

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, 2021
- 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

Huazhu 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. 699 Wuzhong Road

Minhang District

Shanghai 201103

People's Republic of China

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(Address of principal executive offices)

Hui Chen

Chief Financial Officer

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No. 699 Wuzhong Road

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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:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange on Which Registered</u>
Ordinary Shares, par value US\$0.00001 per share American Depositary Shares, each representing ten ordinary shares	1179 HTHT	The Stock Exchange of Hong Kong Limited NASDAQ Global Select Market

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

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

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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. 3,224,997,210 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

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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.

[†] 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 whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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 RMB6.3726, the exchange rate as set forth in the H.10 statistical release of the U.S. Federal Reserve Board on December 30, 2021. 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 22, 2022, the exchange rate was US\$1.00 to RMB6.5010. 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 ten 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;
- “*Deutsche Hospitality*” or “*legacy DH*” refers to Steigenberger Hotels Aktiengesellschaft, a company established under the laws of Germany on September 12, 1985, a subsidiary of our company, and its subsidiaries;
- “*EUR*” and “*Euro*” refers to the legal currency of European Union;
- “*HKD*” refers to the legal currency of Hong Kong;
- “*Hong Kong*” or “*HK*” refers to the Hong Kong Special Administrative Region of the PRC;
- “*Hong Kong Listing Rules*” are to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;
- “*Hong Kong Stock Exchange*” are to The Stock Exchange of Hong Kong Limited;
- “*leased hotels*” are to leased-and-operated hotels;
- “*legacy Huazhu*” refers to our company excluding Deutsche Hospitality;
- “*manachised hotels*” are to franchised-and-managed hotels;
- “*occupancy rate*” refers to the number of rooms in use divided by the number of available rooms for a given period;
- “*RevPAR*” refers to revenue per available room, calculated by room revenue during a period divided by the number of available rooms of such hotel during the same period;
- “*ordinary shares*” or “*Shares*” are to our ordinary shares, par value US\$0.00001 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 “*Huazhu*” are to Huazhu Group Limited, formerly known as China Lodging Group, Limited, a Cayman Islands company, and its predecessor entities and subsidiaries, in the context of describing our operations and consolidated financial information, also include our variable interest entities (“*VIEs*”) and their subsidiaries.

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When calculating the number of cities in China with our hotel network coverage in this annual report, we include the number of municipalities, cities and counties with at least one hotel under our operation or under development.

In June 2021, we effected a share split that each issued and unissued ordinary share with a par value of US\$0.0001 was sub-divided into ten ordinary shares with a par value of US\$0.00001 each (the “Share Subdivision”). Concurrent with the Share Subdivision, the ratio of ADS to ordinary share was adjusted from one (1) ADS representing one (1) ordinary share to one (1) ADS representing ten (10) ordinary shares. Except otherwise stated, the Share Subdivision has been retrospectively applied for all periods presented in this annual report.

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact contained in this prospectus, including those regarding our future financial position, strategies, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate and any statements preceded by, followed by or that include the words “aim,” “anticipate,” “believe,” “could,” “estimate,” “expect,” “going forward,” “intend,” “may,” “ought to,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “will,” “would,” “vision,” “aspire,” “target,” “schedules,” “goal,” “outlook” and the negative of these words and other similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain known and unknown risks, uncertainties and assumptions, including the risk factors as described in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference therein. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing us which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our anticipated growth strategies, including developing new hotels at desirable locations in a timely and cost-effective manner and launching a new hotel brand;
- our future business development, results of operations and financial condition;
- expected changes in our revenues and certain cost or expense items;
- our ability to attract customers and leverage our brand;
- trends and competition in the lodging industry;
- the status of Sino-U.S relations and related regulatory and legislative developments;
- health epidemics, pandemics and similar outbreaks, including COVID-19; and
- general economic, business and socio-political conditions globally, including recent Russia-Ukraine war.

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

We would like to caution you not to place undue reliance on these forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in “Item 3. Key Information—3D. Risk Factors.” Other sections of this annual report include additional factors that could adversely affect our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements.

You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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*

Implications of Being a Foreign Private Issuer and a China-based Company

We are a foreign private issuer within the meaning of the rules under the Securities Exchange Act of 1934 (the “Exchange Act”), and as such we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers. Moreover, the information we are required to file with or furnish to the Securities and Exchange Commission (the “SEC”) will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. In addition, as a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq corporate governance standards. These practices may afford less protection to shareholders than they would enjoy if we complied fully with the Nasdaq corporate governance standards.

We are exposed to legal and operational risks associated with our operations in China. We are subject to risks arising from China’s legal system, including the uncertainty in the interpretation and the enforcement of the PRC laws and regulations. In addition, rules and regulations in China can change quickly with little advance notice. Recently, Chinese regulators have announced regulatory actions targeting certain sectors of China’s economy, including the for-profit education sector and technology platforms that have a quantitatively significant number of users located in China. Although the lodging industry does not appear to be the focus of these regulatory actions, we cannot guarantee that the Chinese government will not in the future take regulatory actions that materially adversely affect the business environment and financial markets in China as they relate to us, our ability to operate our business, our liquidity and our access to capital.

The PRC government may also intervene or influence our operations at any time, or may exert more control over offerings conducted overseas and/or foreign investment in China-based issuers, including us, at any time, substantial intervention and influence over the manner of our operations, which could result in a material change in our operations or the value of our ADSs. Any actions by the PRC government to exert more oversight and control over offerings that are conducted overseas or foreign investment in China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless. Recently, the PRC government initiated a series of regulatory actions and statements to regulate business operations in China with little advance notice, including cracking down on illegal activities in the securities market, enhancing supervision over China-based companies listed overseas, adopting new measures to extend the scope of cybersecurity reviews, adopting new laws and regulations related to data security, and expanding the efforts in anti-monopoly enforcement. While we do not believe that these regulatory changes would have any material impact on us, we cannot assure you that the regulators will agree with us or will not in the future adopt regulations that restrict our business operations or access to capital.

For example, on July 6, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly issued the Opinions on Severe and Lawful Crackdown on Illegal Securities Activities. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies. These opinions proposed to take effective measures, such as promoting the construction of relevant regulatory systems, to deal with the risks and incidents facing China-based overseas-listed companies and the demand for cybersecurity and data privacy protection. These opinions and any related implementation rules to be enacted may subject us to additional compliance requirement in the future.

Cybersecurity and data privacy and security issues are subject to increasing legislative and regulatory focus in China. For example, the State Council of the PRC promulgated the Regulations on the Protection of the Security of Critical Information Infrastructure on July 30, 2021, which took effect on September 1, 2021. This regulation requires, among others, certain competent authorities to identify critical information infrastructures. The Cybersecurity Administration of China (the “CAC”) and a number of other departments under the State Council promulgated the Measures for Cybersecurity Review on December 28, 2021, which became effective on February 15, 2022. According to this regulation, critical information infrastructure operators purchasing network products and services and data processors carrying out data processing activities, which affect or may affect national security, are required to conduct cybersecurity review.

On September 1, 2021, the Data Security Law of the People’s Republic of China, or the Data Security Law, became effective, which imposes data security and privacy obligations on entities and individuals conducting data-related activities, and introduces a data classification and hierarchical protection system. In addition, the Standing Committee of PRC National People’s Congress promulgated the Personal Information Protection Law (the “PIPL”) on August 20, 2021, which took effect on November 1, 2021. The PIPL further emphasizes processors’ obligations and responsibilities for personal information protection and sets out the basic rules for processing personal information and the rules for cross-border transfer of personal information. On November 14, 2021, the CAC released the draft Administrative Regulation on Network Data Security for public comments through December 13, 2021 (the “Draft Administrative Regulation”). Under the Draft Administrative Regulation, foreign-listed data processors shall carry out annual data security evaluation and submit the evaluation report to the municipal cyberspace administration authority. We have implemented comprehensive cybersecurity and data protection policies, procedures and measures to safeguard personal information and ensure secured storage and transmission of data and prevent unauthorized access or use of data. However, we cannot guarantee that the regulators will agree with us or will not in the future adopt new regulations that restrict our business operations.

Since these regulatory actions are relatively new, it is uncertain how soon legislative or administrative regulation making bodies will respond and what existing or new laws or regulations or detailed implementations and interpretations will be modified or promulgated, if any, or the potential impact such modified or new laws and regulations will have on our daily business operation, our ability to accept foreign investments and listing on a U.S. or other foreign exchanges. PRC laws and their interpretations and enforcement continue to develop and are subject to change, and the PRC government may adopt other rules and restrictions in the future. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China” for more details.

Risks Associated with the Holding Foreign Companies Accountable Act

Our financial statements contained in this annual report have been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, an independent registered public accounting firm that is headquartered in Shanghai, China with offices in other cities in China. It is a firm registered with the U.S. Public Company Accounting Oversight Board (the “PCAOB”), and is required by the laws of the U.S. to undergo regular inspections by the PCAOB to assess its compliance with the laws of the U.S. and professional standards. According to Article 177 of the PRC Securities Law which became effective in March 2020, the securities regulatory authority of the State Council may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region, to implement cross-border supervision and administration. (“Regulatory Cooperation Mechanism”); no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. Accordingly, without a Regulatory Cooperation Mechanism or the consent of the competent PRC securities regulators and relevant authorities, no organization or individual may provide the documents and materials relating to securities business activities to overseas parties. The Holding Foreign Companies Accountable Act, or the HFCA Act, was enacted on December 18, 2020. The HFCA Act states if the SEC determines that a company has filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit such securities from being traded on a national securities exchange or in the over the counter trading market in the U.S. The SEC has adopted rules to implement the HFCA Act and, pursuant to the HFCA Act, the PCAOB has issued a report notifying the SEC of its determination that it is currently unable to inspect or investigation completely accounting firms headquartered in mainland China or Hong Kong. Our auditor Deloitte Touche Tohmatsu Certified Public Accountants LLP is subject to the determinations announced by the PCAOB on December 16, 2021. Further, the United States Senate has passed the Accelerating Holding Foreign Companies Accountable Act, or the AHFCA Act. In February 2022, the U.S. House of Representatives passed the America Competes Act of 2022, which includes the same amendments as the bill passed by the Senate. However, the America Competes Act includes a broader range of legislation not related to the HFCA Act in response to the U.S. Innovation and Competition Act passed by the Senate in 2021. It is unclear when the U.S. Senate and U.S. House of Representatives will resolve the differences and this bill amending the HFCA Act is approved by both houses of Congress and signed by the President. If the AHFCA Act is enacted, it would decrease the number of “non-inspection years” from three years to two years, and thus, would reduce the time before our securities may be prohibited from trading or delisted. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections deprives our investors with the benefits of such inspections. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—If the U.S. Public Company Accounting Oversight Board is unable to inspect our auditors as required under the Holding Foreign Companies Accountable Act, the SEC will prohibit the trading of our ADSs. A trading prohibition for our ADSs, or the threat of a trading prohibition, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections of our auditors deprives our investors of the benefits of such inspections” for more details.

Risks Associated with Our Corporate Structure

Our investors hold securities of Huazhu Group Limited, which is not an operating company but a Cayman Islands holding company with operations primarily conducted by its subsidiaries, a majority of which are based in China and Europe. PRC laws and regulations restrict and impose conditions on foreign investment in certain internet-based businesses and international travel agency businesses. Accordingly, we operate these businesses in China through the variable interest entity, or VIE, model, and rely on contractual arrangements among our PRC subsidiaries, our VIEs and their respective nominee shareholders to control the business operations of the VIEs and their subsidiaries. The VIEs contribute an insignificant portion (less than 1%) of our total revenues and their impact to our consolidated financial statements are immaterial (contribute to less than 1% of our total assets).

Huazhu Group Limited, which is the company our investors hold securities in, may never have a direct equity ownership interest in the businesses that are conducted by the VIEs. Although the impact of the VIEs to our consolidated financial statements are immaterial, our ADSs may decline in value if we are unable to assert our contractual control rights over the assets of the VIEs that conduct some of our operations.

As a holding company, we rely upon dividends paid to us by our subsidiaries in the PRC and other countries and regions to pay dividends and to finance any debt we may incur. 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 in the PRC are permitted to pay dividends to us only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC laws and regulations, each of our Chinese subsidiaries are required to set aside a portion of their net income each year to fund a statutory surplus reserve until such reserve reaches 50% of its registered capital. This reserve is not distributable as dividends. As a result, our Chinese subsidiaries are restricted in their ability to transfer a portion of its net assets to us in the form of dividends, loans or advances. As an offshore holding company, we will be permitted under PRC laws and regulations to provide funding from the proceeds of our offshore fund-raising activities to our subsidiaries in China only through loans or capital contributions, subject to the satisfaction of the applicable government registration and approval requirements. Before providing loans to our PRC subsidiaries, we will be required to make filings about details of the loans with the State Administration of Foreign Exchange of the PRC (the “SAFE”) in accordance with relevant PRC laws and regulations. Our PRC subsidiaries that receive the loans are only allowed to use the loans for the purposes set forth in these laws and regulations. Under regulations of the SAFE, 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.

Permissions Required from the PRC Authorities for Our Operations

As of the date of this annual report, to our best knowledge, our PRC subsidiaries or VIEs are not required to obtain any further permission or approval from the China Securities Regulatory Commission (the “CSRC”), Cyberspace Administration of China (the “CAC”) or other PRC regulatory authorities to approve our contractual arrangements with the VIEs and their respective shareholders other than the permissions mentioned in the next paragraph or the renewal of the permission or approval we have already obtained (if applicable). However, PRC laws and regulations governing the conditions and the requirements of such approval are uncertain and the relevant government authorities have broad discretion in interpreting these laws and regulations. Accordingly, the PRC regulatory authorities may take a different view. There can be no assurance that other PRC government authorities that regulate our business and other participants in the industry would agree that our corporate structure or any of the above contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future.

Furthermore, under current PRC laws, regulations and regulatory rules, we, our PRC subsidiaries or VIEs may be required to obtain permissions from the CSRC, and may be required to go through cybersecurity review by the CAC, in connection with the offering and listing in an overseas market. If we fail to obtain the relevant approval or complete other review or filing procedures for any future offshore offering or listing, we may face sanctions by the CSRC or other PRC regulatory authorities, which may include fines and penalties on our operations in China, limitations on our operating privileges in China, restrictions on or prohibition of the payments or remittance of dividends by our subsidiaries in China, restrictions on or delays to our future financing transactions offshore, or other actions that could have a material and adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs.

However, the PRC government has recently indicated an intent to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers. For more detailed information, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Recent regulatory developments in China may subject us to additional regulatory review and disclosure requirements, expose us to government interference, or otherwise restrict or completely hinder our ability to offer securities and raise capital outside China, which could adversely affect our business operations and cause the value of our securities to significantly decline or become worthless.”

3.A. Selected Financial Data

[Reserved]

3.B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

3.D. Risk Factors

An investment in our ADSs involves risks. You should carefully consider the risks described below, as well as the other information included or incorporated by reference in this annual report, before making an investment decision. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The market or trading price of our ADSs could decline due to any of these risks, and you may lose all or part of your investment. In addition, the risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements. Please note that additional risks not presently known to us, that we currently deem immaterial or that we have not anticipated may also impair our business and operations.

Risk Factor Summary

Risks Related to Our Business

- Our operating results are subject to conditions affecting the lodging industry in general;
- Our business is sensitive to Chinese, European and global economic conditions. A severe or prolonged downturn in the Chinese, European or global economy could materially and adversely affect our revenues and results of operations;
- The lodging industries in China and Europe are competitive, and if we are unable to compete successfully, our financial condition and results of operations may be harmed;
- The COVID-19 outbreak has adversely affected, and may continue to adversely affect, our financial and operating performance;
- Seasonality of our business and national or regional special events may cause fluctuations in our revenues, cause our ADS or ordinary share price to decline, and adversely affect our profitability;
- We may not be able to manage our planned growth, which could adversely affect our operating results;
- Failure to comply with data protection laws or maintain the integrity of internal or customer data could result in harm to our reputation or subject us to costs, liabilities, fines or lawsuits; and
- We, our directors, management and employees may from time to time be subject to claims, controversies, lawsuits and legal proceedings, which could have a material adverse effect on our financial condition, results of operations, cash flows and reputation.

