, Limited

(Exact name of Registrant as specified in its charter)

**Not Applicable**

(Translation of Registrant's name into English)

**CAYMAN ISLANDS**

(Jurisdiction of incorporation or organization)

**No. 2266 Hongqiao Road**

**Changning District**

**Shanghai 200336**

**People's Republic of China**

**(86) 21 6195-2011**

(Address of principal executive offices)

**Min (Jenny) Zhang**

**Chief Executive Officer**

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**No. 2266 Hongqiao Road**

**Changning District**

**Shanghai 200336**

**People's Republic of China**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing four ordinary shares, par value US\$0.0001 per share	NASDAQ Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

278,282,366 Ordinary Shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued  
by the International Accounting Standards Board

Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

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**CERTAIN CONVENTIONS**

Unless otherwise indicated, all translations from U.S. dollars to RMB in this annual report were made at a rate of US\$1.00 to RMB6.9430, the exchange rate as set forth in the H.10 statistical release of the U.S. Federal Reserve Board on December 30, 2016. No representation is made that the RMB amounts referred to herein could have been or could be converted into U.S. dollars at any particular rate or at all. On April 14, 2017, the exchange rate was US\$1.00 to RMB6.8835. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Unless otherwise indicated, in this annual report,

- *ADRs* are to the American depositary receipts that may evidence our ADSs;
- *ADSs* are to our American depositary shares, each representing four ordinary shares;
- *China* or the *PRC* are to the People's Republic of China, excluding, for purposes of this annual report, Hong Kong, Macau and Taiwan;
- *leased hotels* are to leased-and-operated hotels;
- *manachised hotels* are to franchised-and-managed hotels;
- *Ordinary shares* are to our ordinary shares, par value US\$0.0001 per share;
- *RMB* and *Renminbi* are to the legal currency of China;
- *US\$* and *U.S. dollars* are to the legal currency of the United States; and



- *We, us, our company, our* and *China Lodging* are to China Lodging Group, Limited, a Cayman Islands company, and its predecessor entities and subsidiaries.

Table of Contents**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION****3.A. Selected Financial Data**

The selected consolidated statements of comprehensive income data and selected consolidated cash flow data for the years ended December 31, 2014, 2015 and 2016 and the selected consolidated balance sheet data as of December 31, 2015 and 2016 are derived from our audited consolidated financial statements included herein, which were prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The selected consolidated statements of comprehensive income data and selected consolidated cash flow data for the years ended December 31, 2012 and 2013 and the selected consolidated balance sheet data as of December 31, 2012, 2013 and 2014 are derived from our audited consolidated financial statements that have not been included herein and were prepared in accordance with U.S. GAAP. The selected financial data set forth below should be read in conjunction with Item 5. Operating and Financial Review and Prospects and the consolidated financial statements and the notes to those statements included herein. The historical results presented below are not necessarily indicative of financial results to be achieved in future periods.

	2012 (RMB)	2013 (RMB)	Year Ended December 31, 2014                      2015 (RMB)                      (RMB)		2016 (RMB)	(US\$)
	(In thousands, except per share and per ADS data)					
<b>Selected Consolidated Statement of Comprehensive Income Data:</b>						
Net revenues	3,224,527	4,168,629	4,964,728	5,774,624	6,538,631	941,759
Operating costs and expenses(1)	3,011,517	3,815,835	4,593,915	5,204,734	5,650,292	813,811

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Income from operations	219,733	380,544	389,364	601,154	870,899	125,436
Income before income taxes	233,673	388,515	413,631	638,805	1,077,445	155,185
Net income	179,504	283,695	302,391	439,380	796,482	114,717
Less: net income (loss) attributable to noncontrolling interest	4,617	3,837	(4,957)	2,780	(8,133)	(1,171)
Net income attributable to China Lodging Group, Limited	174,887	279,858	307,348	436,600	804,615	115,888
Earnings per share:						
Basic	0.72	1.14	1.23	1.74	2.92	0.42
Diluted	0.71	1.12	1.21	1.70	2.84	0.41
Earnings per ADS(2):						
Basic	2.88	4.57	4.94	6.97	11.70	1.68
Diluted	2.83	4.49	4.86	6.82	11.38	1.64
Weighted average number of shares used in computation:						
Basic	243,284	245,187	248,958	250,533	275,139	275,139
Diluted	246,981	249,486	253,004	256,104	282,889	282,889

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Notes:

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

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	2012 (RMB)	2013 (RMB)	Year Ended December 31, 2014 (RMB)      2015 (RMB)		2016 (RMB)	(US\$)
			(In thousands)			
Share-based compensation expenses	20,837	30,468	31,937	52,535	55,436	7,984

(2) Each ADS represents four ordinary shares.

The following table presents a summary of our selected consolidated balance sheet data as of December 31, 2012, 2013, 2014, 2015 and 2016:

	2012 (RMB)	2013 (RMB)	As of December 31, 2014 (RMB)      2015 (RMB)		2016 (RMB)	(US\$)
			(In thousands)			
<b>Selected Consolidated Balance Sheet Data:</b>						
Cash and cash equivalents	449,844	397,435	808,865	1,237,838	3,235,007	465,938
Restricted cash	1,790	3,317		360,500	500	72
Prepaid rent	321,305	363,581	385,158	429,588	446,127	64,256
Property and equipment, net	2,951,509	3,634,039	3,907,343	3,805,886	3,710,468	534,419
Total assets	4,330,187	5,185,052	6,182,906	7,693,521	9,993,364	1,439,344
Accounts payable	624,824	677,305	640,691	585,347	584,731	84,219
Deferred rent long-term	470,438	653,831	830,414	945,192	1,023,843	147,464
Deferred revenue	300,315	416,102	669,663	886,468	916,756	132,041
Total liabilities	1,839,622	2,357,261	2,964,193	4,252,773	4,577,207	659,255
Total equity	2,490,565	2,827,791	3,218,713	3,440,748	5,416,157	780,089

The following table presents a summary of our selected consolidated statements of cash flow data for the years ended December 31, 2012, 2013, 2014, 2015 and 2016:

	2012 (RMB)	2013 (RMB)	Year Ended December 31, 2014 (RMB)      2015 (RMB)		2016 (RMB)	(US\$)
			(In thousands)			
<b>Selected Consolidated Statement of Cash Flow Data:</b>						
Net cash provided by operating activities	715,720	1,070,169	1,454,015	1,749,673	2,047,656	294,924
Net cash provided by (used in) investing activities	(1,068,130)	(1,152,248)	(1,063,186)	(1,550,357)	183,762	26,466
Net cash provided by (used in) financing activities	19,895	30,646	21,683	232,281	(247,549)	(35,654)

**Exchange Rate Information**

This annual report contains translations of RMB amounts into U.S. dollars at specific rates solely for the convenience of the reader. The exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise indicated, conversions of RMB into U.S. dollars in this annual report are based on the exchange rate on December 30, 2016. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On April 14, 2017, the daily exchange rate reported by the Federal Reserve Board was US\$1.00 to RMB6.8835.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you.

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Period	Period End	Noon Buying Rate		
		Average(1) (RMB per US\$1.00)	Low	High
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
October	6.7735	6.7303	6.7819	6.6685
November	6.8837	6.8402	6.9195	6.7534
December	6.9430	6.9198	6.9580	6.8771
2017				
January	6.8768	6.8907	6.9575	6.8360
February	6.8665	6.8694	6.8821	6.8517
March	6.8832	6.8940	6.9132	6.8687
April (through April 14, 2017)	6.8835	6.8899	6.8988	6.8832

(1) Averages for a period are calculated by using the average of the exchange rates at the end of each month during the period. Monthly averages are calculated by using the average of the daily rates during the relevant period.

**3.B. Capitalization and Indebtedness**

Not applicable.

**3.C. Reason for the Offer and Use of Proceeds**

Not applicable.

**3.D. Risk Factors****Risks Related to Our Business**

*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;
- 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;

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- 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 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 and global economic conditions. A severe or prolonged downturn in the Chinese or global economy could materially and adversely affect our revenues and results of operations.***

Our business and operations are primarily based in China and we depend on domestic business and leisure traveler customers for a significant majority of our revenues. Accordingly, our financial results have been, and we expect will continue to be, affected by developments in the Chinese economy and travel industry. As the travel industry is highly sensitive to business and personal discretionary spending levels, it tends to decline during general economic downturns. In 2008, China was affected by the disruptions to financial markets described below, and, although the Chinese economy recovered in 2010 and remained relatively stable in 2011, the growth rate of China's GDP has decreased since 2012, and it is uncertain whether this economic slowdown will continue into 2017 and beyond. 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.

There is a possibility that 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 dwindling supply of surplus labor; (v) a decrease in exports due to weaker overseas demand; and (vi) failure to boost domestic consumption.

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 has been particularly intensified since the Paris terror attacks in November 2015, the uncertainty associated with the United Kingdom leaving the European Union since the referendum in June 2016 and the impact of the election of Donald Trump as President of the United States. It is unclear whether such challenges will be contained or resolved and what effects they may have. 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. 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 are sensitive to global economic conditions.



Any prolonged slowdown in the Chinese 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 industry in China is competitive, and if we are unable to compete successfully, our financial condition and results of operations may be harmed.*

The lodging industry in China is 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 stand-alone lodging facilities in each of the markets in which we operate. Our HanTing Hotels and Ibis Hotels mainly compete with Home Inns, Jinjiang Inn, 7 Days Inn, various regional hotel groups and stand-alone hotels, and certain international brands such as Super 8. HanTing Hotels and Ibis Hotels also compete with two- and three-star hotels, as they offer rooms with amenities comparable to many of those hotels. Our JI Hotels, Starway Hotels, Ibis Styles Hotels, Mercure Hotels and Novotel Hotels face competition from existing three-star and certain four-star hotels, boutique hotels whose price could be comparable and a few hotel chains such as Vienna Hotels and Holiday Inn Express. Our Hi Inns compete mainly with stand-alone guest houses, low-price hotels and budget hotel chains such as Pod Inns, 99 Inns and 100 Inns. Our Joya Hotels, Manxin Hotels and Grand Mercure Hotels compete with existing four-star and five-star hotels. Our Manxin Hotels also compete with boutique resort hotels. Our Elan Hotels compete with existing economy hotel chains such as 7 Days Inn, Home Inn or GreenTree Inn. 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 and average daily rates for 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. Any of these factors may have an adverse effect on our competitive position, results of operations and financial condition.

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***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 or other epidemics. In 2011, 2013 and 2014, there were reports on the occurrences of avian influenza in various parts of China, including dozens of confirmed human cases and deaths. Any prolonged recurrence of such contagious disease or other adverse public health developments in China may have a material and adverse effect on our business operations. For example, if any of our employees or customers is 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.

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. 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.

***Seasonality of our business and national or regional special events may cause fluctuations in our revenues, cause our ADS price 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. We 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. 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. For example, Expo 2010 Shanghai China, or the Shanghai Expo, drove strong demand and led to increased occupancy rates and average daily rates for our hotels in Shanghai from May 1 to October 31, 2010 and contributed to our revenue increase from 2009 to 2010. However, after the Shanghai Expo's closing on October 31, 2010, the demand for our hotels in Shanghai for the period from November 2010 to February 2011 was lower than the comparable periods of prior years. 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 is difficult to predict and our quarterly results could fall below investor expectations, which could cause our ADS price 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.

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

Our operations commenced, through Powerhill Holdings Limited, or Powerhill, with mid-scale limited service hotels and commercial property development and management in 2005, and we began migrating to our current business of operating and managing a multi-brand hotel group in 2007. See Item 4. Information on the Company A. History and Development of the Company. 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, which may have a significant negative impact on our financial performance.*

The operation of each of our leased and owned hotel goes through three stages: development, ramp-up and mature operations. During the development stage, leased and owned hotels generally incur pre-opening expenses ranging from approximately RMB0.5 to RMB10.0 million per hotel. 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.

***A significant portion of 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.***

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, but our expenses do not vary as 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.

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*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 began migrating to our current business of operating and managing a multi-brand hotel group. In 2007, we launched our economy hotel product, HanTing Express Hotel, which was subsequently rebranded as HanTing Hotel, and our mid-scale limited service hotel product, HanTing Hotel, which was subsequently rebranded first as HanTing Seasons Hotel and then as JI Hotel. 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 brand. In addition, we launched Manxin Hotels & Resorts in October 2013, which was subsequently rebranded as Manxin Hotel, Joya Hotel, a new hotel brand targeting the upscale market, in December 2013 and Elan Hotel, a new economy hotel brand targeting business travelers, young customers and urban tourists, in September 2014. In January 2016, we completed strategic alliance transactions with Accor S.A. ( Accor ) to join forces in the Pan-China region to develop Accor brands and to form an extensive and long-term alliance with Accor. Through this organic and acquired growth, we increased the number of our hotels in operation in China from 26 hotels as of January 1, 2007 to 3,269 hotels as of December 31, 2016, and we intend to continue to develop and operate additional hotels in different geographic locations in China. Such expansions have placed, and will continue to place, 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 to improve 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. Any failure to effectively and efficiently manage our expansion may materially and adversely affect our ability to capitalize on new business opportunities, which in turn may have a material adverse effect on our results of operations.

Expansion into new geographic markets 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. Our expansion within existing markets may cannibalize our existing hotels in those markets and, as a result, negatively affect our overall results of 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. Expansion through the introduction of new hotel products or brands may also present operating and marketing challenges. There can be no assurance that any new hotel products or brands we introduce will be well received by our customers and become profitable, and if it becomes profitable, it will be achieved in a timely fashion. If a new product or brand is not well received by our customers, 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 brand, 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 rebranded our *HanTing Express Hotel* as *HanTing Hotel*, our *HanTing Seasons Hotel* as *JI Hotel* and our *HanTing Hi Inn* as *Hi Inn* in 2012. In the same year we also acquired the Starway Hotel brand. In addition, we launched Manxin Hotels & Resorts in October 2013, which was subsequently rebranded as Manxin Hotel, Joya Hotel, a new hotel brand targeting the upscale market, in December 2013 and Elan Hotel, a new economy hotel brand targeting business travelers, young customers and urban tourists, in September 2014. We are still in the process of developing the Elan Hotel, Joya Hotel, Manxin Hotel, JI Hotel, Starway Hotel and Hi Inn brands on top of our established brand of HanTing Hotel. In addition to the hotel brands owned by us, we completed the strategic alliance transactions with Accor in January 2016, and are developing Accor's certain hotel brands in PRC, Taiwan and Mongolia.

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- Elan Hotel is our economy hotel brand concept targeting business travelers, young customers and urban tourists. Elan Hotel is committed to provide an unique business and leisure life experience for the hotel guests. The hotels' modern and nature design elements create a fresh and refreshing atmosphere for the hotel guests. Elan Hotel brand conveys the concept of enjoyment of life and nature. We plan to further expand the Elan Hotel network primarily through manachise and franchise models. The introduction of the Elan Hotel brand exposes us to potential risks, including risks in developing the brand network.
- Joya Hotel is our upscale brand concept targeting affluent travelers and corporate events. Joya Hotels are typically located in central business districts. Since we have limited operating experience in developing and operating hotels in the upscale market, the introduction of the Joya Hotel brand exposes us to potential risks, including risks associated with high capital expenditure level and with entering a highly competitive new market.
- Manxin Hotel is our mid-to-upscale hospitality brand including city hotels and resorts. Manxin Hotel targets business travelers, leisure travelers, families and corporate events. Since we have limited operating experience in developing and operating hotels in the midscale and upscale market, the introduction of the Manxin Hotel brand exposes us to potential risks, including risks associated with high capital expenditure level and with entering a highly competitive new market.
- JI Hotel is our organically developed mid-scale brand. As of December 31, 2016, we had 284 JI Hotels in operation and an additional 102 JI Hotels under development. We plan to further expand the JI Hotel network through both the lease and ownership model and the manachise model. However, we may not be able to successfully identify, secure and develop in a timely fashion additional JI Hotels under the lease and ownership model or to successfully compete for franchise agreements for additional JI Hotels. The accelerated development of JI Hotels exposes us to potential risks, including risks associated with high capital expenditures and uncertain financial outcome.
- Before our acquisition, Starway operated under the franchise model, without direct management involvement in the franchised hotels. After the acquisition of Starway, we introduced the lease and ownership and manachise models to the Starway Hotels brand and gradually converted the franchised hotels Starway had before our acquisition to manachised or leased and owned hotels where appropriate. We also selectively terminated the franchise arrangements with certain Starway Hotels that did not meet the new Starway brand standards or did not accept certain changes we made to the franchise agreements. We integrated most of Starway Hotels' support functions into our existing corporate platform and significantly reduced the personnel and other operating costs for Starway. The acquisition of Starway exposes us to potential risks, including risks associated with unsuccessful transformation of business models and failure in growing the brand network.
- Hi Inns target practical and price-conscious travelers. We plan to strengthen the cost control over our Hi Inns to remain competitive in their target market and improve the RevPAR of Hi Inns through effective site selection.



However, we may not be able to successfully execute our growth strategy and achieve the desired profitability level for Hi Inns.

- Accor is a worldwide leading hotel operator and we have formed a strategic alliance with Accor since January 2016. Regarding the economy and midscale hotel brands of Accor, we obtained the exclusive franchise rights in respect of Mercure , Ibis and Ibis Styles in the PRC, Taiwan and Mongolia and the non-exclusive franchise rights in respect of Grand Mercure and Novotel in the PRC, Taiwan and Mongolia. We also take a non-controlling stake in Accor s operating platform for its luxury and upscale hotel brands in China, which will develop and operate brands including Sofitel , Pullman and MGallery by Sofitel . The strategic alliance with Accor exposes us to potential risks, including risks associated with the failure in growing the brand network, high capital expenditures and entering highly competitive markets.

In addition, 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 HanTing Hotel brand. The process of developing new brands may divert management attention and resources from our established HanTing Hotel brand. 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.

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***Our operations may suffer from effect of business uncertainties resulting from announcement of the proposed acquisition of Crystal Orange Hotels.***

In February 2017, China Lodging Holdings (HK) Limited, our wholly-owned subsidiary, entered into a definitive share purchase agreement with the shareholders of Crystal Orange Hotel Holdings Limited ( Crystal Orange ) to acquire all of the equity interests of Crystal Orange for an initial aggregate consideration in cash of approximately RMB3.65 billion, with customary post-closing adjustments. The closing of the transaction is subject to the approval from the Antitrust Bureau of Ministry of Commerce of China. Uncertainty about the effect of the proposed acquisition may have an adverse effect on our business. For example, the proposed acquisition may impair Crystal Orange's ability to retain its key personnel and could cause suppliers, financial counterparties and others to seek to change existing business relationship with Crystal Orange, which may in turn have an adverse effect on our operations. We have incurred, and will continue to incur, costs, expenses, and fees for professional services and other transaction costs in connection with the proposed acquisition, which may not be recoverable if the proposed acquisition is not completed.

The market price for our ADSs has been volatile due to our announcement of the proposed acquisition of Crystal Orange Hotels and may continue to be volatile as a result of further development of the proposed acquisition. If the proposed acquisition do not close or the signed agreement is terminated for some reason, the market price for our ADSs may drop.

***We may not be able to successfully identify, secure and develop in a timely fashion additional hotel properties under the lease and ownership model.***

We plan to open more hotels to further grow our business. Under our lease and ownership model, we may not be successful in identifying and leasing or acquiring additional hotel properties at desirable locations and on commercially reasonable terms or at all. Even if we are able to successfully identify and acquire new hotel properties, 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 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, both through 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 manage 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.

***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 UBOX International Holdings Co Limited in 2012, in China Quanjude (Group) Co., Ltd. and Beijing GOOAGOO Technology Service Co., Ltd. in 2014, in Homeinns Hotel Group ( HMIN ), Shanghai Founder Service Co., Ltd. and Beijing Qingpu Tourism Culture Development Co., Ltd. in 2015, and in AAPC Hotel Management Limited ( AAPC LUB ), China Young Professionals Apartment Management Limited ( China Young ), Chengjia (Shanghai) Apartment Management Co., Limited ( Cjia ) and Shanghai CREATER Industrial Co., Ltd. ( CREATER ) in 2016. 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. 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. 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.

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***Our legal right to lease certain properties could be challenged 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 franchises to hotel operators who may or may not own their hotel properties. We cannot assure you that the land use rights and other property rights with respect to properties we currently lease, manachise or franchise for our existing hotels will not be challenged. For example, as of December 31, 2016, our lessors failed to provide the property ownership certificates and/or the land use rights certificates for 64 properties that we lease for our hotel operations. While we have performed our 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 that these lessors provided us with, we cannot assure you that our rights under those leases will not be challenged by other parties including government authorities.

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 registration, some of our leases have not been registered as required, which may expose both our lessors and us to potential monetary fines. Some of our rights under the unregistered leases may also be subordinated to the rights of other interested third parties. In addition, in several instances where our immediate lessors are not the ultimate owners of hotel properties, no consents or permits were obtained from the owners, the primary lease holders or competent government authorities, as applicable, for the subleases of the hotel properties to us, which could potentially invalidate our leases or result in the renegotiation of such leases that leads to terms less favorable to us. 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 was not 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, we cannot assure you that the property ownership or leasehold in connection with our manachised and franchised hotels will not be subject to similar third-party challenges.

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, properties used for hotel operations and the underlying land should be approved for commercial use purposes by competent government authorities. In addition, before any properties located on state-owned land 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 the competent government authorities. As of December 31, 2016, the lessors of approximately a quarter of our executed lease agreements subject to this approval requirement did not obtain the required governmental approvals. Such failure may subject the lessors or us to monetary fines or other penalties and may lead to the invalidation or termination of our leases by competent government authorities, and therefore may adversely affect our ability to operate our leased hotels. While many of our 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. As a result, we may suffer significant losses resulting from our lessors' failure to obtain required approvals to the extent that we could not be fully indemnified by our lessors.

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***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 the results of our 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 December 31, 2016, we manachised and franchised approximately 80.9% of our hotels, and we plan to further increase the number of manachised and franchised hotels to increase our national presence in China. 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 and 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. If our brands are misused by any of our franchisees, there may be an adverse impact on 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 the results of our operations. We may also have to incur additional costs in placating any customers or salvaging our reputation. If any of our franchisees defaults or commits wrongdoings, there could be situations where the franchisee is not in a position to sufficiently compensate us for losses which we may 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 wrongdoings, 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.

*We have incurred losses in the past and may incur losses in the future.*

We incurred net losses attributable to our company of RMB111.6 million and RMB136.2 million in 2007 and 2008, respectively. Although we have had net income attributable since 2009, as we expect our costs to increase as we continue to expand our business and operations, we may incur losses in the future. We cannot assure you that we will achieve or sustain profitability in the future.

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***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 lease or (ii) execution of a franchise agreement with the lessor. 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.

***Interruption or failure of our information systems could impair our ability to effectively provide our services, which could damage our reputation.***

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. 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 whatever increased reliability may be achievable in practice or would justify the costs incurred.



*Failure to 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 credit card numbers and other personal information as our various information technology systems enter, process, summarize and report such data. We also maintain information about various aspects of our business operations as well as 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 of the personal information that we collect, and to take adequate security measures to safeguard such information. Our current security measures and those of our third-party service providers may not be adequate for the protection of our customer, employee or company data. For instance, we were involved in a law suit where a customer alleged that we disclosed his personal information, although the court ruled in our favor eventually. We may face similar litigations in the future. In addition, computer hackers, foreign governments or cyber terrorists may attempt to penetrate our network security and our website. 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. It is also possible that unauthorized access to our proprietary internal and customer data may be obtained through inadequate use of security controls. The laws and regulations applicable to security and privacy are becoming increasingly important in China. Any theft, loss, fraudulent, unlawful use or disclosure of customer, employee or company data could harm our reputation or result in remedial and other costs, liabilities, fines or lawsuits.

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*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 trademarks and 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. We have received copyright registration certificates for 34 of our major proprietary information systems and for our operational system. However, none of our other proprietary information system 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 China and abroad 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. Such 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.*

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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 those 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 some of the cities in China 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 continuous 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.

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***Our current employment practices may be adversely impacted under the labor contract law of the PRC.***

The PRC National People's Congress promulgated 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. 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 practices do not, or will not, violate the labor contract law and related regulations or that we will not 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 in this regard, 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 arrangement. 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, we cannot rule out the possibility that our service outsourcing arrangement 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.

***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. Qi Ji, our founder and executive chairman, Ms. Min (Jenny) Zhang, our chief executive 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. Qi Ji, Ms. Min (Jenny) Zhang 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 franchise, hotel industry, construction, hygiene, health and safety and environmental 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 obtain the approval from, and file initial and annual reports with, the PRC Ministry of Commerce, or the MOC, to engage in the hotel franchising business.

In addition, each of our hotels is required to obtain a special industry license and a fire control approval issued by 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 permit, zoning, fire prevention, public area hygiene, food safety, public safety and environmental protection. See Item 4. Information on the Company B. Business Overview Regulation Regulations on Hotel Operation. If we fail to comply with any applicable construction, hygiene, health and safety, and environmental 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. It is also possible that 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 cannot guarantee that we will not be subject to any challenges or other actions with respect to such noncompliance.

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Owners of our managed 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 owner of a managed or franchised hotel may require us to delay opening of the managed 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 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 are able to 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 Securities and Exchange Commission, or 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.

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2016. See Item 15. Controls and Procedures. Our independent registered public accounting firm has issued an attestation report as of December 31, 2016. See Item 15. Controls and Procedures Attestation Report of the Registered Public Accounting Firm. 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. 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.

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***We may not be able to develop hotel properties on a timely or cost-efficient basis, which may adversely affect our growth strategy and business.***

We develop all 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 forgone 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 strategy and business prospects may be adversely affected.

***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, but are not limited to, actions relating to intellectual property, commercial arrangements, 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. 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 in all cases.

### **Risks Related to Doing Business 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.***

We conduct substantially all of our business operations in China. 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 the amount and degree of government involvement and influence on the level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past over 30 years, 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.

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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 SAFE and the relevant Chinese banks where our operating subsidiaries in China opened bank accounts may adopt restrictions on the cross-border payment obligations and dividends repatriation made by these subsidiaries 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 salary. The salary increase 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 enjoy either by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult than in more developed legal systems to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy. 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 and operations. 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 2016, we were obligated to demolish two leased hotels due to local government zoning requirements. As a result, we wrote off property and equipment of RMB9.9 million associated with these hotels and recognized a loss of RMB7.2 million, which is net of RMB2.7 million has been recorded as a receivable in other current assets as of December 31, 2016. In addition, as of December 31, 2016, we were notified by local government authorities that we may have to demolish two 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. In 2016, we were obligated to demolish seven manachised hotels due to local government zoning requirements. We cannot assure you that similar demolitions, termination of franchise agreements or interruptions of our hotel operations due to zoning or other local regulations will not 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.

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***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.***

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 Item 4. Information on the Company B. Business Overview Regulation Regulations on Foreign Currency Exchange for discussions of the principal regulations and rules governing foreign currency exchange in China. We receive substantially all 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, 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 and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies.

Our revenues and costs are mostly denominated in the Renminbi, and a significant portion of our financial assets are also denominated in the Renminbi. We rely substantially on dividends paid to us by our operating subsidiaries in China. Any significant depreciation of the Renminbi against the U.S. dollar may have a material adverse effect on our revenues, and the value of, and any dividends payable on, our ADSs and ordinary shares. If we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or for other business purposes, depreciation of the Renminbi against the U.S. dollar would reduce the U.S. dollar amount available to us. On the other hand, to the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Exchange Risk for discussions of our exposure to foreign currency risks. In summary, fluctuation in the value of the Renminbi in either direction could have a material adverse effect on the value of our company and the value of your investment.

***Our failure to obtain the prior approval of the China Securities Regulatory Commission, or the CSRC, for our initial public offering and the listing and trading of our ADSs of the NASDAQ Global Select Market could have a material adverse effect on our business, operating results, reputation and trading price of our ADSs; recent regulations also establish more complex procedures for acquisitions conducted by foreign investors which could make it more difficult to pursue growth through acquisitions.***

On August 8, 2006, six PRC regulatory agencies jointly adopted the *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the New M&A Rule, which became effective on September 8, 2006 and amended on June 22, 2009. See Item 4. Information on the Company B. Business Overview Regulation Regulations on Overseas Listing. While the application of the New M&A Rule remains unclear, we believe, based on the advice of our PRC counsel, that CSRC approval is not required in the context of our initial public offering 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 initial public offering, 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.

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Certain recently enacted PRC laws and regulations, such as the New M&A Rule and the *Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the MOC Security Review Rule, which was promulgated by the MOC in August 2011 and became effective on September 1, 2011, also established additional procedures and requirements that could make mergers and acquisitions by foreign investors more time-consuming and complex.

The New M&A Rule requires, among other things, that the MOC be notified prior to any change-of-control transaction in which a foreign investor acquires control of a PRC domestic enterprise or a foreign company with substantial PRC operations, if certain thresholds under the *Provisions on Thresholds for Prior Notification of Concentrations of Undertakings*, issued by the State Council on August 3, 2008, were triggered. The MOC Security Review Rule requires, among other things, that any acquisition by foreign investors of PRC companies engaging in military related or certain other industries that are crucial to national security be subject to security review before consummation of such acquisition.

In the future, we may grow our business in part by acquiring complementary businesses. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MOC, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

***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, the State Administration of Foreign Exchange, or the SAFE, issued the *Notice on Issues Relating to the Administration of Foreign Exchange for Overseas Investment and Financing and Reverse Investment by Domestic Residents via Special Purpose Vehicles*, or Circular 37, which replaced the *Notice 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 divisions. In February 2015, SAFE promulgated the *Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment*, 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. See Item 4. Information on the Company B. Business Overview Regulation Regulations on Offshore Financing for discussions of the registration requirements and the relevant penalties.

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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 either. 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 business operations.**

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***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 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 are required to set aside a certain amount of its after-tax profits each year, if any, to fund certain statutory reserves. These reserves are not distributable as cash dividends. As of December 31, 2016, a total of RMB277.3 million (US\$39.9 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.

***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, the 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*, 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 Item 4. Information on the Company B. Business Overview Regulation 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 foreigners having lived within the territory of the PRC 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, we cannot provide any assurance that we or the PRC individual 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 EIT law, and depending on the determination of our PRC resident enterprise status, dividends paid to us by our PRC subsidiaries may be subject to PRC withholding tax, we may be subject to 25% PRC income tax on our worldwide income, and holders of our ADSs or ordinary shares may be subject to PRC withholding tax on dividends paid by us and gains realized on their transfer of our ADSs or ordinary shares.***

In 2007, the PRC National People's Congress passed the *Enterprise Income Tax Law* (amended in 2017), and the PRC State Council subsequently issued the *Implementation Regulations of the Enterprise Income Tax Law*. The Enterprise Income Tax Law and its Implementation Regulations, or the EIT Law, provides that enterprises established outside of China whose *de facto* management bodies are located in China are considered resident enterprises. Currently, there are no detailed rules or precedents governing the procedures and specific criteria for determining *de facto* management body and it is still unclear if the PRC tax authorities would determine that we should be classified as a PRC



resident enterprise.

Under the EIT Law, dividends paid to us by our subsidiaries in China may be subject to a 10% withholding tax if we are considered a non-resident enterprise. 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 dividends distributed from our PRC subsidiaries to us could be exempt from the PRC dividend withholding tax, since such income is exempted under the EIT Law to a PRC resident recipient. If we are required under the EIT Law to pay income tax on any dividends we receive from our subsidiaries, our income tax expenses will increase and the amount of dividends, if any, we may pay to our shareholders and ADS holders may be materially and adversely affected. In addition, dividends we pay with respect to our ADSs or ordinary shares and the gains realized from the transfer of our ADSs or ordinary shares may be considered as income derived from sources within the PRC and be subject to PRC withholding tax. See Item 10. Additional Information E. Taxation PRC Taxation.

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***The audit report included in this annual report was prepared by auditors who are not inspected by the Public Company Accounting Oversight Board and, as such, you are 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 United States Public Company Accounting Oversight Board, 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 and professional standards of the United States. Because our auditors are located in the PRC, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China 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 lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditors' audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditors' audit procedures and quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. As a result, investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

***If additional remedial measures are imposed on the Big Four PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms' failure to meet specific criteria set by the SEC, with respect to requests for the production of documents, we could be unable to timely file future financial statements in compliance with the requirements of the Securities Exchange Act of 1934.***

Starting in 2011, the Chinese affiliates of the big four accounting firms, (including our independent registered public accounting firm) were affected by a conflict between US law and Chinese law. Specifically, for certain US listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the Chinese firms access to their audit work papers and related documents. The firms were, however, advised and directed that under Chinese law they could not respond directly to the US regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the CSRC.

In late 2012 this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese 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 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 Commissioner had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms will receive matching Section 106 requests, and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm's performance of certain audit work, commencement of a new proceeding against a firm, or in extreme cases the resumption of the current proceeding against all four firms.

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 Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these audit firms may cause investor uncertainty regarding China-based, United States-listed companies and the market price of our ADSs may be adversely affected.

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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 Securities Exchange Act of 1934, as amended. Such a determination could ultimately lead to the delisting of our ordinary shares from the Nasdaq Global 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 Relating to Our ADSs and Our Trading Market**

*The market price for our ADSs has been and may continue to be volatile.*

The market price for our ADSs has been volatile and has ranged from a low of US\$25.42 to a high of US\$54.23 on the NASDAQ Global Select Market in 2016. The market price is 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 between the RMB and U.S. dollar or other foreign currencies;

- potential litigation or administrative investigations;
- release of lock-up or other transfer restrictions on our outstanding ADSs or ordinary shares or sales of additional ADSs; and
- general economic or political conditions in China.

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 have experienced significant volatility since their initial public offerings, 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, which consequently may impact the performance of our ADSs, 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, China and other jurisdictions at various times since 2008. These broad market and industry fluctuations may adversely affect the price of our ADSs, regardless of our operating performance.

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***We may need additional capital, and the sale of additional ADSs 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 2017) will be sufficient to meet our anticipated 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 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.

***Future sales or issuances, or perceived future sales or issuances, of substantial amounts of our ordinary shares or ADSs could adversely affect the price of our ADSs.***

If our existing shareholders sell, or are perceived as intending to sell, substantial amounts of our ordinary shares or ADSs, including those issued upon the exercise of our outstanding stock options, the market price of our ADSs could fall. Such 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 and Rule 701 under the Securities Act and the applicable lock-up agreements. If any existing shareholder or shareholders sell a substantial amount of ordinary shares after the expiration of the lock-up period, the prevailing market price for our ADSs 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 to decline.

***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 March 31, 2017, our founder, Mr. Qi Ji, who is also our executive chairman, and our co-founders, Ms. Tong Tong Zhao and Mr. John Jiong Wu, in total beneficially own approximately 40.9% of our outstanding ordinary shares on an as-converted basis. See Item 7. 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 price of our ADSs. These actions may be taken even if they are opposed by our other shareholders, including holders of our ADSs.

*ADS holders may not have the same voting rights as the holders of our ordinary shares and may not receive voting materials in time to be able to exercise their right to vote.*

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 depository 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 depository to vote, and it is possible that they may not have the opportunity to exercise a right to vote.

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***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 ordinary 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 ordinary 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 limiting 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.



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For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption 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. Preferred shares 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 price of our ADSs may decline and the voting and other rights of the holders of our ordinary shares and ADSs may be materially and adversely affected.

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*You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law, conduct substantially all of our operations in China and the majority of our officers reside outside the United States.*

We are incorporated in the Cayman Islands, and conduct substantially all of our operations in China through our subsidiaries in China. Most of our officers reside outside the United States and some or all of the assets of those persons are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the Cayman Islands or in China 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 or China, the laws of the Cayman Islands and of China 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, although the courts of the Cayman Islands will generally recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits. 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.

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law (2013 Revision) 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. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, 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.

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.

**ITEM 4. INFORMATION ON THE COMPANY**

**4.A. History and Development of the Company**

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Powerhill was incorporated in accordance with the laws of the British Virgin Islands in December 2003, and commenced operation with mid-scale limited service hotels and commercial property development and management in 2005. Limited service hotels do not contain restaurants and all amenities are provided by the staff at the front desk or housekeeping. Powerhill conducted its operations through three wholly-owned subsidiaries in the PRC, namely Shanghai HanTing Hotel Management Group, Ltd., or Shanghai HanTing, HanTing Xingkong (Shanghai) Hotel Management Co., Ltd., or HanTing Xingkong, and Lishan Property (Suzhou) Co., Ltd., or Suzhou Property. In August 2006, Suzhou Property transferred its equity interests in three leased hotels to Shanghai HanTing in exchange for Shanghai HanTing's equity interest in Shanghai Shuyu Co., Ltd., which was primarily engaged in the business of sub-leasing and managing real estate properties in technology parks.

China Lodging Group, Limited, or China Lodging, was incorporated in the Cayman Islands in January 2007. In February 2007, Powerhill transferred all of its ownership interests in HanTing Xingkong and Shanghai HanTing to China Lodging in exchange for preferred shares of China Lodging. After such exchange, each of HanTing Xingkong and Shanghai HanTing became a wholly-owned subsidiary of China Lodging. In addition, in February 2007, Powerhill and its subsidiary, Suzhou Property, were spun off in the form of a dividend distribution to the shareholders.

In 2007, China Lodging began our current business of operating and managing a multi-brand hotel group. In 2007, we first launched our economy hotel product, *HanTing Express Hotel*, which was subsequently rebranded as *HanTing Hotel*, targeting knowledge workers and value- and quality-conscious travelers. In the same year, we introduced our mid-scale limited service hotel product, *HanTing Hotel*, which was subsequently rebranded first as *HanTing Seasons Hotel* and then as *Ji Hotel*. In 2008, we launched our budget hotel product, *HanTing Hi Inn*, which was subsequently rebranded as *Hi Inn*. In April 2007, China Lodging acquired Yiju (Shanghai) Hotel Management Co., Ltd. from Crystal Water Investment Holdings Limited, a British Virgin Islands company wholly owned by Mr. John Jiong Wu, a co-founder of our company. In January 2008, China Lodging incorporated HanTing (Tianjin) Investment Consulting Co., Ltd. in China and in October 2008, established China Lodging Holdings (HK) Limited, or China Lodging HK, in Hong Kong, under which HanTing Technology (Suzhou) Co., Ltd. was subsequently established in China in December 2008.

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In March 2010, we completed our initial public offering. We issued and sold 10,350,000 ADSs, representing 41,400,000 of our ordinary shares at a public offering price of US\$12.25 per ADS. Our ADSs have been listed on the NASDAQ Global Select Market since March 26, 2010. Our ordinary shares are not listed or publicly traded on any trading markets.

In May 2012, we acquired a 51% equity interest in Starway HK, a mid-scale hotel chain and increased our hotel brands to four brands. In December 2013, we acquired the remaining 49% equity interest of Starway HK from C-Travel. In addition, we launched Manxin Hotels & Resorts in October 2013, which was subsequently rebranded as Manxin Hotel, Joya Hotel, a new hotel brand targeting the upscale market, in December 2013, and Elan Hotel, a new economy hotel brand targeting business travelers, young customers and urban tourists, in September 2014. In November 2012, we changed the Chinese trade name of our company from HanTing Hotel Group to HuaZhu Hotel Group.

In late 2014, we established Chengjia Hotel Management Co., Ltd. ( Chengjia ) in Shanghai, which started operation in the second quarter of 2015. Since then, it has maintained a professional apartment service management team and provided apartment rental service that covers leases for a term from one month up to twelve months. In 2016, we sold Chengjia to Cjia, our equity investee. As of December 31, 2016, we held approximately 22.52% equity interest of Cjia.

In December 2014, we entered into agreements with 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. The transactions with Accor were completed in the first quarter of 2016. Pursuant to the amended and restated master purchase agreement with Accor, we acquired from Accor (i) all of the issued and outstanding shares of certain wholly-owned subsidiaries of Accor 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, and (ii) 28.16% of the issued and outstanding shares of AAPC LUB, a Hong Kong subsidiary of Accor that 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. Pursuant to the amended and restated securities purchase agreement, we issued 24,895,543 ordinary shares to Accor, which represented 9.0% of our ordinary shares outstanding after issuance, and granted to Accor a right to nominate one director to our board of directors.

In connection with the amended and restated master purchase agreement and the amended and restated securities purchase agreement, we and Accor also entered into a number of additional agreements, including, among others: (i) a master brand agreement and brand franchise agreements, pursuant to which Accor granted to us exclusive franchise rights in respect of Mercure, Ibis and Ibis Styles in the PRC, Taiwan and Mongolia, and non-exclusive franchise rights in respect of Grand Mercure and Novotel 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 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; (ii) a shareholders agreement in relation to the governance of AAPC LUB and our rights and obligations as shareholder of the company; (iii) a registration rights agreement in favor of Accor in respect of our ordinary shares that it acquired under the amended and restated securities purchase agreement; (iv) 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; and (v) a deed of voting and ROFR, pursuant to which, among other things, (x) Accor has a right of first refusal in respect of transfers of our securities by Qi Ji or his affiliates, and (y) we and Qi Ji agreed to procure the appointment of a nominee of Accor to our board of directors (for so long as Accor and its affiliates own our ordinary shares or ADSs representing at least 8% of a pro forma number of our outstanding share capital, and subject to certain termination events described in the deed of voting and ROFR); and our articles of association were also amended and restated effective as of January 25, 2016 to give effect to Accor's rights as described in the foregoing.



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In the second half of 2015, we made strategic investment in Shanghai Yuchuang Investment Management Co., Ltd. ( LiYEAH Commune ), whose business model is to provide shared workspace, community and services for entrepreneurs, freelancers, startups and small businesses. LiYEAH Commune started operation in December 2015 and is currently providing flexible office rental services to end users through the platform operated by LiYEAH Commune.

In February 2017, China Lodging Holdings (HK) Limited, our wholly-owned subsidiary, entered into a definitive share purchase agreement with the shareholders of Crystal Orange Hotel Holdings Limited ( Crystal Orange ) to acquire all of the equity interests of Crystal Orange for an initial aggregate consideration in cash of approximately RMB3.65 billion, with customary post-closing adjustments. The closing of the transaction is subject to the approval from the Antitrust Bureau of Ministry of Commerce of China.

Our principal executive offices are located at No. 2266 Hongqiao Road, Changning District, Shanghai 200336, People's Republic of China. Our telephone number at this address is +86 (21) 6195-2011. Our registered office in the Cayman Islands is located at the offices of Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, 13th Floor, New York, New York 10011.

Investors should contact us for any inquiries through the address and telephone number of our principal executive offices. Our website is <http://www.huazhu.com>. The information contained on our website is not a part of this annual report.

**4.B. Business Overview**

We are a leading and fast-growing multi-brand hotel group in China with leased and owned, manachised and franchised models. Under the lease and ownership model, we directly operate hotels located primarily on leased 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 provide training, reservation and support services to the franchised hotels and collect fees from franchisees but do not appoint on-site hotel managers. We apply a consistent standard and platform across all of our hotels. As of December 31, 2016, we had 624 leased and owned hotels, 2,471 manachised hotels and 174 franchised hotels in operation and 15 leased and owned hotels and 427 manachised and franchised hotels under development.

As of the date of this annual report, we own seven hotel brands that are designed to target distinct segments of customers:

- *Joya Hotel*, our upscale brand concept targeting affluent travelers and corporate events. Joya hotels are typically located in central business districts;

- *Manxin Hotel*, our mid-to-upscale hospitality brand including city hotels and resorts. Manxin Hotel targets business travelers, leisure travelers, families and corporate events;
- *Ji Hotel*, our standardized mid-scale limited service hotel product which targets mature and experienced travelers who seek a quality experience in hotel stays, previously marketed first under the name of HanTing Hotel and then HanTing Seasons Hotel;
- *Starway Hotel*, our mid-scale limited service hotel product with variety in design and consistency in quality which targets middle class travelers who seek a spacious room, reasonable price and guaranteed quality;
- *Elan Hotel*, our economy hotel product which targets business travelers, young customers and urban tourists. Elan Hotel is committed to provide a unique business and travel life experience for its guests;

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- *HanTing Hotel*, our economy hotel product which targets knowledge workers and value- and quality-conscious travelers, originally marketed under the name of HanTing Express Hotel; and
- *Hi Inn*, our budget hotel product which targets practical and price-conscious travelers, originally marketed under the name of HanTing Hi Inn.

In addition to the seven hotel brands owned by us, we entered into brand franchise agreements with Accor and enjoyed exclusive franchise rights in respect of Mercure, Ibis and Ibis Styles in the PRC, Taiwan and Mongolia and non-exclusive franchise rights in respect of Grand Mercure and Novotel in the PRC, Taiwan and Mongolia:

- *Grand Mercure*, a brand that offers a upscale network of hotels and apartments that combine local culture with world-class services;
- *Novotel*, a mid-to-upscale brand that provides a multi-service offer for both business and leisure guests;
- *Mercure*, a midscale hotel brand that targets business and leisure travelers around the world;
- *Ibis Styles*, a midscale brand that offers comfortable, designer hotels at an all-inclusive rate; and
- *Ibis*, an economy hotel brand that is recognized across the world for its quality, reliability and commitment to the environment.

As a result of our customer-oriented approach, we believe that we have developed strong brand recognition and a loyal customer base. In 2016, approximately 80% of our room nights were sold to individual and corporate members of HUAZHU Rewards, our loyalty program.

Our operations commenced with mid-scale limited service hotels and commercial property development and management in 2005. We began our current business of operating and managing a multi-brand hotel group in 2007. Our net revenues grew from RMB4,964.7 million in 2014 to RMB5,774.6 million in 2015, and further to RMB6,538.6 million (US\$941.8 million) in 2016. We had net income attributable to our company of RMB307.3 million, RMB436.6 million and RMB804.6 million (US\$115.9 million) in 2014, 2015 and 2016, respectively. We had net cash provided by operating activities of



RMB1,454.0 million, RMB1,749.7 million and RMB2,047.7 million (US\$294.9 million) in 2014, 2015 and 2016, respectively.

We have received many awards for our business performance, including the Top 300 Corporate Hotel Companies award from the HOTELS magazine, the Top 60 Hotel Groups in China in 2015 award from China Tourist Hotels Association, the Best Hotel Management Groups of China award at the 2015 Asia Hotel Forum Annual Meeting and the tenth China Hotel Starlight Awards in 2015, the 2015 China's Best Local Emerging Hotel Brand award for our Joya Hotel and the 2015 The Most Popular Newly-opened Business Hotel in Northeast China award for our Joya Hotel Dalian at the Twelfth Goldent-Pillow Award of China Hotels in 2015, the Top 100 Employers certified by 61HR.COM in 2015, the 2015 Best Practice of Public Interest Award at the Fifth China Charity Festival in 2015, the Top 60 China's Hotel Group in 2013 award from China Tourist Hotels Association in 2014, the Industry's Most Influential Brand award from the Third China Finance Summit in 2014, the China's Outstanding Mid-Scale Hotel brand of 2013 award for our JI Hotel from Hotel Modernization magazine in 2013, the Chinese Hotel Industry's Influential Brand award from China Brand Leaders Alliance, the Hotel Chain Brand with the Most Value of Investment and Development in 2013 and the Hotel Chain Brand with the Highest Consumer Satisfaction in 2013 awards from the Global Times, the Top One Enterprise in the Sixth High Growth Enterprises Selection organized by the Entrepreneur Magazine in 2013, the Brand with the Most Space to Grow award from Shanghai Morning Post in 2012.

### **Our Hotel Network**

As of December 31, 2016, we operated 3,269 hotels in China. We have adopted a disciplined return-driven development model aimed at achieving high growth and profitability. As of December 31, 2016, our hotel network covers 367 cities in 31 provinces and municipalities across China. As of December 31, 2016, we had an additional 442 leased and owned, managed and franchised hotels under development.

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The following table sets forth a summary of all of our hotels as of December 31, 2016.

	Leased and Owned Hotels	Manachised Hotels	Franchised Hotels	Leased and Owned Hotels Under Development(1)	Manachised and Franchised Hotels Under Development(1)
Shanghai, Beijing, Guangzhou, Shenzhen and Hangzhou	189	671	50	9	87
Other cities	435	1,800	124	6	340
Total	624	2,471	174	15	427

(1) Include hotels for which we have entered into binding leases or franchise agreements but that have not yet commenced operations. The inactive projects are excluded from this list according to management judgment. None of our owned hotels was under development as of December 31, 2016.

The following table sets forth the status of our hotels under development as of December 31, 2016.

	Pre-conversion Period(1)	Conversion Period(2)	Total
Leased and owned hotels	4	11	15
Manachised and franchised hotels	228	199	427
Total	232	210	442

(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 15 leased and owned hotels under development as of December 31, 2016, we had four leased and owned hotels during 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 had 11 leased and owned hotels during 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 conversion period range from January 2017 to August 2017. 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 RMB183.6 million (US\$26.4 million), of which RMB32.3 million (US\$4.6 million) was incurred as of December 31, 2016. The average development costs per square meter for completed leased and owned hotels in 2016 were RMB2,210 (US\$318). The franchisees are responsible for development costs for our manachised hotels and franchised hotels.

*Leased and owned hotels*

As of December 31, 2016, we had 617 leased hotels and seven owned hotels, accounting for approximately 19.1% 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 20 years. We generally enjoy an initial two- to six-month rent-free period. We generally pay fixed rent on a 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. Our leases usually allow for 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. 14 of our leases expired in 2016, among which six were renewed and eight were closed. As of December 31, 2016, 24 of our leases were expected to expire in 2017. Seven of these 24 leases have been renewed, three of these 24 leases have been terminated and the rest of these 24 leases are subject to negotiation as of the date of this annual report.

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The following table sets forth the number of our leases for hotels in operation and under development due to expire in the periods indicated as of December 31, 2016.

	<b>Number of Leases</b>
2017	24
2018	23
2019	27
2020	44
2021	51
2022-2024	175
2025-2027	156
2028 and onward	132
<b>Total</b>	<b>632</b>

***Manachised hotels***

As of December 31, 2016, we had 2,471 manachised hotels, accounting for approximately 75.6% of our hotels in operation. The franchisees of our manachised hotels either lease or own their hotel properties and are required to invest in the renovation of their properties according to our product standards. We manage our manachised hotels and impose the same standards on all manachised hotels to ensure product quality and consistency across our hotel network. We appoint and train hotel managers who are responsible for hiring hotel staff and managing daily operation. We also provide our franchisees with services such as central reservation, sales and marketing support, quality assurance inspections and other operational support and information. Our franchisees are responsible for the costs of developing and operating the hotels, including renovating the hotels to our standards, and all of the operating expenses. We believe the 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 the franchisees of our manachised hotels and do not bear any loss or share any profit incurred or 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 our manachised hotels typically run for an initial term of eight to ten years.

Our franchisees are generally required to pay us a one-time franchise fee typically ranging between RMB80,000 and RMB500,000. In general, we charge a monthly franchise fee of approximately 5% of the gross revenues generated by each manachised hotel. We also collect from franchisees a reservation fee for using our central reservation system and a membership registration fee to service customers who join our HUAZHU Rewards loyalty program at the manachised hotels. Furthermore, we employ, appoint and train hotel managers for our manachised hotels and charge the franchisees a monthly fee for services we provide.

***Franchised hotels***

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As of December 31, 2016, we had 174 franchised hotels, accounting for approximately 5.3% of our hotels in operation. We collect fees from the franchisees of our franchised hotels and do not bear any loss or share any profit incurred or realized by our franchisees. Services we provide to our franchised hotels generally include training, central reservation, sales and marketing support, quality assurance inspections and other operational support and information. We do not appoint hotel managers for our franchised hotels.

Our hotel chain has grown rapidly since we began migrating to our current business of operating and managing a multi-brand hotel group in 2007. The following table sets forth the number of hotels we operated as of the dates indicated.

	2007	2008	2009	2010	As of December 31,		2013	2014	2015	2016
					2011	2012				
Leased and owned hotels	62	145	173	243	344	465	565	611	616	624
Manachised hotels	5	22	63	195	295	516	835	1,376	2,067	2,471
Franchised hotels						54	25	8	80	174
Total	67	167	236	438	639	1,035	1,425	1,995	2,763	3,269

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**Our Products**

We began our current business of operating and managing a multi-brand hotel group in 2007. As of the date of this annual report, we own seven hotel brands that are designed to target distinct segments of customers:

- *Joya Hotel*, our upscale brand concept targeting affluent travelers and corporate events. Joya hotels are typically located in central business districts;
- *Manxin Hotel*, our mid-to-upscale hospitality brand including city hotels and resorts. Manxin Hotel targets business travelers, leisure travelers, families and corporate events;
- *Ji Hotel*, our standardized mid-scale limited service hotel product which targets mature and experienced travelers who seek a quality experience in hotel stays, previously marketed first under the name of HanTing Hotel and then HanTing Seasons Hotel;
- *Starway Hotel*, our mid-scale limited service hotel product with variety in design and consistency in quality which targets middle class travelers who seek a spacious room, reasonable price and guaranteed quality;
- *Elan Hotel*, our economy hotel product which targets business travelers, young customers and urban tourists. Elan Hotel is committed to provide a unique business and travel life experience for its guests;
- *HanTing Hotel*, our economy hotel product which targets knowledge workers and value- and quality-conscious travelers, originally marketed under the name of HanTing Express Hotel; and
- *Hi Inn*, our budget hotel product which targets practical and price-conscious travelers, originally marketed under the name of HanTing Hi Inn.

In addition to the seven hotel brands owned by us, we entered into brand franchise agreements with Accor and enjoyed exclusive franchise rights in respect of Mercure, Ibis and Ibis Styles in the PRC, Taiwan and Mongolia and non-exclusive franchise rights in respect of Grand Mercure and Novotel in the PRC, Taiwan and Mongolia:

- *Grand Mercure*, a brand that offers a upscale network of hotels and apartments that combine local culture with world-class services;
- *Novotel*, a mid-to-upscale brand that provides a multi-service offer for both business and leisure guests;
- *Mercure*, a midscale hotel brand that targets business and leisure travelers around the world;
- *Ibis Styles*, a midscale brand that offers comfortable, designer hotels at an all-inclusive rate; and
- *Ibis*, an economy hotel brand that is recognized across the world for its quality, reliability and commitment to the environment.

We believe that our multi-brand strategy provides us with a competitive advantage by (i) enabling us to open a larger number of hotels in attractive markets, (ii) capturing a greater share of the spending of customers whose lodging needs may change from occasion to occasion or evolve over time, and (iii) providing us a greater benefit of economy of scale through shared platforms.

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***Joya Hotel***

In December 2013, we launched *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 an all-inclusive service, including complimentary breakfast, afternoon tea, healthy snack, 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 December 31, 2016, we had six *Joya Hotels* in operation and an additional three *Joya Hotels* under development.

***Manxin Hotel***

*Manxin Hotels & Resorts* was launched as a brand of resorts in October 2013, and was subsequently rebranded as *Manxin Hotel*. Nowadays *Manxin Hotel* is becoming a brand with city hotels and resorts. These hotels are typically located in city center or business districts and holiday resort areas. *Manxin Hotel* offers high quality rooms, intelligent service system, rich breakfast, lunch, afternoon tea, dinner and even coffee and drinks. Moreover, *Manxin Hotel* is aimed to bring the guests a distinct experience by presenting amazing space design and attractive activities. Live Lively is *Manxin Hotel*'s proposition. As of December 31, 2016, we had two *Manxin Hotels* in operation and an additional eight *Manxin Hotels* under development.

***Ji Hotel***

*Ji Hotel*, which was previously marketed first under the name of *HanTing Hotel* and then *HanTing Seasons Hotels*, is 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 a quality comparable to three- to four-star 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 December 31, 2016, we had 284 *Ji Hotels* in operation and an additional 102 *Ji Hotels* under development.

***Starway Hotel***

*Starway Hotels* vary in their designs and target middle class travelers who seek a spacious room, reasonable price and guaranteed quality. *Starway Hotels* offer rooms with a quality comparable to three- to four-star 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 December 31, 2016, we had 136



*Starway Hotels* in operation and an additional 48 *Starway Hotels* under development.

***Elan Hotel***

In September 2014, we launched *Elan Hotels*. *Elan Hotel* is our economy hotel product which targets business travelers, young customers and urban tourists, and is committed to provide a unique business and leisure life experience for the hotel guests. The hotels' modern and nature design elements create a fresh and refreshing atmosphere for the hotel guests. *Elan Hotel* brand conveys the concept of enjoyment of life and nature. As of December 31, 2016, we had 185 *Elan Hotels* in operation and additional 16 *Elan Hotels* under development.

***HanTing Hotel***

Launched in 2007 and originally marketed under the name of *HanTing Express Hotel*, *HanTing Hotel* is our economy hotel product with the value proposition of Quality, Convenience and Value. 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 have lobbies with complimentary wireless Internet access and laser printers, and a cafe serving breakfast and simple meals. Rooms are equipped with a comfortable mattress, plush buckwheat and cotton pillows, shower facilities, an outlet for free broadband Internet access, a working desk and chair, and universal and uninterruptable power sockets. As of December 31, 2016, we had 2,181 *HanTing Hotels* in operation and an additional 165 *HanTing Hotels* under development.

***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 December 31, 2016, we had 375 *Hi Inns* in operation and an additional 52 *Hi Inns* under development.

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***Grand Mercure Hotel***

*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 December 31, 2016, we had one *Grand Mercure Hotel* in operation and an additional *Grand Mercure Hotel* under development.

***Novotel Hotel***

*Novotel* is a mid-to-upscale brand that provides a multi-service offer 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, a multi-purpose lobby and fitness centers. These hotels are typically located in the heart of major international cities, business districts and tourist destinations. As of December 31, 2016, we had two *Novotel Hotels* in operation and an additional two *Novotel Hotels* under development.

***Mercure Hotel***

*Mercure* is a midscale hotel brand that combines the strength of an international network with a strong quality commitment with the warm experience 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 December 31, 2016, we had 15 *Mercure Hotels* in operation and an additional 11 *Mercure Hotels* under development.

***Ibis Styles Hotel***

*Ibis Styles* 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 December 31, 2016, we had ten *Ibis Styles Hotels* in operation and an additional five *Ibis Styles Hotels* under development.

***Ibis Hotel***

*Ibis* 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* and features welcoming, designer common areas and the modern food and beverage offer, *ibis* kitchen. As of December 31, 2016, we had 72 *Ibis Hotels* in operation and an additional 29 *Ibis Hotels* under development.

#### **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, 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 develop 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.

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The following is a description of our hotel development process.

***Manachised and franchised hotels***

We open manachised and franchised hotels to expand our geographical coverage or to deepen penetration of 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 certain 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. 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 require the franchisees to follow a pre-selected list of qualified suppliers. 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 service is provided throughout all our hotels.

***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 hotels of 80 to 180 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.

## 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 information systems to monitor our hotel performance. We believe the system is critical in maximizing our revenues and profitability. The following are some of the key components of our hotel management system:

*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.* Our room rates are determined using a centralized system and are based on the historical operating performance of each of our leased and owned and manachised hotels, our competitors room rates and local market conditions. 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. We believe our centralized pricing system enhances our ability to adjust room rates in a timely fashion with a goal of optimizing average daily rates and occupancy levels across our network. Room rates for our franchised hotels are determined by the franchisees based on local market condition.

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*Monitoring.* Through the use of our web-based property management system, we are able to monitor each hotel's occupancy status, average daily 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 managed and franchised hotels manage their cash separately.

*Centralized procurement system.* Our centralized procurement system has enabled us to efficiently manage our operating costs, especially with respect to supplies used in large quantities. 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 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 feedbacks by conducting outbound e-mail surveys and monitor customer messages left in hotel guestbooks as well as 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. Approximately 80% of our hotel managers have received training completion certificates. Our HuaZhu University also rolled out a new-hire training package in October 2009 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 2016, our hotel-based staff and corporate staff on average have received approximately 60 and 48 hours of training, respectively.

**Hotel Information Platform and Operational Systems**

We have successfully developed and implemented an advanced operating platform capable of supporting our nationwide operations. This operating platform enables us to increase the efficiency of our operations and make timely decisions. The following is a description of our key

information and management systems.

*Web property management system (Web-PMS).* Our Web-PMS is a web-based, centralized application that integrates all the critical operational information in our hotel network. This system enables us to manage our room inventory, reservations and pricing for all of our hotels on a real-time basis. The system is designed to enable us to enhance our profitability and compete more effectively by integrating with our central reservation system and customer relationship management system. We believe our Web-PMS enables 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.

*Central reservation system.* We have a 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.

*Customer relationship management (CRM) system.* Our integrated CRM system maintains information of our HUAZHU Rewards members, including 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.

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*Internet service system.* Our Internet service system consists of our website (www.huazhu.com), our mobile website (m.huazhu.com) and our mobile apps for smart phones running iOS, Android or other systems. The system provides our HUAZHU Rewards members and the general public with convenient, friendly and updated services, including 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. Our members can reload their individual account balance through the system as well. Our mobile apps also provide location-based services, including search services for our nearby hotels.

*Multi-functional HUAZHU Rewards Membership Card.* The HUAZHU Rewards membership card is a multi-functional card that is available to our HUAZHU Rewards members. The HUAZHU Rewards membership cards represent the membership identity and offer a variety of functions for our HUAZHU Rewards members to utilize hotel facilities. For example, our HUAZHU Rewards members can use it as a pre-paid card for in-hotel purchases and are entitled to free beverage and Internet access when using it in the business areas. It also enables elevator and room access, easy check-in and express check-out. We also roll out HUAZHU Rewards membership cards in innovative formats, such as the co-branded card with Voice of China, a popular televised singing competition in China, so that our HUAZHU Rewards members can enjoy benefits offered by third parties, and cards in the form of cell phone covers which combine membership cards and cell phone covers in one.

**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 2016, approximately 88% of our room nights were sold through our own sales platforms and the remaining 12% of our room nights through intermediaries.

We use our Web-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 HUAZHU Rewards, our loyalty program, which covers all of our brands. We believe the HUAZHU Rewards loyalty program allow us to build customer loyalty and conduct lower-cost, targeted marketing campaigns. A majority of individual members of the HUAZHU Rewards pay to enroll in the program. As of December 31, 2016, our HUAZHU Rewards had more than 78 million members. In 2016, approximately 80% of our room nights were sold to our HUAZHU Rewards members. Members of the HUAZHU Rewards are provided with discounts on room rates, free breakfasts (for gold and platinum members), more convenient check-out procedures and other benefits. HUAZHU 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 redeemed for offset the room charges in our hotels, or used to buy products in Hua Zhu mall. We also have joint promotional programs with leading financial institutions and airlines to recruit new members of our loyalty program. The HUAZHU Rewards includes four levels of membership: star, silver, gold and platinum. Star membership is the entry level and can be obtained from online registration for free. We charge RMB39 as the one-time membership fee for the silver membership. The one-time membership fee for the gold membership is RMB198 or RMB159, if purchased as an existing silver member. Memberships can be upgraded to the next level upon the satisfaction of certain conditions. HUAZHU Rewards was previously known as HanTing Club and HuaZhu Club.

Our marketing activities also include Internet advertising, press and sponsored activities held jointly with our corporate partners and advertisements on travel and business magazines.

### **Competition**

The lodging industry in China is highly fragmented. A significant majority of the room supply has come from stand-alone hotels, guest houses and other lodging facilities. In recent years hotel groups emerged and began to consolidate the market by converting standalone hotels into members of their hotel groups. 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 stand-alone lodging facilities in each of the markets in which we operate. Our HanTing Hotels and Ibis Hotels mainly compete with Home Inns, Jinjiang Inn, 7 Days Inn, various regional hotel groups and stand-alone hotels, and certain international brands such as Super 8. HanTing Hotels and Ibis Hotels also compete with two- and three-star hotels, as they offer rooms with amenities comparable to many of those hotels. Our Ji Hotels, Starway Hotels, Ibis Styles Hotels, Mercure Hotels and Novotel Hotels face competition from existing three-star and certain four-star hotels, boutique hotels whose price could be comparable and a few hotel chains such as Vienna Hotels and Holiday Inn Express. Our Hi Inns compete mainly with stand-alone guest houses, low-price hotels and budget hotel chains such as Pod Inns, 99 Inns and 100 Inns. Our Joya Hotels, Manxin Hotels and Grand Mercure Hotels compete with existing four-star and five-star hotels. Our Manxin Hotels also compete with boutique resort hotels. Our Elan Hotels compete with existing economy hotel chains such as 7 Days Inn, Home Inn or GreenTree Inn.

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**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.

As of December 31, 2016, we have registered 379 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. An additional 117 trademark applications are under review by the authority. We have also registered ten trademarks in South Korea, seven trademarks in Taiwan, six trademarks in each of Malaysia and New Zealand, four trademarks in each of Japan and Australia and one trademark in each of Singapore, Macau and Hong Kong. We have filed seven trademark applications in Hong Kong, which are under review by the authorities. As of December 31, 2016, we have received 8 patents; another 12 patents were applied and are under review in the PRC. We have also received copyright registration certificates for 28 software programs developed by us as of December 31, 2016. In addition, we have registered 121 national and international top-level domain names, including [www.htinns.com](http://www.htinns.com), [www.hantinghotels.com](http://www.hantinghotels.com) and [www.huazhu.com](http://www.huazhu.com) as of December 31, 2016.

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 Item 3. Key Information D. Risk Factors Risks Related to Our Business Failure to protect our trademarks and other intellectual property rights could have a negative impact on our brand and adversely affect our business.

**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 Item 3. Key Information D. 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 are 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 and employees are a party will have a material adverse effect on our business or reputation. See Item 3. Key Information D. 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. As of December 31, 2016, we had several pending legal and

administrative proceedings, including lease contract terminations and disputes and construction contract disputes. As of the same date, we had accrued contingencies of RMB66.2 million in other operating expenses based on the relevant contract terms, laws and regulations and the latest negotiation results.

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**Regulation**

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 regulation governing foreign ownership of hotel businesses in the PRC is the *Foreign Investment Industrial Guidance Catalogue* issued by the National Development and Reform Commission and the PRC Ministry of Commerce, or the MOC, which was most recently updated on March 10, 2015. Pursuant to this regulation, 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. Relative to other industries in China, regulations governing the hotel industry in China are still developing and evolving. As a result, most legislative actions have consisted 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* in November 1987 and amended it in 2011, and the State Council promulgated the *Decision of the State Council on Establishing Administrative License for the Administrative Examination and Approval Items Really Necessary To Be Retained* 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 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*, hotels failing to obtain the special industry license may be subject to warnings or fines of up to RMB200. In addition, pursuant to 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.

The State Council promulgated the *Public Area Hygiene Administration Regulation* in April 1987 and amended it in February 2016, 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 Public Area Hygiene Administration Regulation*, which was amended in January 2016, according to which, starting from May 1, 2011, hotel operators shall establish hygiene administration system and keep records of hygiene administration. In February 2009, the Standing Committee of the National People's Congress, or the SCNPC enacted the *PRC Law on Food Safety* in February 2009 and amended it in April 2015, according to which any hotel that provides food must obtain a food service license; any food hygiene license which had been obtained prior to June 1, 2009 will be replaced by the food service license once the food hygiene license expires. To simplify licensing procedures, some cities such as Nanjing, Chengdu and Xi'an have combined the public area hygiene license and the food service license (or formerly food hygiene license) into one unified hygiene license. Pursuant to this law, hotels failing to obtain a food service license (or formerly food hygiene 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 1000% to 2000% of the value of food if such value is equal to or more than RMB10,000.

*The Fire Prevention Law*, as amended by the SCNPC in October 2008, and the *Provisions on Supervision and Inspection on Fire Prevention and Control*, promulgated by the Ministry of Public Security and effective as of May 1, 2009 and was amended on November 1, 2012, require that public gathering places such as hotels submit a fire prevention

design plan to apply for the completion acceptance of fire prevention facilities for their construction projects and to pass a fire prevention safety inspection by the local public security fire department, which is a prerequisite for opening business. Pursuant to these regulations, hotels failing to obtain approval of fire prevention design plans or failing fire prevention safety inspections 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.

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In January 2006, the State Council promulgated the *Regulations for Administration of Entertainment Places*, which was amended in February 2016. The Ministry of Culture issued the *Circular on Carrying Out the Regulations for Administration of Entertainment Places* in March 2006 and the *Administrative Measures for Entertainment Places* in February 2013. Under these regulations, hotels that provide entertainment facilities, such as discos or ballrooms, are required to obtain a license for entertainment business operations.

On October 18, 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), 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*, 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*, according to which, 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 People's Republic of China*, which became effective on October 1, 2013 and was amended on November 7, 2016. According to this law, the accommodation operators shall fulfill their obligations under the agreements with consumers. 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 on Urban Real Estate Administration* promulgated by the SCNPC, which took effect as of January 1995 and was amended in August 2007 and August 2009, respectively, and the *Administrative Measures for Commodity House Leasing* 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 *PRC Contract Law*, of which Chapter 13 governs lease agreements. According to the *PRC Contract Law*, 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 *PRC Property Law*, 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.

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*Regulations on Consumer Protection*

In October 1993, the SCNPC promulgated the *Law on the Protection of the Rights and Interests of Consumers*, or the Consumer Protection Law, which became effective on January 1, 1994 and was amended on March 15, 2014. Under the Consumer Protection Law, 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 in China enacted the Interpretation of *Some Issues Concerning the Application of Law for the Trial of Cases on Compensation for Personal Injury*, 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 on Promoting Clean Production*, 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 People's Republic of China and the Environmental Impact Assessment Law of the People's Republic of China* promulgated and amended by the SCNPC on October 28, 2002, April 24, 2014, and July 2, 2016, respectively, the *Regulations Governing Environmental Protection in Construction Projects* promulgated by the State Council on November 29, 1998, and the *Regulations Governing Completion Acceptance of Environmental Protection in Construction Projects* promulgated by the Ministry of Environmental Protection on December 27, 2001, hotels shall submit a Report 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 *Environmental Impact Assessment Law of the People's Republic of China*, 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*, 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.