Risks Related to Doing Business in China

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

- Recent regulatory developments in China may subject us to additional regulatory review and disclosure requirements, expose us to government interference, or otherwise restrict or completely hinder our ability to offer securities and raise capital outside China, which could adversely affect our business operations and cause the value of our securities to significantly decline or become worthless;
- If the U.S. Public Company Accounting Oversight Board is unable to inspect our auditors as required under the Holding Foreign Companies Accountable Act, the SEC will prohibit the trading of our ADSs. A trading prohibition for our ADSs, or the threat of a trading prohibition, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections of our auditors deprives our investors of the benefits of such inspections; and
- Proceedings instituted by the SEC against the Big Four PRC-based accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act.

Risks Related to our ADSs, ordinary shares and Our Trading Market

- The market prices for our ADSs and/or ordinary shares has been and may continue to be volatile;
- An active trading market for our ordinary shares on the Hong Kong Stock Exchange might not be sustained and trading prices of our ordinary shares might fluctuate significantly;
- If securities or industry analysts do not continue to publish research or publish inaccurate or unfavorable research about our business, the market prices and trading volume for our ADSs and/or ordinary shares could decline; and
- Techniques employed by short sellers may drive down the market prices of the ADSs and/or ordinary shares.

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, Europe and other countries and regions where we operate;
- competition from other hotels, the attractiveness of our hotels to customers, and our ability to maintain and increase sales to existing customers and attract new customers;
- adverse weather conditions, natural disasters or travelers' fears of exposure to contagious diseases and social unrest;
- changes in travel patterns or in the desirability of particular locations;
- increases in operating costs and expenses due to inflation and other factors;
- local market conditions such as an oversupply of, or a reduction in demand for, hotel rooms;
- the quality and performance of managers and other employees of our hotels;
- the availability and cost of capital to fund construction and renovation of, and make other investments in, our hotels;
- seasonality of the lodging business and national or regional special events;

- the possibility that leased properties may be subject to challenges as to their compliance with the relevant government regulations; and
- maintenance and infringement of our intellectual property.

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

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

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

As the travel industry is highly sensitive to business and personal discretionary spending levels, it tends to decline during general economic downturns. The growth rate of China's GDP decreased from 2012 to 2016, and from 2018 to 2021. It is uncertain whether the growth of the Chinese economy will continue to slow down in the future. A prolonged slowdown in the Chinese economy could erode consumer confidence which could result in changes to consumer spending patterns for travel and lodging-related products and services. China's economic growth rate may materially decline in the near future, which may have adverse effects on our financial condition and results of operations. Risk of a material slowdown in China's economic growth rate is based on several current or emerging factors including: (i) overinvestment by the government and businesses and excessive credit offered by banks; (ii) a rudimentary monetary policy; (iii) excessive privileges to state-owned enterprises at the expense of private enterprises; (iv) the increases in labor costs; (v) a decrease in exports due to weaker overseas demand; (vi) failure to boost domestic consumption; and (vii) challenges resulting from international and geopolitical situations, especially the US-China trade war and the overall tension between such two nations. The European hotel industry is also significantly affected by European countries' economic growth. While the European hotel industry demonstrated stable growth from 2015 to 2019, its growth rate slowed down in 2020 and 2021 due to the impact of COVID-19.

The global financial markets experienced significant disruptions in 2008 and the United States, Europe and other economies went into recession. The recovery from the lows of 2008 and 2009 was uneven and it is facing new challenges, including sanctions against Russia over the Ukraine crisis since 2014, shadows of international terrorism spread by Islamic State of Iraq and al-Sham, which has been particularly intensified since the Paris terror attacks in November 2015, the impact of the election of Donald Trump as former President of the United States and the tax reform that he subsequently signed into law, the trade war between the United States and China and the Syrian airstrike in 2018, the tension between the United States and Iran in 2019, the impact of the United Kingdom leaving the European Union (the “EU”) and the outbreak of COVID-19. 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, conflicts between the United States and China have extended to multiple areas, which could place further pressure on China’s economic growth. For example, the U.S. government imposed economic and trade sanctions directly or indirectly affecting China-based technology companies. Such laws and regulations are likely subject to frequent changes, and their interpretation and enforcement involves substantial uncertainties, which may be heightened by national security concerns or driven by political and/or other factors that are out of our control. In addition, the SEC has issued statements primarily focused on companies with significant China-based operations, such as us. All of these events have introduced uncertainties to the geopolitical situations and the global economic outlook. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world’s leading economies, including China’s and those of the EU and its member states. There have also been concerns over unrest in the Middle East and Africa, which have resulted in significant market volatility, and over the possibility of a war involving Iran or North Korea. Furthermore, eruptions of regional tensions, such as the ongoing military conflict involving Ukraine and Russia, and the related sanctions against Russia have resulted in major economic shocks worldwide and substantial volatility across global financial markets. It is unclear whether these challenges and uncertainties will be contained or resolved, and what effects they may have on the global political and economic conditions in the long term. In addition, there have been concerns about the economic effect of the earthquake, tsunami and nuclear crisis in Japan and the tensions between Japan and its neighboring countries. Economic conditions in China and Europe are sensitive to global economic conditions.

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

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

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

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

In December 2019, COVID-19 was reported to have surfaced in Wuhan, China, which subsequently spread throughout China. The travel industry has been severely affected by the outbreak of COVID-19 since the beginning of 2020 due to the reduced traveler traffic in China. In addition, after COVID-19 was declared by the World Health Organization as a Public Health Emergency of International Concern on January 31, 2020, many foreign countries issued travel bans to China which further harmed the travel industry in China. These measures could slow down the development of the Chinese economy and adversely affect global economic conditions and financial markets. The Chinese government has also implemented strict nationwide containment measures against COVID-19, including travel restrictions, lock-downs of certain cities and hotel closures. Such containment measures negatively affected our hotels' (both leased and owned hotels and manachised and franchised hotels) occupancy rate and revenue. Although China has temporarily controlled the outbreak, our revPAR recovery was still significantly impacted by several COVID-19 resurgences. For example, the recovery was seriously interrupted by the large-scale outbreak of Omicron variant in over 30 provinces since early March. Many cities were locked-down, such as Shanghai and Jilin, which resulted in a sharp decline in business and leisure travels. As a result, our occupancy rate (excluding hotels under requisition) dropped to around 59% in March 2022. However, the outbreak also led to a raising demand for quarantine and accommodation needs of medical team and delivery riders. As of March 31, 2022, we had 1,299 hotels of legacy Huazhu under governmental requisition.

Since the outbreak of COVID-19, we have taken various preventative measures, such as the introduction of intelligent non-contact services, across our hotels to help protect our employees and customers. In addition to the timely delivery of hotel supplies arranged by our centralized procurement team, we have also offered temporary franchise fee reductions and have helped our franchisees to obtain low-interest bank loans to meet their short-term working capital needs. For example, we helped introduce our franchisees to the banks and provided the banks with monthly operating statements of the franchisees recorded in our information systems as an evidence of the franchisees' credit profiles. We do not bear any obligations under the loans that the banks extended to our franchisees. We have also taken various cost and cash flow mitigation measures to counter the negative impact of COVID-19 on our results of operations. Despite these efforts, our business operations and results in 2020 and 2021 were adversely affected by COVID-19.

In addition, the closure of our hotels and lower occupancy rate during this period, as a result of the Chinese government's containment measures mentioned above, may amount to an event of default under certain of our banking arrangements. We have managed to obtain the required waiver since the outbreak of COVID-19 in 2020. However, there is no guarantee that we will continue to comply with the covenants under our outstanding facilities and we will be able to obtain such waivers in the future when required.

Moreover, we completed the acquisition of Deutsche Hospitality in January 2020. As COVID-19 spreads globally, the operations of Deutsche Hospitality in Europe have also been adversely affected since early March 2020. Thanks to the progress of vaccination campaigns and easing of social restrictions, Europe showed continuous business recovery trend. However, due to the third and fourth waves of the COVID-19 pandemic in European countries, the operations of Deutsche Hospitality in the fourth quarter of 2021 were impacted by tightened governmental control measures and testing requirements, which, as a result, disrupted the recovery trend. As a result, a number of our hotels under Deutsche Hospitality, or legacy DH, were then temporarily closed. As of December 31, 2021, all hotels of Deutsche Hospitality that were temporarily closed due to COVID-19 had resumed operation. Deutsche Hospitality is undergoing a continuous RevPAR recovery since Germany unfolded its opening-up plan in mid-February 2022. The RevPAR in March 2022 recovered to 65% of 2019 level, improved from only 47% in January 2022. RevPAR recovery in the near-term is expected to remain under pressure due to the recent Omicron variant. As a result, Deutsche Hospitality could experience cash shortfalls and may need to increase borrowings to finance its operations. There is no assurance that we could obtain sufficient financing for our business needs on reasonable terms, or at all. The failure to obtain sufficient financing on reasonable terms or at all could materially and adversely affect our financial condition, results of operations and business.

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

Our businesses have been significantly impacted by the global outbreak of COVID-19 and we experienced operating losses in 2020 and 2021. Our business operation has gradually recovered since 2021. Our total revenues increased by 25.4% from RMB10,196 million in 2020 to RMB12,785 million (US\$2,006 million) in 2021. We closed down certain of our hotels in 2020 and 2021 due to the pandemic. Also, we recorded impairments of property and equipment, right-of-use assets and intangible assets of RMB180 million and RMB317 million (US\$50 million) in 2020 and 2021, respectively, mainly due to the pandemic.

As COVID-19 continues to spread, its overall impact on our business, liquidity and results of operations is unknown at this time. Moreover, COVID-19 may not be eliminated and such outbreak may recur. While vaccines for COVID-19 are being, and have been developed, there is no guarantee that any such vaccine will be effective, work as expected or be made available or will be accepted on a significant scale and in a timely manner. Furthermore, certain variants have proven to be more severe and more transmissible, especially the pandemic's recent emergence of the Delta variant and Omicron variant, which appears to be the most transmissible variant to date and has resulted in an increase in cases globally. These or future variants of COVID-19 could also prove to be more resistant to vaccines. The impact of the Delta variant and Omicron variant cannot be predicted at this time, and could depend on numerous factors, including vaccination rates among the population, the effectiveness of COVID-19 vaccines against the Delta variant and Omicron variant, and the response by governments. The potential downturn brought by and the duration of the COVID-19 pandemic may be difficult to assess or predict where actual effects will depend on many factors beyond our control. To the extent COVID-19 adversely affects our business, financial condition and results of operations, it may also heighten some of the other risks described in this "Risk Factors" section.

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

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

Our operations commenced in 2005, when we launched our *HanTing Hotel* brand. See "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, Europe and other countries and regions where we operate;
- 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 do not generate any revenue, and incur pre-opening expenses generally ranging from approximately RMB1.5 million to RMB20.0 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. Moreover, we plan to develop more midscale and upscale leased and owned hotels in the future with relatively higher pre-opening expenses, especially rent, which may lead to a more evident negative impact on our financials. In addition, we must maintain our hotels' conditions and may upgrade certain of our hotels, which requires renovation and other improvements to our hotels from time to time. Hotels under renovation may need to be closed partially or entirely or otherwise be seriously disrupted due to the renovations, which could adversely affect the hotels' revenues.

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

A significant portion of our operating costs, including rent and depreciation and amortization, is fixed. Accordingly, a decrease in revenues could result in a disproportionately higher decrease in our earnings because our operating costs and expenses are unlikely to decrease proportionately. For example, the New Year and Spring Festival holiday periods generally account for a lower portion of our annual revenues than other periods. However, our expenses do not vary 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.

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

Our hotel group has been growing rapidly since we commenced our business of operating and managing a multi-brand hotel group. We launched our hotel product *HanTing Hotel* in 2005, our economy hotel brand Hi Inn in 2008 and our midscale hotel brand *Ji Hotel* in 2010. In May 2012, we completed the acquisition of a 51% equity interest in Starway Hotels (Hong Kong) Limited, or Starway HK, and in December 2013, we acquired the remaining 49% equity interest of Starway HK from C-Travel. We have retained the *Starway Hotel* brand. In addition, we launched *Manxin Hotels & Resorts* in October 2013, which was subsequently rebranded as *Manxin Hotel*, an upper midscale hotel brand; *Joya Hotel*, a new hotel brand targeting the upscale market, in December 2013; and *Elan Hotel*, a new economy hotel brand, in September 2014. In January 2016, we completed strategic alliance transactions with Accor S.A., or Accor, to join forces in the Pan-China region to develop Accor brands and to form an extensive and long-term alliance with Accor. In May 2017, we completed the acquisition of all of the equity interests in Crystal Orange Hotel Holdings Limited, or Crystal Orange, which operated hotels under the brands of *Crystal Orange Hotel* and *Orange Hotel*. In August 2018, we completed the acquisition of a majority stake in Blossom Hotel Investment Management (Kunshan) Co., Ltd., or Blossom Hotel Management, which was engaged in the business of operating and managing hotels under the brand of *Blossom Hill Hotels & Resorts* (rebranded as *Blossom House* in April 2020) in the upscale market in the PRC. We launched *Madison Hotel* brand and *Grand Madison Hotel* brand in 2019. In 2020, we merged *Grand Madison Hotel* brand into *Madison Hotel* brand. In January 2020, we completed the acquisition of all of the equity interests in Deutsche Hospitality. In 2020, we acquired Ni Hao Hotel brand, and started to develop and operate hotels under this brand. In May 2021, we completed the acquisition of CitiGO, which operates hotels under the brand of *CitiGO Hotel*. In July 2021, Steigenberger Hotels AG and Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG signed a license agreement to jointly develop a luxury lifestyle brand named Steigenberger Porsche Design Hotels. Steigenberger Porsche Design Hotels are expected to be launched in selected international metropolises. We also launched our luxury hotel brands *Steigenberger Icon* and *Song Hotels* in 2021. Through such organic growth and acquisitions, we increased the number of our hotels in operation from 26 hotels as of January 1, 2007 to 7,830 hotels (including 124 hotels under Deutsche Hospitality) as of December 31, 2021.

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

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

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

Our multi-brand business strategy exposes us to potential risks and its execution may divert management attention and resources from our established 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 launched our hotel brand *HanTing Hotel* in 2005, our economy hotel brand *Hi Inn* in 2008 and our midscale hotel brand *JI Hotel* in 2010. In 2012, we acquired the *Starway Hotel* brand. In addition, we launched *Manxin Hotels & Resorts* in October 2013, which was subsequently rebranded as *Manxin Hotel*, an upper midscale hotel brand; *Joya Hotel*, a new hotel brand targeting the upscale market, in December 2013 and *Elan Hotel*, a new economy hotel brand, in September 2014. We acquired *Crystal Orange* in May 2017, which holds hotels under the brands of *Crystal Orange Hotel* and *Orange Hotel*. In August 2018, we completed the acquisition of a majority stake in *Blossom Hotel Management* which holds hotels under the brand of *Blossom Hill Hotels & Resorts* (currently *Blossom House*). We launched the *Madison Hotel* brand and *Grand Madison Hotel* brand in 2019. In 2020, *Grand Madison Hotel* was merged into *Madison Hotel* brand. In January 2020, we completed the acquisition of *Deutsche Hospitality*, which operates in Europe, the Middle East, Asia and Africa, with hotels under brands of *Steigenberger Hotels & Resorts*, *MAXX by Steigenberger*, *Jaz in the City*, *IntercityHotel*, and *Zleep Hotels*. In 2020, we acquired *Ni Hao Hotel* brand, and started to develop and operate hotels under this brand. In May 2021, we completed the acquisition of *CitiGO*, which operates hotels under the brand of *CitiGO Hotel*. In July 2021, *Steigenberger Hotels AG* and *Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG* signed a license agreement to jointly develop a luxury lifestyle brand named *Steigenberger Porsche Design Hotels*. *Steigenberger Porsche Design Hotels* are expected to be launched in selected international metropolises. We also launched our luxury hotel brands *Steigenberger Icon* and *Song Hotels* in 2021. We are still in the process of developing our various brands, such as the *Elan Hotel*, *Joya Hotel*, *Manxin Hotel*, *Starway Hotel*, *Hi Inn*, *Crystal Orange Hotel*, *Orange Hotel*, *Blossom House*, *Madison Hotel* brands and *Ni Hao Hotel*. In addition to the hotel brands owned by us, we entered into strategic alliance transactions with *Accor* in January 2016, and are developing *Accor*'s certain hotel brands in PRC, Taiwan and Mongolia under our brand franchise agreements.