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***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 *Regulations for Administration of Commercial Franchising*, which was promulgated by the State Council on February 6, 2007 and became effective on May 1, 2007. The *Regulations for Administration of Commercial Franchising* were subsequently supplemented by the *Administrative Measures for Archival Filing of Commercial Franchises*, 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 for Information Disclosure of Commercial Franchises*, 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 for Information Disclosure of Commercial Franchises*, 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;

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- 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 2008 *Handbook of Market Access of Foreign Investment* 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 *PRC Trademark Law* adopted by the SCNPC on August 23, 1982 and revised on August 30, 2013 and the *Implementation Regulation of the PRC Trademark Law* 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 Trademark Office under the State Administration for Industry and Commerce, or the SAIC, handles trademark registrations and grants a term of ten years to registered trademarks. Trademark license agreements must be filed with the Trademark Office.

*Regulations on Foreign Currency Exchange*

The principal regulations governing foreign currency exchange in China are the *Foreign Exchange Administration Regulations* 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.

On August 29, 2008, the SAFE promulgated the *Notice on Perfecting Practices Concerning Foreign Exchange Settlement Regarding the Capital Contribution by Foreign-invested Enterprises*, or Circular 142, regulating the conversion by a foreign-invested company of foreign currency into RMB by restricting how the converted RMB may be used. Circular 142 requires that the registered capital of a foreign-invested enterprise settled in RMB converted from foreign currencies may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, the SAFE strengthened its oversight of the flow and use of the registered capital of foreign-invested enterprises settled in RMB converted from foreign currencies. The use of such RMB capital may not be changed without the SAFE's approval, and may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. Violations of Circular 142 will result in severe penalties, such as heavy fines.

On March 30, 2015, SAFE issued the *Notice of the State Administration of Foreign Exchange on Reforming the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises*, or Circular 19. Circular 19 has superseded Circular 142 by restating certain restrictions on use of registered capital in foreign currency by a foreign-invested company. Nevertheless, Circular 19 specifies that the registered capital of a foreign-invested company in foreign currency can be converted into RMB voluntarily and be allowed to use for equity investment in PRC subject to certain reinvestment registration with local SAFE. However, the interpretation and enforcement of Circular 19 by local SAFE remain significant uncertainties in practice.

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On December 25, 2006, the People's Bank of China issued the *Administration Measures on Individual Foreign Exchange Control* and its Implementation Rules were issued by the SAFE on January 5, 2007, both of which became effective on February 1, 2007. 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*, 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*. 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 Share Capital***

In October 2005, the SCNPC issued the amended *Company Law of the People's Republic of China*, which became effective on January 1, 2006 and was amended in December 2013. In April 2006, the SAIC, 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*. 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*. 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 on 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 corresponding guarantee

***Regulations on Dividend Distribution***

The principal regulations governing distribution of dividends of foreign-invested enterprises include the *Foreign-invested Enterprise Law* promulgated by the SCNPC, as amended on October 31, 2000 and September 3, 2016, respectively, and the *Implementation Rules of the Foreign-invested Enterprise Law* issued by the State Council, as amended on February 19, 2014.

Under these laws and regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, foreign-invested enterprises in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

***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*, 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.

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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*, 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 *Notice on Issues Relating to the Administration of Foreign Exchange for Overseas Investment and Financing and Reverse Investment by Domestic Residents via Special Purpose Vehicles*, 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 earlier. 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. 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 SAFE branch before exercising such options. The SAFE simultaneously issued a series of 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 our business 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.

*Regulations on Merger and Acquisition and Overseas Listing*



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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*, 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.

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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 initial public offering 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 initial public offering, 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.

***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*, 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* 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***

The labor contract law that became effective on January 1, 2008, as amended on December 28, 2012, seeks to clarify the responsibilities of both employers and employees and codifies certain basic rights and protections of employees. Among others, the labor contract law 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 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*, which was promulgated in December 2013 to implement the provisions of the labor contract law 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.

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 Item 3. Key Information D. Risk Factors Risks Related to Our Business Our current employment practices may be adversely impacted under the labor contract law of the PRC.

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***Regulation on Information Protection on Networks***

On December 28, 2012, the Standing Committee of the National People's Congress issued *Decision of the Standing Committee of the National People's Congress on Strengthening Information Protection on Networks*, 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 *Order for the Protection of Telecommunication and Internet User Personal Information*. The requirements under this order are stricter and wider compared to the above decision issued by the National People's Congress. According to this order, 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 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 order states, in broad terms, that violators may face warnings, fines, public exposure and, in the most severe cases, criminal liability.

**4.C. Organizational Structure**

The following diagram illustrates our corporate and ownership structure, the place of formation and the ownership interests of our subsidiaries as of March 31, 2017.

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The following table sets forth summary information for our significant subsidiaries as of March 31, 2017.

Major Subsidiaries	Percentage of Ownership	Date of Incorporation/Acquisition	Place of Incorporation
China Lodging Holdings (HK) Limited	100%	October 22, 2008	Hong Kong
China Lodging Holdings Singapore Pte. Ltd.	100%	April 14, 2010	Singapore
Shanghai HanTing Hotel Management Group, Ltd.	100%	November 17, 2004	PRC
HanTing Xingkong (Shanghai) Hotel Management Co., Ltd.	100%	March 3, 2006	PRC
HanTing (Tianjin) Investment Consulting Co., Ltd(1).	100%	January 16, 2008	PRC
Yiju (Shanghai) Hotel Management Co., Ltd.(2)	100%	April 12, 2007	PRC
HanTing Technology (Suzhou) Co., Ltd.	100%	December 3, 2008	PRC
HanTing (Shanghai) Enterprise Management Co., Ltd.	100%	December 14, 2010	PRC
Starway Hotels (Hong Kong) Limited	100%	May 1, 2012	Hong Kong
Starway Hotel Management (Shanghai) Co., Ltd.	100%	May 1, 2012	PRC
HuaZhu Hotel Management Co., Ltd.	100%	August 16, 2012	PRC
Mengguang Information Technology (Shanghai) Co., Ltd.	100%	February 26, 2014	PRC
Mengguang Information Technology Co., Ltd.	100%	November 7, 2013	PRC
ACL Greater China Limited	100%	December 8, 2015	Hong Kong
Ibis China Investment Limited	100%	August 13, 2007	Hong Kong
TAHM Investment Limited	100%	June 14, 2010	Hong Kong
Yagao Meihua Hotel Management Co., Ltd.	100%	February 16, 2015	PRC

1. In the fourth quarter of 2016, HanTing (Tianjin) Investment Consulting Co., Ltd passed shareholder resolutions to reduce its registered share capital from US\$98 million to US\$48 million.

2. In the third quarter of 2016, Yiju (Shanghai) Hotel Management Co., Ltd. passed shareholder resolutions to reduce its registered share capital from US\$43 million to US\$21 million.

#### 4.D. Property, Plants and Equipment

Our headquarters are located in Shanghai, China and occupy nearly 8,400 square meters of office space, about 1,500 square meters of which is owned by us and the rest is leased. As of December 31, 2016, we leased 617 out of our 3,269 hotel facilities with an aggregate size of approximately 3.2 million square meters, including approximately 59,000 square meters subleased to third parties. As of December 31, 2016, we owned seven out of our 3,269 hotel facilities with an aggregate size of approximately 53,900 square meters, of which no space subleased to third parties. For detailed information about the locations of our hotels, see Item 4. Information on the Company B. Business Overview Our Hotel Network.

#### ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**5.A. Operating Results**

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Item 3. Key Information D. Risk Factors or in other parts of this annual report on Form 20-F.*

**Overview**

We are a leading and fast-growing multi-brand hotel group in China with leased and owned, manachised and franchised models. Under the lease and ownership model, we directly operate hotels located primarily on leased 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 provide training, reservation and support services to the franchised hotels and collect fees from franchisees but do not appoint on-site hotel managers. We apply a consistent standard and platform across all of our hotels. As of December 31, 2016, we had 624 leased and owned, 2,471 manachised and 174 franchised hotels in operation and 15 leased and owned hotels and 427 manachised and franchised hotels under development.

As of the date of this annual report, we own seven hotel brands that are designed to target distinct segments of customers:

- *Joya Hotel*, our upscale brand concept targeting affluent travelers and corporate events. Joya Hotels are typically located in central business districts;
- *Manxin Hotels*, our mid-to-upscale hospitality brand including city hotels and resorts. Manxin Hotel targets business travelers, leisure travelers, families and corporate events;
- *Ji Hotel*, our standardized mid scale limited service hotel product which targets mature and experienced travelers who seek a quality experience in hotel stays, previously marketed first under the name of HanTing Hotel and then HanTing Seasons Hotel;





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- *Starway Hotel*, our mid-scale limited service hotel product with variety in design and consistency in quality which targets middle class travelers who seek a spacious room, reasonable price and guaranteed quality;
- *Elan Hotel*, our economy hotel product which targets business travelers, young customers and urban tourists. Elan Hotel is committed to provide a unique business and travel life experience for its guests;
- *HanTing Hotel*, our economy hotel product which targets knowledge workers and value- and quality-conscious travelers, originally marketed under the name of HanTing Express Hotel; and
- *Hi Inn*, our budget hotel product which targets practical and price-conscious travelers, originally marketed under the name of HanTing Hi Inn.

In addition to the seven hotel brands owned by us, we entered into brand franchise agreements with Accor and enjoyed exclusive franchise rights in respect of Mercure , Ibis and Ibis Styles in the PRC, Taiwan and Mongolia and non-exclusive franchise rights in respect of Grand Mercure and Novotel in the PRC, Taiwan and Mongolia:

- *Grand Mercure*, a brand that offers a upscale network of hotels and apartments that combine local culture with world-class services;
- *Novotel*, a mid-to-upscale brand that provides a multi-service offer for both business and leisure guests;
- *Mercure*, a midscale hotel brand that targets business and leisure travelers around the world;
- *Ibis Styles*, a midscale brand that offers comfortable, designer hotels at an all-inclusive rate; and
- *Ibis*, an economy hotel brand that is recognized across the world for its quality, reliability and commitment to the environment.

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As a result of our customer-oriented approach, we have developed strong brand recognition and a loyal customer base. In 2016, approximately 80% of our room nights were sold to members of HUAZHU Rewards, our loyalty program.

Our operations commenced with mid-scale limited service hotels and commercial property development and management in 2005. We began our current business of operating and managing a multi-brand hotel group in 2007. Our net revenues grew from RMB4,964.7 million in 2014 to RMB5,774.6 million in 2015, and further to RMB6,538.6 million (US\$941.8 million) in 2016. We had net income attributable to our company of RMB307.3 million, RMB436.6 million and RMB804.6 million (US\$115.9 million) in 2014, 2015 and 2016, respectively. We had net cash provided by operating activities of RMB1,454.0 million, RMB1,749.7 million and RMB2,047.7 million (US\$294.9 million) in 2014, 2015 and 2016, respectively.

### **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 (see Item 3. Key Information D. Risk Factors - Risks Related to Our Business - Our operating results are subject to conditions affecting the lodging industry in general. ), 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 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, manage 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 could result in a disproportionately larger decrease in our earnings because our operating costs and expenses are unlikely to decrease proportionately.

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- *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, leased and owned hotels generally incur pre-opening expenses ranging from approximately RMB0.5 million to RMB10.0 million per hotel and generate no revenue. 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 leased and owned hotels, 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 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 and profit.

Under the manachise and franchise models, we generate revenues from 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.

***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 hotels in operation increased from 1,995 in 2014 to 3,269 in

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2016 and our total hotel room-nights available for sale increased from 65.3 million in 2014 to 112.9 million in 2016. The following table sets forth various measures of changes in the total number of hotels and hotel rooms as of and for the dates and periods indicated.

	2014	As of December 31, 2015	2016
Total hotels in operation	1,995	2,763	3,269
Leased and owned hotels	611	616	624
Manachised hotels	1,376	2,067	2,471
Franchised hotels	8	80	174
Total hotel rooms in operation	209,955	278,843	331,347
Leased and owned hotels	72,335	75,436	78,160
Manachised hotels	136,689	196,737	237,094
Franchised hotels	931	6,670	16,093
Total hotel room-nights available for sale	65,321,955	88,384,653	112,937,662
Leased and owned hotels	25,286,195	27,093,439	28,346,421

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	2014	As of December 31, 2015	2016
Manachised hotels	39,542,356	60,244,011	80,161,362
Franchised hotels	493,404	1,047,203	4,429,879
Number of cities	300	352	367

*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 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 change in the mix of mature and ramp-up hotels, as well as special event such as the Shanghai Expo in 2010. 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 rate of our portfolio may change due to our yield management practice, city mix change and special events such as Shanghai Expo in 2010. The following table sets forth our RevPAR, average daily room rate and occupancy rate for our leased and owned and manachised hotels for the periods indicated. We did not track the RevPAR, average daily room rate or occupancy rate for our franchised hotels before 2015.

	2014	Year Ended December 31, 2015	2016
<b>RevPAR (1) (in RMB)</b>			
Leased and owned hotels	169	172	179
Manachised hotels	153	145	151
Franchised hotels	N/A	124	125
Total hotels in operation	159	153	157
<b>Average daily room rate (1) (in RMB)</b>			
Leased and owned hotels	190	198	208
Manachised hotels	172	170	177
Franchised hotels	N/A	177	182
Total hotels in operation	179	179	185
<b>Occupancy rate (as a percentage)</b>			
Leased and owned hotels	89	87	86
Manachised hotels	89	85	85
Franchised hotels	N/A	70	69
Total hotels in operation	89	85	85
Weight of hotel room-nights available for sale contributed by leased and owned hotels less than 6 months (as a percentage)	7	3	3

(1) Value-added tax has been implemented for hospitality industry to replace business tax in China effective May 1, 2016. Our room rates quoted and received from customers are tax-inclusive (business tax or value-added tax) before and after the implementation of value-added tax. For comparison purposes, the RevPAR and average daily room rates disclosed in this annual report are based on the tax-inclusive room rates.

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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 total hotel RevPAR in 2016 is higher than that in 2015, mainly as a result of the upgrade of Hanting 2.0 and the growing demand of our midscale hotels. The total hotel RevPAR in 2015 is lower than that in 2014, mainly as a result of the relatively soft overall market and the city mix shifting toward lower-tier cities.

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 the winter and during the Spring Festival holidays, and the highest RevPAR in the third quarter due to increased travel during the summer. National and regional special events that attract large numbers of people to travel may also cause fluctuations in our RevPAR.

	March 31, 2015	June 30, 2015	September 30, 2015	For the Three Months Ended				
				December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
<b>RevPAR (in RMB):</b>								
Leased and owned hotels	150	176	188	172	159	182	195	181

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	March 31, 2015	June 30, 2015	September 30, 2015	For the Three Months Ended		June 30, 2016	September 30, 2016	December 31, 2016
				December 31, 2015	March 31, 2016			
Manachised hotels	131	146	159	141	133	150	166	152
Franchised hotels	115	126	137	116	105	128	144	123
Total hotels in operation	137	156	167	149	139	157	173	158

*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 hotels in operation for at least 18 months to monitor RevPAR trend for our mature hotels on a comparable basis. The following table sets forth our same-hotel RevPAR for hotels in operation for at least 18 months for the periods indicated.

	March 31, 2015	June 30, 2015	September 30, 2015	For the Three Months Ended		June 30, 2016	September 30, 2016	December 31, 2016
				December 31, 2015	March 31, 2016			
Number of hotels in operation for at least 18 months	1,280	1,380	1,493	1,612	1,783	1,899	2,050	2,205
RevPAR (RMB)	145	164	173	154	142	159	172	157
Same-hotel RevPAR change (as a percentage)	-5	-4	-3	-3	0	-1	1	2

*Financial Key Performance Indicators*

Our financial key performance indicators consist of (i) revenues, (ii) operating costs and expenses, (iii) EBITDA and adjusted EBITDA, 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. Our revenues are subject to business tax of 5% (before May 1, 2016) and other related taxes. The following table sets forth the revenues generated by our leased and owned and manachised and franchised hotels and other revenues, each in absolute amount and as a percentage of total revenues for the periods indicated.

	2014		Year Ended December 31, 2015			2016	
	(RMB)	%	(RMB)	%	(RMB)	(US\$)	%
	(In thousands except percentages)						
Revenues:							
Leased and owned hotels	4,522,431	85.9	4,986,872	81.6	5,212,405	750,743	78.3

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Manachised and franchised hotels	742,797	14.1	1,123,979	18.4	1,411,156	203,249	21.2
Others					31,219	4,496	0.5
Total revenues	5,265,228	100.0	6,110,851	100.0	6,654,780	958,488	100.0
Less: Business tax and related taxes(1)	300,500	5.7	336,227	5.5	116,149	16,729	1.7
Net revenues	4,964,728	94.3	5,774,624	94.5	6,538,631	941,759	98.3

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(1) Value-added tax has been implemented for hospitality industry to replace business tax in China effective May 1, 2016.

- Leased and Owned Hotels.* In 2014, we generated revenue of RMB4,522.4 million from our leased and owned hotels, which accounted for 85.9% of our total revenues for the year. In 2015, we generated revenue of RMB4,986.9 million from our leased and owned hotels, which accounted for 81.6% of our total revenues for the year. In 2016, we generated revenues of RMB5,212.4 million (US\$750.7 million) from our leased and owned hotels, which amounted for 78.3% of our total revenues for the year. We expect that revenues from our leased and owned hotels will continue to constitute a substantial majority of our total revenues in the foreseeable future. As of December 31, 2016, we had 15 leased and owned hotels under development.



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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 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 20 years. We typically enjoy an initial two- to six-month rent-free period. We generally pay fixed rent on a 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.

Our owned hotels were acquired as part of our strategic alliance with Accor in 2016.

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 in China and maintain and further increase our RevPAR at existing hotels. As of December 31, 2016, we had entered into binding contracts with lessors of 15 properties for our leased and owned hotels, which are currently under development.
- *RevPAR achieved by our leased and owned hotels, which represents the product of average daily rates and occupancy rates.* To understand factors impacting our RevPAR, please see Non-financial Key Performance Indicators RevPAR.
- *Manachised and Franchised Hotels.* In 2014, we generated revenues of RMB742.8 million from our manachised and franchised hotels, which accounted for 14.1% of our total revenues for the year. In 2015, we generated revenues of RMB1,124.0 million from our manachised and franchised hotels, which accounted for 18.4% of our total revenues for the year. In 2016, we generated revenues of RMB1,411.2 million (US\$203.2 million) from our manachised and franchised hotels, which accounted for 21.2% of our total revenues for the year. We expect that revenues 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 December 31, 2016, we had 427 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 directly 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 assurance inspections and providing other operational support and information. We believe 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, if any, incurred 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. Our franchisees are generally required to pay us a one-time franchise fee ranging between RMB80,000 and RMB500,000. In general, we charge a monthly franchise fee of approximately 5% of the total revenues generated by each manachised hotel. We also collect from franchisees a reservation fee for using our central reservation system and a membership registration fee to service customers who join our HUAZHU Rewards loyalty program at the manachised hotels. Furthermore, we employ and appoint hotel managers for the manachised hotels and charge the franchisees a monthly fee for such service.

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- *Franchised Hotels.* Under our typical franchise agreements, we provide our franchisees with training, central reservation, sales and marketing support, quality assurance inspections and other operational support and information services. 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 or share any profit incurred or realized by our franchisees.
- *Other revenues.* Other revenues of RMB31.2 million (US\$4.5 million) in 2016 represent revenues generated from 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.

*Operating Costs and Expenses.* Our operating costs and expenses consist of costs for hotel operation, selling and marketing expenses, general and administrative expenses and pre-opening expenses. 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.

	2014		Year Ended December 31, 2015		2016		
	(RMB)	%	(RMB)	%	(RMB)	(US\$)	
	(In thousands except percentages)						
Net revenues	4,964,728	100.0	5,774,624	100.0	6,538,631	941,759	100.0
<b>Operating costs and expenses</b>							
Hotel operating costs:							
Rents	1,543,651	31.1	1,804,532	31.2	1,870,879	269,463	28.6
Utilities	323,837	6.5	341,620	5.9	345,615	49,779	5.3
Personnel costs	788,973	15.9	919,555	15.9	1,088,380	156,759	16.6
Depreciation and amortization	558,833	11.3	645,058	11.2	676,996	97,508	10.3
Consumables, food and beverage	454,795	9.2	485,099	8.4	494,764	71,261	7.6
Others	207,938	4.1	316,283	5.5	455,539	65,611	7.0
Total hotel operating costs	3,878,027	78.1	4,512,147	78.1	4,932,173	710,381	75.4
Other operating costs					7,606	1,095	0.1
Selling and marketing expenses	187,435	3.8	179,568	3.1	146,525	21,104	2.2
General and administrative expenses	342,128	6.9	403,008	7.0	492,141	70,883	7.5
Pre-opening expenses	186,325	3.8	110,011	1.9	71,847	10,348	1.1
Total operating costs and expenses	4,593,915	92.6	5,204,734	90.1	5,650,292	813,811	86.3

- *Hotel Operating Costs.* Our hotel operating costs consist primarily of costs and expenses directly attributable to the operation of our leased and owned and 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, namely, (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.

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- *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 office. We expect that our general and administrative expenses will increase in the near term 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 and 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. 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.

	2014 (RMB)	Year Ended December 31,		2016 (US\$)
		2015 (RMB)	(RMB)	
(In thousands)				
Rents	163,155	95,977	67,277	9,690
Personnel cost	7,217	5,903	1,560	225
Others	15,953	8,131	3,010	433
Total pre-opening expenses	186,325	110,011	71,847	10,348

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.

	2014 (RMB)	%	Year Ended December 31,		2016 (US\$)	%
			2015 (RMB)	(RMB)		
(In thousands except percentages)						
Hotel operating costs	6,830	21.4	8,835	16.8	13,603	24.5
Selling and marketing expenses	939	2.9	907	1.7	811	1.5

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General and administrative expenses	24,168	75.7	42,793	81.5	41,022	5,908	74.0
Total share-based compensation expenses	31,937	100.0	52,535	100.0	55,436	7,984	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 have granted options to purchase 319,480, 118,348 and nil of our ordinary shares in 2014, 2015 and 2016, respectively. We granted 1,167,100, 13,931,961 and 1,919,791 shares of restricted stock in 2014, 2015 and 2016, 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.

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*EBITDA and Adjusted EBITDA.* 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. 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.

The following tables present certain unaudited financial data and selected operating data for the years ended December 31, 2014, 2015 and 2016:

	2014 (RMB)	Year Ended December 31,		2016 (US\$)
		2015 (RMB)	(RMB)	
	(In thousands)			
<b>Non-GAAP Financial Data</b>				
EBITDA <sup>(1)</sup>	969,546	1,271,675	1,730,319	249,217
Adjusted EBITDA <sup>(1)</sup>	1,001,483	1,324,210	1,785,755	257,201

(1) 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. 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 and Adjusted EBITDA does not deduct foreign exchange loss, which was RMB0.2 million in 2014, and foreign exchange gain, which was RMB7.8 million and RMB16.5 million (US\$2.4 million) in 2015 and 2016, respectively. The presentation of EBITDA and Adjusted EBITDA 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 and Adjusted EBITDA 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 have been and will be incurred and are not reflected in the presentation of Adjusted EBITDA. Each of these items

should also be considered in the overall evaluation of our results. Additionally, EBITDA or Adjusted EBITDA does 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, 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 and Adjusted EBITDA are not defined under U.S. GAAP, and neither EBITDA nor Adjusted EBITDA 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 or Adjusted EBITDA may not be comparable to EBITDA or Adjusted EBITDA or similarly titled measures utilized by other companies since such other companies may not calculate EBITDA or Adjusted EBITDA in the same manner as we do.



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A reconciliation of EBITDA and Adjusted EBITDA to net income, which is the most directly comparable U.S. GAAP measure, is provided below:

	2014 (RMB)	For the Year Ended December 31,		2016 (US\$)
		2015 (RMB)	(RMB)	
	(In thousands)			
Net income attributable to our company	307,348	436,600	804,615	115,888
Interest income	(23,162)	(26,712)	(67,366)	(9,703)
Interest expense	1,533	3,854	11,056	1,592
Income tax expense	113,105	196,529	287,120	41,354
Depreciation and amortization	570,722	661,404	694,894	100,086
EBITDA (Non-GAAP)	969,546	1,271,675	1,730,319	249,217
Share-based compensation expenses	31,937	52,535	55,436	7,984
Adjusted EBITDA (Non-GAAP)	1,001,483	1,324,210	1,785,755	257,201

*Net Cash Provided by 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 and deferred rent and changes in deferred revenue and prepaid rent. We use net cash provided by operating activities to assess the cash generation capability and return profile of our business. Compared with 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 RMB1,454.0 million, RMB1,749.7 million and RMB2,047.7 million (US\$294.9 million) in 2014, 2015 and 2016, respectively. The year-over-year increase was mainly due to the expansion of our hotel network. We expect that our net cash provided by operating activities will continue to increase as we further expand our hotel network.

### **Taxation**

We are incorporated in the Cayman Islands. Under the current law of the Cayman Islands, China Lodging, China Lodging Investment Limited and City Home Group Limited are not subject to income or capital gains tax. In addition, dividend payments we make are not subject to withholding tax in the Cayman Islands.

China Lodging HK, Starway HK, IBIS China Investment Limited, ACL Greater China Limited and TAHM Investment Limited are subject to a profit tax at the rate of 16.5% on assessable profit determined under relevant Hong Kong tax regulations. No Hong Kong profit tax has been provided as we have not had any assessable profit that was earned in or derived from Hong Kong during the years presented.

China Lodging Singapore is subject to Singapore corporate income tax at a rate of 17%. No Singapore profit tax has been provided as we have not had assessable profit that was earned in or derived from Singapore during the years presented.

On March 16, 2007, the National People's Congress passed the Enterprise Income Tax Law, which was amended in February 2017, 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 and its Implementation Regulations, or the EIT Law, applies a uniform 25% enterprise income tax rate to both foreign-invested enterprises and domestic enterprises.

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 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 different withholding arrangement. Holding companies in Hong Kong, for example, are subject to a 5% withholding tax rate. The Cayman Islands, where we are incorporated, does not have such a tax treaty with China. Thus, dividends paid to us by our subsidiaries in China may be subject to the 10% withholding tax if we are considered a non-resident enterprise under the EIT Law. See Item 3. Key Information

**D. Risk Factors – Risks Related to Doing Business in China** It is unclear whether we will be considered as a PRC resident enterprise under the EIT Law, and depending on the determination of our PRC resident enterprise status, dividends paid to us by our PRC subsidiaries may be subject to PRC withholding tax, we may be subject to 25% PRC income tax on our worldwide income, and holders of our ADSs or ordinary shares may be subject to PRC withholding tax on dividends paid by us and gains realized on their transfer of our ADSs or ordinary shares.

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**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.

***Revenue Recognition***

Our revenues from leased and owned hotels are derived from operations of leased and owned hotels, including the rental of rooms, food and beverage sales and souvenir sales. Revenues are recognized when rooms are occupied and food and beverages and souvenirs are sold.

Our revenues from manachised and franchised hotels are derived from franchise agreements where the franchisees are required to pay (i) an initial one-time franchise fee and (ii) an ongoing franchise fee, the major part of which is charged at approximately 5.0% of the revenues of the manachised and franchised hotels. Aside from the revenue-based fee, we also charge a central reservation system usage fee and a monthly system maintenance and support fee which are recognized when services are provided. The one-time franchise fee, which is non-refundable, is recognized when the manachised and franchised hotel opens for business, and we have fulfilled all our commitments and obligations, including assistance to the franchisees in property design, leasehold improvement construction project management, systems installation, personnel recruiting and training. Ongoing franchise fees are recognized when the underlying service revenues are recognized by the franchisees' operations. The system maintenance, support fee and central reservation system usage fee is recognized when services are provided.

We account for hotel manager fees related to the hotels under the manachise program as revenues. Pursuant to the franchise agreements under the manachise program, we charge the franchisees fixed hotel manager fees to cover the manachised hotel managers' salaries, social welfare benefits and certain other out-of-pocket expenses that we incur on behalf of the manachised hotels. The hotel manager fee is recognized as revenue monthly. During the years ended December 31, 2014, 2015 and 2016, the hotel manager fees that were recognized as revenue were RMB166.6 million, RMB261.7 million and RMB321.3 million (US\$46.3 million), respectively.

Revenues derived from selling membership cards at leased and owned, managed and franchised hotels are earned on a straight-line basis over the estimated membership life which is estimated to be approximately two to five years dependent upon membership level. Membership life is estimated at the time the membership card is sold based on management's industry experience and data accumulated by our company, including usage frequency and actual attrition. These estimates are updated regularly to reflect actual membership retention.

Our other revenues are derived from 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 and collectability is reasonably assured. Revenues from IT products are recognized when goods are delivered and revenues from IT services are recognized when services are rendered.

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*Long-Lived Assets*

We evaluate the carrying value of our long-lived assets for impairment by comparing the expected undiscounted future cash flows of the assets to the net book value of the assets if certain trigger events occur, such as receiving government zoning notification. Inherent in reviewing the carrying amounts of the long-lived assets is the use of various estimates. First, our management must determine the usage of the asset. Impairment of an asset is more likely to be recognized where and to the extent our management decides that such asset may be disposed of or sold. Assets must be tested at the lowest level, generally the individual hotel, for which identifiable cash flows exist. If the expected undiscounted future cash flows are less than the net book value of the assets, the excess of the net book value over the estimated fair value is charged to current earnings. Fair value is based upon discounted cash flows of the assets at a rate deemed reasonable for the type of asset and prevailing market conditions, appraisals and, if appropriate, current estimated net sales proceeds from pending offers. Future cash flow estimates are, by their nature, subjective and actual results may differ materially from our estimates. If our ongoing estimates of future cash flows are not met, we may have to record additional impairment charges in future accounting periods. Our estimates of cash flow are based on the current regulatory, social and economic climates where we conduct our operations as well as recent operating information and budgets for our business. These estimates could be negatively impacted by changes in laws and regulations, economic downturns, or other events affecting various forms of travel and access to our hotels.

*Goodwill Impairment*

Goodwill is required to be tested for impairment at least annually or more frequently if events or changes in circumstances indicate that these assets might be impaired. If we determine that the carrying value of our goodwill has been impaired, the carrying value will be written down.

We perform a two-step goodwill impairment test for each of the reporting unit we identified for goodwill impairment testing purposes. The first step compares the fair values of each reporting unit to its carrying amount, including goodwill. 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 value of a reporting unit exceeds its fair value, we would perform the second step in our assessment process and record an impairment loss to earnings to the extent the carrying amount of the reporting unit's goodwill exceeds its implied fair value. We estimate the fair value of each reporting unit through internal analysis and external valuations, which utilize income and market valuation approaches through the application of capitalized earnings, discounted cash flow as well as market value. These valuation techniques are based on a number of estimates and assumptions, including the projected future operating results of the reporting unit, appropriate discount rates and long-term growth rates. The significant assumptions regarding our future operating performance are revenue growth rates, discount rates and terminal values. If any of these assumptions changes, the estimated fair value of our reporting unit will change, which could affect the amount of goodwill impairment charges, if any. We perform the annual goodwill impairment test on November 30. As of November 30, 2016, all businesses had been migrated to our own business, and we concluded to have only one reporting unit.

*Customer Loyalty Program*

HUAZHU Rewards is our customer loyalty program. Our members can earn points based on spending at our leased and owned, managed and franchised hotels and participating in certain marketing programs. These points can be redeemed for offset the room charges in our hotels or used to buy products in Hua Zhu mall within two years after the points are earned. Management determines the fair value of the future redemption obligation based on certain formulas which project the future point redemption behavior based on historical experience, including an estimate of points that will never be redeemed, and an estimate of the points that will eventually be redeemed as well as the cost to be incurred in conjunction with the point redemption. The actual expenditure may differ from the estimated liability recorded.

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*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 China's limited service 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, 2014, 2015 and 2016, we had deferred tax assets after valuation allowance of RMB163.5 million, RMB218.7 million and RMB176.4 million (US\$25.4 million), respectively. We expect many of our hotels that were put in operation since 2010 will become mature 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.

*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, the fair value of our nonvested restricted stocks as of the grant date based on the fair market value of the underlying ordinary shares and the fair value of our nonvested

restricted stocks with market condition as of the grant date using Monte-Carol simulation. 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 ordinary 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. The compensation expenses for the awards with market conditions are recognized during the requisite service period, even if the market condition is never satisfied. 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.



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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 included elsewhere in this annual report.

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.

	2014		Year Ended December 31, 2015		2016		
	RMB	%	RMB	%	(RMB)	(US\$)	
(In thousands except percentages)							
<b>Consolidated Statement of Comprehensive Income Data:</b>							
Revenues:							
Leased and owned hotels	4,522,431	91.1	4,986,872	86.3	5,212,405	750,743	79.7
Manachised and franchised hotels	742,797	15.0	1,123,979	19.5	1,411,156	203,249	21.6
Others					31,219	4,496	0.5
Total revenues	5,265,228	106.1	6,110,851	105.8	6,654,780	958,488	101.8
Less: Business tax and related taxes	300,500	6.1	336,227	5.8	116,149	16,729	1.8
Net revenues	4,964,728	100.0	5,774,624	100.0	6,538,631	941,759	100.0
Operating costs and expenses(1):							
Hotel operating costs	3,878,027	78.1	4,512,147	78.1	4,932,173	710,381	75.4
Other operating costs					7,606	1,095	0.1
Selling and marketing expenses	187,435	3.8	179,568	3.1	146,525	21,104	2.2
General and administrative expenses	342,128	6.9	403,008	7.0	492,141	70,883	7.5
Pre-opening expenses	186,325	3.8	110,011	1.9	71,847	10,348	1.1
Total operating costs and expenses	4,593,915	92.6	5,204,734	90.1	5,650,292	813,811	86.3
Other operating income (expense), net	18,551	0.5	31,264	0.5	(17,440)	(2,512)	(0.4)
Income from operations	389,364	7.9	601,154	10.4	870,899	125,436	13.3
Interest income	23,162	0.5	26,712	0.5	67,366	9,703	1.0
Interest expenses	1,533	0.0	3,854	0.0	11,056	1,592	0.2
Other income, net	2,884	0.1	6,979	0.0	133,755	19,265	2.1
	(246)	0.0	7,814	0.1	16,481	2,373	0.3

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Foreign exchange gain (loss)							
Income before income taxes	413,631	8.5	638,805	11.0	1,077,445	155,185	16.5
Income tax expense	113,105	2.3	196,529	3.4	287,120	41,354	4.4
Income (loss) from equity method investments	1,865	0.0	(2,896)	(0.0)	6,157	886	0.1
Net income	302,391	6.2	439,380	7.6	796,482	114,717	12.2

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	2014		Year Ended December 31, 2015			2016	
	RMB	%	RMB	%	(RMB)	(US\$)	%
	(In thousands except percentages)						
Less: net income (loss) attributable to noncontrolling interest	(4,957)	(0.1)	2,780	0.0	(8,133)	(1,171)	(0.1)
Net income attributable to China Lodging Group, Limited	307,348	6.3	436,600	7.6	804,615	115,888	12.3

Note:

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

	Year Ended December 31, 2014		Year Ended December 31, 2015		Year Ended December 31, 2016	
	(RMB)	(RMB)	(RMB)	(RMB)	(US\$)	(US\$)
	(In thousands)					
Share-based compensation expenses	31,937	52,535	55,436		7,984	

**Year Ended December 31, 2016 Compared to Year Ended December 31, 2015**

*Net Revenues.* Our net revenues increased by 13.2% from RMB5,774.6 million in 2015 to RMB6,538.6 million (US\$941.8 million) in 2016. The following table sets forth a breakdown of our net revenues for the periods indicated:

	Year Ended December 31, 2015		Year Ended December 31, 2016	
	(RMB)	(RMB)	(RMB)	(US\$)
	(In thousands)			
<b>Revenues</b>				
Leased and owned hotels	4,986,872	5,212,405		750,743
Manachised and franchised hotels	1,123,979	1,411,156		203,249
Others		31,219		4,496
Total revenues	6,110,851	6,654,780		958,488
Less: business tax and related surcharges(1)	(336,227)	(116,149)		(16,729)
Net revenues	5,774,624	6,538,631		941,759
Net revenues from leased and owned hotels	4,712,488	5,121,431		737,640
Net revenues from manachised and franchised hotels	1,062,136	1,386,526		199,701
Others		30,674		4,418

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Note:

(1) Value-added tax has been implemented for hospitality industry to replace business tax in China effective May 1, 2016. For comparison purpose, the business tax and related surcharges in 2015 and 2016 are re-allocated to reflect net revenues for each business.

- *Leased and Owned Hotels.* Net revenues from our leased and owned hotels increased by 8.7% from RMB4,712.5 million in 2015 to RMB5,121.4 million (US\$737.6 million) in 2016. This increase was primarily due to our continued expansion of leased and owned hotels from 616 hotels and 75,436 hotel rooms as of December 31, 2015 to 624 hotels and 78,160 hotel rooms as of December 31, 2016. The slight increase of RevPAR for our leased and owned hotels from RMB172 in 2015 to RMB179 (US\$25.8) in 2016 was also attributable to the increase.

- *Manachised and Franchised Hotels.* Net revenues from our manachised and franchised hotels increased by 30.5% from RMB1,062.1 million in 2015 to RMB1,386.5 million (US\$199.7 million) in 2016. This increase was primarily due to our continued expansion of manachised hotels from 2,067 hotels and 196,737 hotel rooms as of December 31, 2015 to 2,471 hotels and 237,094 hotel rooms as of December 31, 2016 and franchised hotels from 80 hotels and 6,670 hotel rooms as of December 31, 2015 to 174 hotels and 16,093 hotel rooms as of December 31, 2016. RevPAR for our manachised and franchised hotels increased from RMB145 and RMB124 in 2015 to RMB151 (US\$21.7) and RMB125 (US\$18.0) in 2016, respectively, mainly as a result of the upgrade of Hanting 2.0 and the growing demand of our midscale hotels.

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- *Other Revenues.* Net other revenues increased from nil in 2015 to RMB30.7 million (US\$4.5 million) in 2016. This increase was primarily attributable to an increase of revenues generated from other than hotel businesses, mainly including revenues from Hua Zhu mall and the provision of IT products and services to hotels.

*Operating Costs and Expenses.* Our total operating costs and expenses increased by 8.6% from RMB5,204.7 million in 2015 to RMB5,650.3 million (US\$813.8 million) in 2016.

- *Hotel Operating Costs.* Our hotel operating costs increased by 9.3% from RMB4,512.1 million in 2015 to RMB4,932.2 million (US\$710.4 million) in 2016. This increase was primarily due to our expansion of leased and owned hotels from 616 hotels as of December 31, 2015 to 624 hotels as of December 31, 2016. The increase in personnel costs, part of hotel operating costs, was also attributable to our expansion of managed hotels from 2,067 hotels as of December 31, 2015 to 2,471 hotels as of December 31, 2016. Our hotel operating costs as a percentage of net revenues decreased from 78.1% in 2015 to 75.4% in 2016. The year-over-year decrease in the percentage was mainly attributable to the improved blended RevPAR and VAT deductions.

- *Selling and Marketing Expenses.* Our selling and marketing expenses decreased by 18.4% from RMB179.6 million in 2015 to RMB146.5 million (US\$21.1 million) in 2016. Our selling and marketing expenses as a percentage of net revenues decreased from 3.1% in 2015 to 2.2% in 2016. The decrease was mainly attributable to the adjustment related to membership point cost due to the difference between actual and estimated membership point redemptions in 2016.

- *General and Administrative Expenses.* Our general and administrative expenses increased from RMB403.0 million in 2015 to RMB492.1 million (US\$70.9 million) in 2016, primarily as a result of our business expansion. Our general and administrative expenses as a percentage of net revenues increased from 7.0% in 2015 to 7.5% in 2016. The increase was mainly attributable to the increase of personnel costs and professional fees.

- *Pre-opening Expenses.* Our pre-opening expenses decreased from RMB110.0 million in 2015 to RMB71.8 million (US\$10.3 million) in 2016. Our pre-opening expenses as a percentage of net revenues decreased from 1.9% in 2015 to 1.1% in 2016. These decreases were primarily due to fewer leased and owned hotels opened or under construction in 2016 than in 2015.

*Other Operating Income (Expense).* Our other operating income was RMB31.3 million in 2015, which mainly includes government grants and gain or loss arising from the write-off of property and equipment associated with the leased and owned hotels demolished. Our other operating expense was RMB17.4 million (US\$2.5 million) in 2016, which mainly included accrued contingencies for certain of our pending legal and administrative proceedings, partially offset

by government grants.

*Income from Operations.* As a result of the foregoing, we had income from operations of RMB870.9 million (US\$125.4 million) in 2016, compared to income from operations of RMB601.2 million in 2015.

*Interest Income (Expense), Net.* Our net interest income was RMB56.3 million (US\$8.1 million) in 2016. Our interest income was RMB67.4 million (US\$9.7 million) in 2016, and our interest expense was RMB11.1 million (US\$1.6 million). Our net interest income was RMB22.8 million in 2015. Our interest income was RMB26.7 million in 2015, and our interest expense was RMB3.9 million. The increase in interest income from 2015 to 2016 was primarily due to the increase in our cash and cash equivalents and loans to franchisees.

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*Other Income, Net.* Our other income was RMB7.0 million and RMB133.8 million (US\$19.3 million) in 2015 and 2016, respectively, primarily attributable to the gain on sale of ADS of HMIN and deconsolidation of a subsidiary.

*Foreign Exchange Gain (Loss).* We had foreign exchange gain of RMB16.5 million (US\$2.4 million) in 2016, compared to foreign exchange gain of RMB7.8 million in 2015. Our foreign exchange gain in 2016 was primarily attributable to the depreciation of the Renminbi against the U.S. dollar in 2016.

*Income Tax Expense.* Our income tax expenses increased from RMB196.5 million in 2015 to RMB287.1 million (US\$41.4 million) in 2016, primarily due to the increase in our income before income taxes from RMB638.8 million in 2015 to RMB1,077.4 million (US\$155.2 million) in 2016. Our effective tax rate in 2016 was 26.6%, which decreased from 30.8% in 2015, primarily due to influence of tax holiday and change in valuation allowance.

*Income (Loss) from Equity Method Investments.* Our income from equity method investments was RMB6.2 million (US\$0.9 million) in 2016, compared to our loss from equity method investments of RMB2.9 million in 2015, primarily due to income or loss incurred by certain investees.

*Net Income (Loss) Attributable to Noncontrolling Interest.* Net income (loss) 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 loss attributable to noncontrolling interest was RMB8.1 million (US\$1.2 million) in 2016, compared to the net income attributable to noncontrolling interest of RMB2.8 million in 2015, primarily due to losses of certain of our new joint ventures.

*Net Income Attributable to China Lodging Group, Limited.* As a result of the foregoing, we had net income attributable to China Lodging Group, Limited of RMB804.6 million (US\$115.9 million) in 2016 compared to net income attributable to China Lodging Group, Limited of RMB436.6 million in 2015.

*EBITDA and Adjusted EBITDA.* EBITDA (non-GAAP) was RMB1,730.3 million (US\$249.2 million) in 2016, compared with EBITDA of RMB1,271.7 million in 2015. Adjusted EBITDA (non-GAAP) increased from RMB1,324.2 million in 2015 to RMB1,785.8 million (US\$257.2 million) in 2016. This change was primarily due to the expansion of our hotel network, the improved RevPAR and the increased investment gain in 2016.

***Year Ended December 31, 2015 Compared to Year Ended December 31, 2014***

*Revenues.* Our net revenues increased by 16.3% from RMB4,964.7 million in 2014 to RMB5,774.6 million in 2015.

- *Leased Hotels.* Revenues from our leased hotels increased by 10.3% from RMB4,522.4 million in 2014 to RMB4,986.9 million in 2015. This increase was primarily due to our continued expansion of leased hotels from 611 hotels and 72,335 hotel rooms as of December 31, 2014 to 616 hotels and 75,436 hotel rooms as of December 31, 2015. The slight increase of RevPAR for our leased hotels from RMB169 in 2014 to RMB172 in 2015 was also attributable to the increase.

- *Manachised and Franchised Hotels.* Revenues from our manachised and franchised hotels increased by 51.3% from RMB742.8 million in 2014 to RMB1,124.0 million in 2015. This increase was primarily due to our continued expansion of manachised hotels from 1,376 hotels and 136,689 hotel rooms as of December 31, 2014 to 2,067 hotels and 196,737 hotel rooms as of December 31, 2015, partially offset by a decrease in RevPAR. RevPAR for our manachised hotels decreased from RMB153 in 2014 to RMB145 in 2015, primarily due to the relatively soft overall market and the city mix shifting toward lower-tier cities, in particular a higher percentage of newly-opened hotels in lower-tier cities as a result of our accelerated growth in manachise business nationwide.

*Operating Costs and Expenses.* Our total operating costs and expenses increased by 13.3% from RMB4,593.9 million in 2014 to RMB5,204.7 million in 2015.

- *Hotel Operating Costs.* Our hotel operating costs increased by 16.4% from RMB3,878.0 million in 2014 to RMB4,512.1 million in 2015. This increase was primarily due to our expansion of leased hotels from 611 hotels as of December 31, 2014 to 616 hotels as of December 31, 2015. The increase in personnel costs, part of hotel operating costs, was also attributable to our expansion of manachised hotels from 1,376 hotels as of December 31, 2014 to 2,067 hotels as of December 31, 2015. Our hotel operating costs as a percentage of net revenues in 2015 remained the same as 78.1% in 2014.



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- *Selling and Marketing Expenses.* Our selling and marketing expenses decreased by 4.2% from RMB187.4 million in 2014 to RMB179.6 million in 2015. Our selling and marketing expenses as a percentage of net revenues decreased from 3.8% in 2014 to 3.1% in 2015. The decrease was mainly attribute to lower marketing spending as a result of our well-established brand and reputation.
- *General and Administrative Expenses.* Our general and administrative expenses increased from RMB342.1 million in 2014 to RMB403.0 million in 2015, primarily as a result of our business expansion. Our general and administrative expenses as a percentage of net revenues remained relatively stable in 2014 and 2015.
- *Pre-opening Expenses.* Our pre-opening expenses decreased from RMB186.3 million in 2014 to RMB110.0 million in 2015. Our pre-opening expenses as a percentage of net revenues decreased from 3.8% in 2014 to 1.9% in 2015. These decreases were primarily due to fewer leased hotels opened and in the pipeline in 2015.

*Other Operating Income.* Our other operating income was RMB18.6 million and RMB31.3 million in 2014 and 2015, respectively, which mainly includes government grants and gain or loss arising from the write-off of property and equipment associated with the leased hotels demolished.

*Income from Operations.* As a result of the foregoing, we had income from operations of RMB601.2 million in 2015, compared to income from operations of RMB389.4 million in 2014.

*Interest Income (Expense), Net.* Our net interest income was RMB22.8 million in 2015. Our interest income was RMB26.7 million in 2015, and our interest expense was RMB3.9 million. Our net interest income was RMB21.7 million in 2014. Our interest income was RMB23.2 million in 2014, and our interest expense was RMB1.5 million. The increase in interest income from 2014 to 2015 was primarily due to the increase in our cash and cash equivalents and loans to franchisees.

*Other Income (Expense).* Our other income was RMB2.9 million and RMB7.0 million in 2014 and 2015, respectively, primarily attributable to reimbursement from the depositary of our ADSs for certain expenses incurred by us in respect of the ADR program established pursuant to the deposit agreement.

*Foreign Exchange Gain (Loss).* We had foreign exchange gain of RMB7.8 million in 2015, compared to foreign exchange loss of RMB0.2 million in 2014. Our foreign exchange gain in 2015 was primarily attributable to the depreciation of the Renminbi against the U.S. dollar in 2015.

*Income Tax Expense.* Our tax expenses increased from RMB113.1 million in 2014 to RMB196.5 million in 2015, primarily due to the increase in our income before income taxes from RMB415.5 million in 2014 to RMB638.8 million in 2015. Our effective tax rate in 2015 was 30.8%, which increased from 27.2% in 2014, primarily due to the effect of accrued withholding tax on cash dividends.

*Income (Loss) from Equity Method Investments.* Our loss from equity method investments was RMB2.9 million in 2015, compared to our income from equity method investment of RMB1.9 million in 2014, primarily due to loss incurred by certain investees.

*Net Income (Loss) Attributable to Noncontrolling Interest.* Net income attributable to noncontrolling interest represents joint venture partners' share of our net income based on their equity interest in the leased hotels owned by the joint ventures. Net income attributable to noncontrolling interest was RMB2.8 million in 2015, compared to the net loss attributable to noncontrolling interest of RMB5.0 million in 2014, primarily due to decreased losses of some joint ventures.

*Net Income Attributable to China Lodging Group, Limited.* As a result of the foregoing, we had net income attributable to China Lodging Group, Limited of RMB436.6 million in 2015 compared to net income attributable to China Lodging Group, Limited of RMB307.3 million in 2014.

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*EBITDA and Adjusted EBITDA.* EBITDA (non-GAAP) was RMB1,271.7 million in 2015, compared with EBITDA of RMB969.5 million in 2014. Adjusted EBITDA (non-GAAP) increased from RMB1,001.5 million in 2014 to RMB1,324.2 million in 2015. This change was primarily due to the expansion of our hotel network.

**Outstanding Indebtedness**

In March 2012, we entered into a credit facility with the Industrial and Commercial Bank of China under which we can draw down up to RMB500.0 million, subject to adjustment, by May 21, 2015 with the final tranche of repayment due in March 2017. The interest rate for each draw down is established on the draw-down date and is adjusted annually, based on the loan interest rate stipulated by the People's Bank of China for the corresponding period. As of December 31, 2012, we had drawn down this credit facility of RMB1.0 million and repaid RMB1.0 million and RMB100.0 million of this credit facility expired. As of December 31, 2013, we had drawn down nil and had available credit facility of RMB399.0 million for future borrowing. As of December 31, 2014, we had drawn down nil and had available credit facility of RMB399.0 million for future borrowing. This facility expired on May 21, 2015. The weighted average interest rate for borrowings drawn under such credit was 6.9% for the year ended December 31, 2012.

In September 2012, we entered into a three-year revolving credit facility with China Merchants Bank under which we can borrow up to RMB300.0 million by October 9, 2015. As of December 31, 2012, 2013, 2014 and 2015, we had drawn down this credit facility of nil, RMB104.5 million, nil and RMB100.0 million and repaid nil, RMB104.5 million, nil and RMB100.0 million, respectively. In December 2013, we renewed the bank credit facility under which we can borrow up to RMB500.0 million by December 11, 2016. As of December 31, 2016, we had drawn down nil and repaid nil. The interest rate under this credit facility was 6.0% and 5.61% for the year ended December 31, 2013 and 2015. A letter of guarantee of RMB0.7 million was issued under this credit facility in 2013. This facility expired on December 11, 2016.

In December 2013, we entered into a one-year entrusted loan agreement with a subsidiary of Ctrip.com International, Ltd., or Ctrip, and the China Construction Bank Corporation, pursuant to which we can borrow up to RMB300.0 million for a period from January 6, 2014 to January 5, 2015. The interest rate of this loan is 5.4%. According to a guarantee letter between Ctrip and us, if the loan is in default, we shall settle the unpaid principal and interest with a number of our ordinary shares at market price. As of December 31, 2014, we had drawn down RMB300.0 million and repaid RMB300.0 million, and thus had nil balance under such entrusted loan agreement.

In July 2015, we entered into a one-year bank loan agreement with Industrial and Commercial Bank of China, under which we can borrow up to US\$30.0 million for the period ended May 30, 2016, and we had a RMB220.0 million deposit pledged accordingly. The interest rate is based on the three-month London Interbank Offered Rate ( Libor ) on draw-down date plus 1.2%. In 2015, we had drawn down US\$30.0 million under this agreement and repaid US\$30.0 million. The weighted average interest rate of borrowings drawn under this agreement was 1.49% for the year ended December 31, 2015.

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In July 2015, we entered into a one-year bank loan agreement with Industrial and Commercial Bank of China, under which we can borrow up to US\$50.0 million for the period ended June 30, 2016, and we had a RMB360.0 million deposit pledged accordingly. The interest rate is based on the three-month Libor on draw-down date plus 1.2%. In 2015, we had drawn down US\$50.0 million under this agreement. As of December 2016, we had repaid US\$50.0 million under this agreement. The weighted average interest rate of borrowings drawn under this agreement was 1.50% and 1.81% for the year ended December 31, 2015 and 2016.

In January 2016, we entered into a one-year bank revolving loan agreement with The Hongkong and Shanghai Banking Corporation under which we can borrow up to US\$43.0 million for the period ended January 1, 2017. The interest rate was based on the one-, two- or three-month Libor on draw-down date plus no less than 2%. As of December 31, 2016, we had drawn down US\$43.0 million under this agreement and repaid nil. The weighted average interest rate of borrowings drawn under this agreement was 2.70% for the year ended December 31, 2016.

In May 2016, we entered into a one-year revolving corporation overdraft facility agreement with Industrial and Commercial Bank of China, under which we can borrow up to RMB50.0 million, of which each draw-down should last no longer than three month, by May 16, 2017. The interest rate for each draw-down is established on the draw-down date and is based on the People's Bank of China's one-year benchmark interest rate for loans on the draw-down date. As of December 31, 2016, we had drawn down nil and repaid nil under this agreement.

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In September 2016, we entered into a one-year revolving general credit facility with China CITIC Bank under which we can borrow up to RMB200.0 million by September 30, 2017. The interest rate for each draw-down will be established in each draw-down agreement. As of December 31, 2016, we had drawn down nil and repaid nil under this agreement.

**5.B. Liquidity and Capital Resources**

Our principal sources of liquidity have been cash generated from operating activities and borrowings from commercial banks. Our cash and cash equivalents consist of cash on hand and liquid investments which have maturities of three months or less when acquired and are unrestricted as to withdrawal or use. As of December 31, 2016, we had entered into binding contracts with lessors of 15 properties for our leased and owned hotels under development. As of December 31, 2016, we expected to incur approximately RMB650.4 million of capital expenditures in connection with certain recently completed leasehold improvements and to fund the leasehold improvements of these 15 leased and owned hotels. We intend to fund this planned expansion with our operating cash flow, our cash balance and our credit facilities.

We have been able to meet our working capital needs, and we believe that we will be able to meet our working capital needs for at least the next 12 months with our operating cash flow, existing cash balance and our credit facilities (including the undrawn bank facilities currently available to us and bank facilities we plan to obtain in 2017).

The following table sets forth a summary of our cash flows for the periods indicated:

	2014 (RMB)	Year Ended December 31,		2016 (US\$)
		2015 (RMB)	(RMB)	
	(In thousands)			
Net cash provided by operating activities	1,454,015	1,749,673	2,047,656	294,924
Net cash provided by (used in) investing activities	(1,063,186)	(1,550,357)	183,762	26,466
Net cash provided by (used in) financing activities	21,683	232,281	(247,549)	(35,654)
Effect of exchange rate changes on cash and cash equivalents	(1,082)	(2,624)	13,300	1,916
Net increase (decrease) in cash and cash equivalents	411,430	428,973	1,997,169	287,652
Cash and cash equivalents at the beginning of the year	397,435	808,865	1,237,838	178,286
Cash and cash equivalents at the end of the year	808,865	1,237,838	3,235,007	465,938

***Operating Activities***

In 2014, 2015 and 2016, we financed our operating activities primarily through cash generated from operations.

Net cash provided by operating activities amounted to RMB2,047.7 million (US\$294.9 million) in 2016, primarily attributable to (i) our net income of RMB796.5 million (US\$114.7 million) in 2016, (ii) an add-back of RMB694.9 million (US\$100.1 million) in depreciation and amortization, (iii) an increase of RMB202.4 million (US\$29.1 million) in accrued expenses and other current liabilities, (iv) an add-back of RMB153.7 million (US\$22.1 million) of impairment loss, (v) an add-back of RMB103.3 million (US\$14.9 million) in deferred rent because rental accrued on a straight-line basis exceeded rental paid out of our contractual liabilities.

Net cash provided by operating activities amounted to RMB1,749.7 million in 2015, primarily attributable to (i) our net income of RMB439.4 million in 2015, (ii) an add-back of RMB661.4 million in depreciation and amortization in 2015, (iii) our deferred revenue of RMB216.8 million primarily attributable to one-time membership fees in connection with our HUAZHU Rewards loyalty program as well as advances received from customers and franchisees, (iv) an add-back of RMB130.3 million in deferred rent because rental accrued on a straight-line basis exceeded rental paid out of our contractual liabilities and (v) an increase of RMB121.5 million in accrued expenses and other current liabilities, partially offset by an increase of RMB44.4 million in prepaid rent.

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Net cash provided by operating activities amounted to RMB1,454.0 million in 2014, primarily attributable to (i) our net income of RMB302.4 million in 2014, (ii) an add-back of RMB570.7 million in depreciation and amortization in 2014, (iii) an add-back of RMB182.6 million in deferred rent because rental accrued on a straight-line basis exceeded rental paid out of our contractual liabilities, and (iv) an increase of RMB253.6 in deferred revenue primarily attributable to one-time membership fees in connection with our HUAZHU Rewards loyalty program as well as advances received from customers and franchisees, partially offset by an increase of other current assets of RMB42.4 million and an increase of RMB21.6 million in prepaid rent.

Net cash provided by operating activities increased from RMB1,749.7 million in 2015 to RMB2,047.7 million (US\$294.9 million) in 2016, primarily due to (i) an increase in our net income from RMB439.4 million in 2015 to RMB796.5 million (US\$114.7 million) in 2016, (ii) an increase in accrued expenses and other current liabilities from RMB121.5 million in 2015 to RMB202.4 million (US\$29.1 million) in 2016 and (iii) an increase in the add-back of our impairment loss from RMB95.6 million in 2015 to RMB153.7 million (US\$22.1 million) in 2016.

Net cash provided by operating activities increased from RMB1,454.0 million in 2014 to RMB1,749.7 million in 2015, primarily due to (i) an increase in the add back of our depreciation and amortization from RMB570.7 million in 2014 to RMB661.4 million in 2015, (ii) an increase in our net income from RMB302.4 million in 2014 to RMB439.4 million in 2015 and (iii) an increase in accrued expenses and other current liabilities from RMB59.0 million in 2014 to RMB121.5 million in 2015.

***Investing Activities***

Our cash used in investing activities in 2016 is primarily related to our leasehold improvements, purchase of equipment, fixtures and software used in leased and owned hotels, investment in CREATER, China Young and other companies, and purchase of the shares of Banyan Tree and Tang Palace from the open market.

Net cash provided by investing activities was RMB183.8 million (US\$26.5 million) in 2016, compared to net cash used in investing activities of RMB1,550.4 million in 2015, primarily due to (i) a change in our restricted cash from an increase of RMB360.5 million in 2015 to a decrease of RMB360.0 million (US\$51.9 million) in 2016, (ii) an increase in our proceeds from maturity/sale of short-term investments from nil in 2015 to RMB526.4 million (US\$75.8 million) in 2016, and (iii) a decrease in our purchases of short-term investments from RMB434.8 million in 2015 to nil in 2016, partially offset by an increase in our purchases of long-term investments from RMB105.7 million in 2015 to RMB293.1 million (US\$42.2 million) in 2016.

Net cash used in investing activities increased from RMB1,063.2 million in 2014 to RMB1,550.4 million in 2015, primarily due to (i) an increase in our purchase of short-term investments from RMB75.2 million in 2014 to RMB434.8 million in 2015, and (ii) an increase in our restricted cash from a decrease of RMB3.3 million in 2014 to an increase of RMB360.5 million in 2015, partially offset by a decrease in purchases of property and equipment from RMB930.9 million in 2014 to RMB640.2 in 2015.

***Financing Activities***

Our major financing activities since 2012 consist of loans with commercial banks, entrusted loans from related parties, repurchase of shares and payment of dividends. Net cash used in financing activities was RMB247.5 million (US\$35.7 million) in 2016, compared to net cash provided by financing activities of RMB232.3 million in 2015. Net cash used in financing activities in 2016 primarily consisted of (i) repayment of RMB332.6 million (US\$47.9 million) from short-term debt, and (ii) dividend paid of RMB276.3 million (US\$39.8 million), partially offset by (i) proceeds of RMB281.7 million (US\$40.6 million) from short-term debt, (ii) contribution from noncontrolling interest holders in the amount of RMB45.6 million (US\$6.6 million), (iii) net proceeds of RMB12.2 million (US\$1.8 million) from issuance of ordinary shares upon exercise of options, and (iv) funds advanced from noncontrolling interest holders in the amount of RMB11.5 million (US\$1.7 million).

Net cash provided by financing activities in 2015 primarily consisted of (i) proceeds of RMB589.4 million from short-term debt, (ii) proceeds of RMB22.6 million from issuance of ordinary shares upon exercise of options, (iii) excess tax benefit from share-based compensation in the amount of RMB12.8 million, partially offset by (i) repayment of RMB283.5 million from short-term debt, (ii) payment for share repurchase of RMB107.3 million, (iii) dividend paid to noncontrolling interest holders in the amount of RMB4.6 million, and (iv) acquisition of noncontrolling interest in the amount of RMB4.1 million.



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*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 December 31, 2016, approximately RMB2,687.9 million (US\$387.1 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, there are no detailed rules or precedents governing the procedures and specific criteria for determining de facto management body. See Item 10. Additional Information E. Taxation PRC 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 different withholding arrangement. Holding companies in Hong Kong, for example, are subject to a 5% withholding tax rate. The Cayman Islands, where we are incorporated, does not have such a tax treaty with China. Thus, dividends paid to us by our subsidiaries in China may be subject to the 10% withholding tax if we are considered a non-resident enterprise under the EIT Law.

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 dividends distributed from our PRC subsidiaries to us would be exempt from the PRC dividend withholding tax, since such income is exempted under the EIT Law to a PRC resident recipient.

We do not expect any of such restrictions or taxes to have a material impact on our ability to meet our cash obligations.

*Capital Expenditures*

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 RMB928.8 million, RMB655.4 million and RMB494.8 million (US\$71.3 million) in 2014, 2015 and 2016, respectively. Our capital expenditures in 2016 consist of RMB487.7 million (US\$70.3 million) in property and equipment and RMB7.1 million (US\$1.0 million) in software. We will continue to make capital expenditures to meet the expected growth of our operations and expect our cash balance, cash generated from our operating activities and credit facilities will meet our capital expenditure needs in the foreseeable future.

Table of Contents**5.C. Research and Development, Patents and Licenses, etc.**

See Item 4. Information on the Company B. Business Overview Hotel Information Platform and Operational Systems and Intellectual Property .

**5.D. Trend Information**

Two of our wholly-owned subsidiaries, Han ting Technology (Suzhou) Co., Ltd. ( Han ting Suzhou ) and Mengguang Information and Technology (Shanghai) Co., Ltd ( Mengguang Shanghai ), as recognized software development entities located in Suzhou and Shanghai of PRC, are 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. Han ting Suzhou has entered into the first tax profitable year for the year ended December 31, 2011. Therefore, the five-year period for favorable tax treatment is from January 1, 2011 to December 31, 2015. Starting from 2016, Han ting Suzhou has been subject to statutory income tax rate of 15% as it is qualified as a high and new tech enterprise through September 2017. Mengguang Shanghai has entered into the first tax profitable year for the year ended December 31, 2014. Therefore, the five-year period for favorable tax treatment is from January 1, 2014 to December 31, 2018. The aggregate amount and per share effect of tax holidays were as follows:

	2014 (RMB)	Year Ended December 31, 2015 (RMB) (In thousands, except per share data)	2016 (RMB)
Aggregate amount	9,131	41,288	27,224
Per share effect - basic	0.04	0.16	0.10
Per share effect - diluted	0.04	0.16	0.10

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the current fiscal year that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

**5.E. Off-Balance Sheet Arrangements**

Other than operating lease and purchase obligations set forth in the table under Item 5. Operating and Financial Review and Prospects F. Tabular Disclosure of 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 research and development services with us.

**5.F. Tabular Disclosure of Contractual Obligations**

The following table sets forth our contractual obligations as of December 31, 2016:

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	Total	Payment Due in the Year Ending December 31,				2021	Payment Due Thereafter
		2017	2018	2019	2020		
(In RMB millions)							
Operating Lease Obligations	19,054	1,957	1,939	1,907	1,840	1,722	9,689
Purchase Obligations	43	43					
Total	19,097	2,000	1,939	1,907	1,840	1,722	9,689

Our operating lease obligations related to our obligations under lease agreements with lessors of our leased hotels. Our purchase obligations primarily consisted of contractual commitments in connection with leasehold improvements and installation of equipment for our leased hotels.

As of December 31, 2016, we recorded uncertain tax benefits of approximately RMB19.8 million (US\$2.8 million) associated with the interests on intercompany loans.

**5.G. Safe Harbor**

This annual report on Form 20-F contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to us. These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- 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; and
- trends and competition in the lodging industry.

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In some cases, you can identify forward-looking statements by terms such as may, could, will, should, would, expect, plan, intend, believe, estimate, predict, potential, future, is/are likely to, project or continue or the negative of these terms or other comparable terms. These statements are only predictions. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which are, in some cases, beyond our control and which could materially affect results. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under Item 3. Key Information D. Risk Factors and elsewhere in this annual report. If one or more of these risks or uncertainties occur, or if our underlying assumptions prove to be incorrect, actual events or results may vary significantly from those implied or projected by the forward-looking statements. No forward-looking statement is a guarantee of future performance.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events.

### **ITEM 6.            *DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES***

#### **6.A. Directors and Senior Management**

The following table sets forth the name, age and position of each of our directors and executive officers as of the date of this annual report. The business address of all of our directors and executive officers is No. 2266 Hongqiao Road, Changning District, Shanghai 200336, People's Republic of China.

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Directors and Executive Officers	Age	Position/Title
Qi Ji	50	Founder, Executive Chairman of the Board of Directors
John Jiong Wu	49	Co-founder, Independent Director
Tong Tong Zhao	50	Co-founder, Independent Director
Min Fan	51	Director
Shangzhi Zhang	63	Director
Jian Shang	49	Independent Director
Sébastien Bazin	55	Director
Gaurav Bhushan	45	Alternate Director to Sébastien Bazin
Min (Jenny) Zhang	43	Chief Executive Officer
Teo Nee Chuan	46	Chief Financial Officer
Hui Jin	39	President

*Qi Ji* is our founder and has also served as the executive chairman of our board since February 2007. 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., or Home Inns, and served as its chief executive officer from January 2001 to January 2005. He also co-founded Ctrip, one of the largest online travel services providers in China, in 1999, acted as its chief executive officer and president until December 2001, and currently serves on Ctrip's board as an independent director. Prior to founding Ctrip, Mr. Ji was the chief executive officer of Shanghai Sunflower High-Tech Group, which he founded in 1997. He headed the East China Division of Beijing Zhonghua Yinghua Intelligence System Co., Ltd. from 1995 to 1997. Mr. Ji received both his Master's and Bachelor's degrees from Shanghai Jiao Tong University.

*John Jiong Wu*, a co-founder of our company, has served as our director since January 2007. He is the founder and Managing Partner of F&H Fund Management Pte. Ltd. He served as the Venture Partner of Northern Light Venture Capital from 2008 to 2010 and was an angel investor and the Chief Technology Officer of Alibaba Group from 2000 to 2007. Prior to joining Alibaba Group, he worked as an engineer or manager in several companies in the Silicon Valley, including Oracle and Yahoo! Inc. Mr. Wu received his Bachelor of Science in Computer Science degree from the University of Michigan.

*Tong Tong Zhao*, a co-founder of our company, has served as our director since February 2007. She also serves as a member of the board of directors of China Education & Technology Group Limited. She was the General Manager of Shanghai Asia-Tang Health Technology Development Co., Ltd. from 2004 to 2006, the General Manager of Shanghai Hong Ying Hi-Tech Co., Ltd. from 1999 to 2001, and the Deputy General Manager of Shanghai Xie Cheng Science and Technology Co., Ltd. from 1997 to 1998. Ms. Zhao received her Master of Science degree from Shanghai Jiao Tong University and obtained her Master of Business Administration degree from McGill University.

*Min Fan* has served as our director since March 2010. He is one of the co-founders of Ctrip and has served as the vice chairman of its board of directors since March 2013, as a member of its board of director since October 2006 and as its president since February 2009. Previously, Mr. Fan served as Ctrip's chief executive officer from January 2006 to February 2013, as its chief operating officer from November 2004 to January 2006 and as its executive vice president from 2000 to November 2004. From 1997 to 2000, Mr. Fan was the chief executive officer of Shanghai Travel

Service Company, a leading domestic travel agency in China. From 1990 to 1997, he served as the deputy general manager and in a number of other senior positions at Shanghai New Asia Hotel Management Company, which was one of the leading hotel management companies in China. In addition to his positions at Ctrip, Mr. Fan is currently the chairman of SkySea Cruise Lines. He also serves on the board of directors of Leju Holdings Limited (NYSE: LEJU). Mr. Fan received his Master's and Bachelor's degrees from Shanghai Jiao Tong University. He also studied at the Lausanne Hotel Management School of Switzerland in 1995.

*Shangzhi Zhang* has served as our director since June 2016. He has more than 30 years of experience in hotel industry and foreign trade. Mr. Zhang has been President of Tianjin Amis Hotel Management Company since 2009. He acted as General Delegate of Accor Hotel Group in China and President of Ibis in China from 1999 to 2008. He served as Deputy General Manager at China Export Commodity Base Development Corporation from 1993 to 1998. Prior to that, Mr. Zhang held senior positions at Ministry of Foreign Trade and Economic Cooperation. He was Third Secretary of Commercial Bureau of Chinese Embassy in Zaire from 1981 to 1985. Mr. Zhang graduated from Beijing Institute of Foreign Trade. He studied at General Department of Interpretation of European Communities in Brussels and French National School of Administration. In 2014, Mr. Zhang received medal award of Chevalier de Legion d'honneur from French government.



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*Jian Shang* has served as our independent director since May 2014. He has over 15 years of experience in corporate management and financial innovation. He served as Managing Director of UBS Global Asset Management and as chief executive officer of UBS SDIC Fund Management Company from 2006 to 2012. Prior to that, he served as chief executive officer of Yin Hua Fund Management Company, deputy chief executive officer of Hua An Fund Management Company, and head of strategic planning of Shanghai Stock Exchange respectively from 2001 to 2006. Previously, he was a deputy Division Director of China Securities Regulatory Commission from 1997 to 2000. Mr. Shang obtained his PhD in Finance and MA in Economics from University of Connecticut, and his Bachelor's degree in engineering from Shanghai Jiao Tong University.