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

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

We plan to open more hotels to grow our business. Under our lease and ownership model (other than *Deutsche Hospitality*) and the lease model of *Deutsche Hospitality*, we may not be successful in identifying and leasing or acquiring additional hotel properties at desirable locations 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 develop a substantial majority of our leased and owned hotels directly. Our involvement in the development of properties presents a number of risks, including construction delays or cost overruns, which may result in increased project costs or lost revenue. We may be unable to recover development costs we incur for projects that do not reach completion. Properties that we develop could become less attractive due to market saturation or oversupply, and as a result we may not be able to recover development costs at the expected rate, or at all. Furthermore, we may not have available cash to complete projects that we have commenced, or we may be unable to obtain financing for the development of future properties on favorable terms, or at all. If we are unable to successfully manage our hotel development to minimize these risks, our growth strategies and business prospects may be adversely affected.

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

The lease agreements between our lessors and us typically provide, among other things, that the leases could be terminated under certain legal or factual conditions. If our leases were terminated early, our operation of such properties may be interrupted or discontinued and we may incur costs in relocating our operations to other locations. Furthermore, we may have to pay losses and damages and incur other liabilities to our customers and other vendors due to our default under our contracts. As a result, our business, results of operations and financial condition could be materially and adversely affected.

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

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

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

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

We may have disputes with our franchisees with respect to the performance of the franchise agreements. For example, we have in the past closed certain manachised and franchised hotels as a result of disputes with the franchisees regarding our measures to avoid competition between the franchisees, including keeping appropriate distances between the manachised and franchised hotels. Some franchisees were not satisfied with the performance of the hotel managers we appointed for our manachised hotels or generally the manachised or franchised hotels' profitability or growth rates. Some franchisees complained that our loyalty program and other marketing efforts did not bring sufficient customers for their hotels. Our franchisees may also have disputes with us regarding other matters, such as the amount and settlement of fees payable by them and the adequacy of our operational support to them. In addition, our franchise agreements with franchisees typically provide that the franchise agreements could be terminated under certain circumstances. If franchise agreements are terminated early, we lose the franchise fees and related management fees. Furthermore, we may have to pay losses and damages to our guests, and our brand image may be adversely impacted. As a result, our business and results of operations and financial conditions may be adversely affected by early termination of our franchise agreements.

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

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

If we are presented with appropriate opportunities, we may acquire or invest in businesses or assets. For example, we invested in Beijing Qingpu Tourism Culture Development Co., Ltd. in 2015, in AAPC Hotel Management Limited, China Young Professionals Apartment Management Limited and Chengjia (Shanghai) Investment Co., Limited in 2016, and in Blossom Hotel Management, Oravel Stays Private Limited and some securities in the hotel industry in 2017. We completed the acquisition of all of the equity interests in Crystal Orange in May 2017. In January 2018, we announced we have formed a joint venture with TPG. Hitone later also invested in this joint venture. In August 2018, we completed the acquisition of a majority stake in Blossom Hotel Management in steps. From 2017 to 2019, we also acquired shares of Accor and other companies from open market, and invested in certain hotel related funds. In January 2020, we completed the acquisition of all of the equity interests in Deutsche Hospitality. We also jointly established a company named Yongle Huazhu Hotel & Resort Group with a wholly-owned subsidiary of Sunac China Holdings Limited (“Sunac”) and Chengdu Global Times Exhibition and Travel Development Company Limited to develop and operate hotels. We will provide hotel operational services to the joint venture and the joint venture will develop and operate hotels under the brands of Blossom House, Steigenberger Hotels & Resorts and Sunac’s own brands.

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

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

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

Under PRC law, all lease agreements are required to be registered with the local housing bureau. While the majority of our standard lease agreements require the lessors to make such registrations, 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 some instances where our immediate lessors are not the ultimate owners of hotel properties, no consents or permits have been obtained from the owners, the primary lease holders or competent government authorities, as applicable, for the subleases of the hotel properties to us, which could potentially invalidate our leases or lead to the renegotiation of such leases that result in terms less favorable to us or even relocation of our relevant hotels. 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 have not been obtained from the mortgage holder in such circumstances, the lease may not be binding on the transferee of the property if the mortgage holder forecloses on the mortgage and transfers the property. Moreover, the property ownership or leasehold in connection with our manachised and franchised hotels could be subject to similar third-party challenges.

In Germany, our hotels are operated on the legal basis of lease, management or franchise agreements. Some agreements for hotels located in Germany are concluded subject to conditions precedent or require a consent by a third party, such as authorities in case of local measurement areas (for example, re-development) or ground owners in case of a hereditary building right. There are no indications that these requirements have not been fulfilled; however, if not met, failure to meet these requirements could potentially invalidate the respective agreements or lead to the renegotiation of these agreements which could result in less favorable terms. Furthermore, provisions or parts of lease, management or franchise agreements may not be effective or may lead to legal disputes. This could lead to additional cost burdens for our hotel operations. In addition, some of our leases, management or franchise agreements contain break rights and rescission rights entitling the landlords to terminate the agreements on a certain date or upon the occurrence of certain events. Further, in case of a fixed lease period of more than one year, German law provides for a written-form requirement regarding material terms of leases and therefore excludes an ordinary termination right prior to the lapse of the lease period. However, in case of a written-form defect, the lease agreement is not considered void but will be deemed to have an unlimited lease period with an ordinary termination right by law. Some of our leases may have a written-form defect, which effectively leads to a statutory termination right with a notice period. Such legal notice – in general – has to be given at the beginning of a calendar quarter with the termination being effective at the end of the following calendar quarter (i.e. the notice period is between six and nine months, depending on the date of the termination notice). Similar issues, except for the written-form defect, may occur in connection with our managed and franchised hotels.

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

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

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

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

Our success could be adversely affected by the performance of our manachised and franchised hotels, over which we have less control compared to our leased and owned hotels. As of December 31, 2021, we manachised and franchised approximately 90.6% of our hotels, and we plan to further increase the number of manachised and franchised hotels to increase our presence in China and our overseas markets. Our franchisees for both our manachised and franchised hotels may not be able to develop hotel properties on a timely basis, which could adversely affect our growth strategy and may impact our ability to collect fees from them on a timely basis. Furthermore, given that our franchisees are typically responsible for the costs of developing and operating the hotels, including renovating the hotels to our standards, and all of the operating expenses, the quality of our manachised and franchised hotel operations may be diminished by factors beyond our control.

Our franchisees may not successfully operate hotels in a manner consistent with our standards and requirements. Our manachised and franchised hotels are also operated under our brand names. 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 our results of operations. We may also have to incur additional costs in placating any customers or salvaging our reputation. For example, in 2021, we closed 137 manachised and franchised hotels that did not comply with our brand and operating standards.

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

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

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

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

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

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

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

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

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

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

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

The PRC regulatory and enforcement regime regarding privacy and data security is evolving and tightening:

- The PRC Criminal Law, as amended by its Amendment 7 (effective on February 28, 2009) and Amendment 9 (effective on November 1, 2015), prohibits institutions, companies and their employees from selling or otherwise illegally disclosing a citizen’s personal information obtained during the course of performing duties or providing services or obtaining such information through theft or other illegal ways.
- On November 7, 2016, the Standing Committee of the PRC National People’s Congress issued the Cyber Security Law of the PRC, which became effective on June 1, 2017. Pursuant to the Cyber Security Law of the PRC, network operators must not, without users’ consent, collect their personal information, and may only collect users’ personal information necessary to provide their services. Providers are also obliged to provide security maintenance for their products and services and shall comply with provisions regarding the protection of personal information as stipulated under the relevant laws and regulations. In addition, pursuant to the Cyber Security Law of the PRC, personal information and important data collected and generated by a critical information infrastructure operator in the course of its operations in China must be stored in China, and if a critical information infrastructure operator purchases internet products and services that affects or may affect national security, it should be subject to cybersecurity review by the CAC. Due to the lack of further interpretations, the exact scope of “critical information infrastructure operator” remains unclear.

- In June 2021, the Standing Committee of the National People’s Congress promulgated the Data Security Law, which took effect in September 2021. The Data Security Law applies to data handling activities carried out within the territory of the People’s Republic of China. The Data Security Law further provides that data processing activities carried out outside of China, which harm national security, public interest or legal interests of Chinese citizens and organizations, should be subject to legal liabilities. Pursuant to the Data Security Law, those conducting data handling activities should, in accordance with laws and regulations, establish and perfect a data security management system across their entire workflow and adopt the corresponding technical measures and other necessary measures to ensure data security.
- The Civil Code of the PRC (effective since January 1, 2021) provide main legal basis for privacy and personal information infringement claims under the Chinese civil laws.
- The Personal Information Protection Law took effect on November 1, 2021, which outlines the main system framework and comprehensive requirements for personal information processing.

PRC regulators, including the CAC, MIIT, and the Ministry of Public Security have been increasingly focused on regulation in the areas of data security and data protection. Interpretation, application and enforcement of these laws, rules and regulations evolve from time to time and their scope may change continually through new legislation, amendments to existing legislation and changes in enforcement. We expect that these areas will receive greater and continued attention and scrutiny from regulators and the public going forward, which could cause us to incur substantial compliance costs and subject us to heightened risks and challenges associated with data security and protection. If we are unable to manage these risks, we could become subject to civil litigations brought by relevant individuals; administrative penalties, including fines, suspension of business, website closure, and revocation of prerequisite licenses; and our reputation and results of operations could be materially and adversely affected. On July 2, 2020, the CAC, announced that it had launched a cybersecurity review of DiDi Global, a company recently listed on the Nasdaq with operations in China, to prevent national data security risk and protect national security and the public interest. CAC then ordered the removal of DiDi’s app from China’s smartphone app stores. On July 5, 2021, the CAC announced the commencement of cybersecurity review of “Yunmanman”, “Huochebang” and “BOSS Zhipin” and suspended their new user registration. On July 10, 2021, CAC circulated the Measures for Cybersecurity Review (Revised Draft for Comments), or Cybersecurity Review Measures, providing, among other things, that information infrastructure operators or data processors in possession of information of more than one million users in China are subject to a regulatory cybersecurity review if they are seeking a listing in a foreign country. The Cybersecurity Review Measures also provide that PRC governmental authorities may initiate cybersecurity review if they determine cyber products or services, data processing activities or potential listing in a foreign country have affected or may affect national security. The Cybersecurity Review Measures were released on December 28, 2021 and took effect on February 15, 2022. There are substantial uncertainties as to whether and how the CAC’s further actions and the enacted version of the Cybersecurity Review Measures would impact U.S. listed companies like us. It is very likely that our data processing activities within China are regulated under the Cybersecurity Review Measures, which may subject us to cybersecurity review. If, based on the enacted version of the Cybersecurity Review Measures and other relevant rules and regulations, we will be subject to increased scrutiny regarding data security and data protection, our business, operation, reputation and share price may be adversely affected.

As we further expand our operations into international markets, we will be subject to additional laws and regulations in other jurisdictions where our hotels, guests, employees and other participants are located. The laws, rules and regulations of those jurisdictions may be more comprehensive and detailed, and may impose requirements and penalties which are more stringent than, or even conflict with, those in China. In addition, these laws, rules and regulations may restrict the transfer of data across jurisdictions, which could impose additional and substantial operational, administrative and compliance burdens on us, and may also restrict our business activities and expansion plans. For example, according to the Data Security Law, no organization or individual within the territory of the PRC may provide foreign judicial or law enforcement authorities with the data stored within the territory of the PRC without the approval of the competent authorities. Complying with laws and regulations for an increasing number of jurisdictions could require significant resources, costs and our management attention. See “Item 4. Information on the Company — B. Business Overview — Regulation — Regulation on Information Protection on Networks”.

After the acquisition of Deutsche Hospitality, the European Union has become an important region for our data protection compliance. European data protection laws, in particular the Regulation (EU) 2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (GDPR) (complemented by EU Member States Law on data protection such as the German Federal Data Protection Act), include strict rules on the processing of personal data, including the transfer of data from the European Union to China. Under the GDPR, any personal data may be used only if there is a legal justification (which could be a consent or an express statutory justification set out in the GDPR or other applicable EU laws), and the use must be restricted to legitimate purposes. Deutsche Hospitality has taken various technical and organizational measures, which are regularly reviewed and updated, to stay compliant, including appointment of a data protection officer and a special data protection working group, regulation of data processes, risk management assessment, preparation of relevant documentation and training. We also put high emphasis on proper dealing with data subject rights requests, i.e. the requests of customers, employees and other natural persons regarding our use of their data. We, including Deutsche Hospitality, take GDPR requirements and, in particular, data subject rights requests very seriously. However, we cannot guarantee that we are fully compliant in this complex area where many items are still unclear. This includes, in particular, international data transfers which have become even more complex and unclear under the Judgment of the European Court of Justice of 16 July 2020 (C-311/18 Data Protection Commissioner v Facebook Ireland Limited and Maximillian Schrems). Theoretically, fines for a violation of the GDPR can amount up to 4% of the global turnover of the whole group.

While we take various measures to comply with all applicable data privacy and protection laws and regulations, there is no guarantee that our current security measures and those of our third-party service providers may always be adequate for the protection of our customer, employee or company data; and like all companies, we have experienced data incidents from time to time. In addition, given the size of our customer base and the types and volume of personal data on our system, we may be a particularly attractive target. Unauthorized access to our proprietary internal and customer data may be obtained through break-ins, sabotage, breach of our secure network by an unauthorized party, computer viruses, computer denial-of-service attacks, employee theft or misuse, breach of the security of the networks of our third-party service providers, or other misconduct. Because the techniques used by computer programmers who may attempt to penetrate and sabotage our proprietary internal and customer data change frequently and may not be recognized until launched against a target, we may be unable to anticipate these techniques. Unauthorized access to our proprietary internal and customer data may also be obtained through inadequate use of security controls. For instance, in August 2018, online reports alleged that we had become the subject of potential information leak and a proposed class action complaint was filed against us and our management, which was voluntarily dismissed by the plaintiffs in February 2019. For more information, please see “Item 4. Information on the Company – 4.B. Business Overview – Legal and Administrative Proceedings.” We may face similar litigations in the future. Any of such proceedings may harm our reputation and adversely affect our business and results of operations. Besides proceedings, we may be subject to negative publicity about our security and privacy policies, systems, or measurements from time to time.

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

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

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

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

The success of our business depends in part upon our continued ability to use our brands, trade names and trademarks to increase brand awareness and to further develop our products. The unauthorized reproduction of our trademarks could diminish the value of our brands and their market acceptance, competitive advantages or goodwill. In addition, we consider our proprietary information systems and operational system to be key components of our competitive advantage and our growth strategy. As of December 31, 2021, we had received copyright registration certificates for 140 software programs developed by us. However, none of our other proprietary information systems have been patented, copyrighted or otherwise registered as our intellectual property.

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

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

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

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

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

The PRC National People's Congress promulgated the Labor Contract Law of the PRC (the "Labor Contract Law") in 2007, which took effect in 2008, and amended it on December 28, 2012. The Labor Contract Law imposes requirements concerning, among others, the execution of written contracts between employers and employees, the time limits for probationary periods, and the length of fixed-term employment contracts. Because the PRC governmental authorities have introduced various new labor-related regulations since the effectiveness of the labor contract law, and the interpretation and implementation of these regulations are still evolving, our employment practices could violate the Labor Contract Law and related regulations and could be subject to related penalties, fines or legal fees. If we are subject to severe penalties or incur significant legal fees in connection with labor law disputes or investigations, our business, financial condition and results of operations may be adversely affected. In addition, a significant number of our employees are dispatched from third-party human resources companies, which are responsible for managing, among others, payrolls, social insurance contributions and local residency permits of these employees. According to a new regulation on labor dispatch, which was promulgated in January 2014 to implement the provisions of the labor contract law, a company is permitted to use dispatched employees for only up to 10% of its labor force after February 29, 2016. To comply with the labor dispatch regulation, we have reduced the percentage of dispatched employees since January 2014 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, 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.

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

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

Failure to retain our management team could harm our business.

We place substantial reliance on the experience and the institutional knowledge of members of our current management team. Mr. Qi Ji, our founder and chairman of the board, Mr. Hui Jin, our chief executive officer, Ms. Xinxin Liu, our president, Ms. Hui Chen, our chief financial officer, and other members of the management team are particularly important to our future success due to their substantial experiences in lodging and other consumer-service industries. Finding suitable replacements for Mr. Qi Ji, Mr. Hui Jin, Ms. Xinxin Liu, Ms. Hui Chen and other members of our management team could be difficult, and competition for such personnel of similar experience is intense. The loss of the services of one or more members of our management team due to their departures or otherwise could hinder our ability to effectively manage our business and implement our growth strategies.

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

Our business is subject to various compliance and operational requirements under PRC laws. For example, we are required to complete the filing and submit annual reports with, the PRC Ministry of Commerce, or the MOC, to engage in the hotel franchising business. In addition, each of our hotels in China is required to obtain a special industry license from the local public security authority and complete fire prevention safety inspection/commitment with the local fire and rescue department, to have hotel operations included in the business scope of its business license, to obtain hygiene permits, 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. We are also subject to advertising and other laws and regulations. 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, environmental and advertising laws and regulations related to our business, we may be subject to potentially significant monetary damages and fines or the suspension of our operations or development activities. Furthermore, new regulations could also require us to retrofit or modify our hotels or incur other significant expenses.

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

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

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

We could suffer impairment losses for our intangible assets.

We had net intangible assets of RMB5,945 million and RMB5,385 million (US\$845 million) as of December 31, 2020 and 2021, respectively. Our intangible assets consist primarily of brand names, master brand agreements, non-compete agreements, franchise or manachise agreements and our purchased software.

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

We recorded impairment loss of nil and RMB245 million (US\$38 million) for the years ended December 31, 2020 and 2021, respectively. The extent, magnitude and duration of COVID-19 may change the assumptions and estimates used in the indefinite life intangible assets valuation, which could result in future impairment charges. There can be no assurance that future reviews of intangible assets will not result in significant impairment charges. Although it does not affect cash flow, an impairment charge will have the effect of decreasing our earnings, assets and shareholders' equity.

We may suffer impairment losses for our goodwill.

We have acquired businesses from time to time, which have resulted in the recognition of goodwill on our financial statements. We had goodwill of RMB4,988 million and RMB5,132 million (US\$805 million) as of December 31, 2020 and 2021, respectively. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Factors that could lead to impairment of goodwill include significant adverse changes in the business climate, unanticipated changes in the competitive environment, adverse legal or regulatory actions or developments, changes in clients' perception and the reputation of our brands, changes in interest rates, unfavorable changes in our stock price and market capitalization, and deterioration in our financial condition.

Due to the negative impact of COVID-19, we incurred goodwill impairment loss of RMB437 million in 2020, which was related to legacy DH. We did not recognize any goodwill impairment in 2019 and 2021. However, as the extent, magnitude and duration of COVID-19 is still uncertain, we may need to change our assumption, which could result in future impairment charges.

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

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

Our business could be materially and adversely affected by the outbreak of swine influenza, avian influenza, severe acute respiratory syndrome, COVID-19 or other epidemics. Since COVID-19 was reported in China in December 2019, the whole world has suffered from the impact of COVID-19. Any prolonged recurrence of such contagious disease or other adverse public health developments in China, Europe and other countries and regions may have a material and adverse effect on our operations. For example, if any of our employees or customers are suspected of having contracted any contagious disease while he or she has worked or stayed in our hotels, we may under certain circumstances be required to quarantine our employees that are affected and the affected areas of our premises. Any contraction by our employees or customers could also affect the safety reputation of the relevant hotels, which in turn could undermine customers' willingness to stay in such hotels.

In recent years, there have also been reports on the occurrences of avian influenza in various parts of China, Europe and other countries and regions that we operate, including hundreds of confirmed human deaths. Any prolonged recurrence of such contagious disease or other adverse public health developments in China, Europe and other countries and regions that we operate may have a material and adverse effect on our 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, Europe and other countries and regions that we operate. 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.

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, franchisees and contractors to purchase customary insurance policies. Although we require our franchisees to obtain the requisite insurance coverage through our franchisees management, we cannot guarantee that our franchisees 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.

In connection with the preparation of this annual report, we carried out an evaluation of the effectiveness of our internal control over financial reporting. Based on this assessment and evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2021. Our independent registered public accounting firm has issued an attestation report as of December 31, 2021. 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 prices of our ADSs and/or ordinary shares. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to continue to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

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

We cannot predict with certainty the cost of defense, the cost of prosecution or the ultimate outcome of litigation and other proceedings filed by or against us, our directors, management or employees, including remedies or damage awards, and adverse results in such litigation and other proceedings may harm our business or reputation. Such litigation and other proceedings may include, but are not limited to, actions relating to intellectual property, commercial arrangements, leased properties, share transfer, employment, non-competition and labor law, fiduciary duties, personal injury, death, property damage or other harm resulting from acts or omissions by individuals or entities outside of our control, including franchisees and third-party property owners. For example, as of December 31, 2021, we had some pending legal, administrative and arbitration proceedings, including real estate lease terminations and disputes and management agreement disputes. Moreover, in the case of intellectual property litigation and proceedings, adverse outcomes could include the cancellation, invalidation or other loss of material intellectual property rights used in our business and injunctions prohibiting our use of business processes or technology that is subject to third-party patents or other third-party intellectual property rights.

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

Risks Related to Doing Business in China

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

With global presence, we conduct a substantial portion of our business and operations in China. 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 four decades, growth has been uneven across different regions and among various economic sectors of China. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. While some of these measures benefit the overall PRC economy, they may also have a negative effect on us. For example, our results of operations and financial condition may be adversely affected by government control over capital investments or changes in environmental, health, labor or tax regulations that are applicable to us.

As the PRC economy is increasingly intricately linked to the global economy, it is affected in various respects by downturns and recessions of major economies around the world, such as the global financial crisis and sovereign debt crisis in Europe. Stimulus measures designed to help China weather the global financial crisis may contribute to higher inflation, which could adversely affect our results of operations and financial condition. For example, certain operating costs and expenses, such as employee compensation and hotel operating expenses, may increase as a result of higher inflation. Measures to control the pace of economic growth may cause a decrease in the level of economic activity in China, which in turn could adversely affect our results of operations and financial condition. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government has recently published new policies that significantly affected certain industries such as the education and internet industries, and we cannot rule out the possibility that it will in the future release regulations or policies regarding our industry that could require us to seek permission from Chinese authorities to continue to operate our business, which may adversely affect our business, financial condition and results of operations. Furthermore, recent statements made by the Chinese government have indicated an intent to increase the government's oversight and control over offerings of companies with significant operations in China that are to be conducted in foreign markets, as well as foreign investment in China-based issuers like us. The PRC government also exercises significant control over China's economic growth through its allocation of resources, control of payment of foreign currency-denominated obligations, monetary policy, and preferential treatment for particular industries or companies. Any such action, once taken by the Chinese government, could significantly limit or completely hinder our ability to offer or continue to offer ADSs and Shares to our investors, and could cause the value of our ADSs and Shares to significantly decline or become worthless.

The PRC government also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, interest rate changes, setting monetary policy and providing preferential treatment to particular industries or companies. Certain measures adopted by the PRC government, such as changes of the People's Bank of China's statutory deposit reserve ratio and lending guideline imposed on commercial banks, may restrict loans to certain industries. The State Administration of Foreign Exchange, or "SAFE", and the relevant Chinese banks where our operating subsidiaries or VIEs in China opened bank accounts may adopt restrictions on the cross-border payment obligations and dividends repatriation made by these subsidiaries or VIEs by way of "window guidance" measures. These actions, as well as future actions and policies of the PRC government, could materially affect our liquidity and access to capital and our ability to operate our business. In addition, these measures may also cause decreased economic activity in China, and, since 2012, the Chinese economy has slowed down. Any prolonged slowdown in the Chinese economy may reduce the demand for our services and materially and adversely affect our business and results of operations. There have also been concerns about the relationships among China and other Asian countries, the relationship between China and the United States, as well as the relationship between the United States and certain Asian countries such as North Korea, which may result in or intensify potential conflicts in relation to territorial, regional security and trade disputes.

Any adverse changes in economic conditions in China, in the policies of the Chinese government or in the laws and regulations in China could have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our business and operating results, leading to reduction in demand for our services and solutions and adversely affect our competitive position. An economic downturn, whether actual or perceived, a further decrease in economic growth rates or an otherwise uncertain economic outlook in China could have a material adverse effect on business and consumer spending and, as a result, adversely affect our business, financial condition and results of operations.

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

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

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

Most of our operations are conducted in the PRC through our PRC subsidiaries, and are governed by PRC laws, rules and regulations. We also have operations through the VIEs, which contribute an insignificant portion of our total revenues and their impact to our consolidated financial statements are immaterial. 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.

Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all. As a result, we may not be aware of our potential violation of these policies and rules. In addition, any administrative and court proceedings in China may be protracted and result in substantial costs and diversion of resources and management attention.

PRC government has significant oversight over the conduct of our business and it has recently indicated an intent to exert more oversight over offerings that are conducted overseas and/or foreign investment in China-based issuers. Any such action could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless.

Additionally, the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws may have an adverse effect on our operations. On July 6, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly issued the Opinions on Severely Cracking Down on Illegal Securities Activities in accordance with the law, or the Opinions. The Opinions emphasized the need to strengthen the administration over illegal securities activities, and to strengthen the supervision over overseas listings of Chinese companies. Measures, such as promoting the construction of relevant regulatory systems, will be taken to deal with the risks and incidents, such as data security and privacy protection, of China-based overseas listed companies. As there are uncertainties regarding the interpretation and implementation of such regulatory guidance, we cannot assure you that we will be able to comply with new regulatory requirements relating to our future overseas capital raising activities and we may be subject to more stringent requirements with respect to data privacy, cross-border investigations and legal claim enforcements. Uncertainties in the effect of future regulatory developments in China 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.

PRC laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China for the past decades. However, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. In addition, any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention.

Recent regulatory developments in China may subject us to additional regulatory review and disclosure requirements, expose us to government interference, or otherwise restrict or completely hinder our ability to offer securities and raise capital outside China, which could adversely affect our business operations and cause the value of our securities to significantly decline or become worthless.

As our primary business is conducted in China, we are exposed to legal and other risks associated with our operations in China. The PRC government has significant authority to exert influence on the ability of a company with operations in China, including us, to conduct its business, and may exert substantial intervention and influence over the manner our operations. Any actions by the PRC government to exert more oversight and control over offerings that are conducted overseas or foreign investment in companies having operations in China, including us, could significantly limit or completely hinder our ability to offer or continue to offer securities to investors, and cause the value of our securities to significantly decline or become worthless. Recently, the PRC government initiated a series of regulatory actions and statements to regulate business operations in China with little advance notice, including cracking down on illegal activities in the securities market, enhancing supervision over China-based companies listed overseas, adopting new measures to extend the scope of cybersecurity reviews, adopting new laws and regulations related to data security, and expanding the efforts in anti-monopoly enforcement. While we do not believe that these regulatory changes would have any material impact on us, we cannot guarantee that the authorities will agree with us or will not promulgate new regulations that restrict our business operations or access to capital.

On July 6, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly issued the Opinions on Severe and Lawful Crackdown on Illegal Securities Activities. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies. These opinions proposed to take effective measures, such as promoting the construction of relevant regulatory systems, to deal with the risks and incidents facing China-based overseas-listed companies and the demand for cybersecurity and data privacy protection. These opinions and any related implementation rules to be enacted may subject us to additional compliance requirement in the future. As these opinions were recently issued, official guidance and interpretation of the opinions remain unclear in several respects at this time. Therefore, we cannot assure you that we will remain fully compliant with all new regulatory requirements of these opinions or any future implementation rules on a timely basis, or at all.

Cybersecurity and data privacy and security issues are legislative and regulatory focus in China. On July 30, 2021, the State Council of the PRC promulgated the Regulations on the Protection of the Security of Critical Information Infrastructure, which took effect on September 1, 2021. This regulation requires, among others, certain competent authorities to identify critical information infrastructures. If any critical information infrastructure is identified, the relevant authorities shall promptly notify the relevant operator and the Ministry of Public Security. The CAC and a number of other departments under the State Council promulgated the Measures for Cybersecurity Review on December 28, 2021, which became effective on February 15, 2022. According to this regulation, critical information infrastructure operators purchasing network products and services and network platform operators carrying out data processing activities, which affect or may affect national security, are required to conduct cybersecurity review. We cannot rule out the possibility that the competent PRC government authorities will not initiate cybersecurity reviews on us in the future. Since the effective date of the Measures for Cybersecurity Review till the date of this annual report, we have not been involved in any investigations on cybersecurity review made by the CAC, and we have not received any inquiry, notice, warning, or sanctions in such respect. However, as these are new regulations that are evolving, there remains uncertainties as to how they will be interpreted or implemented in the context of an overseas offering.

We may be subject to PRC laws relating to the collection, use, sharing, retention security, and transfer of confidential and private information, such as personal information and other data. For example, on September 1, 2021, the PRC Data Security Law became effective, which imposes data security and privacy obligations on entities and individuals conducting data-related activities, and introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interests, or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used. In addition, the Standing Committee of PRC National People’s Congress promulgated the Personal Information Protection Law (the “PIPL”) on August 20, 2021, which took effect on November 1, 2021. The PIPL further emphasizes processors’ obligations and responsibilities for personal information protection and sets out the basic rules for processing personal information and the rules for cross-border transfer of personal information. On November 14, 2021, the Cyberspace Administration of China released the draft Administrative Regulation on Network Data Security for public comments through December 13, 2021 (the “Draft Administrative Regulation”). Under the Draft Administrative Regulation, foreign-listed data processors shall carry out annual data security evaluation and submit the evaluation report to the municipal cyberspace administration authority. We have implemented comprehensive cybersecurity and data protection policies, procedures and measures to safeguard personal information rights and ensure secured storage and transmission of data and prevent unauthorized access or use of data. Since the effective date of the PIPL till the date of this annual report, we have not been involved in any investigations on data security or privacy compliance issues in connection with the PRC Data Security Law or the PIPL, and we have not received any inquiry, notice, warning, or sanctions in such respect. However, we cannot guarantee that the regulators will agree with us or will not in the future adopt new regulations that restrict our business operations.

On December 24, 2021, the CSRC published consultation drafts on the State Council Regulations on the Overseas Issuance and Listing of Securities by Domestic Enterprises and the Filing Management Rules on the Overseas Issuance and Listing of Securities by Domestic Enterprises. These regulations apply to various types of overseas equity offerings and listings, including secondary or dual primary listings, listing through special purchase acquisition companies, issuance of equity incentive awards, issuance of equity securities or securities convertible into or exchangeable for equity securities. Issuers conducting these transactions will need to make filings with the CSRC. According to the China Securities Regulatory Commission’s answer to reporters’ questions on the two drafts on December 24, 2021, the regulations will adhere to the principle of non-retroactivity of laws, and will go through the filing procedures as required for companies planning to go public and overseas listed companies that have refinancing activities; The filing of listed companies will be arranged separately, and a sufficient transition period will be given. Since these are drafts, it is unclear the extent the CSRC will conduct review of our future overseas equity offerings or listings. Separately, one of the preconditions for the CSRC filings is for the issuers complete the cybersecurity review by the CAC to the extent applicable. In addition, these new regulations and their future developments could potentially complicate our future equity offerings and require us to incur significant compliance costs.

On October 23, 2021, the Standing Committee of the National People’s Congress published the Amended Draft of the PRC Anti-Monopoly Law (the “Draft Amendment”). If the Draft Amendment is enacted as it is, the legal consequences of the corresponding monopolistic acts would be harsher. However, we don’t know if the Draft Amendment would be enacted as it is, or there would be further revisions to the Draft Amendment, or when it would be enacted, with or without further revisions. Any failure or perceived failure by us to comply with the anti-monopoly laws and regulations may result in governmental investigations or enforcement actions, litigation or claims against us and could have an adverse effect on our business, financial condition and results of operations.

Since these statements and regulatory actions are new, and some regulations are still at the stage of consultation for comments, it is highly uncertain how soon legislative or administrative regulation making bodies will respond and what existing or new laws or regulations or detailed implementations and interpretations will be modified or promulgated, if any, or the potential impact such modified or new laws and regulations will have on our daily business operation, our ability to accept foreign investments and listing on a U.S. or other foreign exchanges. PRC laws and their interpretations and enforcement continue to develop and are subject to change, and the PRC government may adopt other rules and restrictions in the future.