*Sébastien Bazin* has served as our director since January 2016. He is acting as the Chairman and Chief Executive Officer of Accor S.A. since 2013, where he has served as a director since January 9, 2006. Prior to that, he served as a member of the Supervisory Board of Accor S.A. since May 3, 2005. He is also the Vice-Chairman of the Supervisory Board of Gustave Roussy Foundation. Previously, Mr. Bazin was with Colony Capital, a private-equity firm, from 1997 to 2012, during which time he managed and participated in a large number of investments in the hospitality industry. Mr. Bazin has earned his Masters in Business Management from Paris-Sorbonne University in 1985.

*Gaurav Bhushan* has been an alternate director to Sébastien Bazin since March 2016. He is the Global Chief Development Officer of AccorHotels, responsible for overseeing the group's hotel development strategy worldwide. Mr. Bhushan began his career with Accor in 1995 in Australia, where he held various posts in operations and finance. From 2006 he headed the Asia Pacific development teams. He was promoted to Global Chief Development Officer role in July 2015. He has a Master of Business Administration degree from the Royal Melbourne Institute of Technology (RMIT University) and a Postgraduate Diploma in Applied Finance & Investments from the Securities Institute of Australia.

*Min (Jenny) Zhang* has served as our chief executive officer since May 2015. She also served as our president from January 2015 to May 2015, our chief financial officer from March 2008 to May 2015 and our chief strategic officer from November 2013 to January 2015. Prior to joining us, she served as the Finance Director of Eli Lilly (Asia) Inc., Thailand Branch and the Chief Financial Officer of ASIMCO Casting (Beijing) Company, Ltd. She also worked previously with McKinsey & Company, Inc. as a consultant. Ms. Zhang has served on the board as a director for Synutra International, Inc. since February 2011. She obtained her Master of Business Administration degree from Harvard Business School and received both Master's and Bachelor's degrees from the University of International Business and Economics.

*Teo Nee Chuan* joined us in November 2015 as Deputy Chief Financial Officer and has served as our Chief Financial Officer since March 2016. He has more than 20 years of experience in financial areas in multinational corporations. Prior to joining us, he was Chief Financial Officer of Rnomac International Group, the largest Volvo construction equipment distributor in China. He also served as Chief Financial Officer and Director of Operation in DDB Greater China Group and Financial Controller in Focus Media Group. Prior to that, Mr. Teo worked at Ernst & Young as Associate Director of Transaction Advisory Services in Kuala Lumpur, Toronto and Shanghai. Mr. Teo received his

Bachelor of Science in Accounting and Financial Analysis from Warwick University, the United Kingdom. He is a Chartered Certified Accountant in the United Kingdom and a Certified Public Accountant in the United States and Hong Kong.

*Hui Jin* joined us in 2005 and has served as director of our Development Department, Vice President and Executive Vice President of our Group, respectively. Mr. Jin is currently our President mainly responsible for overseeing the work of hotel development and property related investment. Prior to joining us, Mr. Jin worked with Home Inns & Hotels Management Inc. Mr. Jin received his Executive Master's degree from China Europe International Business School and a Bachelor of Science degree in Psychology from the East China Normal University.

#### **Employment Agreements**

We have entered into an employment agreement with each of our named 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. A named executive officer may terminate his or her employment at any time with a one-month prior written notice.

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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. In addition, each named executive officer has agreed to be bound by non-competition restrictions. Specifically, each named executive officer has agreed not to, during his or her employment with us and for a period of two years following his or her termination with our company, be engaged as employee or in another capacity to participant directly or indirectly in any business that is in competition with ours. 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.

**6.B. Compensation**

For the fiscal year ended December 31, 2016, the aggregate cash compensation and benefits that we paid to our directors and executive officers were approximately RMB6.5 million (US\$0.9 million). No pension, retirement or similar benefits have been set aside or accrued for our executive officers or directors. We have no service contracts with any of our directors providing for benefits upon termination of employment.

**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 ordinary shares may be issued under our amended and restated 2007 Global Share Plan, or the Amended and Restated 2007 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 ordinary shares may be issued under our amended and restated 2008 Global Share Plan, or the Amended and Restated 2008 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 and March 2015. 43 million ordinary shares may be issued under our amended 2009 Share Incentive Plan, or the Amended 2009 Plan.

*Plan Administration.* The compensation committee appointed by our board administers all of our share incentive plans. Mr. Qi Ji has been delegated the authority to grant, in his sole discretion, option and restricted stock to be issued under our share incentive plans to any of our employees and consultants except for our directors and executive officers. The aggregate number of shares covered by any single grant he makes shall not exceed 500,000 ordinary shares.

*Types of Awards.* The following briefly describes the principal features of the various awards that may be granted under our Amended and Restated 2007 and 2008 Plans.

- *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 and 2008 Plans 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 and 2008 Plans must be evidenced by a restricted stock purchase agreement between the purchaser and us. 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.

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The following briefly describes the principal features of the various awards that may be granted under our Amended 2009 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 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 ordinary 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 ordinary 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 Amended 2009 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 ordinary 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 ordinary shares to be purchased upon the exercise of such awards shall not be less than the fair market value of the underlying ordinary shares on the grant date.

*Vesting Schedule.* As of the date of this annual report, we have entered into option agreements and restricted stock award agreements respectively under our Amended and Restated 2007 and 2008 Plans and our Amended 2009 Plan. 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, we may also apply different vesting schedules set forth in the relevant agreements between the grantees and us. For example, certain restricted stocks granted shall vest over a period of ten years in equal yearly installments.

*Termination of the Amended and Restated 2007 and 2008 Plans and the Amended 2009 Plan.* Our Amended and Restated 2007 and 2008 Plans and our Amended 2009 Plan will terminate in 2017, 2018 and 2019, respectively. Our board of directors may amend, suspend, or terminate our Amended and Restated 2007 and 2008 Plans and our Amended 2009 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.

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The following tables summarize options and restricted stocks that we have granted to our directors and executive officers and to other individuals as a group under our share incentive plans as of December 31, 2016.

Name	Ordinary Shares	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
	Underlying Options Awarded			
Qi Ji	400,000	1.53	October 1, 2009	October 1, 2019
	436,348	2.7525	July 17, 2012	July 17, 2018
Tong Tong Zhao	100,000	1.53	October 1, 2009	October 1, 2019
John Jiong Wu	100,000	1.53	October 1, 2009	October 1, 2019
Min (Jenny) Zhang	1,470,000	1.40	October 1, 2007	October 1, 2017
	300,000	1.53	November 20, 2009	November 20, 2019
Yunhang Xie**	207,784	2.7525	July 17, 2012	July 17, 2018
	*	2.7525	July 17, 2012	July 17, 2018
Hui Jin	*	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
Other individuals as a group			February 4, 2007	February 4, 2017
	15,556,433	0.50-5.415	April 1, 2015	April 1, 2021

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Name	Ordinary Shares Underlying Restricted Stocks Awarded	Date of Grant
Qi Ji	200,000	August 6, 2011
	897,880	July 17, 2012
	1,697,187	March 17, 2015
	1,098,224	March 26, 2015
Shangzhi Zhang	*	January 18, 2012
	*	January 10, 2013
	*	December 10, 2014
Min (Jenny) Zhang	313,944	July 17, 2012
	73,188	March 16, 2015
	1,697,187	March 17, 2015
	1,098,224	March 26, 2015
Yunhang Xie**	*	July 17, 2012
Joseph Chow***	*	August 8, 2013
Hui Jin	*	March 31, 2011
	*	July 2, 2012
	*	July 1, 2013
	*	July 17, 2014
	*	March 26, 2015
Jian Shang	*	May 5, 2014
Qionger Jiang****	*	October 30, 2014
Teo Nee Chuan	*	January 15, 2016
Other individuals as a group	9,872,551	February 7, 2011 August 4, 2016

\* Upon exercise of all options granted and vesting restricted stock granted, would beneficially own less than 1% of our outstanding ordinary shares.

\*\* Resigned as Chief Strategy Officer in April 2015.

\*\*\* Resigned as director in March 2016.

\*\*\*\* Resigned as director in June 2016.

**6.C. Board Practices****General**

Our board of directors currently consists of seven directors and one alternative director. Under our amended and restated memorandum and articles of association, which came into effect upon our initial public offering, our board of directors shall consist of at least two directors. Our directors shall be elected by the holders of ordinary shares. There is no shareholding requirement for qualification to serve as a member of our board of directors.

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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.



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We believe that each of Ms. Tong Tong Zhao, Mr. John Jiong Wu and Mr. Jian Shang is an independent director as that term is used in NASDAQ corporate governance rules.

**Duties of Directors**

Under Cayman Islands law, our directors have a duty of loyalty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association.

**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.

**Board Committees**

We have established two committees under the board of directors – the audit committee and the compensation committee. We have adopted a charter for each of the board committees. Each committee’s members and functions are described below. We currently do not plan to establish a nominations committee. As a foreign private issuer, we are permitted to follow home country corporate governance practices under Rule 5615(a)(3) of the NASDAQ Marketplace Rules. This home country practice of ours differs from Rule 5605(e) of the NASDAQ Marketplace Rules regarding implementation of a nominations committee, because there are no specific requirements under Cayman Islands law on the establishment of a nominations committee.

*Audit Committee*

Our audit committee consists of two directors, namely Mr. John Jiong Wu and Mr. Jian Shang. Both directors satisfy the independence requirements of the NASDAQ Global Select Market and the SEC regulations. In addition, our board of directors has determined that Mr. Jian Shang is qualified as an audit committee financial expert within the meaning of the SEC regulations. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The 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;

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- 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 consists of Mr. John Jiong Wu and Mr. Jian Shang. Both directors satisfy the independence requirements of NASDAQ Marketplace Rules and the SEC regulations. Our compensation committee assists the board in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. The 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.

#### **6.D. Employees**

We had 15,551, 10,282 and 10,507 employees as of December 31, 2014, 2015 and 2016, respectively. We recruit and directly train and manage all of our employees. We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes. Our employees have not entered into any collective bargaining agreements.

#### **6.E. Share Ownership**

The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 under the Exchange Act, of our ordinary shares, as of March 31, 2017 by:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5% of our ordinary shares.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting or investment power with respect to the ordinary 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 ordinary shares shown as beneficially owned by them.



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	Ordinary Shares Beneficially Owned(1)	
	Number	%
Directors and Executive Officers:		
Qi Ji	104,347,360(2)	37.4
Tong Tong Zhao	26,576,852(3)	9.5
John Jiong Wu	9,733,333	3.5
Min Fan	22,049,446(4)	7.9
Shangzhi Zhang	*	*
Jian Shang	*	*
Sébastien Bazin		
Gaurav Bhushan		
Min (Jenny) Zhang	*	*
Hui Jin	*	*
Teo Nee Chuan	*	*
All Directors and Executive Officers as a Group	137,024,779(5)	49.1
Principal Shareholders:		
Winner Crown Holdings Limited	73,144,905(6)	26.2
East Leader International Limited	26,476,852(7)	9.5
Accor	29,875,543(8)	10.7
Ctrip.com International, Ltd.	22,049,446(9)	7.9
Schroder Investment Management	18,632,984(10)	6.7
Oppenheimer Funds	23,990,664(11)	8.6

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\* Less than 1%.

(1) The number of ordinary shares outstanding in calculating the percentages for each listed person or group includes the ordinary shares underlying options held by such person or group exercisable within 60 days after March 31, 2017. Percentage of beneficial ownership of each listed person or group is based on (i) 278,902,014 ordinary shares outstanding as of March 31, 2017, and (ii) the ordinary shares underlying share options exercisable by such person within 60 days after March 31, 2017.

(2) Includes (i) 73,144,905 ordinary shares held by Winner Crown Holdings Limited, or Winner Crown, a British Virgin Islands company wholly owned by Sherman Holdings Limited, a Bahamas company, which is in turn wholly owned by Credit Suisse Trust Limited, or CS Trustee. CS Trustee acts as trustee of the Ji Family Trust, of which Mr. Qi Ji and his family members are the beneficiaries, (ii) 836,348 ordinary shares issuable upon exercise of options held by Mr. Qi Ji that are exercisable within 60 days after March 31, 2017, (iii) 3,889,255 shares of restricted stock held by Mr. Ji, and (iv) 4,000,000 Restricted ADSs representing 16,000,000 ordinary shares, 550 ADSs representing 2,200 ordinary shares and 10,474,652 ordinary shares held by East Leader, over which Mr. Ji has voting power pursuant to a power of attorney dated November 27, 2014. East Leader is wholly owned by Perfect Will Holdings Limited, or Perfect Will, a British Virgin Islands company, which is in turn wholly owned by Asia Square Holdings Ltd., or Asia Square, as nominee for J. Safra Sarasin Trust Company (Singapore) Ltd., or Sarasin Trust. Sarasin Trust acts as trustee of the Tanya Trust, of which Ms. Tong Tong Zhao and her family members are the beneficiaries.

(3) Includes (i) 100,000 ordinary shares issuable upon exercise of options held by Ms. Tong Tong Zhao that are exercisable within 60 days after March 31, 2017, and (ii) 4,000,000 Restricted ADSs representing 16,000,000 ordinary shares, 550 ADSs representing 2,200 ordinary shares and 10,474,652 ordinary shares held by East Leader, a British Virgin Islands 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. Tong Tong Zhao and her family members are the beneficiaries. Ms. Zhao is the sole director of East Leader.

(4) Includes (i) 7,202,482 ordinary shares that Ctrip purchased from us, (ii) an aggregate of 11,646,964 of our ordinary shares that Ctrip purchased from the Chengwei Funds, CDH Courtyard Limited, the IDG Funds, the Northern Light Funds and Pinpoint Capital 2006 A Limited, and (iii) 800,000 ADSs representing 3,200,000 ordinary shares that Ctrip subscribed in our initial public offering. By virtue of being the vice chairman of the board of directors and president of Ctrip, Mr. Fan may be deemed to beneficially own an aggregate of 22,049,446 ordinary shares. Mr. Fan disclaims beneficial ownership of the shares beneficially owned by Ctrip except to the extent of his pecuniary interests therein. Mr. Fan's business address is 99 Fu Quan Road, Shanghai 200335, People's Republic of China.

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- (5) Includes ordinary shares and ordinary shares issuable upon exercise of all of the options that are exercisable within 60 days after March 31, 2017 held by all of our directors and executive officers as a group.
- (6) Winner Crown is a British Virgin Islands company wholly owned by Sherman Holdings Limited, a Bahamas company, which is in turn wholly owned by Credit Suisse Trust Limited, or CS Trustee. CS Trustee acts as trustee of the Ji Family Trust, of which Mr. Qi Ji, 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 Akara Bldg., 24 De Castro Street, Wickhams Cay I, Road Town, Tortola, British Virgin Islands.
- (7) East Leader is a British Virgin Islands company wholly owned by Perfect Will Holdings Limited, a British Virgin Islands company, which is in turn wholly owned by Bank Sarasin Nominees (CI) Limited, as nominee for Sarasin Trust Company Guernsey Limited, or Sarasin Trust. Sarasin Trust acts as trustee of the Tanya Trust, of which Ms. Tong Tong Zhao and her family members, are the beneficiaries. Ms. Zhao is the sole director of East Leader. The address of East Leader is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (8) Includes (i) 24,895,543 ordinary shares issued to AAPC Hong Kong Limited, an indirect wholly owned subsidiary of Accor ( AAPC ), as reported in a Schedule 13D filed by Accor and AAPC on January 25, 2016, and (ii) 1,245,000 ADSs representing 4,980,000 ordinary 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 Immeuble Odyssey, 110, Avenue de France, 75210 Paris cedex 13. AAPC is a company incorporated in Hong Kong and its registered office is Room 803, 8th Floor, AXA Centre, 151, Gloucester Road, Wan Chai, Hong Kong.
- (9) Includes (i) 7,202,482 ordinary shares that Ctrip purchased from us, (ii) an aggregate of 11,646,964 of our ordinary shares that Ctrip purchased from the Chengwei Funds, CDH Courtyard Limited, the IDG Funds, the Northern Light Funds and Pinpoint Capital 2006 A Limited, and (iii) 800,000 ADSs representing 3,200,000 ordinary shares that Ctrip subscribed in our initial public offering. Ctrip is a Cayman Islands company and its address is 99 Fu Quan Road, Shanghai 200335, People's Republic of China.
- (10) Based on Amendment No. 2 to Schedule 13G filed with the SEC on February 10, 2017 by Schroder Investment Management North America Inc, Schroder Investment Management Ltd., Schroder Investment Management North America Ltd., Schroder Investment Management Hong Kong Ltd., and Schroder Investment Management Singapore, Ltd (collectively, Schroder Investment Management ).
- (11) Based on Schedule 13G filed with the SEC on January 31, 2017 by OppenheimerFunds, Inc. and Oppenheimer Developing Markets Fund (collectively, the Oppenheimer Funds ).



As of March 31, 2017, we had 278,902,014 ordinary shares issued and outstanding. To our knowledge, we had three record shareholders in the United States, including Citibank, N.A., which is the depository of our ADS program and held approximately 46.4% of our total outstanding ordinary shares under our ADS program and the depository of our restricted ADS program and held approximately 5.7% of our total outstanding ordinary shares under our restricted ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

None of our existing shareholders has different voting rights from other shareholders since the closing of our initial public offering. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

**ITEM 7.**

***MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS***

**7.A. Major Shareholders**

Please refer to Item 6. Directors, Senior Management and Employees E. Share Ownership.

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**7.B. Related Party Transactions**

**Transactions with Ctrip**

We conduct transactions in the ordinary course of our business with Ctrip.com International, Ltd., or Ctrip, an entity in which Mr. Qi Ji, our founder, is a co-founder and independent director. Ctrip rendered reservation services to us to facilitate our customers in making reservations at our hotels from Ctrip's hotel booking system. In 2014, 2015 and 2016, the aggregate commission fees of our leased and owned hotels paid to Ctrip.com for its reservation services amounted to RMB19.2 million, RMB17.7 million and RMB44.1 million (US\$6.4 million), respectively.

In a private placement before our initial public offering in 2010, Ctrip purchased 7,202,482 ordinary shares from us and an aggregate of 11,646,964 of our ordinary 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 Ctrip were made pursuant to transactions exempt from registration under the Securities Act. In connection with these transactions, Ctrip was granted registration rights substantially similar to those granted to certain holders of our registrable securities under our amended and restated shareholders agreement. In addition, we have granted Ctrip the right to nominate one person to serve on our board as long as Ctrip and its affiliates continuously maintain (i) at least 5% of our total outstanding ordinary shares in the three years following the closing of our initial public offering and (ii) at least 8% of our total outstanding ordinary shares thereafter. In addition, Ctrip subscribed a total of 800,000 ADSs in our initial public offering at the initial public offering price. The ADSs issued and sold to Ctrip are on the same terms as the other ADSs being offered in our initial public offering.

On April 15, 2012, we entered into a definitive agreement to acquire a 51% equity interest of Starway HK from C-Travel International Limited, or C-Travel, a wholly owned subsidiary of Ctrip. The base acquisition price was RMB17.3 million in cash, which was funded with cash on hand. The acquisition of the 51% equity interest in Starway HK became effective in May 2012. In addition, in December 2013, we acquired the remaining 49% equity interest of Starway HK from C-Travel. The acquisition price was RMB16.5 million, RMB4.2 million paid in cash in December 2013, RMB4.1 million paid in cash in 2014, RMB4.1 million paid in cash in 2015 and RMB4.1 million paid in cash in 2016.

In December 2013, we entered into a one-year entrusted loan agreement with a subsidiary of Ctrip, and the China Construction Bank Corporation, pursuant to which we can borrow up to RMB300.0 million for a period from January 6, 2014 to January 5, 2015. The interest rate of this loan is 5.4%. As of December 31, 2014, we had drawn down RMB300.0 million and repaid RMB300.0 million, and thus had nil balance under such entrusted loan agreement.

In 2016, we provided marketing and training services to Ctrip and recorded service fees amounted to RMB12.7 million (US\$1.8 million).

**Transaction with Yibang**

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In May 2013, we acquired 30% equity interest in Lijiang Yibang Changchunteng Hotel Co., Limited ( Yibang ) and consider Yibang as a joint venture. In April 2014, we acquired additional 20% equity interest in Yibang. In June 2016, we disposed all the 50% of its equity interest. We provided reservation, system maintenance and other support service to Yibang and charged service fee of RMB0.5 million, RMB0.6 million and RMB0.3 million (US\$0.04 million) for the year ended December 31, 2014, 2015 and the six months ended June 30, 2016, respectively.

### **Transaction with Sheen Star**

In November 2013, We entered into an investment agreement to acquire 50% equity interest in Suzhou Kangdu Property Co., Limited, or Kangdu, a real estate company, for RMB100 million. Concurrently we entered into a property transfer agreement with Kangdu to acquire the property developed by Kangdu for a purchase price of RMB175 million. We injected RMB50 million in November 2013 and RMB30 million in January 2014 to Kangdu for the equity interest in Kangdu. In April 2014, we set up Sheen Star Group Limited, or Sheen Star, together with Mr. Qi Ji and an independent third party. We own 19.99% of the equity interest in Sheen Star and Mr. Qi Ji owns 50.01%. We then transferred our investment in Kangdu to Sheen Star for a consideration of RMB82.8 million, together with all of our rights and obligations under the property purchase agreement in April 2014. We had not paid any consideration to Kangdu for the property before the transfer to Sheen Star. We provided shareholder loan of RMB35.0 million to Sheen Star in 2016 and recognized interest income in the amount of RMB2.1 million (US\$0.3 million) in 2016.

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**Transaction with Qianya**

In July 2015, we set up Shanghai Qianya Hotel Management Co., Ltd. ( Qianya ) together with a third party, we had 25% equity interest in Qianya and consider Qianya as a joint venture. Qianya provided hotel management and other related service to certain of our hotels and charged service fee of RMB0.4 million, RMB0.9 million (US\$0.1 million) in 2015 and 2016, respectively.

**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 nominate one director to our board of directors. We recorded brand use fee, reservation and other related service fee to Accor of RMB6.0 million (US\$0.9 million) in 2016. We also recognized service fee from Accor of RMB4.1 million (US\$0.6 million) in 2016.

**Transaction with Cjia**

Cjia is an equity investee in which we held an equity interest of 22.52% as of December 31, 2016. We sold goods and provided IT service to Cjia amounted to RMB0.4 million (US\$0.1 million) in 2016.

In 2016, we sold our subsidiary Chengjia to Cjia for consideration of RMB10.0 million.

**Employment Agreements**

See Item 6. Directors, Senior Management and Employees A. Directors and Senior Management Employment Agreements for a description of the employment agreements we have entered into with our senior executive officers.

**Share Incentives**

See Item 6. Directors, Senior Management and Employees B. Compensation of Directors and Executive Officers Share Incentive Plans for a description of share options we have granted to our directors, officers and other individuals as a group.

**7.C. Interests of Experts and Counsel**

Not applicable.

**ITEM 8. *FINANCIAL INFORMATION***

**8.A. Consolidated Statements and Other Financial Information**

8.A.1. See Item 18. Financial Statements for our audited consolidated financial statements.

8.A.2. See Item 18. Financial Statements for our audited consolidated financial statements, which cover the last three financial years.

8.A.3. See page F-2 for the report of our independent registered public accounting firm.

8.A.4. Not applicable.

8.A.5. Not applicable.

8.A.6. Not applicable.

8.A.7. See Item 4. Information on the Company B. Business Overview Legal and Administrative Proceedings.

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**8.A.8. Dividend Policy**

On December 21, 2015, we declared a special cash dividend of US\$0.17 per ordinary share, or US\$0.68 per ADS, each representing four ordinary shares. Our ADS holders are entitled to such dividends to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares are paid in U.S. dollars, and the total amount of cash distributed for the special dividend was US\$42.5 million, which was paid in full by March 31, 2016. We had never declared or paid dividends prior to December 21, 2015.

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 specific purposes of enterprise expansion, staff bonus and welfare, and are not distributable as cash dividends. Our board of directors has complete discretion in deciding whether to distribute dividends. In November 2016, Hanting (Tianjin) Investment Consulting Co., Ltd, one of our PRC subsidiaries, decided to pay a special dividend of RMB325.7 million to us. Other than these dividend distributions, we intend to indefinitely reinvest the remaining undistributed earnings of our PRC subsidiaries to operate and expand our business, and do not have any plan to declare or pay any dividends in the foreseeable future.

**8.B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

**ITEM 9. *THE OFFER AND LISTING***

**9.A. Offering and Listing Details**

Our ADSs have been listed on the NASDAQ Global Select Market under the symbol *HTHT* since March 26, 2010. The table below sets forth, for the periods indicated, the high and low market prices on the NASDAQ Global Select Market for our ADSs.

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		<b>High</b>		<b>Low</b>
2010 (from March 26, 2010)	US\$	27.50	US\$	13.49
2011		24.47		12.00
2012		17.55		10.51
2013		32.29		14.75
2014		31.25		19.99
2015		33.00		15.35
First quarter		26.50		15.35
Second quarter		30.98		19.45
Third quarter		27.95		20.50
Fourth quarter		33.00		24.19
2016		54.23		25.42
First quarter		38.49		25.42

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	High	Low
Second quarter	39.19	31.71
Third quarter	47.72	35.17
Fourth quarter	54.23	41.69
2017		
First quarter	64.32	47.72
January	55.00	47.72
February	59.20	53.12
March	64.32	52.02
April (through April 14, 2017)	62.88	57.89

**9.B. Plan of Distribution**

Not applicable.

**9.C. Markets**

The principal trading market for our shares is the NASDAQ Global Select Market, on which our shares are traded in the form of ADSs.

**9.D. Selling Shareholders**

Not applicable.

**9.E. Dilution**

Not applicable.

**9.F. Expenses of the Issue**

Not applicable.



**ITEM 10. ADDITIONAL INFORMATION**

**10.A. Share Capital**

Not applicable.

**10.B. Memorandum and Articles of Association**

We incorporate by reference into this annual report the description of our amended and restated memorandum and articles of association contained in our registration statement on Form F-1 (File No. 333-165247) originally filed with the Securities and Exchange Commission on March 5, 2010, as amended. Our shareholders adopted our amended and restated memorandum and articles of association by a special resolution on March 12, 2010 and further amended our amended and restated memorandum and articles of association by special resolutions on November 21, 2012 and December 16, 2015, respectively.

**10.C. Material Contracts**

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4, Information on the Company and in Item 7, Major Shareholders and Related Party Transactions or elsewhere in this annual report.

**10.D. Exchange Controls**

See Item 4. Information on the Company B. Business Overview Regulation Regulations on Foreign Currency Exchange.

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**10.E. Taxation**

The following summary of the material Cayman Islands, People's Republic of China and United States federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws.

**Cayman Islands Taxation**

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us or to holders of our ADSs or ordinary shares levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, brought to, or produced before a court of the Cayman Islands. The Cayman Islands is a party to a double taxation treaty with the United Kingdom but otherwise is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

**PRC Taxation**

*PRC taxation on us*

- Enterprise Income Tax

On March 16, 2007, the National People's Congress, the Chinese legislature, passed the *Enterprise Income Tax Law*, which was amended in February 2017, 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 and its Implementation Regulations, or the EIT Law, applies a uniform 25% enterprise income tax rate to PRC resident enterprises, including both foreign-invested enterprises and domestic enterprises. The EIT Law restructures China's tax preference policy under the general principle that industries and projects that are encouraged and supported by the State may enjoy tax preferential treatment. For example, enterprises classified as high and new technology enterprises strongly supported by the state are entitled to a 15% enterprise income tax rate.

The EIT Law provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises. The de facto management body is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. Currently, there are no detailed rules or precedents governing the procedures and specific criteria for determining de facto management body. The State Administration of Taxation, or the SAT, issued the *Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax*

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*Resident Enterprises on the Basis of De Facto Management Bodies*, or Circular 82, on April 22, 2009. Circular 82 provides certain specific criteria for determining whether the de facto management body of a PRC-controlled offshore incorporated enterprise is located in China, which include: (a) the location where senior management members responsible for an enterprise's daily operations discharge their duties; (b) the location where financial and human resource decisions are made or approved by organizations or persons; (c) the location where the major assets and corporate documents are kept; and (d) the location where more than half (inclusive) of all directors with voting rights or senior management have their habitual residence. In addition, the SAT issued the *Administrative Measures on Income Taxes of Chinese-controlled Offshore Incorporated Resident Enterprises (Trial Implementation)*, or Tax Trial Measures, on July 27, 2011, effective September 1, 2011, providing more guidance on the implementation of Circular 82. The Tax Trial Measures clarify matters including resident status determination, post-determination administration and competent tax authorities. Both Circular 82 and the Tax Trial Measures apply only to offshore enterprises controlled by PRC enterprises or PRC enterprise groups and are not applicable to our case. But the determining criteria set forth in Circular 82 and the Tax Trial Measures may reflect the SAT's general position on how the de facto management body test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or PRC enterprise groups or by PRC or foreign individuals. As such, it is still unclear if the PRC tax authorities would determine that, notwithstanding our status as the Cayman Islands holding company of our operating business in China, we should be classified as a PRC resident enterprise.

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The EIT Law imposes an enterprise income 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 different withholding tax rate. Holding companies in Hong Kong, for example, are subject to a 5% withholding tax rate if the holding companies are the beneficial owners of the dividends. The Cayman Islands, where we are incorporated, does not have such a tax treaty with China. Thus, dividends paid to us by our subsidiaries in China may be subject to the 10% withholding tax if we are considered a non-resident enterprise under the EIT Law.

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 dividends distributed from our PRC subsidiaries to us would be exempt from the PRC dividend withholding tax, since such dividend income distributed to a PRC resident enterprise is exempted from enterprise income tax under the EIT Law. However, if we are required under the EIT Law to pay income tax on any dividends we receive from our subsidiaries, our income tax expenses will increase and the amount of dividends, if any, we may pay to our shareholders and ADS holders may be materially and adversely affected.

- Value-added Tax

On March 23, 2016, the Ministry of Finance of China and the State Administration of Taxation of China jointly issued *the Circular on the Nationwide Implementation of Pilot Program for the Collection of Value Added-Tax Instead of Business Tax*, or Circular 36, which became effective on May 1, 2016. Subsequent to the effectiveness of Circular 36, most of our PRC subsidiaries' business will be subject to value-added tax, or VAT, at a rate of 6% and they would be permitted to offset input VAT by providing valid VAT invoices received from vendors against their VAT liability.

***PRC taxation of our overseas shareholders***

Under the EIT Law, PRC enterprise income tax at the rate of 10% is applicable to dividends payable to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC, or which 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 have their sources within the PRC. Similarly, any gain realized on the transfer of ADSs or ordinary shares by such investors is also subject to 10% PRC enterprise income tax if such gain is regarded as income derived from sources within the PRC. Therefore, if we are considered a PRC resident enterprise, dividends we pay to non-resident enterprise investors with respect to our ADSs or ordinary shares and the gains realized from the transfer of our ADSs or ordinary shares may be considered as income derived from sources within the PRC and be subject to PRC enterprise income tax at a rate of 10% or lower, subject to the provisions of any applicable bilateral tax treaty. The double taxation treaty between the PRC and the United States, or the Treaty, does not reduce the 10% tax rate.

Moreover, non-resident individual investors are required to pay PRC individual income tax at the rate of 20% instead of 10% enterprise income tax on dividends payable to the investors or any capital gains realized from the transfer of ADSs or ordinary shares if such gains are deemed income derived from sources within the PRC, unless there is an applicable tax treaty providing for a lower withholding tax rate. Under the PRC Individual Income Tax Law, or IITL, non-resident individual refers to an individual who has no domicile in China and does not stay in the territory of China or who has no domicile in China and has stayed in the territory of China for less than one year. Pursuant to the IITL and its implementation rules, for purposes of the PRC capital gains tax, the taxable income will be the balance of the total income realized from the

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transfer of the ADSs or ordinary shares minus all the costs and expenses that are permitted under PRC tax laws to be deducted from the income. Therefore, if we are considered a PRC resident enterprise and dividends we pay with respect to our ADSs or ordinary shares and the gains realized from the transfer of our ADSs or ordinary shares are considered income derived from sources within the PRC by relevant competent PRC tax authorities, such dividends and gains earned by non-resident individuals may be subject to PRC individual income tax.

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**U.S. Federal Income Tax Considerations**

The following is a description of the material U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of ordinary shares or ADSs, but it does not purport to be a comprehensive description of all tax considerations that may be relevant to a particular person's decision to own such ordinary shares or ADSs. This discussion applies only to a U.S. Holder that holds ordinary shares or ADSs as capital assets for tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of the U.S. Holder's particular circumstances, including alternative minimum tax consequences, the potential application of the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), known as the Medicare contribution tax and tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of tax accounting;
- persons holding ordinary shares or ADSs as part of a straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the ordinary shares or ADSs;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities, including individual retirement accounts or Roth IRAs ;
- persons that own or are deemed to own ten percent or more of our voting stock;
- persons who acquired our ordinary shares or ADSs pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes owns ordinary shares or ADSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships owning ordinary shares or ADSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of the ordinary shares or ADSs.

This discussion is based on the Code, administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, all as of the date hereof, any of which is subject to change, possibly with retroactive effect. It is also based in part on representations by the depository and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms.

A U.S. Holder is a holder who, for U.S. federal income tax purposes, is a beneficial owner of ordinary shares or ADSs and is:

- a citizen or individual resident of the United States;
  
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
  
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
  
- a trust (i) the administration of which is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (ii) that has otherwise elected to be treated as a U.S. person under applicable U.S. Treasury regulations.

In general, a U.S. Holder who owns ADSs will be treated as the owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes. The remainder of this discussion assumes that a U.S. Holder of our ADSs will be treated as the beneficial owner of the underlying shares represented by the ADSs. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying shares represented by those ADSs.

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U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and foreign tax consequences of owning and disposing of ordinary shares or ADSs in their particular circumstances.

This discussion assumes that we are not, and will not become, a passive foreign investment company, as described below.

***Taxation of Distributions***

Distributions paid on ordinary shares or ADSs, other than certain *pro rata* distributions of ordinary shares, will be treated as dividends to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. Holders as dividends.

A non-corporate recipient of dividend income from a qualified foreign corporation will generally be subject to tax at a reduced U.S. federal tax rate rather than the marginal tax rates generally applicable to ordinary income provided that certain holding period and other requirements are met. A non-U.S. corporation (other than a corporation that is a PFIC for the taxable year in which the dividend is paid or the preceding taxable year) will generally be considered to be a qualified foreign corporation (a) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information program, or (b) with respect to any dividend it pays on stock (or ADSs in respect of such stock) which is readily tradable on an established securities market in the United States. Our ADSs are listed on the NASDAQ Global Market, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited financial statements and relevant market and shareholder data, we believe that we should not be treated as a PFIC for U.S. federal income tax purposes with respect to the 2016 or 2015 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2017 taxable year. In the event we are deemed to be a resident enterprise under the PRC Enterprise Income Tax Law, we may be eligible for the benefits of the Treaty (which the U.S. Treasury Department has determined is satisfactory for this purpose) and in that case we would be treated as a qualified foreign corporation with respect to dividends paid on our ordinary shares or ADSs. Since we do not expect that our ordinary shares will be listed on established securities markets, we do not believe that dividends that we pay on our ordinary shares that are not backed by ADSs currently meet the conditions required for the reduced tax rate. There can be no assurance that our ADSs will continue to be considered readily tradable on an established securities market in later years. Each non-corporate U.S. Holder is advised to consult its tax advisors regarding the availability of the reduced tax rate applicable to qualified dividend income for any dividends we pay with respect to our ADSs or ordinary shares. The amount of the dividend will be treated as foreign-source dividend income to U.S. Holders and will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code.