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 2021, we were obligated to demolish four leased hotels due to local government zoning requirements. In addition, as of December 31, 2021, we were notified by local government authorities that we may have to demolish four additional leased hotels due to local zoning requirements. Our franchise agreements typically provide that if the franchised or franchised hotels are demolished, the franchise agreements will terminate. In 2021, eight franchised hotels were demolished due to local government zoning requirements. Similar demolitions, termination of franchise agreements or interruptions of our hotel operations due to zoning or other local regulations could occur in the future. Any such further demolition and relocation could cause us to lose primary locations for our hotels and we may not be able to achieve comparable operation results following the relocations. While we may be reimbursed for such demolition and relocation, we cannot assure you that the reimbursement, as determined by the relevant government authorities, will be sufficient to cover our direct and indirect losses. Accordingly, our business, results of operations and financial condition could be adversely affected.

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

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

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

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

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

A significant portion of our revenues, expenses and financial assets are denominated in the Renminbi. Our reporting currency is Renminbi. The functional currencies of the entities within Deutsche Hospitality include Euro and other currencies such as Swiss Franc. Our exposure to foreign exchange risk primarily relates to cash and cash equivalents and loans denominated in U.S. dollars and Euro, and our investment in equity securities of Accor denominated in Euro. We rely substantially on dividends paid to us by our operating subsidiaries in China and Europe. Any significant depreciation of the Renminbi or Euro against the U.S. dollar may have a material adverse effect on our revenues, and the value of, and any dividends payable on, our ADSs and ordinary shares, when translated into U.S. dollars. If we decide to convert our Renminbi or Euro 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 or Euro against the U.S. dollar or Hong Kong dollar would reduce the U.S. dollar or Hong Kong dollar amount available to us. On the other hand, to the extent that we need to convert U.S. dollars or Hong Kong dollar into Renminbi or Euro for our operations, appreciation of the Renminbi or Euro against the U.S. dollar or Hong Kong dollar would have an adverse effect on the Renminbi 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.

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

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

On July 4, 2014, SAFE issued the *Circular of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration of the Overseas Investment and Financing and Round-trip Investments by Domestic Residents through Special Purpose Vehicles*, or Circular 37, which replaced the *Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles* issued by SAFE in October 2005, or Circular 75. Pursuant to Circular 37, any PRC residents, including both PRC institutions and individual residents, are required to register with the local SAFE branch before making contribution to a company set up or controlled by the PRC residents outside of the PRC for the purpose of overseas investment or financing with their legally owned domestic or offshore assets or interests, referred to in this circular as a “special purpose vehicle.” In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or spin-offs. In February 2015, SAFE promulgated the *Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Management Policies on 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, where banks are required to review and carry out foreign exchange registration for offshore direct investments, and SAFE and its branches supervise foreign exchange registration for direct investments indirectly through the banks. See “Item 4. Information on the Company — B. Business Overview — Regulation — Regulations on Offshore Financing” for discussions of the registration requirements and the relevant penalties.

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

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

We are a holding company, and we rely principally on dividends from our subsidiaries in China for our cash requirements, including any debt we may incur. Current PRC laws and regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our subsidiaries in China is required to set aside a certain percentage of its after-tax earnings each year, if any, to fund certain statutory reserves. These reserves are not distributable as cash dividends. As of December 31, 2021, a total of RMB826 million (US\$130 million) was not distributable in the form of dividends to us due to these PRC regulations. In addition, due to restrictions on the distribution of share capital from our PRC subsidiaries, the PRC subsidiaries' share capital of RMB2,852 million as of December 31, 2021 is considered restricted. Furthermore, if our subsidiaries in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. The inability of our subsidiaries to distribute dividends or other payments to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business.

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

As an offshore holding company, our ability to make loans or additional capital contributions to our PRC operating subsidiaries and VIEs is subject to PRC regulations and approvals. These regulations and approvals may delay or prevent us from using the proceeds we received in the past or will receive in the future from the offerings of ADSs, ordinary shares or other securities to make loans or additional capital contributions to our PRC operating subsidiaries and VIEs, and impair our ability to fund and expand our business which may adversely affect our business, financial condition and result of operations. For example, SAFE promulgated the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement Under the Capital Accounts, or Circular 16, on June 9, 2016. Under Circular 16, registered capital of a foreign-invested company settled in RMB converted from foreign currencies shall be subject to certain limitations prescribed under Circular 16. In addition, foreign-invested companies may not change how they use such capital without SAFE's approval, and may not in any case use such capital to repay RMB loans if they have not used the proceeds of such loans.

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

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

In February 2012, 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 non-PRC citizens residing in China successively for at least one year, or, collectively, the PRC participants, are subject to Circular 7. While we completed the foreign exchange registration procedures and complied with other requirements according to Circular 7 in June 2012 and April 2019, respectively, we cannot provide any assurance that we or the PRC participants of our share incentive plans have complied or will comply with the requirements imposed by Circular 7. If we or the PRC participants of our share incentive plans fail to comply with Circular 7, we or the PRC participants of our share incentive plans may be subject to fines or other legal sanctions imposed by SAFE or other PRC government authorities and our ability to further grant shares or share options under our share incentive plans to, and to adopt additional share incentive plans for, our directors and employees may be restricted. Such events could adversely affect our business operations.

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

On March 16, 2007, the PRC National People’s Congress passed the *Enterprise Income Tax Law*, and the PRC State Council subsequently issued the *Implementation Regulations of the Enterprise Income Tax Law* (the “Implementation Regulations”). The Enterprise Income Tax Law (last amended on December 29, 2018) and its Implementation Regulations (amended on April 23, 2019), collectively the “EIT Law”, provides that enterprises established outside of China whose “*de facto* management bodies” are located in China are considered resident enterprises and are therefore subject to PRC enterprise income tax at a uniform rate of 25% with respect to their income sourced from both within and outside of China. The Implementation Regulations define the term “*de facto* management body” as a management body that exercises substantial and overall control and management over the production and operations, personnel, accounting and properties of an enterprise.

On April 22, 2009, the State Taxation Administration, or the “STA” (previously known as State Administration of Taxation, or the “SAT”) issued the Notice Regarding the Determination of Chinese-Controlled Enterprises Registered Offshore as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82. Circular 82 provides certain specific criteria for determining whether the “*de facto* management body” of a Chinese-controlled offshore-incorporated enterprise is located in China. In addition, the STA issued Public Announcement [2011] No. 45 in 2011 and Public Announcement [2014] No. 9 in 2014, providing more guidance on the implementation of Circular 82 and clarifying matters including resident status determination, post-determination administration and competent tax authorities. However, the above-mentioned tax circulars apply only to offshore enterprises controlled by PRC enterprises, not those invested in or controlled by PRC individuals, like our company. Currently, there are no further detailed rules or precedents applicable to us regarding the procedures and specific criteria for determining “*de facto* management body” for a company like us. It is still unclear if the PRC tax authorities would determine that we should be classified as a PRC resident enterprise.

Although we have not been notified that we are treated as a PRC resident enterprise, we cannot assure you that we will not be treated as a resident enterprise under the EIT Law, any aforesaid circulars or any amended regulations in the future. If we are treated as a PRC resident enterprise for PRC enterprise income tax purposes, among other things, we would be subject to the PRC enterprise income tax at the rate of 25% on our worldwide taxable income. Furthermore, if we are treated as a PRC resident enterprise, payments of dividend by us may be regarded as derived from sources within the PRC and therefore we may be obligated to withhold PRC income tax at 10% on payments of dividend on the ADSs or ordinary shares to non-PRC resident enterprise investors. In the case of non-PRC resident individual investors, the tax may be withheld at a rate of 20%.

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

If the U.S. Public Company Accounting Oversight Board is unable to inspect our auditors as required under the Holding Foreign Companies Accountable Act, the SEC will prohibit the trading of our ADSs. A trading prohibition for our ADSs, or the threat of a trading prohibition, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections of our auditors deprives our investors of the benefits of such inspections.

The HFCA Act was enacted into law on December 18, 2020. Under the HFCA Act, if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years (beginning with those we are to file in 2022), the SEC will prohibit our securities, including our ADSs, from being traded on a U.S. national securities exchange, including the NYSE, or in the over-the-counter trading market in the U.S. The process for implementing trading prohibitions pursuant to the HFCA Act will be based on a list of registered public accounting firms that the PCAOB has been unable to inspect and investigate completely as a result of a position taken by a non-U.S. government, or the Relevant Jurisdiction. The first such list was included in a release by the PCAOB on December 16, 2021, or the PCAOB December 2021 Release, and our auditor was included on that list. The SEC will review annual reports filed with it in 2022 to determine if the auditor used for such reports was so identified by the PCAOB, and such issuers will be designated as "Commission Identified Issuers" on a list to be published by the SEC. If an issuer is a Commission Identified Issuer for three consecutive years (which will be determined after the third such annual report), the SEC will issue an order that will implement the trading prohibitions described above.

Unless we are able to retain a PCAOB-registered auditor subject to PCAOB inspection and investigation, we would expect that a trading prohibition for our ADSs could be issued shortly after the filing of our annual report on Form 20-F for 2023, which would be due on April 30, 2024. Given that all PCAOB-registered firms in China were included on the list in the PCAOB December 2021 Release, our ability to retain an auditor subject to PCAOB inspection and investigation will depend on the relevant U.S. and PRC regulators reaching an agreement to permit these inspections and investigations. The PCAOB entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the PRC Ministry of Finance, which established a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by the PCAOB in the PRC or by the CSRC or the PRC Ministry of Finance in the United States. The PCAOB continues to be in discussions with the CSRC and the PRC Ministry of Finance to permit joint inspections of the PCAOB-registered audit firms that audit Chinese companies that trade on U.S. exchanges. However, in the PCAOB December 2021 Release, the PCAOB identified problems in implementing these agreements and a lack of cooperation. Accordingly, we can offer no assurance that we will be able to retain an auditor that would allow us to avoid a trading prohibition for our securities under the HFCA Act.

In June 2021, the United States Senate passed a bill that would amend the HFCA Act to accelerate the imposition of trading prohibitions once an issuer is identified from three years to two years, and a companion bill was introduced in the U.S. House of Representatives on December 14, 2021. In February, 2022, the U.S. House of Representatives passed the America Competes Act of 2022, which includes the same amendments as the bill passed by the Senate. However, the America Competes Act includes a broader range of legislation not related to the HFCA Act in response to the U.S. Innovation and Competition Act passed by the Senate in 2021. The U.S. House of Representatives and U.S. Senate needs to agree on amendments to these respective bills to align the legislation and pass their amended bills before the President can sign into law. It is unclear when the U.S. Senate and U.S. House of Representatives will resolve the differences in the U.S. Innovation and Competition Act and the America Competes Act of 2022 bills currently passed. If this bill amending the HFCA Act is approved by both houses of Congress and signed by the President, our securities could be subject to a trading prohibition following our filing of our annual report on Form 20-F for 2022, which will be due on May 1, 2023.

If our ADSs are subject to a trading prohibition under the HFCA Act, the price of our ADSs may be adversely affected, and the threat of such a trading prohibition would also adversely affect their price. If we are unable to be listed on another securities exchange that provides sufficient liquidity, such a trading prohibition may substantially impair your ability to sell or purchase our ADSs when you wish to do so. Furthermore, if we are able to maintain a listing or our ordinary shares on the Stock Exchange of Hong Kong or another non-U.S. exchange, investors owning our ADSs may have to take additional steps to engage in transactions on that exchange, including converting ADSs into ordinary shares and establishing non-U.S. brokerage accounts.

The HFCA Act also imposes additional certification and disclosure requirements for Commission Identified Issuers, and these requirements will apply beginning with annual reports on Form 20-F to be filed in 2023 for Commission Identified Issuers named in the prior year. Because our auditor was included in the list in the PCAOB December 2021 Release, we expect to have to comply with these disclosure requirements in our annual report on Form 20-F for 2022 to be filed in 2023. The additional requirements include a certification that the issuer is not owned or controlled by a governmental entity in the Relevant Jurisdiction, and the additional requirements for annual reports include disclosure that the issuer's financials were audited by a firm not subject to PCAOB inspection, disclosure on governmental entities in the Relevant Jurisdiction's ownership in and controlling financial interest in the issuer, the names of Chinese Communist Party, or CCP, members on the board of the issuer or its operating entities, and whether the issuer's article's include a charter of the CCP, including the text of such charter.

In addition to the issues under the HFCA discussed above, the PCAOB's inability to conduct inspections in China and Hong Kong prevents it from fully evaluating the audits and quality control procedures of our independent registered public accounting firm. As a result, we and investors in our ADSs and ordinary shares are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections, which could cause investors and potential investors in our stock to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

Proceedings instituted by the SEC against the Big Four PRC-based accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act.

In December 2012, the SEC instituted administrative proceedings against the Big Four PRC-based accounting firms in China, including our independent PCAOB-registered public accounting firm, alleging that these firms had violated U.S. securities laws and the SEC's rules and regulations thereunder by failing to provide to the SEC the firms' audit work papers with respect to certain other PRC-based companies that are publicly traded in the United States.

On January 22, 2014, the initial administrative law judge presiding over the matter rendered an initial decision that each of the firms had violated the SEC's rules of practice by failing to produce audit papers and other documents to the SEC. The initial decision censured each of the firms and barred them from practicing before the SEC for a period of six months.

On February 6, 2015, each of the four PRC-based accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC and to audit US-listed companies. The settlement required the firms to follow detailed procedures and to seek to provide the SEC with access to Chinese firms' audit documents via the CSRC. Under the terms of the settlement, the underlying proceeding against the four PRC-based accounting firms was deemed dismissed with prejudice four years after entry of the settlement. The four-year mark occurred on February 6, 2019. While we cannot predict if the SEC will further challenge the four PRC-based accounting firms' compliance with U.S. law in connection with U.S. regulatory requests for audit work papers or if the results of such a challenge would result in the SEC imposing penalties such as suspensions, if the accounting firms are subject to additional remedial measures, our ability to file our financial statements in compliance with SEC requirements could be affected. A determination that we have not timely filed financial statements in compliance with SEC requirements could ultimately lead to our delisting from the Nasdaq, deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

In the event that the SEC restarts the administrative proceedings described above, depending upon the final outcome, listed companies in the United States with major China-based operations may find it difficult or impossible to retain auditors in respect of their operations in China, which could result in financial statements being determined not to 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, U.S.-listed companies and the market price of our ADSs may be adversely affected.

If our independent registered public accounting firm was 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 to be not in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of the ADSs or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of the ADSs in the United States.

Risks Related to Our ADSs, ordinary shares and Our Trading Market

The market prices for our ADSs and/or ordinary shares 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\$32.99 to a high of US\$64.53 on the NASDAQ Global Select Market in 2021. Likewise, the high and low prices of our ordinary shares on the Hong Kong Stock Exchange in 2021 were HK\$49.3 and HK\$24.4, respectively. In addition, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong S.A.R. and/or the United States may affect the volatility in the prices of and trading volumes for our ADSs and/or ordinary shares. Some of these companies have experienced significant volatility. The trading performances of these companies' securities may affect the overall investor sentiment towards other companies with business operations located mainly in China and listed in Hong Kong S.A.R. and/or the United States and consequently may impact the trading performance of our ADSs and/or ordinary shares. 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, Hong Kong 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 or ordinary shares; and
- political or market instability or disruptions, pandemics or epidemics and other disruptions to China's economy or the global economy, and actual or perceived social unrest in the United States, Hong Kong S.A.R., Europe or other countries and regions that we operate.

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

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

An active trading market for our ordinary shares on the Hong Kong Stock Exchange might not be sustained and trading prices of our ordinary shares might fluctuate significantly.

Since our listing in Hong Kong in 2020, our ordinary shares have been traded on the Hong Kong Stock Exchange. However, we cannot assure you that an active trading market for our ordinary shares on the Hong Kong Stock Exchange will be sustained. The trading price or liquidity for our ADSs on the NASDAQ Global Select Market and the trading price or liquidity for our ordinary shares on the Hong Kong Stock Exchange in the past might not be indicative of those of our ordinary shares on the Hong Kong Stock Exchange in the future. If an active trading market of our ordinary shares on the Hong Kong Stock Exchange is not sustained, the market price and liquidity of our ordinary shares could be materially and adversely affected.

In 2014, the Hong Kong, Shanghai and Shenzhen Stock Exchanges collaborated to create an inter-exchange trading mechanism called Stock Connect that allows international and mainland Chinese investors to trade eligible equity securities listed in each other's markets through the trading and clearing facilities of their home exchange. Stock Connect allows certain mainland Chinese investors to trade directly in eligible equity securities listed on the Hong Kong Stock Exchange, known as Southbound Trading. If a company's shares are not considered eligible, they cannot be traded through Stock Connect. It is unclear whether and when the ordinary shares of our company will be eligible to be traded through Stock Connect, if at all. The ineligibility of our ordinary shares for trading through Stock Connect will affect certain mainland Chinese investors' ability to trade our ordinary shares.