As discussed above, under Item 10. Additional Information E. Taxation PRC Taxation, dividends we pay may be subject to PRC withholding tax. For U.S. federal income tax purposes, the amount of any dividend will include amounts withheld in respect of such PRC withholding tax. Subject to applicable limitations, some of which may vary depending upon a U.S. Holder's circumstances, PRC income taxes withheld from dividends on ordinary shares or ADSs at a rate not exceeding the rate applicable under the Treaty will be creditable against the U.S. Holder's U.S. federal income tax liability. PRC taxes withheld in excess of the rate applicable under the Treaty will not be eligible for credit against a U.S. Holder's federal income tax liability. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction, for U.S. federal income tax purposes, in respect of such withholdings, but only for a year in which such U.S. Holder elects to do so for all creditable foreign income taxes. The rules governing foreign tax credits are complex, and U.S. Holders should consult their tax advisers regarding the creditability of foreign taxes in their particular circumstances.





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Dividends will be included in a U.S. Holder's income on the date of the U.S. Holder's, or in the case of ADSs, the depository's, actual or constructive receipt of the dividend. The amount of any dividend income paid in RMB will be the U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have foreign currency gain or loss, which would be U.S. source ordinary gain or loss, if the dividend is converted into U.S. dollars after the date of receipt.

***Sale or Other Disposition of Ordinary Shares or ADSs***

For U.S. federal income tax purposes, gain or loss realized on the sale or other disposition of ordinary shares or ADSs will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder held the ordinary shares or ADSs for more than one year. The amount of the gain or loss will equal the difference between the U.S. Holder's tax basis in the ordinary shares or ADSs disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. The deductibility of capital losses is subject to limitations.

As described in Taxation PRC Taxation PRC taxation on us, if we were deemed to be a tax resident enterprise under PRC tax law, gains from dispositions of our ordinary shares or ADSs may be subject to PRC withholding tax. In that case, a U.S. Holder's amount realized would include the gross amount of the proceeds of the sale or disposition before deduction of the PRC tax. Although any such gain of a U.S. Holder would generally be characterized as U.S.-source income, a U.S. Holder that is eligible for the benefits of the Treaty may be entitled to elect to treat the gain as foreign-source income for foreign tax credit purposes. U.S. Holders should consult their tax advisers regarding their eligibility for benefits under the Treaty and the creditability of any PRC tax on dispositions in their particular circumstances.

***Passive Foreign Investment Company Rules***

We do not believe we were a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our 2016 taxable year. However, because PFIC status depends on the composition of our income and assets and the market value of our assets from time to time, as well as our market capitalization at the close of each quarter, there can be no assurance that we will not be a PFIC for any taxable year. While we have no reason to believe we will be or become a PFIC in the current or future taxable years, the determination of whether we are or will become a PFIC will depend in part upon the value of our goodwill and other unbooked intangibles (which will depend upon the market price of our ADSs from time to time, which may be volatile). Among other matters, if our market capitalization declines, we may be or become a PFIC for the current or future taxable years. It is also possible that the IRS may challenge our classification or valuation of our goodwill and other unbooked intangibles, which may result in our company being or becoming a PFIC for the current or one or more future taxable years.

If we were a PFIC for any taxable year during which a U.S. Holder held ordinary shares or ADSs, gain recognized by a U.S. Holder on a sale or other disposition (including certain pledges) of the ordinary shares or ADSs would be allocated ratably over the U.S. Holder's holding period for the ordinary shares or ADSs. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the amount allocated to that taxable year. Further, to the extent that any distribution received by a U.S. Holder on its ordinary shares or ADSs exceeds 125% of the average of the annual distributions on the ordinary shares or ADSs received during the preceding three years or the U.S. Holder's holding period, whichever is

shorter, that distribution would be subject to taxation in the same manner as gain, described immediately above.

Alternatively, if we were a PFIC, a U.S. Holder could, if certain conditions are met, make a mark-to-market election with respect to our ADSs that would result in tax treatment different from the general tax treatment for PFICs described above. Because a mark-to-market election cannot be made for any lower-tier PFICs that a PFIC may own, a U.S. Holder who makes a mark-to-market election with respect to our ADSs will generally continue to be subject to the foregoing rules with respect to such U.S. Holder's indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes. If a U.S. Holder were to make a mark-to-market election, the holder generally would recognize as ordinary income any excess of the fair market value of the ADSs at the end of each taxable year over its adjusted tax basis, and would recognize an ordinary loss in respect of any excess of the adjusted tax basis of the ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). If a U.S. Holder makes the election, the holder's tax basis in the ADSs will be adjusted to reflect these income or loss amounts. If we were a PFIC, it is unclear whether our ordinary shares would be treated as marketable stock eligible for the mark-to-market election. Any gain recognized on the sale or other disposition of ADSs in a year when we are a PFIC would be treated as ordinary income and any loss would be treated as an ordinary loss (but only to the extent of the net amount of income previously included as a result of the mark-to-market election).

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A timely election to treat us as a qualified electing fund under Section 1295 of the Code would also result in alternative treatment from the general treatment for PFICs described above (which alternative treatment could, in certain circumstances, mitigate the adverse tax consequences of holding shares in a PFIC). U.S. Holders should be aware, however, that we do not intend to satisfy record-keeping and other requirements that would permit U.S. Holders to make qualified electing fund elections if we were a PFIC.

In addition, if we were a PFIC, the favorable rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply. Furthermore, if we were a PFIC for any taxable year during which a U.S. Holder held ordinary shares or ADSs, such U.S. Holder may be required to file a report containing such information as the U.S. Treasury may require. U.S. Holders should consult their tax advisers regarding whether we are or were a PFIC and the potential application of the PFIC rules.

*Specified Foreign Financial Assets*

Certain U.S. Holders that own specified foreign financial assets with an aggregate value in excess of USD 50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. Specified foreign financial assets include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. Holders who fail to report the required information could be subject to substantial penalties. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in ADSs or ordinary shares, including the application of the rules to their particular circumstances.

*Information Reporting and Backup Withholding*

Dividend payments with respect to ADSs or ordinary shares and proceeds from the sale or exchange of ADSs or ordinary shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on Internal Revenue Service Form W-9. U.S. Holders should consult their tax advisers regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

**10.F. Dividends and Paying Agents**

Not applicable.

**10.G. Statement by Experts**

Not applicable.

**10.H. Documents on Display**

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F no later than four months after the close of each fiscal year, which is December 31. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

**10.I. Subsidiary Information**

Not applicable.

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**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

***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 have not used any 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***

Substantially all of our revenues and most of our expenses are denominated in RMB. Our exposure to foreign exchange risk primarily relates to cash and cash equivalents and loans denominated in U.S. dollars. We do not believe that we currently have any significant direct foreign exchange risk and have not hedged exposures denominated in foreign currencies or any other derivative financial instruments. Although in general, our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the foreign exchange rate between U.S. dollars and RMB because the value of our business is effectively denominated in RMB, while the ADSs will be traded in U.S. dollars.

The value of the RMB against the U.S. 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, 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 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. By way of example, assuming we had converted a U.S. dollar denominated cash balance of US\$1.0 million as of December 30, 2016 into Renminbi at the exchange rate of US\$1.00 for RMB6.9430, such cash balance would have been approximately RMB6.9 million (US\$1.0 million). Assuming a 1.0% depreciation of the RMB against the U.S. dollar, such cash balance would have increased to RMB7.0 million (US\$1.0 million) as of December 31, 2016. We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency exchange risk.

**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 2.0%, 1.4% and 2.0% in 2014, 2015 and 2016, respectively. Although we have not been materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**12.A. Debt Securities**

Not applicable.

**12.B. Warrants and Rights**

Not applicable.

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**12.C. Other Securities**

Not applicable.

**12.D. American Depositary Shares**

Fees and Charges Our ADS holders May Have to Pay

An ADS holder will be required to pay the following service fees to the depositary, Citibank, N.A.:

Service	Fees
• Issuance of ADSs	Up to U.S. 5¢ per ADS issued
• Cancellation of ADSs	Up to U.S. 5¢ per ADS canceled
• Distribution of cash dividends or other cash distributions	Up to U.S. 5¢ per ADS held
• Distribution of ADSs pursuant to stock dividends, free stock distributions or exercise of rights	Up to U.S. 5¢ per ADS held
• Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to U.S. 5¢ per ADS held
• Depositary Services	Up to U.S. 5¢ per ADS held on the applicable record date(s) established by the Depositary (U.S. 2¢ per ADS for the year of 2016)

An ADS holder will also be responsible to pay certain fees and expenses incurred by the depositary and certain taxes and governmental charges such as:

- Fees for the transfer and registration of ordinary shares charged by the registrar and transfer agent for the ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of ordinary shares).
- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.



- Taxes and duties upon the transfer of securities (i.e., when ordinary shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.

Depository fees payable upon the issuance and cancellation of ADSs are typically paid to the depository banks by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depository banks and by the brokers (on behalf of their clients) delivering the ADSs to the depository banks for cancellation. The brokers in turn charge these fees to their clients. Depository fees payable in connection with distributions of cash or securities to ADS holders and the depository services fee are charged by the depository banks to the holders of record of ADSs as of the applicable ADS record date.

The depository fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividend, rights), the depository banks charge the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depository banks send invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via The Depository Trust Company ( DTC )), the depository banks generally collect its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depository banks.

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In the event of refusal to pay the depositary fees, the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder.

The fees and charges an ADS holder may be required to pay may vary over time and may be changed by us and by the depositary. An ADS holder will receive prior notice of such changes.

**Fees and Other Payments Made by the Depositary to Us**

The depositary may reimburse us for certain expenses incurred by us in respect of the ADR program established pursuant to the deposit agreement, by making available a portion of the depositary fees charged in respect of the ADR program or otherwise, upon such terms and conditions as we and the depositary may agree from time to time. For the year ended December 31, 2016, we have received a total of RMB5.6 million (US\$0.8 million) from the depositary as reimbursement for our expenses incurred in connection with investor relationship programs related to the ADS program.

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**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None of these events occurred in any of the years ended December 31, 2014, 2015 and 2016.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

There have been no material modifications to the rights of securities holders or the use of proceeds.

**ITEM 15. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures within the meaning of Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of the end of the period covered by this annual report. Based on such evaluation, our management has concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were effective.

**Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company's assets that could have a material effect on the consolidated financial statements.

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Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act and related rules as promulgated by the SEC, our management assessed the effectiveness of the internal control over financial reporting as of December 31, 2016 using criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2016.

### **Attestation Report of the Registered Public Accounting Firm**

The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, an independent registered public accounting firm. The attestation report issued by Deloitte Touche Tohmatsu Certified Public Accountants LLP can be found on page F-3 of this annual report on Form 20-F.

### **Changes in Internal Control over Financial Reporting**

There were no significant changes that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during 2016.

Table of Contents**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors has determined that Mr. Jian Shang is an audit committee financial expert, as that term is defined in Item 16A(b) of Form 20-F, and is independent for the purposes of Rule 5605(a)(2) of the NASDAQ Marketplace Rules, or the NASDAQ Rules, and Rule 10A-3 under the Exchange Act.

**ITEM 16B. CODE OF ETHICS**

Our board of directors adopted a code of business conduct and ethics on January 27, 2010 that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our executive officers and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as an exhibit to our registration statement on Form F-1 (File No. 333-165247) originally filed with the Securities and Exchange Commission on March 5, 2010, as amended. Our code of business conduct and ethics is publicly available on our website at <http://ir.huazhu.com/>.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Deloitte Touche Tohmatsu Certified Public Accountants LLP, or Deloitte, our independent registered public accounting firm, began serving as our auditor in August 2009.

Our audit committee is responsible for the oversight of Deloitte's work. The policy of our audit committee is to pre-approve all audit and non-audit services provided by Deloitte, including audit services, audit-related services, tax services and other services, other than those for *de minimis* services which are approved by the audit committee prior to the completion of the audit.

We paid the following fees for professional services to Deloitte for the years ended December 31, 2015 and 2016.

	Year Ended December 31,	
	2015 US\$	2016 US\$
	(In thousands)	
Audit Fees(1)	1,130	1,160
Audit-Related Fees		
Tax Fees		
All Other Fees(2)		338
Total	1,130	1,498

Note: (1) Audit Fees. This category includes the aggregate fees billed for the professional services rendered by our principal auditors for assurance and related services. Our 2015 and 2016 audit fees mainly include the audit of our annual financial statements, the services provided in connection with our compliance with the Sarbanes-Oxley Act, or services that are normally provided by the accountant in connection with statutory and regulatory filings.

(2) All Other Fees. This category includes the aggregate fees billed for the professional services rendered by our principal auditors for tax related consulting services.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

We announced a share repurchase program approved by our board of directors on April 20, 2015, which was amended in March 2016. Under the terms of the approved program, we may repurchase up to \$80 million worth of our issued and outstanding ADSs. The repurchases have been, made from time to time on the open market at prevailing market prices and have been made subject to restrictions relating to volume, price and timing. This share repurchase plan is effective until April 20, 2017, and has been implemented in a manner consistent with market conditions, the interest of the shareholders, the trading price of the ADSs and in compliance with relevant rules under the Exchange Act. Our board of directors review the share repurchase program periodically, and may authorize adjustment of its terms and size accordingly. The share repurchase program may be suspended or discontinued at any time. We did not repurchase any ADSs under this program in 2016.

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**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

We are a foreign private issuer (as such term is defined in Rule 3b-4 under the Exchange Act), and our ADSs are listed on the NASDAQ Global Select Market. The NASDAQ rules provide that foreign private issuers may follow home country practice in lieu of the corporate governance requirements of the NASDAQ Stock Market LLC, subject to certain exceptions and requirements and except to the extent that such exemptions would be contrary to U.S. federal securities laws and regulations. The significant differences between our corporate governance practices and those followed by domestic companies under the NASDAQ rules are summarized as follows:

- We follow home country practice that permits our board of directors not to have a majority of independent directors in lieu of complying with Rule 5605(b)(1) of the NASDAQ.
- We follow home country practice that permits our independent directors not to hold regularly scheduled meetings at which only independent directors are present in lieu of complying with Rule 5605(b)(2) of the NASDAQ.
- We follow home country practice that permits our board of directors not to implement a nominations committee, in lieu of complying with Rule 5605(e) of the NASDAQ Rules that requires the implementation of a nominations committee.
- We follow home country practice that permits our audit committee may comprise two directors rather than three required under Rule 5605(c)(2) of the NASDAQ.
- We followed home country practice that permits us not to disclose in our annual report or website the material terms of all agreements or arrangements between any director, 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, in lieu of complying with Rule 5250(b)(3) of the NASDAQ.

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Other than the above, we have followed and intend to continue to follow the applicable corporate governance standards under the NASDAQ rules.

In accordance with Rule 5250(d)(1) of the NASDAQ, we will post this annual report on Form 20-F on our company website at <http://ir.huazhu.com>.

### **ITEM 16H. *MINE SAFETY DISCLOSURE***

Not applicable.

## **PART III**

### **ITEM 17. *FINANCIAL STATEMENTS***

We have elected to provide financial statements pursuant to Item 18.

### **ITEM 18. *FINANCIAL STATEMENTS***

Our consolidated financial statements are included at the end of this annual report.



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**ITEM 19. EXHIBITS**

<b>Exhibit Number</b>	<b>Description of Document</b>
1.1	Amended and Restated Memorandum and Articles of Association of the Registrant. (Incorporated by reference to Exhibits 3.2 from the Amendment No. 1 to our Registration Statement on Form F-1 (file no. 333-165247) filed with the Securities and Exchange Commission on March 12, 2010.)
1.2	Amendment to the Amended and Restated Articles of Association of the Registrant, adopted by the shareholders of the Registrant on November 21, 2012. (Incorporated by reference to Exhibit 1.2 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 23, 2013.)
1.3	Amendment to the Amended and Restated Articles of Association of the Registrant, adopted by the shareholders of the Registrant on December 16, 2015 and effective on January 25, 2016 (Incorporated by reference to Exhibit 1.3 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 20, 2016.)
2.1	Registrant's Specimen American Depositary Receipt (included in Exhibit 2.3).
2.2	Registrant's Specimen Certificate for Ordinary Shares. (Incorporated by reference to Exhibit 4.2 from our Registration Statement on Form F-1 (file no. 333-165247) filed with the Securities and Exchange Commission on March 5, 2010.)
2.3	Form of Deposit Agreement among the Registrant, the Depository and all Holders and Beneficial Owners of the American Depositary Shares issued thereunder. (Incorporated by reference to Exhibits 4.3 from the Amendment No. 1 to our Registration Statement on Form F-1 (file no. 333-165247) filed with the Securities and Exchange Commission on March 12, 2010.)
4.1	Amended and Restated 2007 Global Share Plan, amended and restated as of December 12, 2007. (Incorporated by reference to Exhibit 10.1 from our Registration Statement on Form F-1 (file no. 333-165247) filed with the Securities and Exchange Commission on March 5, 2010.)
4.2	Amended and Restated 2008 Global Share Plan, amended and restated as of October 31, 2008. (Incorporated by reference to Exhibit 10.2 from our Registration Statement on Form F-1 (file no. 333-165247) filed with the Securities and Exchange Commission on March 5, 2010.)
4.3	Amended and Restated 2009 Share Incentive Plan, amended and restated as of October 1, 2009. (Incorporated by reference to Exhibit 10.3 from our Registration Statement on Form F-1 (file no. 333-165247) filed with the Securities and Exchange Commission on March 5, 2010.)
4.4	Amendment to the Amended and Restated 2009 Share Incentive Plan, amended as of August 26, 2010. (Incorporated by reference to Exhibit 99.2 from our report on Form 6-K (file no. 333-34656) filed with the Securities and Exchange Commission on July 15, 2010.)
4.5	Amendment to the Amended and Restated 2009 Share Incentive Plan, amended as of March 26, 2015. (Incorporated by reference to Exhibit 99.2 from our report on Form 6-K filed with the Securities and Exchange Commission on March 27, 2015.)
4.6	Form of Indemnification Agreement with the Registrant's Directors. (Incorporated by reference to Exhibit 10.4 from our Registration Statement on Form F-1 (file no. 333-165247) filed with the Securities and Exchange Commission on March 5, 2010.)
4.7	English translation of the Form of Employment Agreement between the Registrant and Executive Officers of the Registrant. (Incorporated by reference to Exhibit 4.6 from our annual report on Form 20-F (File No. 001-34656) filed with the Securities and Exchange Commission on April 12, 2012.)

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- 4.8 English translation of the Fixed Assets Loan Contract between the Industrial and Commercial Bank of China and HanTing Xingkong (Shanghai) Hotel Management Co., Ltd., dated March 2, 2012. (Incorporated by reference to Exhibit 4.10 from our annual report on Form 20-F (File No. 001-34656) filed with the Securities and Exchange Commission on April 12, 2012.)

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- 4.9 English translation of the Facility Agreement between China Merchants Bank and HanTing Xingkong (Shanghai) Hotel Management Co., Ltd., dated September 25, 2012. (Incorporated by reference to Exhibit 4.8 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 23, 2013.)
- 4.10 Subscription Agreement between the Registrant and Ctrip.com International, Ltd., dated March 12, 2010. (Incorporated by reference to Exhibit 10.9 from the Amendment No. 1 to our Registration Statement on Form F-1 (file no. 333-165247) filed with the Securities and Exchange Commission on March 12, 2010.)
- 4.11 Investor and Registration Rights Agreement between the Registrant and Ctrip.com International, Ltd., dated March 12, 2010. (Incorporated by reference to Exhibit 10.10 from the Amendment No. 1 to our Registration Statement on Form F-1 (file no. 333-165247) filed with the Securities and Exchange Commission on March 12, 2010.)
- 4.12 Share Purchase Agreement by and between China Lodging Holdings (HK) Limited and C-Travel International Limited, dated April 15, 2012. (Incorporated by reference to Exhibit 4.11 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 23, 2013.)
- 4.13 English translation of Entrusted Loan agreement by and between HanTing Xingkong (Shanghai) Hotel Management Co., Ltd, Ctrip Computer Technology Co., Ltd and China Construction Bank Corporation, dated December 19, 2013 (Incorporated by reference to Exhibit 4.12 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 17, 2014.)
- 4.14 English translation of Letter of Guarantee by and between Ctrip.com International, Ltd. and China Lodging Group, Limited, dated December 19, 2013 (Incorporated by reference to Exhibit 4.13 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 17, 2014.)
- 4.15 Master Purchase Agreement among China Lodging Group, Limited, AAPC Singapore Pte. Ltd. and AAPC Hong Kong Limited dated December 14, 2014 (Incorporated by reference to Exhibit 4.11 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 17, 2015.)
- 4.16 Securities Purchase Agreement between China Lodging Group, Limited and AAPC Hong Kong Limited, dated December 14, 2014 (Incorporated by reference to Exhibit 4.11 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 17, 2015.)
- 4.17 Amended and Restated Master Purchase Agreement among China Lodging Group, Limited, AAPC Singapore Pte. Ltd. and AAPC Hong Kong Limited, dated as of December 14, 2014 and amended and restated as of January 25, 2016 (Incorporated by reference to Exhibit 4.17 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 20, 2016.)
- 4.18 Amended and Restated Securities Purchase Agreement between China Lodging Group, Limited and AAPC Hong Kong Limited, dated as of December 14, 2014 and amended and restated as of dated January 25, 2016 (Incorporated by reference to Exhibit 4.18 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 20, 2016.)
- 4.19 Investor and Registration Rights Agreement between China Lodging Group, Limited and AAPC Hong Kong Limited, dated January 25, 2016 (Incorporated by reference to Exhibit 4.19 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 20, 2016.)
- 4.20 Amended and Restated Non-Competition Agreement between Accor S.A., AAPC Hong Kong Limited, China Lodging Group, Limited and Qi Ji dated January 25, 2016 (Incorporated by reference to Exhibit 99.B to the Schedule 13D filed by Accor S.A. and AAPC Hong Kong Limited with the Securities and Exchange Commission on February 5, 2016.)
- 4.21\* Share Purchase Agreement related to Crystal Orange Hotel Holdings Limited between the Vendors named therein and China Lodging Holdings (HK) Limited dated February 25, 2017.



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8.1*	Subsidiaries of the Registrant.
11.1	Code of Business Conduct and Ethics of the Registrant (Incorporated by reference to Exhibit 99.1 from our Registration Statement on Form F-1 (file no. 333-165247) filed with the Securities and Exchange Commission on March 5, 2010.)
12.1*	Certification of Min (Jenny) Zhang, Chief Executive Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2*	Certification of Teo Nee Chuan, Chief Financial Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
23.1*	Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP, Independent Registered Public Accounting Firm.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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\* Filed with this Annual Report on Form 20-F.

\*\* Furnished with this Annual Report on Form 20-F.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**CHINA LODGING GROUP, LIMITED**

By:	/s/ Min (Jenny) Zhang	
	Name:	Min (Jenny) Zhang
	Title:	Chief Executive Officer

Date: April 21, 2017

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**CHINA LODGING GROUP, LIMITED**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF  
CHINA LODGING GROUP, LIMITED

We have audited the accompanying consolidated balance sheets of China Lodging Group, Limited and its subsidiaries (the Group) as of December 31, 2015 and 2016, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2016 and the related financial statement schedules. These financial statements and financial statement schedules are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of China Lodging Group, Limited and its subsidiaries as of December 31, 2015 and 2016 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects, the information set forth therein.

Our audits also comprehended the translation of Renminbi amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such United States dollar amounts are presented solely for the convenience of readers in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 21, 2017 expressed an unqualified opinion on the Group's internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP



Shanghai, China

April 21, 2017

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF  
CHINA LODGING GROUP, LIMITED

We have audited the internal control over financial reporting of China Lodging Group, Limited and its subsidiaries (the Group) as of December 31, 2016 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control – Integrated Framework(2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2016 of the Group and our report dated April 21, 2017 expressed an unqualified opinion on those financial statements and financial statement schedules and included an explanatory paragraph regarding the translation of Renminbi amounts into United States dollar amounts for the convenience of readers in the United States of America.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Shanghai, China

April 21, 2017

Table of Contents**CHINA LODGING GROUP, LIMITED****CONSOLIDATED BALANCE SHEETS****(Renminbi in thousands, except share and per share data, unless otherwise stated)**

	2015	As of December 31, 2016	2016 US\$ 000 (Note 2)
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	1,237,838	3,235,007	465,938
Restricted cash	360,500	500	72
Short-term investments measured at fair value	506,407		
Accounts receivable, net of allowance of RMB5,559 and RMB11,424 as of December 31, 2015 and 2016, respectively	93,956	141,649	20,402
Loan receivables	26,808	22,410	3,228
Amounts due from related parties	16,157	98,453	14,180
Prepaid rent	429,588	446,127	64,256
Inventories	24,529	21,606	3,112
Other current assets	167,995	208,929	30,091
Total current assets	2,863,778	4,174,681	601,279
Property and equipment, net	3,805,886	3,710,468	534,419
Intangible assets, net	144,812	342,694	49,358
Land use rights		145,521	20,959
Long-term investments, including marketable securities measured at fair value of RMB166,546 and RMB204,945 as of December 31, 2015 and 2016, respectively	344,242	1,064,321	153,294
Goodwill	108,344	171,504	24,702
Loan receivables	12,336	7,269	1,047
Other assets	195,446	200,492	28,877
Deferred tax assets	218,677	176,414	25,409
Total assets	7,693,521	9,993,364	1,439,344
<b>LIABILITIES AND EQUITY</b>			
Current liabilities:			
Short-term debt	324,680	298,291	42,963
Accounts payable	585,347	584,731	84,219
Amounts due to related parties	7,653	11,058	1,593
Salary and welfare payables	210,955	274,259	39,501
Deferred revenue	705,607	749,793	107,993
Accrued expenses and other current liabilities	576,160	895,837	129,027
Dividends payable	276,261		
Income tax payable	102,810	152,112	21,909
Total current liabilities	2,789,473	2,966,081	427,205
Deferred rent	945,192	1,023,843	147,464
Deferred revenue	180,861	166,963	24,048
Other long-term liabilities	275,954	323,991	46,664
Deferred tax liabilities	61,293	96,329	13,874
Total liabilities	4,252,773	4,577,207	659,255

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Commitments and contingencies (Note 23)

Equity:

Ordinary shares (US\$0.0001 par value per share; 8,000,000,000 shares authorized; 253,978,323 and 281,379,130 shares issued as of December 31, 2015 and 2016, and 250,881,559 and 278,282,366 shares outstanding as of December 31, 2015 and 2016, respectively)	186	204	29
Treasury shares (3,096,764 and 3,096,764 shares as of December 31 2015 and 2016, respectively)	(107,331)	(107,331)	(15,459)
Additional paid-in capital	2,470,099	3,699,056	532,776
Retained earnings	1,007,559	1,812,174	261,007
Accumulated other comprehensive income (loss)	59,596	(4,503)	(649)
Total China Lodging Group, Limited shareholders equity	3,430,109	5,399,600	777,704
Noncontrolling interest	10,639	16,557	2,385
Total equity	3,440,748	5,416,157	780,089
Total liabilities and equity	7,693,521	9,993,364	1,439,344

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**CHINA LODGING GROUP, LIMITED****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Renminbi in thousands, except share and per share data, unless otherwise stated)**

	2014	Year Ended December 31,		2016	2016 US\$ '000 (Note 2)
		2015		2016	
<b>Revenues:</b>					
Leased and owned hotels	4,522,431	4,986,872		5,212,405	750,743
Manachised and franchised hotels	742,797	1,123,979		1,411,156	203,249
Others				31,219	4,496
<b>Total revenues</b>	<b>5,265,228</b>	<b>6,110,851</b>		<b>6,654,780</b>	<b>958,488</b>
Less: Business tax and related taxes	300,500	336,227		116,149	16,729
<b>Net revenues</b>	<b>4,964,728</b>	<b>5,774,624</b>		<b>6,538,631</b>	<b>941,759</b>
<b>Operating costs and expenses:</b>					
Hotel operating costs	3,878,027	4,512,147		4,932,173	710,381
Other operating costs				7,606	1,095
Selling and marketing expenses	187,435	179,568		146,525	21,104
General and administrative expenses	342,128	403,008		492,141	70,883
Pre-opening expenses	186,325	110,011		71,847	10,348
<b>Total operating costs and expenses</b>	<b>4,593,915</b>	<b>5,204,734</b>		<b>5,650,292</b>	<b>813,811</b>
Other operating income (expenses), net	18,551	31,264		(17,440)	(2,512)
<b>Income from operations</b>	<b>389,364</b>	<b>601,154</b>		<b>870,899</b>	<b>125,436</b>
Interest income	23,162	26,712		67,366	9,703
Interest expense	1,533	3,854		11,056	1,592
Other income, net	2,884	6,979		133,755	19,265
Foreign exchange gain (loss)	(246)	7,814		16,481	2,373
<b>Income before income taxes</b>	<b>413,631</b>	<b>638,805</b>		<b>1,077,445</b>	<b>155,185</b>
Income tax expense	113,105	196,529		287,120	41,354
Income (loss) from equity method investments	1,865	(2,896)		6,157	886
<b>Net income</b>	<b>302,391</b>	<b>439,380</b>		<b>796,482</b>	<b>114,717</b>
Less: net income (loss) attributable to noncontrolling interest	(4,957)	2,780		(8,133)	(1,171)
<b>Net income attributable to China Lodging Group, Limited</b>	<b>307,348</b>	<b>436,600</b>		<b>804,615</b>	<b>115,888</b>
<b>Other comprehensive income</b>					
Unrealized securities holding gains (loss), net of tax of 9,485, 7,151 and (1,810) for 2014, 2015 and 2016	28,458	68,069		16,449	2,369
Reclassification adjustment of unrealized securities holding gains, net of tax, for gain included in net income				(67,921)	(9,783)
Foreign currency translation adjustments, net of tax of nil for 2014, 2015 and 2016	(1,082)	3,535		(12,627)	(1,819)
<b>Comprehensive income</b>	<b>329,767</b>	<b>510,984</b>		<b>732,383</b>	<b>105,484</b>
Comprehensive income (loss) attributable to the noncontrolling interest	(4,957)	2,780		(8,133)	(1,171)

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Comprehensive income attributable to China Lodging Group, Limited	334,724	508,204	740,516	106,655
Earnings per share:				
Basic	1.23	1.74	2.92	0.42
Diluted	1.21	1.70	2.84	0.41
Weighted average number of shares used in computation:				
Basic	248,957,645	250,533,204	275,139,070	275,139,070
Diluted	253,004,204	256,104,167	282,889,494	282,889,494

The accompanying notes are an integral part of these consolidated financial statements.

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## CHINA LODGING GROUP, LIMITED

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Renminbi in thousands, except share data, unless otherwise stated)

	Ordinary Shares		Treasury Shares		Additional Paid-in	Retained Earnings	Accumulated Other	Noncontrolling	Total Equity
	Share	Amount	Share	Amount	Capital		Comprehensive Loss	Interest	
Balance at January 1, 2014	247,551,999	182			2,315,083	539,872	(39,384)	12,038	2,827,791
Issuance of ordinary shares upon exercise of options and vesting of restricted stocks	3,144,224	2			20,851				20,853
Issuance of ordinary shares in exchange of service	51,032				2,000				2,000
Share-based compensation					31,937				31,937
Excess tax benefit from share-based compensation					11,697				11,697
Noncontrolling interest recognized in connection with acquisitions								25	25
Net income						307,348		(4,957)	302,391
Unrealized securities holding gains, net of tax							28,458		28,458
Dividend paid to noncontrolling interest holders								(5,357)	(5,357)
Foreign currency translation adjustments							(1,082)		(1,082)
Balance at December 31, 2014	250,747,255	184			2,381,568	847,220	(12,008)	1,749	3,218,713
Issuance of ordinary shares upon exercise of options and vesting of restricted stocks	3,231,068	2			23,158				23,160
Share-based compensation					52,535				52,535
Excess tax benefit from share-based					12,838				12,838



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compensation									
Noncontrolling interest recognized in connection with acquisitions							8,264		8,264
Net income				436,600			2,780		439,380
Unrealized securities holding gains, net of tax							68,069		68,069
Dividend paid to noncontrolling interest holders							(4,604)		(4,604)
Capital contribution from noncontrolling interest holders							2,450		2,450
Repurchase of shares			(3,096,764)	(107,331)					(107,331)
Cash dividends declared							(276,261)		(276,261)
Foreign currency translation adjustments							3,535		3,535
Balance at December 31, 2015	253,978,323	186	(3,096,764)	(107,331)	2,470,099	1,007,559	59,596	10,639	3,440,748
Issuance of ordinary shares upon exercise of options and vesting of restricted stocks	2,505,264	2			10,581				10,583
Issuance of ordinary shares for acquisition	24,895,543	16			1,143,505				1,143,521
Share-based compensation					55,436				55,436
Excess tax benefit from share-based compensation					18,645				18,645
Net income						804,615		(8,133)	796,482
Unrealized securities holding gains, net of tax							16,449		16,449
Reclassification adjustment of unrealized securities holding gains, net of tax, for gain included in net income							(67,921)		(67,921)
Dividend paid to noncontrolling interest holders								(3,677)	(3,677)
Capital contribution from noncontrolling interest holders					790			44,814	45,604
Dispose of non-controlling interest for deconsolidation								(27,086)	(27,086)

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Foreign currency translation adjustments						(12,627)		(12,627)	
Balance at December 31, 2016	281,379,130	204	(3,096,764)	(107,331)	3,699,056	1,812,174	(4,503)	16,557	5,416,157

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**CHINA LODGING GROUP, LIMITED****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Renminbi in thousands, unless otherwise stated)**

	2014	Year Ended December 31,		2016	2016 US\$ 000 (Note 2)
		2015		2016	
<b>Operating activities:</b>					
Net income	302,391	439,380		796,482	114,717
Adjustments to reconcile net income to net cash provided by operating activities:					
Share-based compensation	31,937	52,535		55,436	7,984
Depreciation and amortization	570,722	661,404		694,894	100,086
Deferred taxes	(42,391)	(50,149)		33,446	4,817
Bad debt expenses	4,770	1,997		1,082	156
Deferred rent	182,580	130,301		103,322	14,881
Loss (gain) from disposal of property and equipment	803	(5,519)		9,333	1,344
Impairment loss	27,391	95,608		153,741	22,143
Loss (Income) from equity method investments	(1,865)	2,896		(6,157)	(886)
Investment loss (income)	(3,037)	(2,767)		(116,763)	(16,817)
Excess tax benefit from share-based compensation	(11,697)	(12,838)		(18,645)	(2,685)
Changes in operating assets and liabilities, net of effect of acquisitions:					
Accounts receivable	(18,773)	(5,749)		(46,211)	(6,656)
Prepaid rent	(21,577)	(44,430)		(25,380)	(3,655)
Inventories	4,130	5,952		3,923	565
Amounts due from related parties	256			(9,314)	(1,341)
Other current assets	(42,369)	(15,518)		(40,813)	(5,878)
Other assets	(13,220)	1,787		(5,046)	(727)
Accounts payable	18,016	14,194		59,129	8,516
Amounts due to related parties	810	1,250		7,489	1,079
Salary and welfare payables	38,813	24,532		60,669	8,738
Deferred revenue	253,562	216,805		19,529	2,813
Accrued expenses and other current liabilities	58,995	121,502		202,351	29,145
Income tax payable	45,274	56,019		64,087	9,230
Other long-term liabilities	68,494	60,481		51,072	7,355
Net cash provided by operating activities	1,454,015	1,749,673		2,047,656	294,924
<b>Investing activities:</b>					
Purchases of property and equipment for hotels in operation and headquarters	(282,467)	(315,117)		(296,353)	(42,684)
Purchases of property and equipment for hotels under development	(648,455)	(325,105)		(206,783)	(29,783)
Purchases of intangibles	(10,423)	(8,818)		(13,557)	(1,953)
Amount received as a result of government zoning	10,557	6,721		2,099	302

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Acquisitions, net of cash received	(16,050)	(19,153)	131,501	18,940
Proceeds from disposal of subsidiary and branch, net of cash disposed	18,484	5,000	(20,668)	(2,977)
Purchase of long-term investments	(191,064)	(105,707)	(293,125)	(42,219)
Proceeds from maturity/sale of long-term investments	88,266	14,410	14,842	2,138
Payment for shareholder loan to joint venture	(15,640)	(1,386)	(39,387)	(5,673)
Collection of shareholder loan from joint venture		1,522	9,285	1,337
Purchases of short-term investments	(75,210)	(434,811)		
Proceeds from maturity/sale of short-term investments	55,499		526,443	75,824
Payment for the origination of loan receivables		(53,000)	(36,420)	(5,246)
Proceeds from collection of loan receivables		45,587	45,885	6,609
Decrease (increase) in restricted cash	3,317	(360,500)	360,000	51,851
Net cash provided by (used in) investing activities	(1,063,186)	(1,550,357)	183,762	26,466
Financing activities:				
Net proceeds from issuance of ordinary shares upon exercise of options	20,985	22,619	12,206	1,759
Payment of share repurchase		(107,331)		
Proceeds from short-term debt	300,000	589,376	281,719	40,576
Repayment of short-term debt	(300,000)	(283,516)	(332,555)	(47,898)
Funds advanced from noncontrolling interest holders		5,432	11,453	1,650
Repayment of funds advanced from noncontrolling interest holders	(1,559)	(900)	(600)	(86)
Acquisitions of noncontrolling interest	(4,083)	(4,083)	(4,083)	(588)
Contribution from noncontrolling interest holders		2,450	45,604	6,568
Dividend paid to noncontrolling interest holders	(5,357)	(4,604)	(3,677)	(530)
Dividend paid			(276,261)	(39,790)
Excess tax benefit from share-based compensation	11,697	12,838	18,645	2,685
Net cash provided by (used in) financing activities	21,683	232,281	(247,549)	(35,654)
Effect of exchange rate changes on cash and cash equivalents	(1,082)	(2,624)	13,300	1,916
Net increase (decrease) in cash and cash equivalents	411,430	428,973	1,997,169	287,652
Cash and cash equivalents at the beginning of the year	397,435	808,865	1,237,838	178,286
Cash and cash equivalents at the end of the year	808,865	1,237,838	3,235,007	465,938
Supplemental disclosure of cash flow information:				
Interest paid, net of amounts capitalized	1,533	3,854	9,415	1,356
Income taxes paid	110,222	190,660	184,414	26,561
Supplemental schedule of non-cash investing and financing activities:				
Purchases of property and equipment included in payables	585,119	513,168	453,281	65,286
Consideration payable for business acquisition	7,560	113,458	172,813	24,890
Purchase of intangible assets included in payables	8,682	7,646	7,267	1,047
Reimbursement of government zoning included in receivables	1,000	2,099	2,700	389
Proceeds from disposal of subsidiary and branch included in receivables	5,000			
Acquisition of noncontrolling interest included in payables	8,167	4,083		
Issuance of ordinary shares for acquisition			1,143,521	164,701

The accompanying notes are an integral part of these consolidated financial statements.



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**CHINA LODGING GROUP, LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 and 2016**

**(Renminbi in thousands, except share data and per share data, unless otherwise stated)**

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

China Lodging 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 (the Group) are to develop leased and owned, manachised and franchised hotels under the Joya Hotel, Manxin Hotels & Resorts, JI Hotel, Starway Hotel, HanTing Hotel and Hi Inn brands in the People's Republic of China ( PRC ). The Group also has the rights as master franchisee for Mercure, Ibis and Ibis Styles, and co-development rights for Grand Mercure and Novotel, in Pan-China region.

*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.

Under the lease arrangements, the Group typically receives rental holidays of two to six months and pays rent on a quarterly or biannual basis. Rent is typically subject to the fixed escalations of three to five percent every three to five years. The Group recognizes rental expense on a straight-line basis over the lease term.

As of December 31, 2015 and 2016, the Group had 616 and 624 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 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, 2015 and 2016, the Group had 2,067 and 2,471 manachised hotels in operation and 80 and 174 franchised hotels in operation, respectively.

## 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

### *Basis of presentation*

The consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in the United States of America ( US GAAP ).

### *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its majority-owned subsidiaries. All significant intercompany transactions and balances are eliminated on consolidation.

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.

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**CHINA LODGING GROUP, LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 and 2016**  
**(Renminbi in thousands, except share data and per share data, unless otherwise stated)**

The Group is deemed as the primary beneficiary of and consolidates variable interest entities when the Group 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.

The Group evaluates its business activities and arrangements with the entities that operate the managed and franchised hotels to identify potential variable interest entities. Generally, these entities qualify for the business scope exception, therefore consolidation is not appropriate under the variable interest entity consolidation guidance.

*Use of estimates*

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets, long lived 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, share-based compensation and costs related to its customer loyalty program.

*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.

*Restricted cash*

Restricted cash mainly represents deposits used as security against borrowings and deposits restricted due to contract disputes or lawsuit.



*Investments*

Investments represent available-for-sale securities, cost-method investments, and equity-method investments

Investments in equity securities that have readily determinable fair values are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses recorded as a component of other comprehensive income or loss. Realized gains or losses are recognized in the consolidated statements of comprehensive income during the period in which the gains or losses are realized. If the Group determines that a decline in the fair value of the individual available-for-sale security is other-than-temporary, the cost basis of the security is written down to the fair value as a new cost basis and the amount of the write-down is accounted for as a realized loss. The new cost basis will not be changed for subsequent recoveries in fair value. The Group reviews several factors to determine whether a loss is other-than-temporary. These factors include, but are not limited to: (1) the nature of the investment; (2) the cause and duration of the impairment; (3) the extent to which fair value is less than cost; (4) financial conditions and near term prospects of the issuers; and (5) the Group's ability to hold the security for a period of time sufficient to allow for any anticipated recovery of its amortized cost or fair value. Available-for-sale securities not expected to be realized in cash or sold in the next normal operating cycle of the business are classified as long-term investments.

The Group accounts for the investment in a private entity of which the Group owns less than 20% of the voting securities and does not have the ability to exercise significant influence over operating and financial policies of the entity as cost-method investment. The Group's cost-method investment is carried at historical cost in its consolidated financial statements and 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 excess of the investment's cost over its fair value when the impairment is deemed other-than-temporary.

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**CHINA LODGING GROUP, LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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The Group accounts for the 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 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.

As a result of the impairment analysis, the Group recorded an impairment of RMB3,208, in 2016. No impairment charge was recorded in 2014 or 2015.

*Accounts receivable, net of allowance*

Trade receivables 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 amount less an allowance for doubtful accounts. The Group establishes an allowance for doubtful accounts primarily based on the age of the receivables and factors surrounding the credit risk of specific customers.

*Loan receivables*

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 valuation allowance will be established for the loans unable to collect. No valuation allowance has been recorded in 2014, 2015 or 2016 based on the result of the assessment.

*Inventories*

Inventories mainly consist of small appliances, bedding and daily consumables. 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 and amortization. The renovations, betterments and interest cost incurred during construction are capitalized. Depreciation and amortization 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	3-5 years
Motor vehicles	5 years

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Construction in progress represents leasehold improvements 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 and unfavorable lease*

Intangible assets consist primarily of brand name, master brand agreement, non-compete agreements, franchise agreements and favorable leases acquired in business combinations 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 and favorable lease agreements acquired from business combination are recognized and measured at fair value upon acquisition. Non-compete agreements, franchise agreements and favorable lease agreements are amortized over the expected useful life, remaining franchise contract terms and remaining operating lease terms. Unfavorable lease agreements from business combination transactions are recognized as other long-term liabilities and are amortized over the remaining operating lease terms. Purchased software is stated at cost less accumulated amortization.

Brand name is considered to have an indefinite life. Master brand agreement, acquired in Accor acquisition (Note 3), granted the Group the exclusive franchise rights in respect of Mercure, Ibis and Ibis Styles in the PRC, Taiwan and Mongolia and the non-exclusive franchise rights in respect of Grand Mercure and Novotel in the PRC, Taiwan and Mongolia with initial term of 70 years, and can be renewed without substantial obstacles. As a result, the useful life is also 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 measured the fair value of the brand name under the relief-from-royalty method and the master brand agreement under the multi-period excess earnings method. Management performs its annual brand name and master brand agreement impairment test on November 30.

*Land use rights*

Land use rights, which are all located in PRC, are recorded at cost and amortized on a straight-line basis over the remaining term of the land certificates, between 30 to 50 years.

*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 RMB27,203, RMB93,163 and RMB150,533 during the year ended December 31, 2014, 2015 and 2016, respectively.

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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. The Group completes a two-step goodwill impairment test. The first step compares the fair values of each reporting unit to its carrying amount, including goodwill. 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. An impairment loss is recognized in general and administrative expenses for any excess in the carrying value of goodwill over the implied fair value of goodwill. Management performs its annual goodwill impairment test on November 30.

The Group recognized goodwill impairment of RMB188, RMB2,445 and nil for years ended December 31, 2014, 2015 and 2016, respectively.

*Accruals for customer loyalty program*

The Group invites its customers to participate in a customer loyalty program. The membership has an unlimited life. Members enjoy favorable treatment such as more convenient check-out procedures and late check-out, discounts on room rates and accumulate

membership points for their paid stays or their purchasing of products and services provided in the hotels, which can be redeemed for offset the room charges, or used to buy products in Hua Zhu mall within two years after the points are earned. The estimated incremental costs to provide room night awards and other products are accrued and recorded as accruals for customer loyalty program as members accumulate points and are recognized as cost and expense in the accompanying consolidated statements of comprehensive income. As members redeem awards or their entitlements expire, the provision is reduced correspondingly. As of December 31, 2015 and 2016, the accruals for estimated liabilities under the customer loyalty program amounted to RMB113,749 and RMB121,066, respectively.

*Deferred revenue*

Deferred revenue generally consists of non-refundable advances received from customers for rental of rooms, cash received for membership fees and initial franchise fees received prior to the Group fulfilling its commitments to the franchisees.

*Revenue recognition*

Revenue from leased and owned hotels is derived from hotel operations, mainly including the rental of rooms, food and beverage sales and souvenir sales. Revenue is recognized when rooms are occupied and food and beverages and souvenirs are sold.

Revenues from manachised and franchised hotels 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 service fees mainly based on a certain percentage of the room revenues of the franchised hotels, and (b) system maintenance, support fees and central reservation system usage fees. The one-time franchise fee is recognized when the manachised and franchised hotel opens for business, the fee becomes non-refundable, and the Group has fulfilled all its commitments and obligations, including the assistance to the franchisees in property design, leasehold improvement construction project management, systems installation and personnel recruiting and training. The ongoing management and service fees are recognized when the underlying service revenue is recognized by the franchisees operations. The system maintenance, support fee and central reservation system usage fee is recognized over the period when services are provided.

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In addition, the Group accounts for hotel manager fees related to the franchised hotels under the franchise program as revenues. Pursuant to the franchise agreements, the Group charges the franchisees fixed hotel manager fees to cover the franchised hotel managers' payroll, social welfare benefits and certain other out-of-pocket expenses that the Group incurs on behalf of the franchised hotels. The hotel manager fee is recognized as revenue monthly. During the years ended December 31, 2014, 2015 and 2016, the hotel manager fees that were recognized as revenue were RMB166,572, RMB261,743 and RMB321,346, respectively.

Membership fees from the Group's customer loyalty program are earned and recognized on a straight-line basis over the expected membership duration of the different membership levels. 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 the customer loyalty program were RMB107,737, RMB130,644 and RMB145,459 for the years ended December 31, 2014, 2015 and 2016, respectively.

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 and collectability is reasonably assured. Revenues from IT products are recognized when goods are delivered and revenues from IT services are recognized when services are rendered.

***Business tax and related taxes***

The Group is subject to business tax, education surtax and urban maintenance and construction tax, on the services provided in the PRC. Such taxes are primarily levied based on revenue at applicable rates and are recorded as a reduction of revenues.

On 24 March 2016, the Ministry of Finance (MOF) and the State Administration of Taxation (SAT) jointly published Caishui [2016] No. 36 (Circular 36), which provides the detailed implementation guidance on the further rollout of the Value-Added Tax (VAT) reform to sectors such as construction, real estate, financial services and lifestyle services. Circular 36 takes effect from 1 May 2016. Lifestyle services have a broad coverage to include a variety of services which are to meet the daily needs of the residents, and accommodation and associated services are included in such category with the applicable tax rate of 6%. As such, starting from May 2016, the accommodation services of the Group are subject to 6% of VAT.



*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 RMB79,806, RMB47,971 and RMB64,666 for the years ended December 31, 2014, 2015 and 2016, 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 RMB19,657, RMB28,188 and RMB83,498 for the years ended December 31, 2014, 2015 and 2016, respectively, which were recorded as other operating income.

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*Leases*

A lease of which substantially all the benefits and risks incidental to ownership remain with the lessor is classified as an operating lease. All leases of the Group are currently classified as operating leases. When a lease contains rent holidays or requires fixed escalations of the minimum lease payments, the Group records the total rental expense on a straight-line basis over the initial lease term and the difference between the straight-line rental expense and cash payment under the lease is recorded as deferred rent. As of December 31, 2015 and 2016, deferred rent of RMB37,224 and RMB37,648 were recorded as other current liabilities and RMB945,192 and RMB1,023,843 were recorded as long-term liabilities, respectively.

*Capitalization of interest*

Interest cost incurred on funds used to construct leasehold improvements during the active construction period is capitalized. The interest capitalized is determined by applying the borrowing interest rate to the average amount of accumulated capital expenditures for the assets under construction during the period. The interest expense incurred for the years ended December 31, 2014, 2015 and 2016 were RMB14,733, RMB5,383 and RMB11,056, of which RMB13,200, RMB1,529 and nil were capitalized as additions to assets under construction, respectively.

*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.

*Foreign currency translation*

The reporting currency of the Group is the Renminbi ( RMB ). The functional currency of the Company is the United States dollar ( US dollar ). Monetary assets and liabilities denominated in currencies other than the functional currency are translated into 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 other comprehensive loss in the consolidated statements 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 and unrealized securities holding gains (losses).

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*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 and accounts receivable.

All of the Group's cash and cash equivalents and restricted cash are held with financial institutions that Group 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 doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers.

*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

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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.

The estimated fair value of the Group's financial instruments of which the inputs used to value are classified as Level 2 and are not reported at fair value, including cash, restricted cash, loan receivables, receivables, payables and accruals, approximates their carrying value due to their short-term nature or because the interest rate approximates market rate. Cost-method investments are presented at cost unless impaired based on the result of impairment assessment, as the investees are all private entities and their fair values are not practicable to obtain without undue cost. As of December 31, 2015 and 2016, cost-method investments were RMB145,302 and RMB172,571, respectively.

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.

As of December 31, 2015 and 2016, 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:

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Year Ended December 31,	Description	Fair Value	Fair Value Measurements at Reporting Date Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2015	Short-term available-for-sale securities	506,407	506,407		
2015	Long-term available-for-sale securities	166,546	166,546		
2016	Long-term available-for-sale securities	247,085	204,945	42,140	

The following table presents the Group's assets measured at fair value on a non-recurring basis for the years ended December 31, 2014, 2015 and 2016:

Year Ended December 31,	Description	Fair Value for Year Ended December 31	Fair Value Measurements at Reporting Date Using			Total Loss for the Year
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
2014	Property and equipment	13,561			13,561	27,203
2014	Goodwill					188
2015	Property and equipment	21,879			21,879	93,163
2015	Goodwill					2,445
2016	Property and equipment	20,706			20,706	150,533
2016	Long-term investments					3,208

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 RMB40,764, RMB115,042 and RMB171,239 was not fully recoverable and consequently recorded an impairment charge of RMB27,203, RMB93,163 and RMB150,533 for the years ended December 31, 2014, 2015 and 2016, respectively. The Group also determined that the goodwill amount with a carrying amount of RMB188 and RMB2,445 was impaired as a result of the impairment assessment for the year ended December 31, 2014 and 2015. As a result of the impairment assessment, the Group determined that the long term investment with a carrying amount of RMB3,208 was impaired for the year ended December 31, 2016.

Fair value of the property and equipment as well as the reporting units 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, 2014, 2015 and 2016.

*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. Compensation expenses for the awards with market conditions are recognized during the requisite service period, even if the market condition is never satisfied. 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, 2014, 2015 and 2016, the Group recognized share-based compensation expenses of RMB31,937, RMB52,535 and RMB55,436, respectively, which was classified as follows:

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	Year Ended December 31,		
	2014	2015	2016
Hotel operating costs	6,830	8,835	13,603
Selling and marketing expenses	939	907	811
General and administrative expenses	24,168	42,793	41,022
Total	31,937	52,535	55,436

*Earnings per share*

Basic earnings 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 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 and is calculated using the treasury stock method for stock options and nonvested restricted stocks.

*Segment reporting*

The Group operates and manages its business as a single segment, and the acquired business has been migrated to the Group's business. The Group primarily generates its revenues from customers in the PRC. Substantially all of the Group's long-lived assets are located in the PRC.

*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, 2016, 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 RMB107,331. The repurchased shares were presented as treasury shares in shareholders' equity on the Group's consolidated balance sheets.

*Recently issued accounting pronouncements*



In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* which amended the existing accounting standards for revenue recognition. The core principle of the new guidance is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new guidance also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple element arrangements. Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*; ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*; and ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*. The Company must adopt ASU 2016-10, ASU 2016-12 and ASU 2016-20 with ASU 2014-09 (collectively, the new revenue standards). The new revenue standards may be applied retrospectively to each prior period presented (full retrospective method) or retrospectively with the cumulative effect recognized as of the date of initial application (the modified retrospective method). The new revenue standards become effective for the Company on January 1, 2018. The Group currently anticipates adopting the new revenue standards using the full retrospective method. The Group is still in the process of assessing the impact of the ASUs on the Group's consolidated financial statements.

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In August 2014, the FASB issued ASU No. 2014-15, *Presentation of financial statements going concern (Subtopic 205-40)*, which provided guidance on management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures so as to reduce the diversity in the timing and content of footnote disclosures. ASU 2014-15 will be effective for annual periods ending after December 15, 2016. The Group does not expect the adoption will have a material impact on the Group's consolidated financial statements.

In January, 2016, the FASB issued ASU No. 2016-01, to improve 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 guidance also eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities and the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new guidance permits early adoption of the own credit provision. The Group is still in the process of assessing the impact of this ASU on the Group's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This ASU will be effective for fiscal years beginning after December 15, 2018 for public entities, and it will be effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Group expects material changes to its consolidated balance sheet. As of December 31, 2016, the Group has RMB19,054 million of future minimum operating lease commitments that are not currently recognized on its consolidated balance sheets (Note 23).

In March 2016, the 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. Earlier application is permitted. The Group is in the process of evaluating the impact of this ASU on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, which amends the principal-versus-agent implementation guidance and illustrations in the Board's new revenue standard (ASC 606). The amendments in this update clarify the implementation guidance on principal versus agent considerations. When another party, along with the reporting entity, is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide that good or service to the customer (as a principal) or to arrange for the good or service to be provided to the customer by the other party (as an agent). The guidance is effective for interim and annual periods beginning after December 15, 2017. The Group is in the process of evaluating the impact of this ASU on the 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. Early adoption will be permitted in any interim or annual period for which financial statements have not yet been issued or have not been made available for issuance. The Group is in the process of evaluating the impact of this ASU on the consolidated financial statements.

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In August, 2016, the FASB issued ASU 2016-15, which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The ASU's amendments add or clarify guidance on eight cash flow issues, including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. For public business entities, this ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for all entities. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable. The Group is in the process of evaluating the impact on the consolidated financial statements.

In October, 2016, the FASB issued ASU 2016-16, which removes the prohibition in ASC 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The ASU, which is part of the Board's simplification initiative, is intended to reduce the complexity of U.S. GAAP and diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving intellectual property. For public business entities, the ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted for all entities as of the beginning of a fiscal year for which neither the annual or interim (if applicable) financial statements have been issued or made available for issuance. The Group does not expect the adoption of this ASU will have significant impact on the consolidated financial statements.

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. Key requirements of the ASU are as follows:

- An entity should include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. The ASU does not define the terms "restricted cash" and "restricted cash equivalents" but states that an entity should continue to provide appropriate disclosures about its accounting policies pertaining to restricted cash in accordance with other GAAP. The ASU also states that any change in accounting policy will need to be assessed under ASC 250.
  
- A reconciliation between the statement of financial position and the statement of cash flows must be disclosed when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents.

- Changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents should not be presented as cash flow activities in the statement of cash flows.

- An entity with a material balance of amounts generally described as restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions.

For public business entities, the amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Group expects the adoption of this ASU will impact its cash flow statements to the extent of restricted cash.

In January, 2017, the FASB issued ASU 2017-04, 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 is in the process of evaluating the impact on the consolidated financial statements.

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In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes which simplifies the presentation of deferred taxes on the balance sheet by requiring classification of all deferred tax items as noncurrent including valuation allowances by jurisdiction. The ASU is effective for public entities for annual and interim periods beginning after December 15, 2016, and interim periods within those annual reporting periods. Early adoption is permitted as of the beginning of any interim or annual reporting period. The Group early adopted the ASU and all the deferred tax assets and liabilities have been classified as long-term as of December 31, 2016.

*Translation into United States Dollars*

The financial statements of the Group are 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\$1.00 = RMB6.9430, on December 31, 2016, 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 December 31, 2016, or at any other rate.

**3. ACQUISITIONS**

(i) During the years ended December 31, 2014, 2015 and 2016, the Group acquired one individual hotel, one hotel chain and two individual hotels, and two individual hotels for total cash consideration of RMB12,975, RMB127,226 and RMB3,000, respectively. The individual hotels were in the form of leased hotel and the hotel chain acquired contained 13 leased hotels and several manachised and franchised hotels. The business acquisitions were accounted for under purchase accounting.

The following is a summary of the fair values of the assets acquired and liabilities assumed:

	2014	2015	2016	Amortization Period
Current assets	25	3,382	5,330	
Property and equipment	10,477	74,222	28,412	5-10 years
Favorable leases	3,330	41,283	5,004	remaining lease terms
Deferred tax assets		515		

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Franchise agreements		3,300	remaining contracts terms
Goodwill		46,135	
Other noncurrent assets		663	
Current liabilities		(22,864)	(34,495)
Deferred tax liabilities	(832)	(11,146)	(1,251)
Noncontrolling interest	(25)	(8,264)	
Total	12,975	127,226	3,000

(ii) In January 2016, the Group completed the transaction of strategic alliance with AccorHotels ( Accor ). Pursuant to the master purchase agreement, the Group acquired 100% equity interest of certain wholly-owned subsidiaries of Accor 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, as well as a non-controlling stake of 28.16% for Accor Luxury and Upscale hotel operating platform, held by AAPC Hotel Management Limited ( AAPC LUB ) in Greater China. The total consideration consists of consideration amounted to RMB1,143,521 , which was measured at the market price of the 24,895,543 ordinary shares on the issuance date and cash consideration of RMB120,439.

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The net revenue and net income of the acquirees included in the consolidated statements of operations for the year ended December 31, 2016 were RMB152,595, and RMB64,047, respectively.

The following table summarizes unaudited pro forma results of operation for the year ended December 31, 2015 and 2016 assuming that the acquisition occurred as of January 1, 2015. 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, 2015.

	Year Ended December 31,	
	2015	2016
Pro forma net revenue	5,955,538	6,548,083
Pro forma net income	478,770	806,921

The following is a summary of the fair values of the assets acquired and liabilities assumed:

	2016	Amortization Period
Current assets	207,396	
Property and equipment	311,045	5-30 years
Favorable leases	3,009	remaining lease terms
Master brand agreement	192,000	
Land use rights	149,668	remaining contracts terms
Long-term investments	417,604	
Goodwill	63,160	
Other noncurrent assets	1,664	
Current liabilities	(38,634)	
Deferred tax liabilities	(42,952)	
Total	1,263,960	

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. Goodwill is not amortized and is not deductible for tax purposes. Goodwill is allocated to one single reporting unit.

#### 4. SHORT-TERM INVESTMENTS MEASURED AT FAIR VALUE



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The short-term investments measured at fair value as of December 31, 2015 and 2016 were as follows:

	As of December 31,	
	2015	2016
HMIN	506,407	

In 2015, the Group purchased 2,282,951 ADS of HOMEINNS HOTEL GROUP ( HMIN ), a hotel chain listed in NASDAQ in the USA, from open market for consideration of RMB434,811. As of December 31, 2015, the Group holds approximately 4.7% of HMIN s total outstanding shares. Given the level of investment, the Group accounts for its investment in HMIN as available-for-sale and measured the fair value at every period end. The unrealized holding gains and losses for available-for-sale securities are reported in other comprehensive income until realized. As of December 31, 2015, the Group recorded the investment in HMIN at the fair value of RMB506,407, with the fair value increase of RMB46,617 recorded to other comprehensive income. In 2016, the Group sold all the 2,282,951 ADS and reclassified the accumulated unrealized gain of RMB67,921 from other comprehensive income to other income accordingly.

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**5. LOAN RECEIVABLES, CURRENT PORTION**

The loan receivables, current portion, as of December 31, 2015 and 2016 were as follows:

	As of December 31,	
	2015	2016
Loan receivables from franchisees	16,955	14,649
Loan receivables from other entities	9,853	7,761
<b>Total</b>	<b>26,808</b>	<b>22,410</b>

The Group 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%, among which those with due date within 12 months were classified as short-term loan receivables. The Group recognized RMB184, RMB1,124 and RMB1,292 interest income for the short-term parts of the loans in 2014, 2015 and 2016, respectively.

Loan receivables from other entities represents the loans the Company lent to other un-related private entities with the annual interest rates ranging from 0% to 12% with the due date within 12 months. The Group recognized RMB91, RMB2,273 and RMB1,186 interest income for the loans in 2014, 2015 and 2016, respectively.

**6. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net consist of the following:

	As of December 31,	
	2015	2016
<b>Cost:</b>		
Buildings	12,115	255,646
Leasehold improvements	5,354,550	5,563,815
Furniture, fixtures and equipment	838,380	925,174
Motor vehicles	820	820
	6,205,865	6,745,455
Less: Accumulated depreciation	(2,582,184)	(3,196,496)
	3,623,681	3,548,959

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Construction in progress	182,205	161,509
Property and equipment, net	3,805,886	3,710,468

Depreciation expense was RMB559,918, RMB648,277 and RMB673,784 for the years ended December 31, 2014, 2015 and 2016, respectively.

The Group occasionally demolishes certain leased hotels due to local government zoning requirements, which typically results in receiving compensation from the government.

In 2014, the Group demolished one leased hotel due to local government zoning requirements. As a result, the Group wrote off property and equipment of RMB3,971 associated with this hotel and recognized a gain of RMB33 as other operating income with RMB4,004 cash received.

In 2015, the Group demolished one leased hotel due to local government zoning requirements. As a result, the Group wrote off property and equipment of RMB2,301 associated with this hotel and recognized a gain of RMB5,519 as other operating income with RMB5,721 and RMB2,099 cash received in 2015 and 2016, respectively.

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In 2016, the Group demolished two leased hotels due to local government zoning requirements. As a result, the Group wrote off property and equipment of RMB9,905 associated with these hotels and recognized loss of RMB7,205 as other operating loss, which is net of RMB2,700 has been recorded as a receivable in other current assets as of December 31, 2016.

As of December 31, 2016, the Group has been formally notified by local government authorities that two additional leased hotels of the Group will likely be demolished due to local government zoning requirements. The aggregate carrying amount of property and equipment at the associated hotels was RMB7,749 as of December 31, 2016. Neither of the associated hotels has recorded intangible assets or goodwill. The Group has not recognized any impairment as expected cash flows from the hotels' operations prior to demolition and expected amounts to be received as a result of the demolition will likely exceed the carrying value of such assets. The Group estimated amounts to be received based on the relevant PRC laws and regulations, terms of the lease agreements, and the prevailing market practice.

## 7. INTANGIBLE ASSETS, NET AND UNFAVORABLE LEASE

Intangible assets, net consist of the following:

	As of December 31,	
	2015	2016
<i>Intangible assets with indefinite life:</i>		
Brand name	28,600	28,600
Master brand agreement (Note 3)		192,000
<i>Intangible assets with definite life:</i>		
Franchise agreements	11,000	11,000
Non-compete agreement	400	400
Favorable lease agreements	120,661	135,874
Purchased software	44,405	55,101
Total	205,066	422,975
Less: Accumulated amortization	(60,254)	(80,281)
Total	144,812	342,694

Unfavorable lease

As of December 31,

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	2015	2016
Unfavorable lease agreements	3,924	3,924
Less: Accumulated amortization	(2,893)	(3,102)
Unfavorable lease agreements, net	1,031	822

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.

Amortization expense of intangible assets for the years ended December 31, 2014, 2015 and 2016 amounted to RMB11,101, RMB13,415 and RMB17,173, respectively.

The annual estimated amortization expense for the above intangible assets and unfavorable lease for the following years is as follows:

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	Amortization for Intangible Assets	Amortization for Unfavorable Lease	Net Amortization
2017	15,793	(130)	15,663
2018	14,687	(130)	14,557
2019	14,259	(130)	14,129
2020	13,898	(130)	13,768
2021	13,213	(130)	13,083
Thereafter	50,246	(172)	50,074
Total	122,096	(822)	121,274

**8. LAND USE RIGHTS**

Land use rights consist of the following:

	As of December 31,	
	2015	2016
Land use rights (Note 3)		149,668
Less: Accumulated amortization		(4,147)
Total		145,521

Amortization expense of land use rights for the year ended December 31, 2016 amounted to RMB4,147.

**9. LONG-TERM INVESTMENTS**

The long-term investments as of December 31, 2015 and 2016 were as follows:

	As of December 31,	
	2015	2016
<i>Available-for-sale securities:</i>		
Quanjude	166,546	159,305
Tang Palace		18,856
Banyan Tree		26,784
Cjia		42,140
<i>Cost-method investments:</i>		

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UBOX/BJ UBOX	48,220	48,220
BJ GOOAGOO/GOOAGOO	59,939	60,000
Founder Service	20,000	45,000
Qingpu	17,143	17,143
Other investments		2,208
<i>Equity-method investments:</i>		
Sheen Star	20,862	20,862
Yibang	770	
Distrii		28,562
AAPC LUB		446,100
China Young		43,054
CREATER		100,000
Other investments	10,762	6,087
Total	344,242	1,064,321

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*Available-for-sale securities:*

In June 2014, the Group purchased 7,241,131 ordinary shares of China Quanjude (Group) Co., Ltd. ( Quanjude ), a top restaurant brand listed in Shenzhen Stock Exchange in China, through a private placement. The purchase price was set at RMB13.81 per ordinary share and the total purchase cost was RMB100 million. Upon the closing of the transaction described above, the Group holds approximately 2.35% of Quanjude s total outstanding shares.

In 2016, the Group purchased 8,430,000 ordinary shares of Hong Kong Tang Palace Food & Beverage Group ( Tang Palace ), a top restaurant brand listed in Hong Kong Stock Exchange in China, from open market for consideration of RMB16,887. As of December 31, 2016, the Group holds approximately 1.99% of Tang Palace s total outstanding shares.

In December 2016, the Group purchased 11,635,400 ordinary shares of Banyan Tree Holdings Limited ( Banyan Tree ), a leading, international hospitality brand that manages and develops premium resorts, hotels and spas listed in Singapore Stock Exchange in Singapore, from open market for consideration of RMB27,328. As of December 31, 2016, the Group holds approximately 1.53% of Banyan Tree s total outstanding shares.

Given the level of investments, the Group accounts for its investments in Quanjude, Tang Palace, and Banyan Tree as available-for-sale and measured the fair value at every period end. The unrealized holding gains and losses for available-for-sale securities are reported in other comprehensive income until realized. For the years ended December 31, 2015 and 2016, the Group recorded RMB21,451 increase and RMB4,856 decrease in fair value of these available-for-sale securities, net of tax, in other comprehensive income, respectively.

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 a result, the Group recognized a gain of RMB49,630 in other income. As of December 31, 2016, the Group had approximately 22.52% equity interest of Cjia and also a sixty-month convertible note with original value of RMB 51,200, which is convertible at the option of the Group to ordinary shares at any time, while other investors can also require the Group to convert within the last 12 months of the note. The convertible note is recorded as an available-for-sale investment. The Group recognized its share of loss in Cjia of RMB24,615 in income (loss) from equity method investments in 2016, which reduced the cost of equity-method investment to zero and further adjusted the carrying amount of convertible note balance to RMB42,140. The remaining carrying amount of the convertible note approximated its fair value as of December 31, 2016.



*Cost-method investments:*

From 2012 to 2013, the Group invested in preferred shares and convertible promissory notes of UBOX International Holdings Co., Limited ( UBOX ), a privately-held company, with the total consideration of RMB40,517. The convertible notes were subsequently converted to ordinary shares of UBOX in 2013 and 2014. As a result of restructuring of UBOX group, the investment in UBOX has been converted to the investment of ordinary shares of Beijing UBOX On-line Technology Co., Ltd. ( BJ UBOX ). The Group has additionally injected RMB7,703 to BJ UBOX in 2015. As of December 31, 2015 and 2016, the Group had approximately 3.6% and 3.24% equity interest of BJ UBOX, respectively. The investments were accounted for using the cost method since the Group does not have the ability to exert significant influence over the operating and financing activities of UBOX or BJ UBOX.

In November 2014, the Group purchased 8% equity interest in Beijing GOOAGOO Technology Service Co., Ltd. ( BJ GOOAGOO ), a high-tech service provider for Offline-To-Online data processing and platform operation, for the consideration of RMB10,289. BJ GOOAGOO started restructuring process in 2015. In September 2015, the Group purchased 45,000,000 series A preferred shares for the consideration of RMB45,000 and RMB4,650 convertible notes in Gooagoo Group Holdings Limited ( GOOAGOO ). Each series A preferred share and convertible note shall be convertible at the option of the holder at any time to ordinary shares. As a result of restructuring of GOOAGOO group in 2016, the Group's investments in BJ GOOAGOO had been all converted to equity interest of GOOAGOO and had approximately 19.43% equity interest of GOOAGOO as of December 31, 2016. The Group accounted for the investment under cost method since the Group does not have the ability to exert significant influence over those companies.