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

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

Techniques employed by short sellers may drive down the market prices of the ADSs and/or ordinary shares.

Short selling is the practice of selling securities that the seller does not own but rather has borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is in the short seller's interest for the price of the security to decline, many short sellers publish, or arrange for the publication of, negative opinions and allegations regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a security short. These short attacks have, in the past, led to selling of shares in the market and significant volatility of the prices of ordinary shares and/or ADSs of the targeted company. We received two short seller reports in September 2020. After receiving those reports, we immediately formed a special investigation committee, hired attorneys and conducted an internal investigation regarding the allegations in the relevant reports. Though we concluded that, subject to our ongoing internal investigations, those unfavorable allegations in the short sellers reports were untrue and without merit, the short seller reports, the volatility in the prices of our ADSs and ordinary shares, our ongoing internal investigations, as well as our responses to regulatory inquiries and relevant institutions, had diverted and could continue to divert our management's attention. Furthermore, we had spent and could continue to spend a significant amount of resources investigating such allegations, responding to relevant regulatory inquiries and defending ourselves against any potential class action lawsuits. We cannot guarantee that we will not receive such short seller reports in the future. In the event we receive additional short seller reports in the future, our management's attention could be diverted, which could adversely affect our business operations and administration. We may need to spend a significant amount of time and resources responding to the short selling firms and regulatory inquiries and preparing for or defending against potential class action lawsuits or derivative actions initiated by our investors and shareholders. Additionally, we may also be constrained in the manner in which we can proceed against the relevant short sellers by principles of freedom of speech, applicable laws of the relevant jurisdictions or issues of commercial confidentiality.

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

We believe that our current cash and cash equivalents, anticipated cash flow from operations, and funds available from borrowings under our bank facilities (including the undrawn bank facilities currently available to us and bank facilities we plan to obtain in 2022) will be sufficient to meet our anticipated working capital cash needs for at least the next 12 months. We may, however, require additional cash resources due to changed business conditions, strategic acquisitions or other future developments, including expansion through leased and owned hotels and any investments or acquisitions we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity and equity-linked securities could result in additional dilution to our shareholders. The sale of substantial amounts of our ADSs and/or ordinary shares could dilute the interests of our shareholders and ADS holders and adversely impact the market prices of our ADSs and/or ordinary shares. As of December 31, 2021, we had approximately 1,757.1 million ordinary shares outstanding held as ADSs, and approximately 53.7 million non-vested restricted stocks outstanding. The conversion of some or all of the convertible senior notes will dilute the ownership interests of existing shareholders and holders of the ADSs. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Due to the global outbreak of COVID-19, our business has been significantly impacted and we experienced operating losses in 2020 and 2021. Our total revenues increased by 25.4% from RMB10,196 million in 2020 to RMB12,785 million (US\$2,006 million) in 2021. We recorded net loss attributable to Huazhu Group Limited of RMB465 million (US\$73 million) in 2021, compared to net loss attributable to Huazhu Group Limited of RMB2,192 million in 2020. As of December 31, 2021, our current liabilities exceeded our current assets by US\$898 million, which was mainly resulted from our 2022 Notes and the outstanding bank borrowing of EUR338 million in connection with our long-term facility of EUR440 million that will become due in December 2022. Our ability to continue as a going concern depends on our ability to generate cash flows from operations and to arrange adequate financing arrangements to support our working capital requirements. For more information, please see "Item 5. Operating and financial review and prospects – 5.B. Liquidity and Capital Resources." If we are unable to continue as a going concern or achieve or maintain profitability, the market price of our ADSs may significantly decrease.

Future sales or issuances, or perceived future sales or issuances, of substantial amounts of our ordinary shares or ADSs could adversely affect the prices of our ADSs and/or ordinary shares.

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 and/or ordinary shares 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. ordinary 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 and/or ordinary shares could be adversely affected.

In addition, certain of our shareholders or their transferees and assignees will have the right to cause us to register the sale of their shares under the Securities Act upon the occurrence of certain circumstances. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the public market could cause the prices of our ADSs and/or ordinary shares to decline.

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

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

As of March 31, 2022, our founder, Mr. Qi Ji, who is also our chairman of the board and our co-founders, Ms. Tong Tong Zhao and Mr. John Jiong Wu, in total beneficially own approximately 32.9% 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 and/or ordinary shares. These actions may be taken even if they are opposed by our other shareholders, including holders of our ADSs and/or ordinary shares.

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

The depository of the ADSs has agreed that if it or the custodian receives any cash dividends or other distributions on our ordinary shares or other deposited securities underlying the ADSs, it will pay them to the holders of ADSs after deducting its fees and expenses pursuant to the deposit agreement. The holders of ADSs will receive these distributions in proportion to the number of ordinary shares their ADSs represent. However, the depository or the custodian is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act, but that are not properly registered or distributed under an applicable exemption from registration. The depository may also determine that it is not practicable to distribute certain property. In these cases, the depository may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that the holders of ADSs may not receive distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to these holders. These restrictions may cause a material decline in the value of the ADSs.

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

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

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

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

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

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

We adopt different practices as to certain matters as compared with many other companies listed on the Hong Kong Stock Exchange.

We completed our public offering and listing in Hong Kong in September 2020 and the trading of our ordinary shares on the Hong Kong Stock Exchange commenced on September 22, 2020 under the stock code "1179." As a company listed on the Hong Kong Stock Exchange pursuant to Chapter 19C of the Hong Kong Listing Rules, we are not subject to certain provisions of the Hong Kong Listing Rules pursuant to Rule 19C.11, including, among others, rules on notifiable transactions, connected transactions, share option schemes, content of financial statements as well as certain other continuing obligations. In addition, in connection with the listing of our ordinary shares on the Hong Kong Stock Exchange, we have been granted a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), the Code on Takeovers and Mergers and Share Buy-backs (the "Takeovers Codes") and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"). As a result, we will adopt different practices as to those matters, including with respect to the content and presentation of our annual reports and interim reports, as compared with other companies listed on the Hong Kong Stock Exchange that do not enjoy those exemptions or waivers. Furthermore, if 55% or more of the total worldwide trading volume, by dollar value, of our ordinary shares and ADSs over our most recent fiscal year takes place on the Hong Kong Stock Exchange, the Hong Kong Stock Exchange will regard us as having a dual primary listing in Hong Kong and we will no longer enjoy certain exemptions or waivers from strict compliance with the requirements under the Hong Kong Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), the Takeovers Codes and the SFO, which could result in our needing to undertake additional compliance activities, to devote additional resources to comply with new requirements, and our incurring of incremental compliance costs.

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

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

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

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

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

We are incorporated in the Cayman Islands, and conduct a substantial portion of our business and operations through our subsidiaries in China, the world's largest emerging market. With the acquisition of Deutsche Hospitality in January 2020, we also operate some of our business in Germany, among other jurisdictions. Most of our officers reside outside the United States and Hong Kong and some or all of the assets of those persons are located outside of the United States and Hong Kong. It may be difficult or impossible for you to bring an action against us or against these individuals in the Cayman Islands, China, Hong Kong or Germany in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind outside the Cayman Islands, China, Hong Kong or Germany, the laws of the Cayman Islands, China, Hong Kong and Germany may render you unable to effect service of process upon, or to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, Hong Kong, China or Germany. Although there is no statutory enforcement in the Cayman Islands of judgments obtained in the federal or state courts of the United States (and the Cayman Islands are not a party to any treaties for the reciprocal enforcement or recognition of such judgments with the United States), the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in the federal or state courts of the United States against the Company under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) or, in certain circumstances, an in personam judgment for non-monetary relief, and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment; (b) such courts did not contravene the rules of natural justice of the Cayman Islands; (c) such judgment was not obtained by fraud; (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

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

Our corporate affairs are governed by our amended and restated memorandum and articles of association and by the Companies Act, Cap 22 (Act 3 of 1961, as consolidated and revised) (the "Companies Act") and the common law of the Cayman Islands. The rights of shareholders to take legal action against our directors and us, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States and Hong Kong. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States and Hong Kong, and provides significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States or the courts of Hong Kong. Furthermore, our amended and restated articles of association are specific to us and include certain provisions that may be different from common practices in Hong Kong, such as the absence of requirements that the appointment, removal and remuneration of auditors must be approved by a majority of our shareholders.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against our management, directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States or in Hong Kong.

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

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

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

We are subject to Hong Kong and NASDAQ listing and regulatory requirements concurrently. The Hong Kong Stock Exchange and the NASDAQ Global Select Market have different trading hours, trading characteristics (including trading volume and liquidity), trading and listing rules, and investor bases (including different levels of retail and institutional participation). As a result of these differences, the trading prices of our ordinary shares and/or ADSs may not be the same, even allowing for currency differences and the ADS ratio. Fluctuations in the price of our ADSs due to circumstances peculiar to the U.S. capital markets could materially and adversely affect the price of the ordinary shares, or vice versa. Certain events having significant negative impact specifically on the U.S. capital markets may result in a decline in the trading price of our ordinary shares notwithstanding that such event may not impact the trading prices of securities listed in Hong Kong generally or to the same extent, or vice versa. Because of the different characteristics of the U.S. and Hong Kong capital markets, the historical market prices of our ADSs in the NASDAQ Global Select Market may not be indicative of the trading performance of the ordinary shares in the Hong Kong Stock Exchange, and vice versa.

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

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

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

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

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

We may be classified as a passive foreign investment company, which could result in adverse United States federal income tax consequences for U.S. Holders of our ADSs or ordinary shares.

Based on our financial statements and relevant market and shareholder data, we believe that we should not be treated as a passive foreign investment company (a “PFIC”) for U.S. federal income tax purposes with respect to our prior taxable year. In addition, based on our 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 current taxable year. The application of the PFIC rules is subject to ambiguity in several respects and, in addition, we must make annual separate determinations each year as to whether we are a PFIC (after the close of each taxable year). The determination of whether we are or will become a PFIC will depend in part upon the value of our goodwill and other intangible assets (which will depend upon the market prices 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 Internal Revenue Service may challenge our classification or valuation of our goodwill and other intangible assets, which may result in our company being or becoming a PFIC for the current or one or more future taxable years. Accordingly, we cannot assure you of our PFIC status for our current taxable year or for any future taxable year. If we were treated as a PFIC for any taxable year during which a U.S. Holder held an ADS or an ordinary share, certain adverse United States federal income tax consequences could apply to the U.S. Holder (as defined herein). For a more detailed discussion of United States federal income tax consequences to U.S. Holders, see “Item 10. Additional Information—E. Taxation—United States Federal Income Taxation Consideration—Passive Foreign Investment Company Rules.”

There is uncertainty as to whether Hong Kong stamp duty will apply to the trading or conversion of our ADSs.

In connection with the public offering of our ordinary shares in Hong Kong in September 2020, or the Hong Kong IPO, we established a branch register of members in Hong Kong, or the Hong Kong share register. Our ordinary shares that are traded on the Hong Kong Stock Exchange, including those issued in the Hong Kong IPO and those that may be converted from ADSs, are registered on the Hong Kong share register, and the trading of these ordinary shares on the Hong Kong Stock Exchange are subject to the Hong Kong stamp duty. To facilitate ADS-ordinary share conversion and trading between the NASDAQ Global Select Market and the Hong Kong Stock Exchange, we have moved a portion of our issued ordinary shares from our Cayman share register to our Hong Kong share register.

Under the Hong Kong Stamp Duty Ordinance, any person who effects any sale or purchase of Hong Kong stock, defined as stock the transfer of which is required to be registered in Hong Kong, is required to pay Hong Kong stamp duty. The stamp duty is currently set at a total rate of 0.26% of the greater of the consideration for, or the value of, shares transferred, with 0.13% payable by each of the buyer and the seller.

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

ITEM 4. INFORMATION ON THE COMPANY**4.A. History and Development of the Company**

The following table illustrates the key milestones of our history and business development:

Year	Milestone
2005	We launched the first <i>HanTing Hotel</i> in Kunshan, Suzhou.
2008	We launched our budget hotel product, <i>HanTing Hi Inn</i> , which was subsequently rebranded as <i>Hi Inn</i> .
2010	Our ADSs were listed on the NASDAQ Global Selected Market. We launched the first <i>JI Hotel</i> in Shanghai.
2012	We acquired a 51% equity interest in Starway HK, a midscale hotel chain, and expanded our offering to four hotel brands. We changed our Chinese trade name from “HanTing Hotel Group” to “HuaZhu Hotel Group”.
2013	We acquired the remaining 49% equity interest in <i>Starway HK</i> from C-Travel International Limited. We adopted the first proprietary cloud-based property management system in China.
2014	We entered into agreements with Accor S.A. (“ Accor ”) to join forces in the Pan-China region to develop Accor brand hotels and to form an extensive and long-term alliance with Accor. We offered the first automated self-check-in or check-out kiosks in China, featuring advanced technologies such as facial recognition.
2016	We completed our transaction with Accor. For further details, please refer to the sub-sections headed “Major Acquisitions” and “Strategic Alliance with Accor” in this section. We adopted a centralized procurement system, leveraging our Internet of Things technology, which allows all hotels across the network to make bulk purchases of hotel supplies.
2017	We completed the acquisition of all of the equity interests in Crystal Orange, which operated hotels under the brands <i>Crystal Orange Hotel</i> and <i>Orange Hotel</i> . We issued US\$475 million of 0.375% convertible senior notes due 2022.
2018	We changed our name to Huazhu Group Limited, or Huazhu. We completed the acquisition in steps of a majority stake in Blossom Hotel Management, which was engaged in the business of operating and managing hotels under <i>Blossom Hill Hotels & Resorts</i> (currently <i>Blossom House</i>) brand in the upscale market in the PRC.
2019	We were a winner of the “2019 CIO 100 Award”, which recognized us as one of the 100 most innovative organizations worldwide that use information technology in innovative ways to deliver business value. Our H Rewards loyalty program surpassed 150 million members. We opened our first overseas hotel in Singapore under <i>JI Hotel</i> brand, which we directly operate.
2020	We completed the acquisition of all equity interest in Steigenberger Hotels AG, which was engaged in the business of operating and managing hotels under five brands, namely <i>Steigenberger Hotels & Resorts</i> , <i>MAXX by Steigenberger</i> , <i>Jaz in the City</i> , <i>IntercityHotel</i> and <i>Zleep Hotels</i> , primarily in Europe. We issued US\$500 million of 3% convertible senior notes due 2026. We completed our global offering and listing on the Hong Kong Stock Exchange. We issued a total of 23,485,450 ordinary shares (including 3,063,300 ordinary shares pursuant to the exercise of over-allotment option) at a public offering price of HKD297 (US\$38.31) per ordinary share. Our ordinary shares started to be traded on the Hong Kong Stock Exchange on September 22, 2020. The offering size and offering price presented in this paragraph did not retroactively reflect the Share Subdivision. We completed put right offer relating to the 2022 Notes

Year	Milestone
2021	We completed the acquisition of CitiGO in May 2021, which operates hotels under the brand of <i>CitiGO Hotel</i> .

Our principal executive offices are located at No. 699 Wuzhong Road, Minhang District Shanghai 201103, 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.

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.

SEC maintains an internet site (<http://www.sec.gov>), which contains reports, proxy and information statements, and other information regarding us that file electronically with the SEC.

4.B. Business Overview

We are a leading, fast-growing multi-brand hotel group in China with international operations. Our hotels are operated under three different models: leased and owned, franchised, and franchised hotels that we operate under management contracts, which we refer to as "manachised." We expanded our hotel network from 5,618 hotels as of December 31, 2019 to 7,830 hotels (including 124 hotels under legacy DH) as of December 31, 2021, representing a CAGR of 18.1%. As of December 31, 2021, we had 7,830 hotels in operation, including 738 leased and owned hotels and 7,092 manachised and franchised hotels, with an aggregate of 753,216 hotel rooms. As of the same date, we were developing an additional 2,608 hotels, including 46 leased and owned hotels and 2,562 manachised and franchised hotels.

Brands are the bedrock of our success. In over a decade, we grew from an economy hotel chain to a multi-brand hotel group covering the full spectrum of market segments. Leveraging our consumer insights and our capability to deliver innovative and trend-setting products, we now operate a portfolio of over 20 distinct hotel brands. As an example of our success in brand-building, our mainstay *HanTing Hotel* brand has become a household name in China, synonymous with a comfortable stay and an affordable price. Our *Ji Hotel*, another established brand, is one of the top-of-mind brands among all midscale hotel brands for consumers in China. Since launching *Joya Hotel*, our first upscale brand, in 2013, we have further expanded into the upscale market. We have also enlarged our portfolio with international midscale to upscale brands through our strategic alliance with Accor in 2016 and acquisition of Deutsche Hospitality in January 2020. By expanding our brand portfolio, we now offer not only products targeting business travelers, but also brands catering to emerging market trends and customer needs—from weekend getaways to life-enriching experiences. Our lifestyle and resort brand, *Blossom House*, is particularly popular among leisure travelers.

Below presents our major hotel brands by category as of the date of this annual report.

- Economy hotel brands: *HanTing Hotel*, *Ni Hao Hotel*, *Hi Inn*, *Elan Hotel*, *Zleep Hotels* and *Ibis Hotel*;
- Midscale hotel brands: *Ji Hotel*, *Orange Hotel*, *Starway Hotel*, *Ibis Styles Hotel* and *CitiGO Hotel*;
- Upper midscale hotel brands: *Crystal Orange Hotel*, *IntercityHotel*, *Manxin Hotel*, *Mercure Hotel*, *Madison Hotel* and *Novotel Hotel*;
- Upscale hotel brands: *Joya Hotel*, *Blossom House*, *Steigenberger Hotels & Resorts*, *MAXX by Steigenberger*, *Jaz in the City*, and *Grand Mercure*; and
- Luxury hotel brand: *Steigenberger Icon* and *Song Hotels*.

Notes:

- (1) We enjoy exclusive franchise rights in respect of Accor’s Mercure Hotel, Ibis Hotel and Ibis Styles Hotel brands and non-exclusive franchise rights in respect of its Grand Mercure and Novotel Hotel brands in certain regions. In addition, we have exclusive rights to operate, manage, franchise and license hotels under the Jaz in the City brand in certain regions.
- (2) As of December 31, 2021, we also operated 9 other hotels and had 4 other hotels under construction, including partner hotels under Deutsche Hospitality and other hotel brands in Yongle Huazhu Hotel & Resort Group.

We have developed a vast base of loyal and engaged customers under our H Rewards loyalty program. H Rewards covers all of our brands and had more than 193 million members as of December 31, 2021. We engage with program members through multiple online and offline touch points to personalize their lodging experiences and foster strong and long-lasting relationships that inspire loyalty to our brands. H Rewards is a powerful distribution platform, enabling us to conduct lower-cost, targeted marketing campaigns and maintain a high percentage of direct sales to customers. In 2021, approximately 75% of our room-nights were sold to customers who were individual or corporate H Rewards members in legacy Huazhu.

We have developed industry-leading, proprietary technology infrastructure that enhances customer experience, increases our operational efficiency, and supports our fast growth. The core of this infrastructure is a comprehensive suite of modularized applications, including a cloud-based property management system and centralized reservation, procurement and revenue management systems. Leveraging our operational experience and technological capabilities, we have built a centralized shared service center and realized the economies of scale made possible through our enormous hotel operations. We have also undertaken a series of industry-first digitalization initiatives to optimize our hotels’ operational efficiency and cost structure and operate “smart” hotels. Our digital transformation initiative, the “Easy” series, has increased the speed and efficiency of our hotels’ entire business processes, from the moment a reservation is made until a guest checks out.

Leveraging our strong brand recognition, massive member traffic, and robust technology infrastructure, we have pioneered a business operating system designed to enhance hotel operations across all fronts. Our business operating system is the result of our years of industry know-how, and it includes innovative ideas that are first tested and refined by our leased and owned business. Subsequently, these ideas can be “plugged-and-played” by our franchisees with confidence, thus allowing us to effectively expand our hotel network in an asset-light manner. We added a net 2,212 hotels (including 124 hotels under legacy DH) from December 31, 2019 to December 31, 2021, 97.7% of which were managed and franchised hotels. Apart from receiving franchise fees for these hotels, we also share our technology infrastructure and our vast customers base with our franchisees. In addition to extending our expertise to our managed and franchised hotels, we can also monetize our core competencies by offering standardized and tailored SaaS and IT solutions to other hotel operators, real estate companies and service apartment providers. We believe that our distinct approach to hospitality has helped us establish a highly differentiated business model that balances scale, quality and returns.

We have recorded outstanding financial performance in recent years, although our financial performance was adversely affected by COVID-19 in 2020 and 2021. Our total revenue was RMB11,212 million, RMB10,196 million and RMB12,785 million (US\$2,006 million) in 2019, 2020 and 2021, respectively. We had net income attributable to Huazhu Group of RMB1,769 million in 2019. We recorded net loss attributed to Huazhu Group of RMB2,192 million and RMB465 million (US\$73 million) in 2020 and 2021, respectively. Our adjusted EBITDA (non-GAAP) amounted to RMB3,349 million, negative RMB244 million and RMB1,571 million (US\$247 million) in 2019, 2020 and 2021, respectively, and our net cash provided by operating activities amounted to RMB3,293 million, RMB609 million and RMB1,342 million (US\$210 million) in these respective periods.

We believe that our core competencies and proven business model well-position us to increase our share in the expanding global lodging industry and continue to deliver encouraging financial performance.

Our Hotel Network

We operate hotels under lease and ownership, manachise and franchise models. Under the lease and ownership model, we directly operate hotels located primarily on leased properties, as well as on owned properties. Under the manachise model, we manage manachised hotels through the on-site hotel managers we appoint and collect fees from franchisees. Under the franchise model, we collect fees from franchisees but do not appoint on-site hotel managers. We have adopted a disciplined return-driven development model aimed at achieving high growth and profitability and applied consistent operational and quality standards across all of our hotels.

Our hotel network has grown rapidly. The following table sets forth the number of hotels we operated as of the dates indicated.

	As of December 31,										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 ⁽¹⁾
Leased and owned hotels	344	465	565	611	616	624	671	699	688	753	738
Manachised hotels	295	516	835	1,376	2,067	2,471	2,874	3,309	4,519	5,746	6,824
Franchised hotels	—	54	25	8	80	174	201	222	411	290	268
Total	639	1,035	1,425	1,995	2,763	3,269	3,746	4,230	5,618	6,789	7,830

(1) Include 76 leased hotels, 48 manachised and franchised hotels operated by Deutsche Hospitality.

As of December 31, 2021, our hotel network covered 7,830 hotels spanning 811 cities in 31 provinces and municipalities across the greater China region and 16 other countries, and we also had a pipeline of hotels in these countries and regions. As of December 31, 2021, we had an additional 2,608 leased and owned as well as manachised and franchised hotels under development.

The following table sets forth a summary of all of our hotels by geographic region as of December 31, 2021.

	Leased and Owned Hotels ⁽²⁾	Manachised Hotels ⁽³⁾	Franchised Hotels ⁽³⁾	Leased and Owned Hotels Under Development ⁽⁴⁾	Manachised and Franchised Hotels Under Development ⁽⁴⁾
Greater China:					
Shanghai, Beijing, Guangzhou, Shenzhen and Hangzhou	252	1,503	83	9	311
Others (including Taiwan) ⁽⁵⁾	409	5,293	164	9	2,241
Subtotal	661	6,796	247	18	2,552
Outside Greater China:					
Europe	76	15	10	28	5
Other countries ⁽⁶⁾	1	13	11	0	5
Subtotal	77	28	21	28	10
Total	738	6,824	268	46	2,562

(1) The data in this table include hotels under governmental requisition and hotels temporarily closed following the outbreak of COVID-19. As of December 31, 2021, we had 147 hotels under governmental requisition in China.

(2) Include 76 leased hotels operated by Deutsche Hospitality and 662 leased and owned hotels operated by the rest of our Group.

(3) Include 48 manachised and franchised hotels operated by Deutsche Hospitality and 7,044 manachised and franchised hotels operated by the rest of our Group.

(4) Include hotels for which we have entered into binding leases, purchase agreements of land use right or property, or franchise agreements but that have not yet commenced operations. The inactive projects are excluded from this list according to management judgment.

(5) For our hotels in operation, include 806 cities across 29 provinces and municipalities; for our hotels under development, include 795 cities across 30 provinces and municipalities (including Taiwan).

- (6) For our hotels in operation, include Tunisia, Egypt, the UAE, Oman, Saudi Arabia, Singapore and Qatar; for our hotels under development, include Oman, the UAE, India and Cambodia.

The following table sets forth the status of our hotels under development as of December 31, 2021.

	Pre-conversion Period ⁽¹⁾	Conversion Period ⁽²⁾	Total
Leased and owned hotels	34	12	46
Manachised and franchised hotels	1,668	894	2,562
Total	1,702	906	2,608

- (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 46 leased and owned hotels under development as of December 31, 2021, we had 34 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 12 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 March 2022 to December 2022. 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 RMB426 million (US\$67 million), of which RMB155 million (US\$24 million) was incurred as of December 31, 2021. The average development costs per square meter for completed leased and owned hotels in 2021 were approximately RMB2,700 (US\$424). The franchisees are responsible for development costs for our manachised hotels and franchised hotels.

The reasons for hotel closures typically include property-related matters (such as rezoning and expiry of leases), hotel operation quality or results not meeting our requirements, and other commercial reasons.

In addition to hotels permanently closed as presented above, due to the impact of COVID-19, we also had a large number of hotels in China temporarily closed in the first quarter of 2020. As of December 31, 2021, approximately 98% of legacy Huazhu's hotel (excluding hotels under governmental requisition) had resumed operations. During the first quarter of 2020, Chinese governmental authorities also requisitioned accumulatively 610 of our hotels in various locations for the accommodation of medical support workers and for quarantine purposes in relation to COVID-19. As of December 31, 2021, we had 147 hotels under governmental requisition in China. As COVID-19 spreads globally, the hotel operations of Deutsche Hospitality in Europe have also been adversely affected since early March 2020. Local governments in Europe imposed travel restrictions and lockdowns to contain the spread of COVID-19, and as a result, a number of our Deutsche Hospitality hotels were temporarily closed in 2020. As of December 31, 2021, all hotels of Deutsche Hospitality that were temporarily closed due to COVID-19 had resumed operation.

Leased and owned hotels

As of December 31, 2021, we had 729 leased hotels and 9 owned hotels, accounting for approximately 9.4% of our hotels in operation. We manage and operate each aspect of these hotels and bear all of the accompanying expenses. We are responsible for recruiting, training and supervising the hotel managers and employees, paying for leases and costs associated with construction and renovation of these hotels, and purchasing all supplies and other required equipment.

Our leased hotels are located on leased properties. The terms of our leases typically range from ten to 30 years. We generally enjoy an initial two- to eight-month rent-free period. For certain of our hotels (under Deutsche Hospitality), the landlords are responsible for renovating the hotels (other than soft furnishing) and we are not required to pay rent until this renovation is completed. We generally pay fixed rent on a monthly, quarterly or biannual basis for the first three to five years of the lease term, after which we are generally subject to a 2% to 6% increase on rent every three to five years or, for Deutsche Hospitality's hotels, generally annual adjustments based on consumer price index levels. Our leases usually allow extensions by mutual agreement. In addition, our lessors are typically required to notify us in advance if they intend to sell or dispose of their properties, in which case we have a right of first refusal to purchase the properties on equivalent terms and conditions. To mitigate the impact of COVID-19, we have been negotiating with landlords to reduce or delay our rental payment. 45 of our leases expired in 2021, among which 18 were renewed, 12 were converted to manachised and franchised hotels and 15 were terminated.

The following table sets forth the number of our leases for hotels in operation and under development that were expected to expire in the periods indicated as of December 31, 2021.

	Number of Leases
2022	67
2023	45
2024	49
2025	50
2026	66
2027-2029	177
2030-2032	113
2033 and onward	208
Total	<u>775</u>

Manachised and Franchised Hotels

As of December 31, 2021, we had 6,824 manachised hotels and 268 franchised hotels, accounting for approximately 87.2% and 3.4%, respectively, of our hotels in operation. Our franchisees lease or own their hotel properties and are responsible for the costs of developing and operating the manachised or franchised hotels, including constructing and renovating the hotels according to our standards, and all of the hotel operating expenses. We impose the same standards on all of our manachised and franchised hotels to ensure product quality and consistency across our hotel network. Our franchisees are not allowed to sub-franchise hotels under our brands to any third party. We collect fees from the franchisees of our manachised and franchised hotels and do not bear any loss incurred or otherwise share any profit realized by our franchisees. We believe that the manachise and franchise models have enabled us to quickly and effectively expand our geographical coverage and market share in a less capital-intensive manner through leveraging the local knowledge and relationships of our franchisees.

Manachised hotels

We manage our manachised hotels and impose the same standards on all manachised hotels as our other hotels to ensure product quality and consistency across our hotel network. For our manachised hotels under legacy Huazhu, our manachise agreements typically have the following terms:

Scope of service: We authorize a manachised hotel to use our relevant brand name, logo and relevant trademarks. The franchisee is responsible for the hotel's construction, renovation and maintenance. We provide guidance to the franchisee on the construction or renovation of the hotel and require the hotel to meet our standards before approving it to commence operations. We appoint and train hotel managers who are responsible for hiring hotel staff and managing daily operations of our manachised hotels. We also provide our franchisees with services such as central reservation, sales and marketing support, technology support, quality assurance inspections and other operational support and information.

Fees collected: we generally charge our franchisees an upfront franchise fee typically ranging between RMB80,000 and RMB1,000,000 per hotel, as well as a monthly franchise fee of approximately 3% to 6.5% of the gross revenues generated by each manachised hotel. In addition, we collect from franchisees a reservation fee for using our central reservation system and a membership registration fee for customers who join our H Rewards (previously known as HUAZHU Rewards) loyalty program at the manachised hotels. We also charge system maintenance and support fees and other IT service fees from our franchisees for sharing our technology infrastructure with our manachised hotels. Furthermore, we employ and appoint hotel managers for the manachised hotels and charge franchisees for a manager fee on a monthly basis.

Term of service: our franchise and management agreements for our manachised hotels typically run for an initial term of eight to ten years, and may be extended upon mutual agreement between us and the franchisee three months prior to the expiration of the franchise and management agreements.

Termination: we typically have the right to early terminate the franchise and management agreements immediately, if the franchisee commences operations without our approval, goes bankrupt, suspends operation for a specified period, interferes in our appointed manager's management of the hotel, or violates applicable laws and regulations that result in harm to our brand, among others. We are also entitled to terminate these agreements in case of material breaches of the agreements by the franchisee, if the franchisee fails to rectify within a grace period. In all of these circumstances, we can keep the franchise fee and franchise deposit collected and claim liquidated damages from the franchisee.

For our manachised hotels under Deutsche Hospitality, the franchisees have historically been required to pay Deutsche Hospitality a management fee consisting of a base fee of 0.5% to 3.5% of the hotel's turnover and an incentive fee of 6% to 10% of the hotel's adjusted gross operating profit. Deutsche Hospitality participates in the distribution of the manachised hotel's profit, and charges a marketing fee for a few manachised hotels. General manager compensation of a manachised hotel, including salaries, social security contribution, and various benefits and bonuses, is borne by the manachised hotel. For some manachised hotels outside Germany, Deutsche Hospitality further charges a license fee of approximately 0.5% to 1% of the hotel's turnover. The term of service for our manachised hotels under Deutsche Hospitality is typically 15 to 20 years. We are gradually adapting the terms of Deutsche Hospitality's franchise and management agreements to be similar to those of our other manachised hotels.

Franchised hotels

We do not appoint hotel managers for our franchised hotels and do not manage their daily operations. We apply the same standards to our franchised hotels as our other hotels. For our franchised hotels under legacy Huazhu, the terms of the franchise agreements are subject to negotiation with individual hotel owners, while they generally have the following terms:

Scope of service: the services that we provide to franchised hotels are similar to those we provide to manachised hotels, except that we do not appoint managers and do not provide management services to the franchised hotels.

Franchise fee: we charge our franchised hotels fees on generally the same terms as our manachised hotels, except that we do not appoint hotel managers to our franchised hotels and thus do not charge these hotels hotel manager fee on a monthly basis.

Term of service: our franchise agreements for our franchised hotels typically run for an initial term of eight to ten years, and may be extended upon mutual agreement between us and the franchisee three months prior to the expiration of the franchise agreements.