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In September 2015, the Group purchased 10% equity interest in Shanghai Founder Service Co., Ltd. ( Founder Service ), a serviced office space provider for newly founded companies, for the consideration of RMB20,000. In October 2016, the Group invested another RMB25,000 to Founder Service, and as of December 31, 2016, the Group had approximately 10.87% equity interest of Founder Service. The Group accounted for the investment under cost method since the Group does not have the ability to exert significant influence over Founder Service.

In December 2015, the Group purchased 10% equity interest in Beijing Qingpu Tourism Culture Development Co., Ltd. ( Qingpu ), a cultural activities organizer and tourism service provider, for the consideration of RMB17,143. The Group accounted the investment under cost method since the Group does not have the ability to exert significant influence over Qingpu.

Other investments included several insignificant cost method investments in certain privately-held companies.

*Equity-method investments:*

In April 2014, the Group set up Sheen Star together with Mr. Qi Ji, the founder, executive chairman of the Group and a third party. Sheen Star is a real estate investment company which the Group contributed RMB20,990 and owned equity interest of 19.99%, and Mr. Qi Ji owned 50.01%. The Group accounted for the investment in Sheen Star under equity-method as the Group has the ability to exert significant influence. The Group recognized investment loss of nil, RMB153 and nil in income (loss) from equity method investments in 2014, 2015 and 2016, respectively.

In May 2013, the Group acquired 30% equity interest in Lijiang Yibang Changchunteng Hotel Co., Limited ( Yibang ) for consideration of RMB430. In April 2014, The Group acquired additional 20% equity interest in Yibang for consideration of RMB285. The Group accounted for the investment under equity-method because the Group has the ability to exert significant influence but does not have the control over Yibang. The Group recognized investment income of RMB2,197, investment loss of RMB1,712 and investment loss of RMB770 in 2014, 2015 and 2016, respectively, which was recorded in income (loss) from equity method investments. In June 2016, the Group disposed all the 50% equity interest of Yibang for consideration of RMB715, and recognized gain of RMB715 upon disposition in other income (loss) in 2016.

In July 2014, the Group acquired 30% equity interest in Shanghai Campsort Travel Development Co., Ltd. ( Campsort ), a new resort hotel chain in China, for consideration of RMB15,000. In November 2014, the Group transferred 6% equity interest to Shanghai Homeinn Hotel Management Co., Ltd. for consideration of RMB3,000. As of December 31, 2014, the Group held 24% equity interest of Campsort and accounted for the investment under equity-method because the Group has the ability to exert significant influence over Campsort. The Group recognized investment loss of RMB356 in income (loss) from equity method investments in 2014. In November 2015, the Group disposed of the 24% equity interest of Campsort for consideration of RMB14,410, and recognized gain of RMB2,766 upon disposition in other income in 2015.

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In January 2016, the Group set up Shanghai Distrii Technology Development Co., Ltd. ( Distrii ) together with another founder. Distrii is an office rental service company in which the Group contributed RMB35,000 and owned equity interest of 39.00%. The Group accounted for the investment in Distrii under equity-method as the Group has the ability to exert significant influence. The Group recognized investment loss of RMB6,438 in income (loss) from equity method investments in 2016.

In January 2016, the Group acquired 28.16% equity interest in AAPC LUB(Note 3). 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 RMB28,496 in income (loss) from equity method investments in 2016.

In 2016, the Group accumulatively purchased 982 ordinary shares and 5,610 Series B Preferred Shares of China Young Professionals Apartment Management Limited ( China Young ), which in total accounts for 36.72% of its equity interest, for consideration of RMB44,904. Each series B preferred shares shall be convertible at the option of the holder at any time to ordinary shares. The Group accounted for the investment in China Young under equity-method as the Group has the ability to exert significant influence. The Group recognized investment loss of RMB1,851 in income (loss) from equity method investments in 2016.

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In December 2016, the Group acquired 20% equity interest in Shanghai CREATER Industrial Co., Ltd. ( CREATER ), a staged office space company in China, for consideration of RMB100,000. The Group accounted for the investment under equity-method because the Group has the ability to exert significant influence over CREATER.

Other investments included several insignificant equity investments in certain privately-held companies.

**10. GOODWILL**

The changes in the carrying amount of goodwill for the years ended December 31, 2014, 2015 and 2016 were as follows:

	Gross Amount	Accumulated Impairment Loss	Net Amount
Balance at January 1, 2014	66,650	(1,808)	64,842
Impairment losses recognized		(188)	(188)
Balance at December 31, 2014	66,650	(1,996)	64,654
Increase in goodwill related to acquisitions	46,135		46,135
Impairment losses recognized		(2,445)	(2,445)
Balance at December 31, 2015	112,785	(4,441)	108,344
Increase in goodwill related to acquisitions	63,160		63,160
Balance at December 31, 2016	175,945	(4,441)	171,504

**11. LOAN RECEIVABLES, NON-CURRENT PORTION**

The loan receivables, non-current portion as of December 31, 2015 and 2016 were as follows:

	As of December 31,	
	2015	2016
Loan receivables from franchisees	12,336	7,269

The Group entered into entrusted loan agreements with certain franchisees with the typical terms of two to three years and the annual interest rates from 8% to 8.5%. The Company classified those with due date over 12 months to be non-current. The Group recognized RMB266,

RMB986 and RMB1,091 interest income for the non-current loan receivables in 2014, 2015 and 2016, respectively.

## 12. DEBT

In March 2012, the Group entered into a five-year bank credit facility under which the Group can borrow up to RMB500,000 by May 21, 2015, which is subject to bank's reevaluation from time to time. The credit facility is restricted to certain hotels' renovation and the credit facility is not collateralized. The credit facility has a specified expiration schedule for draw down. The interest rate for each draw down is established on the draw-down date and is adjusted annually, based on the loan interest rate stipulated by the People's Bank of China for the corresponding period. RMB100,000 of the credit facility expired as of December 31, 2012. In 2013, 2014 and 2015, the Group did not have any additional draw-down and credit facility had expired on May 21, 2015.

In September 2012, the Group entered into a three-year revolving bank credit facility under which the Group can draw-down up to RMB300,000 by October 9, 2015. In December 2013, the Group renewed the bank credit facility under which the Group can borrow up to RMB500,000 by December 11, 2016. The interest rate for this credit facility was determined on the draw-down date and the credit facility was not collateralized. In 2013, 2014 and 2015, the Group has drawn down the credit facility of RMB104,540, nil and RMB100,000 and repaid RMB104,540, nil and RMB100,000, respectively. The weighted average interest rate for borrowings drawn under such credit facility was 6.0% and 5.61% for the year ended December 31, 2013 and 2015, respectively. As of December 31, 2015, a letter of guarantee of RMB700 was issued under this credit facility, and RMB499,300 was available for future borrowing. This facility expired on December 11, 2016.

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In December 2013, the Group signed a one-year entrusted loan contract with a subsidiary of Ctrip.com International, Ltd. under which the Group can borrow up to RMB300,000 for the period from January 6, 2014 to January 5, 2015. The interest rate of this borrowing is 5.4%. According to the agreement, the Group shall settle the unpaid principal and interest with its ordinary shares if the loan is in default. In January 2014, the Group had drawn down RMB300,000 under this contract and fully repaid the amount in November 2014.

In July 2015, the Group entered into a one-year bank loan contract, under which the Group can borrow up to US\$30 million for the period ended May 30, 2016, and the Group had a RMB220,000 deposit pledged accordingly. The interest rate of this borrowing is based on the three-month London Interbank Offered Rate ( Libor ) on draw-down date plus 1.2%. In 2015, the Group had drawn down US\$30 million under this contract and fully repaid this amount. The weighted average interest rate for borrowings drawn under such credit facility was 1.49% for the year ended December 31, 2015.

In July 2015, the Group entered into a one-year bank loan contract, under which the Group can borrow up to US\$50 million for the period ended June 30, 2016, and the Group had a RMB360,000 deposit pledged accordingly. The interest rate of this borrowing is based on the three-month Libor on draw-down date plus 1.2%. In 2015, the Group had drawn down US\$50 million under this contract and fully repaid the amount in 2016. The weighted average interest rate for borrowings drawn under such credit facility was 1.50% and 1.81% for the year ended December 31, 2015 and 2016, respectively.

In January 2016, the Group entered into a one-year bank revolving loan agreement under which the Group can borrow up to US\$43 million for the period ended January 1, 2017. The interest rate is based on the one-, two- or three-month Libor on draw-down date plus no less than 2%. As of December 31, 2016, the Group had drawn down US\$43 million under this agreement and repaid nil. The weighted average interest rate of borrowings drawn under this agreement was 2.70% for the year ended December 31, 2016.

In May 2016, the Group entered into a one-year revolving corporation overdraft facility agreement under which the Group can borrow up to RMB50,000, of which each draw-down should last no longer than three months, by May 16, 2017. The interest rate for each draw-down is established on the draw-down date and is based on the People's Bank of China's one-year benchmark interest rate for loans on the draw-down date. As of December 31, 2016, the Group had drawn down nil under this agreement.

In September 2016, the Group entered into a one-year revolving general credit facility under which the Group can borrow up to RMB200,000 by September 30, 2017. The interest rate for each draw-down will be established in each draw-down agreement. As of December 31, 2016, the Group had drawn down nil under this agreement.

**13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

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	As of December 31,	
	2015	2016
Payable for business acquisitions	111,696	171,484
Business taxes, value-added tax and other surcharge payables	69,158	31,177
Accrual for customer loyalty program	113,749	121,066
Payable to noncontrolling interest holders	23,938	34,791
Payable to franchisees	34,474	212,242
Other payables	67,595	139,767
Accrued rental	48,623	66,804
Accrued utilities	43,690	46,379
Other accrued expenses	63,237	72,127
Total	576,160	895,837

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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.

**14. OTHER LONG-TERM LIABILITIES**

Other long-term liabilities consist of the following:

	As of December 31,	
	2015	2016
Deposits from franchisees	215,424	249,552
Others	60,530	74,439
<b>Total</b>	<b>275,954</b>	<b>323,991</b>

**15. 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:

	Year Ended December 31,		
	2014	2015	2016
Rents	1,543,651	1,804,532	1,870,879
Utilities	323,837	341,620	345,615
Personnel costs	788,973	919,555	1,088,380
Depreciation and amortization	558,833	645,058	676,996
Consumable, food and beverage	454,795	485,099	494,764
Others	207,938	316,283	455,539
<b>Total</b>	<b>3,878,027</b>	<b>4,512,147</b>	<b>4,932,173</b>

**16. PRE-OPENING EXPENSES**



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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.

	2014	Year Ended December 31, 2015	2016
Rents	163,155	95,977	67,277
Personnel costs	7,217	5,903	1,560
Others	15,953	8,131	3,010
Total	186,325	110,011	71,847

### 17. 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 July 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:

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- 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 December 31, 2016, the Group had granted 24,577,669 options and 21,503,016 nonvested restricted stocks.

*Share options*

In July 2012, the Group granted 1,475,366 options to executive officers that will vest 50% on the second anniversary of the stated vesting commencement date with the remaining 50% vesting ratably over the following two years and will become exercisable if the Group satisfies certain performance conditions, such as number of hotel rooms added, revenue, profit etc., for the three-year period ending December 31, 2014. As of December 31, 2014, the Group has adjusted the number of options granted to 869,232 based on the actual performance.

In 2015, the Group granted 85,292 options with performance conditions to senior officers. The actual number of the options each grantee is entitled to is indexed to performance conditions of the grantees including various annual performance target, i.e. number of hotel rooms added, revenue etc., in the coming two years. As of December 31, 2016, the Group has adjusted the number of options granted to 88,224 based on the actual performance.

The weighted-average grant date fair value for options granted during the years ended December 31, 2014 and 2015 was RMB15.79 (US\$2.57) and RMB11.73 (US\$1.88), respectively, computed using the binomial option pricing model. The binomial model requires the input of subjective assumptions including the expected stock price volatility and the expected price multiple at which employees are likely to exercise stock options. The Group uses historical data to estimate forfeiture rate. Expected volatilities are based on the average volatility of the Group and comparable companies. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

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The fair value of stock options was estimated using the following significant assumptions:

	<b>2014</b>	<b>2015</b>
Suboptimal exercise factor	4.40	4.16
Risk-free interest rate	1.89 to 1.99%	1.49 to 1.74%
Volatility	47.22 to 47.75%	38.88 to 39.25%
Dividend yield		
Life of option	6 years	6 years

The following table summarized the Group's share option activity under the option plans:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price US\$</b>	<b>Weighted Average Remaining Contractual Life Years</b>	<b>Aggregate Intrinsic Value US\$ '000</b>
Share options outstanding at January 1, 2016	3,463,538	2.21		
Forfeited	(125,594)	2.90		
Exercised	(684,632)	2.31		
Adjusted	2,932	4.31		
Share options outstanding at December 31, 2016	2,656,244	2.15	2.26	28,720
Share options vested or expected to vest at December 31, 2016	2,622,285	2.11	2.24	28,459
Share options exercisable at December 31, 2016	2,487,443	1.95	2.14	27,387

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As of December 31, 2016, there was RMB2,154 in total unrecognized compensation expense related to unvested share-based compensation arrangements, which is expected to be recognized over a weighted-average period of 1.79 years.

During the years ended December 31, 2014, 2015 and 2016, 1,591,004, 1,528,104 and 684,632 options were exercised having an aggregate intrinsic value of RMB42,740, RMB46,433 and RMB40,717, 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 July 2012, the Group granted 1,059,977 nonvested restricted stocks to executive officers which will become exercisable if the Group satisfies certain performance conditions, such as number of hotel rooms added, profit etc., for the three-year period ending December 31, 2014, and 213,209 nonvested restricted stocks to executive officers which will become exercisable if the Group satisfies certain market condition for the three-year period ending December 31, 2014. These awards vest 50% on the second anniversary of the stated vesting commencement date with the remaining 50% vesting ratably over the following two years. As of December 31, 2014, the Group adjusted the number of nonvested restricted stocks granted to executive officers to 1,557,408 based on the three year performance.

In 2015 and 2016, the Group granted 6,599,106 and 1,876,975 nonvested restricted stocks in ten batches with performance conditions to senior officers. The actual number of the stocks each grantee is entitled to is indexed to performance conditions of the grantees and/or the Group's performance conditions, such as number of hotel rooms added, revenue, profit, earnings per share etc. in the coming ten years. For each batch, 50% vests on the second anniversary of the vesting commencement date with the remaining 50% vesting ratably over the following two years.

The Group estimated the grant date fair value of the awards with market conditions using a Monte Carlo simulation. Compensation expenses for the awards with market conditions are recognized during the requisite service period, even if the market condition is never satisfied.

The following table summarized the Group's nonvested restricted stock activity in 2016.

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	Number of Restricted Stocks	Weighted Average Grant Date Fair Value US\$
Nonvested restricted stocks outstanding at January 1, 2016	14,658,824	4.77
Granted	1,919,791	7.57
Forfeited	(1,254,952)	4.89
Vested	(1,820,632)	4.45
Adjusted	37,526	4.80
Nonvested restricted stocks outstanding at December 31, 2016	<b>13,540,557</b>	5.20

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As of December 31, 2016, there was RMB426,089 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 4.95 years.

The total fair value of nonvested restricted stocks vested in 2014, 2015 and 2016 was RMB59,475, RMB69,130 and RMB123,129, respectively.

**18. EARNINGS PER SHARE**

The following table sets forth the computation of basic and diluted earnings per share for the years indicated:

	Year Ended December 31,		
	2014	2015	2016
Net income attributable to ordinary shareholders basic	307,348	436,600	804,615
Net income attributable to ordinary shareholders diluted	307,348	436,600	804,615
Weighted average ordinary shares outstanding basic	248,957,645	250,533,204	275,139,070
Incremental weighted-average ordinary shares from assumed exercise of share options and nonvested restricted stocks using the treasury stock method	4,046,559	5,570,963	7,750,424
Weighted average ordinary shares outstanding diluted	253,004,204	256,104,167	282,889,494
Basic earnings per share	1.23	1.74	2.92
Diluted earnings per share	1.21	1.70	2.84

For the years ended December 31, 2014, 2015 and 2016, the Group had securities which could potentially dilute basic earnings per share in the future, but which were excluded from the computation of diluted earnings per share as their effects would have been anti-dilutive. Such outstanding securities consist of the following:

	Year Ended December 31,		
	2014	2015	2016
Outstanding employee options and nonvested restricted stocks	293,512		

**19. INCOME TAXES**

*Cayman Islands*

Under the current laws of the Cayman Islands, the Company, China Lodging Investment Limited and City Home Group Limited are not subject to tax on income or capital gain.

*Hong Kong*

China Lodging Holdings (HK) Limited, Starway Hotels (HongKong) Limited, IBIS China Investment Limited, ACL Greater China Limited and TAHM Investment Limited are subject to Hong Kong profit tax at a rate of 16.5%. No Hong Kong profit tax has been provided as the Group has not had assessable profit that was earned in or derived from Hong Kong during the years presented.

*Singapore*

China Lodging Holdings Singapore Pte. Ltd. is subject to Singapore corporate income tax at a rate of 17% in 2014, 2015 and 2016. No Singapore profit tax has been provided as the Group has not had assessable profit that was earned in or derived from Singapore during the years presented.

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**PRC**

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%.

Hanting Technology (Suzhou) Co., Ltd ( Hanting Suzhou ), as a recognized software development entity located at Suzhou Industrial Park in Suzhou 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. Hanting Suzhou has entered into the first tax profitable year in 2011. Since 2016, Hanting Suzhou is entitled tax rate of 15% as it is qualified as high and new tech enterprise through September 2017.

Mengguang Information and Technology (Shanghai) Co., Ltd ( Mengguang Shanghai ), 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. Mengguang Shanghai has entered into the first tax profitable year in 2014.

Tax expense (benefit) is comprised of the following:

	As of December 31,		
	2014	2015	2016
Current Tax	155,496	246,678	253,674
Deferred Tax	(42,391)	(50,149)	33,446
Total	113,105	196,529	287,120

A reconciliation between the effective income tax rate and the PRC statutory income tax rate is as follows:

	Year Ended December 31,		
	2014	2015	2016
PRC statutory tax rate	25%	25%	25%
Tax effect of other expenses that are not deductible in determining taxable profit	2%	3%	3%
Effect of different tax rate of group entities operating in other jurisdictions			(1)%
Effect of change in valuation allowance	3%	5%	1%
Effect of tax holiday	(3)%	(7)%	(3)%
Effect of cash dividends		5%	3%



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Effect of disposal of subsidiary			(1)%
Effective tax rate	27%	31%	27%

The aggregate amount and per share effect of the tax holidays are as follows:

	Year Ended December 31,		
	2014	2015	2016
Aggregate amount	9,131	41,288	27,224
Per share effect basic	0.04	0.16	0.10
Per share effect diluted	0.04	0.16	0.10

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The principal components of the Group's deferred income tax assets and liabilities as of December 31, 2015 and 2016 are as follows:

	As of December 31,	
	2015	2016
<b>Deferred tax assets:</b>		
Net loss carryforward	158,910	97,219
Pre-opening expenses	785	
Deferred revenue	72,914	71,517
Deferred rent	5,316	2,968
Long-term assets	27,341	51,579
Bad debt provision	1,390	2,856
Accrual for customer loyalty program	28,437	30,267
Accrued payroll	2,791	3,588
Other accrued expenses	850	17,688
Share-based compensation	10,857	10,978
Others	1,613	2,379
Valuation allowance	(92,527)	(114,625)
Total deferred tax assets	218,677	176,414
<b>Deferred tax liabilities:</b>		
Favorable lease, building and land use rights-fair value adjustment	30,641	67,167
Capitalized interest	4,163	3,519
Unrealized gain for investment	16,636	14,826
Others	9,853	10,817
Total deferred tax liabilities	61,293	96,329

For the years ended December 31, 2015 and 2016, valuation allowance of RMB47,122 and RMB55,757 were provided, respectively, nil and RMB11,724 were added due to acquisition, respectively, RMB15,508 and RMB17,064 were reversed, respectively, and RMB1,955 and RMB28,319 were written off, respectively. 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.

As of December 31, 2016, the Group had tax loss carryforwards of RMB388,874 which will expire between 2017 and 2021 if not used.

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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, 2015 and 2016, the Group had recorded uncertain tax benefits of approximately RMB14,755 and RMB19,787 associated with the interests on intercompany loans, respectively. No interest or penalty expense was recorded for the years ended December 31, 2014, 2015 and 2016. The Group does not anticipate any significant changes to its liability for unrecognized tax benefits within the next 12 months.

The following table is a roll-forward of the unrecognized tax benefits:

	2014	As of December 31, 2015	2016
Balance at January 1	7,122	8,345	14,755
Addition for tax positions	1,223	6,410	5,032
Balance at December 31	8,345	14,755	19,787

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In accordance with the EIT Law, dividends, which arise from profits of foreign invested enterprises ( FIEs ) earned after January 1, 2008, are subject to a 10% withholding income tax. A lower withholding tax rate may be applied if there is a favorable tax treaty between mainland China and the jurisdiction of the foreign holding company. 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. Under applicable accounting principles, a deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting basis over tax basis in a domestic subsidiary. The cumulated undistributed earnings of the Group's PRC subsidiaries were RMB1,881,185 as of December 31, 2016. In December 2015, with the Group's declaration of special cash dividends, PRC dividend withholding tax of RMB30,696 had been accrued accordingly for the distribution from the Group's PRC subsidiaries to the Company. In November 2016, Hanting (Tianjin) Investment Consulting Co., Ltd, one PRC subsidiary of the Company, decided to pay special dividend to the Company and paid withholding tax of RMB32,570 accordingly. Other than these dividends distributions, the Group intends to indefinitely reinvest the remaining undistributed earnings of the Group's PRC subsidiaries, and therefore, no additional provision for PRC dividend withholding tax was accrued.

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 RMB100 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 2012 through 2016 on non-transfer pricing matters, and from 2007 through 2016 on transfer pricing matters.

**20. MAINLAND CHINA CONTRIBUTION PLAN**

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 RMB143,419, RMB182,321 and RMB212,723 for the years ended December 31, 2014, 2015 and 2016, respectively. The Group has no ongoing obligation to its employees subsequent to its contributions to the PRC plan.

**21. 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 RMB105,604, RMB209,782 and RMB277,342 as of December 31, 2014, 2015 and 2016, respectively. In addition, due to restrictions on the distribution of share capital from the Company's PRC subsidiaries, the PRC subsidiaries share capital of RMB2,410,586 at December 31, 2016 is considered restricted. As a result of these PRC laws and regulations, as of December 31, 2016, approximately RMB2,687,928 is not available for distribution to the Company by its PRC subsidiaries in the form of dividends, loans or advances.

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**22. 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.

The following entities are considered to be related parties to the Group. The related parties only act as service providers and service recipients to the Group and there is no other relationship wherein the Group has the ability to exercise significant influence over the operating and financial policies of these parties. The Group is not obligated to provide any type of financial support to these related parties.

<b>Related Party</b>	<b>Nature of the Party</b>	<b>Relationship with the Group</b>
Ctrip.com International, Ltd. ( Ctrip )	Online travel services provider	Mr. Qi Ji is a director
Lijiang Yibang Changchunteng Hotel Co Limited ( Yibang )*	Hotel	Equity method investee of the Group
Sheen Star Group Limited ( Sheen Star )	Investment holding company	Equity method investee of the Group, controlled by Mr. Qi Ji
Shanghai Qianya Hotel Management Co., Ltd ( Qianya )	Hotels management	Investee of the Group
Accor Hotels ( Accor )	Hotel Group	Shareholder of the Group
Chengjia (Shanghai) Apartment Management Co., Ltd. (Cjia)	Apartment Management Group	Equity method investee of the Group
Jiyuan Zhongzhou Express Hotel Co., Ltd. ( Jiyuan )	Hotel	Equity method investee of the Group
Shanghai Yechun Catering Co., Ltd. ( Yechun )	Catering Management Company	Equity method investee of the Group

\* In June 2016, the Group disposed the equity investment in Yibang, subsequent to which Yibang is no longer a related party of the Group.

**(a) Related party balances**

Amounts due from related parties were comprised of shareholder loans to Yibang, Sheen Star, Cjia, Jiyuan and Yechun, which are short-term in nature and payable on demand, and receivable for service fee from Accor and room charges withheld by Ctrip.

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	As of December 31,	
	2015	2016
Yibang	16,157	
Sheen Star		37,060
Accor		4,052
Cjia		50,365
Jiyuan		3,398
Yechun		375
Ctrip		3,203
Total	16,157	98,453

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Amounts due to related parties were comprised of the following. These payables were interest free and payable upon demand.

	As of December 31,	
	2015	2016
Ctrip		
-Payables for hotel reservation services	3,332	3,291
-Payables for Starway acquisition	4,084	
Qianya		
-Payables for service fee	237	164
Accor		
-Payables for brand use fee, reservation fee and other related service fee		6,019
Jiyuan		
-Payables for cash collected on behalf		59
Yechun		
-Payables for cash collected on behalf		1,525
Total	7,653	11,058

**(b) Related party transactions**

During the years ended December 31, 2014, 2015 and 2016, related party transactions consisted of the following:

	Year Ended December 31,		
	2014	2015	2016
Commission expenses to Ctrip	19,235	17,740	44,119
Service fee from Yibang	527	593	292
Service fee to Qianya		417	943
Brand use fee, reservation fee and other related service fee to Accor			6,019
Marketing and training fee from Ctrip			12,667
Service fee from Accor			4,052
Goods sold and service provided to Cjia			353
Interest income from Sheen Star			2,060
Total	19,762	18,750	70,505

The Group transferred its investment in Kangdu to Sheen Star for consideration of RMB82,785 in 2014, and its rights and obligations associated with the property purchase agreement was transferred to Sheen Star contemporaneously.



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In 2016, the Group sold its subsidiary Chengjia Hotel Management Co., Ltd. to Cjia for consideration of RMB10,000.

### 23. COMMITMENTS AND CONTINGENCIES

#### (a) *Operating lease commitments*

The Group has entered into lease agreements for certain hotels which it operates. Such leases are classified as operating leases.

Future minimum lease payments under non-cancellable operating lease agreements at December 31, 2016 were as follows:

<b>Year Ending December 31,</b>	
2017	1,956,958
2018	1,939,120
2019	1,906,911
2020	1,840,032
2021	1,722,612
Thereafter	9,688,652
<b>Total</b>	<b>19,054,285</b>

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**CHINA LODGING GROUP, LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 and 2016**  
**(Renminbi in thousands, except share data and per share data, unless otherwise stated)**

*(b) Purchase Commitments*

As of December 31, 2016, the Group's commitments related to leasehold improvements and installation of equipment for hotel operations was RMB43,139, which is expected to be incurred within one year.

*(c) Contingencies*

The Group is subject to periodic legal or administrative proceedings in the ordinary course of our business. As of December 31, 2016, the Group had several cases outstanding, including lease contract terminations and disputes, and construction contract disputes. The Group believed it is probable that settlement liabilities will be involved, and therefore accrued contingencies of RMB66,234 in other operating expense based on the terms of contract, laws and regulations and latest negotiation result. The Group does not believe that any other currently pending legal or administrative proceeding to which the Group is a party will have a material adverse effect on the financial statements.

**24. SUBSEQUENT EVENT**

In January 2017, the Group invested in Mobike Limited, a Chinese bike-sharing company, with total amount of US\$10 million, in form of preferred shares and convertible notes.

In February 2017, the Group has entered into a definitive share purchase agreement with the shareholders of Crystal Orange Hotel Holdings Limited ( Crystal Orange ) to acquire all of the equity interests of Crystal Orange for an initial aggregate consideration in cash of approximately RMB3.65 billion, with customary post-closing adjustments. The closing of the Transaction is subject to the approval from the Antitrust Bureau of Ministry of Commerce of China. Cash deposit of RMB700 million has been paid in February 2017.

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**ADDITIONAL FINANCIAL INFORMATION FINANCIAL STATEMENTS SCHEDULE I  
CHINA LODGING GROUP, LIMITED  
FINANCIAL INFORMATION FOR PARENT COMPANY**

**BALANCE SHEETS**

**(Renminbi in thousands, except share data and per share data, unless otherwise stated)**

	2015	As of December 31, 2016	2016 US\$ '000
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	121,025	374,036	53,872
Short-term investments	324,780		
Other current assets	2,573	173	25
Total current assets	448,378	374,209	53,897
Investment in subsidiaries	3,833,404	5,512,131	793,912
Long-term investments		45,640	6,574
Total assets	4,281,782	5,931,980	854,383
<b>Liabilities and equity</b>			
Current liabilities:			
Short-term bank borrowing	324,680	298,291	42,963
Salary and welfare payable	25		
Dividends payable	276,261		
Amount due to related parties	222,402	222,402	32,033
Accrued expenses and other current liabilities	28,305	11,687	1,683
Total current liabilities	851,673	532,380	76,679
Total liabilities	851,673	532,380	76,679
Equity:			
Ordinary shares(US\$0.0001 par value per share; 8,000,000,000 shares authorized; 253,978,323 and 281,379,130 shares issued as of December 31, 2015 and 2016, and 250,881,559 and 278,282,366 shares outstanding as of December 31, 2015 and 2016, respectively)	186	204	29
Treasury shares (3,096,764 and 3,096,764 shares as of December 31 2015 and 2016, respectively)	(107,331)	(107,331)	(15,459)
Additional paid-in capital	2,470,099	3,699,056	532,776
Retained earnings	1,007,559	1,812,174	261,007
Accumulated other comprehensive income (loss)	59,596	(4,503)	(649)
Total equity	3,430,109	5,399,600	777,704
Total liabilities and equity	4,281,782	5,931,980	854,383

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**ADDITIONAL FINANCIAL INFORMATION FINANCIAL STATEMENTS SCHEDULE I  
CHINA LODGING GROUP, LIMITED  
FINANCIAL INFORMATION FOR PARENT COMPANY**

**STATEMENTS OF COMPREHENSIVE INCOME  
(Renminbi in thousands, unless otherwise stated)**

	2014	Year Ended December 31,		2016
		2015	2016	2016 US\$ '000
<b>Operating costs and expenses:</b>				
Selling and marketing expenses	157	157		
General and administrative expenses	35,434	59,236	60,075	8,653
Total operating costs and expenses	35,591	59,393	60,075	8,653
Loss from operations	(35,591)	(59,393)	(60,075)	(8,653)
Interest income	75	30	273	39
Interest expense		3,198	10,453	1,505
Foreign exchange gain		7,477	14,750	2,124
Other income, net	2,419	2,488	69,919	10,070
Income in investment in subsidiaries	340,445	489,196	790,201	113,813
Net income attributable to China Lodging Group, Limited	307,348	436,600	804,615	115,888
<b>Other comprehensive income</b>				
Unrealized securities holding gains, net of tax of 9,485, 7,151 and (1,810) for 2014, 2015 and 2016	28,458	68,069	16,449	2,369
Reclassification adjustment of unrealized securities holding gains, net of tax, for gain included in net income			(67,921)	(9,783)
Foreign currency translation adjustments, net of tax of nil for 2014, 2015 and 2016	(1,082)	3,535	(12,627)	(1,819)
Comprehensive income	334,724	508,204	740,516	106,655

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**ADDITIONAL FINANCIAL INFORMATION FINANCIAL STATEMENTS SCHEDULE I**  
**CHINA LODGING GROUP, LIMITED**  
**FINANCIAL INFORMATION FOR PARENT COMPANY**

**STATEMENTS OF CASH FLOWS**  
**(Renminbi in thousands, unless otherwise stated)**

	2014	Year Ended December 31,		2016
		2015	2016	2016 US\$ '000
<b>Operating activities:</b>				
Net income	307,348	436,600	804,615	115,888
Adjustments to reconcile net income to net cash used in operating activities:				
Share-based compensation	31,937	52,535	55,436	7,984
Income in investment in subsidiaries	(340,445)	(489,196)	(790,201)	(113,813)
Investment income			(51,123)	(7,363)
Changes in operating assets and liabilities:				
Deferred revenue	(1,450)	(364)		
Other current assets	1,477	2,312	776	112
Salary and welfare payable	111	(86)	(25)	(4)
Accrued expenses and other current liabilities	4,943	15,463	(16,618)	(2,393)
Net cash provided by operating activities	3,921	17,264	2,860	411
<b>Investing activities:</b>				
Investment in subsidiaries		(168,709)		
Receipt of investment in subsidiaries	8,876		236,238	34,025
Purchase of long-term investments			(47,859)	(6,893)
Proceeds from sale of long-term investments			3,845	554
Purchase of short-term investments		(271,630)		
Proceeds from sale of short-term investment			337,189	48,565
Net cash provided by (used in) investing activities	8,876	(440,339)	529,413	76,251
<b>Financing activities:</b>				
Net proceeds from issuance of ordinary shares upon exercise of option	20,985	22,619	12,206	1,759
Payment of share repurchase		(107,331)		
Proceeds of advances from subsidiaries		222,403		
Proceeds from short-term debt		489,376	281,719	40,576
Repayment of short-term debt		(183,516)	(332,555)	(47,898)
Dividend paid			(276,261)	(39,790)
Net cash provided by (used in) financing activities	20,985	443,551	(314,891)	(45,353)
Effect of exchange rate changes on cash and cash equivalents	(215)	5,800	35,629	5,132
Net increase(decrease) in cash and cash equivalents	33,567	26,276	253,011	36,441
Cash and cash equivalents at the beginning of the year	61,182	94,749	121,025	17,431
Cash and cash equivalents at the end of the year	94,749	121,025	374,036	53,872

The accompanying notes are an integral part of these consolidated financial statements



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**ADDITIONAL FINANCIAL INFORMATION FINANCIAL STATEMENTS SCHEDULE I  
CHINA LODGING 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, 2016, there are no material contingencies, mandatory dividend, significant provision of long-term obligation or guarantee of the Company, except for those which have separately disclosed in the consolidated financial statements.

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**ADDITION INFORMATION FINANCIAL STATEMENTS SCHEDULE II**

**CHINA LODGING GROUP, LIMITED**

This financial information has been prepared in conformity with accounting principles generally accepted in the United States.

**VALUATION AND QUALIFYING ACCOUNTS**

	<b>Balance at Beginning of Year</b>	<b>Charge to Costs and Expenses</b>	<b>Addition Due to Acquisition (Renminbi in thousands)</b>	<b>Charge Taken Against Allowance</b>	<b>Write off</b>	<b>Balance at End of Year</b>
Allowance for doubtful accounts of accounts receivables and other receivables:						
2014	7,756	4,770			(6,049)	6,477
2015	6,477	1,997			(2,415)	6,059
2016	6,059	1,082	7,151		(2,368)	11,924
Valuation allowance for deferred tax assets						
2014	51,596	29,693		(18,421)		62,868
2015	62,868	47,122		(15,508)	(1,955)	92,527
2016	92,527	55,757	11,724	(17,064)	(28,319)	114,625

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