Termination: our rights to terminate the franchise agreements for our franchised hotels are similar to those for our manachised hotels.

For our franchised hotels under Deutsche Hospitality, the franchisees have historically been required to pay Deutsche Hospitality a franchise fee of approximately 0.5% to 4.0% of the hotel's gross room revenue or turnover. Some hotels outside Germany are charged a fixed franchise fee ranging from EUR40,000 to EUR150,000 per year. Most franchised hotels are also charged a central service fee (or marketing fee in older contracts) and a license fee. The term of service for our franchised hotels under Deutsche Hospitality is typically ten to 15 years. We are gradually adapting the terms of Deutsche Hospitality's franchise agreements to be similar to those of our other franchised hotels.

Our Products

As of the date of this annual report, we have hotels in operation or under development under the following brands, which are designed to target distinct segments of customers:

- Economy hotel brands: *HanTing Hotel, Ni Hao Hotel, Hi Inn, Elan Hotel, Zleep Hotels and Ibis Hotel*;
- Midscale hotel brands: *Ji Hotel, Orange Hotel, Starway Hotel, Ibis Styles Hotel and CitiGO Hotel*;
- Upper midscale hotel brands: *Crystal Orange Hotel, IntercityHotel, Manxin Hotel, Mercure Hotel, Madison Hotel and Novotel Hotel*;
- Upscale hotel brands: *Joya Hotel, Blossom House, Steigenberger Hotels & Resorts, MAXX by Steigenberger, Jaz in the City, and Grand Mercure*; and
- Luxury hotel brand: *Steigenberger Icon and Song Hotels*.

We have entered into brand franchise agreements with Accor and enjoyed exclusive franchise rights in respect of *Mercure Hotel, Ibis Hotel* and *Ibis Styles Hotel* in the PRC, Taiwan and Mongolia and non-exclusive franchise rights in respect of *Grand Mercure* and *Novotel Hotel* in the PRC, Taiwan and Mongolia. Through our acquisition of Deutsche Hospitality, we have obtained exclusive rights to construct, operate, manage, franchise and license hotels under the *Jaz in the City* brand in China, South East Asia, Japan, South Korea and Europe subject to certain exceptions, and non-exclusive rights to operate, manage, franchise and license certain hotels under the *Jaz in the City* brand in certain other countries and regions, such as Tunisia, Cape Verde, the UAE and Egypt.

As of December 31, 2021, we also operated 9 other hotels, including partner hotels under Deutsche Hospitality and other hotels under other hotel brands in Yongle Huazhu Hotel & Resort Group.

We believe that our multi-brand strategy provides us with a competitive advantage to open more hotels in attractive markets, capture a wider range of customers with evolving lodging preferences and needs, and achieve greater economies of scale through shared platforms.

Economy Hotel Brands

HanTing Hotel

Launched in 2005, *HanTing Hotel* is our economy hotel product with the value proposition of “Quality, Convenience and Value.” *HanTing Hotels* also includes hotels we previously marketed under the name of *HanTing Premium Hotels*. These hotels are typically located in areas close to major business and commercial districts. The *HanTing Hotel* targets knowledge workers and value- and quality-conscious travelers. These hotels are equipped with complimentary wireless Internet access and laser printers, and a cafe serving breakfast and simple meals. As of December 31, 2021, we had 3,027 *HanTing Hotels* in operation and an additional 696 *HanTing Hotels* under development.

Ni Hao Hotel

Ni Hao Hotel is our economy hotel product targeting young customers. By digitalizing and standardizing independent hotels, it helps improve their operational efficiency while maintaining their individual features. *Ni Hao Hotels* provide clean and comfortable lodging experiences to the guests at affordable prices. As of December 31, 2021, we had 163 *Ni Hao Hotels* under development and had 70 *Ni Hao Hotel* in operation.

Hi Inn

Launched in late 2008 and originally marketed under the name of *HanTing Hi Inn*, *Hi Inns* target rational and price-conscious travelers. These hotels offer compact rooms with comfortable beds and shower facilities and complimentary wireless Internet access throughout the premises. These hotels provide basic and clean accommodations. As of December 31, 2021, we had 443 *Hi Inns* in operation and an additional 117 *Hi Inns* under development.

Elan Hotel

In September 2014, we launched *Elan Hotel*. *Elan Hotel* is our economy hotel product committed to improving the operating efficiency of individual micro, small- and medium-sized economy hotels. With the continuing upgrade of accommodations and services, these hotels provide a high quality experience for young customers. As of December 31, 2021, we had 1,013 *Elan Hotels* in operation and an additional 190 *Elan Hotels* under development.

Ibis Hotel

Ibis Hotel is an economy hotel brand that is recognized across the world for its quality, reliability and commitment to the environment. It created the revolutionary bedding concept Sweet Bed by *Ibis Hotel*, and features welcoming, designer common areas and *ibis* kitchen, the modern food and beverage offer. As of December 31, 2021, we had 219 *Ibis Hotels* in operation and an additional 28 *Ibis Hotels* under development.

Zleep Hotels

Zleep Hotels, our economy hotel brand, is a well-known and successful hotel brand in Scandinavia offering service and design at a great rate. As of December 31, 2021, we had 14 *Zleep Hotels* in operation and an additional twelve *Zleep Hotels* under development.

Midscale Hotel Brands

Ji Hotel

Ji Hotel is a midscale brand that we launched in 2010, typically located in city centers or central business districts. These hotels target travelers who seek a quality experience in hotel stays. *Ji Hotels* offer rooms with quality comparable to three- to four-star rated hotels, but are priced at competitive rates. In addition, these hotels offer complimentary wireless Internet access throughout the premises, spacious lobbies with laser printers, computers, free drinks, and a cafe serving breakfast and simple meals. As of December 31, 2021, we had 1,381 *Ji Hotels* in operation and an additional 575 *Ji Hotels* under development.

Orange Hotel

Orange Hotel, previously marketed under two brand names: *Orange Hotel* and *Orange Select Hotel*, is our midscale hotel brand. These hotels are mini versions of our *Crystal Orange Hotels* with advanced sound-proof design. As of December 31, 2021, we had 432 *Orange Hotels* in operation and an additional 217 *Orange Hotels* under development.

Starway Hotel

Starway Hotel, our midscale brand, varies in the hotels' designs and targets middle class travelers who seek a spacious room, reasonable price and guaranteed quality. *Starway Hotels* offer rooms with quality comparable to three- to four-star rated hotels, but are priced at competitive rates. In addition, these hotels typically offer complimentary Internet access throughout the premises, spacious lobbies and meeting areas with complimentary tea and coffee. As of December 31, 2021, we had 528 *Starway Hotels* in operation and an additional 252 *Starway Hotels* under development.

Ibis Styles Hotel

Ibis Styles Hotel is a midscale brand that offers comfortable, designer hotels typically located in city centers or close to activity centers. The brand's distinctive all-inclusive package includes the room, all-you-can-eat breakfast buffet and broadband Internet connection, plus a host of little extras. As of December 31, 2021, we had 79 Ibis Styles Hotels in operation and an additional 21 Ibis Styles Hotels under development.

CitiGO Hotel

CitiGO Hotel is a lifestyle brand that mainly targets young people. Crafted by internationally prestigious designers, CitiGO blends travel, sports and urban culture together to provide guests with unique lodging experience. With the concept of entry lux, fashion, social life and fun, CitiGO offers trendy hospitality with affordable price. The hotel restaurant provides extra-long breakfast from 7:00 am to 12:00 pm, fresh coffee, craft beer and free late-night snack. As of December 31, 2021, we had 30 CitiGO Hotels in operation, and an additional 7 CitiGO Hotels under development.

Upper Midscale Hotel Brands

Crystal Orange Hotel

Crystal Orange Hotel is our upper midscale hotel brand featuring boutique design hotels. These hotels are equipped with advanced, four-star standard facilities, including free high-speed wireless internet access, intelligent lighting system, wireless speakers and sound-proof design. As of December 31, 2021, we had 144 Crystal Orange Hotels in operation and an additional 58 Crystal Orange Hotels under development.

IntercityHotel

IntercityHotel is our upper midscale urban hotel brand targeting business travelers. The hotels of *IntercityHotel* are usually located within walking distance of train stations or airports. As of December 31, 2021, we had 49 IntercityHotels in operation and an additional 25 IntercityHotels under development, including two hotels in operation and eight pipeline hotels in China.

Manxin Hotel

Manxin Hotel was launched as an upper midscale brand of resorts in October 2013, and was previously branded as Manxin Hotel & Resorts. Nowadays *Manxin Hotel* has become a brand with city hotels and resorts. These hotels are typically located in city centers or business districts and holiday resort areas. Manxin Hotels offer high quality rooms, intelligent service system, rich breakfast, lunch, afternoon tea, dinner and even coffee and drinks. Moreover, *Manxin Hotel* is aimed at bringing the guests a distinct experience by presenting amazing space design and offering attractive activities. Live Lively is *Manxin Hotel*'s proposition. As of December 31, 2021, we had 84 Manxin Hotels in operation and an additional 62 Manxin Hotels under development.

Mercure Hotel

Mercure Hotel is an upper midscale hotel brand that combines the strength of an international network with a strong quality commitment with the warm experiences of hotels that are rooted in their local community, targeting business and leisure travelers around the world. These hotels are typically located in city centers, by the sea or in the mountains. As of December 31, 2021, we had 125 Mercure Hotels in operation and an additional 50 Mercure Hotels under development.

Madison Hotel

We launched our new upper midscale hotel brands *Madison Hotel* and *Grand Madison Hotel* in 2019, which are committed to offering guests a classic lodging experience. In 2020, we merged the *Grand Madison Hotel* brand into the *Madison Hotel* brand. These hotels target business and leisure guests with high lodging standards and desire to understand more of the cities they are traveling in, and offer comfortable accommodations, functional furnishings and facilities, and high-quality services. As of December 31, 2021, we had 37 Madison Hotels in operation, and an additional 56 Madison Hotels under development.

Novotel Hotel

Novotel is an upper midscale brand that provides a multi-service offering for both business and leisure guests, with spacious, modular rooms, 24/7 catering offers with balanced meals, meeting rooms, attentive and proactive staff, kid areas, multi-purpose lobbies and fitness centers. These hotels are typically located in the heart of major international cities, business districts and tourist destinations. As of December 31, 2021, we had 15 Novotel Hotels in operation and an additional 13 Novotel Hotels under development.

Upscale Hotel Brands

Joya Hotel

In December 2013, we launched our upscale brand *Joya Hotel*. These hotels are typically located in areas close to major business and commercial districts in first- and second-tier cities and target affluent travelers and corporate events. *Joya Hotel* is designed for guests to enjoy all-inclusive services, including complimentary breakfast, afternoon tea, healthy snacks, mini bar free drinks, gym, automatic massage cabins and other premium services. The rooms are equipped with high-speed fiber access, full wireless coverage and Bluetooth speakers. As of December 31, 2021, we had nine Joya Hotels in operation.

Blossom House

Blossom House, previously branded Blossom Hill Hotels & Resorts, is our upscale lifestyle and resort brand targeting affluent travelers. Most of Blossom House hotels are located near typical scenic spots. As of December 31, 2021, we have 34 Blossom House hotels in operation and an additional 39 Blossom House hotels under development.

Steigenberger Hotels & Resorts

Steigenberger Hotels & Resorts is our upscale lifestyle and resort brand targeting affluent travelers. The *Steigenberger Hotels & Resorts* hotels are typically located in historic traditional buildings and lively city residences, and offer health and beauty oases set at the very heart of nature. As of December 31, 2021, we had 56 Steigenberger Hotels & Resorts in operation and an additional 10 Steigenberger Hotels & Resorts under development, including 11 hotels in operation and five pipeline hotels in China.

MAXX by Steigenberger

MAXX by Steigenberger, our upscale conversion hotel brand, is a new, charismatic concept and focuses on creating a warm, feel-good atmosphere in all destinations. As of December 31, 2021, we had seven MAXX by Steigenberger hotels in operation and six MAXX by Steigenberger hotel under development, including two hotels in operation and five pipeline hotels in China.

Jaz in the City

Jaz in the City is our upscale lifestyle brand. *Jaz in the City* branded hotels reflect metropolitan lifestyle and draw upon the local music and cultural scene. As of December 31, 2021, we have three Jaz in the City hotels in operation and one Jaz in the City hotels under development.

Grand Mercure

Grand Mercure is a brand that offers an upscale network of hotels and apartments that combine local culture with world-class services. With hotels that are uniquely adapted to each market, the brand helps guests “discover a new authentic”. As of December 31, 2021, we had seven Grand Mercure Hotels in operation and additional three Grand Mercure Hotels under development.

Luxury Hotel Brand

Steigenberger Icon

Steigenberger Icon is our new brand. It is our first brand under luxury level, a prestigious level we granted only to our most legendary Steigenberger hotels. Our Icon hotels situate at some of the world's most privileged destinations, each Icon hotel tells its own inimitable story and provides customers with unique lodging experience with the concept of luxury, heritage and simplicity. As of December 31, 2021, we had nine Steigenberger Icon Hotels in operation and additional two Steigenberger Icon Hotels under development.

Song Hotels

Song Hotels is our luxury hotel brand designed for high-end vacation experience. The development of this brand is inspired by culture and the delicate aesthetics from Song dynasty. Song hotels convey a leisure and elegant lifestyle to its guests through the use of the exquisite decoration and meticulous service. Simple but elegant artistic furnishings and garden landscape can be seen everywhere in the hotel. As of December 31, 2021, we had six Song Hotels in operation and additional one Song 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, and from our acquisition of Blossom Hotel Management, we typically do not acquire properties ourselves, as owning properties is generally much more capital intensive. We have adopted a systematic process with respect to the planning and execution of new development projects. Our development department analyzes economic data by city, field visit reports and market intelligence information to identify target locations in each city and form a three-year development plan for new hotels on a regular basis. The plan is subsequently reviewed and approved by our investment committee. Once a property is identified in the targeted location, staff in our development department analyzes the business terms and formulates a proposal for the project. In the case of a lease opportunity, the investment committee evaluates each proposed project based on several factors, including the length of the investment payback period, the rate of return on the investment, the amount of net cash flow projected during the operating period and the impact on our existing hotels in the vicinity. When evaluating potential manachising and franchising opportunities, the investment committee considers the attractiveness of the location as well as additional factors such as quality of the prospective franchisee and product consistency with our standards. Our investment committee weighs each investment proposal carefully to ensure that we can effectively expand our coverage while concurrently improving our profitability.

The following is a description of our hotel development process.

Manachised and franchised hotels

We open manachised and franchised hotels to expand our geographical coverage or to further penetrate in our existing markets. Manachised and franchised hotels provide us valuable operating information in assessing the attractiveness of new markets, and supplement our coverage in areas where the potential franchisees can have access to attractive locations by leveraging their own assets and local network. As is the case with leased and owned hotels, we generally look to establish manachised and franchised hotels near popular commercial and office districts that tend to generate stronger demand for hotel accommodations. Manachised and franchised hotels must also meet specified criteria in connection with the infrastructure of the building, such as adequate water, electricity and sewage systems.

We typically source potential franchisees through word-of-mouth referrals, applications submitted via our website and industry conferences. Some of our franchisees operate several of our manachised and franchised hotels. In general, we seek franchisees who share our values and management philosophies.

We typically supervise the franchisees in designing and renovating their properties pursuant to the same standards required for our leased and owned hotels, and provide assistance as required. We also provide technical expertise and recommend pre-selected qualified suppliers to our franchisees. In addition, we appoint or train hotel managers and help train other hotel staff for our manachised hotels to ensure that high quality and consistent services are provided throughout all our hotels.

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 300 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 real-time information systems to monitor our hotel performance. We believe these systems are critical in maximizing our revenues and profitability. The following are some of the key components of our hotel management infrastructure:

Budgeting. Our budget and analysis team prepares a detailed annual cost and revenue budget for each of our leased and owned hotels, and an annual revenue budget for each of our manachised and franchised hotels. The hotel budget is prepared based on, among other things, the historical operating performance of each hotel, the performance of comparable hotels and local market conditions. We may adjust the budget upon the occurrence of unexpected events that significantly affect a specific hotel's operating performance. In addition, our compensation scheme for managers in each hotel is directly linked to its performance against the annual budget.

Pricing. The room rates of our leased and owned hotels as well as manachised hotels are determined using a centralized RMS. We adjust room rates regularly based on seasonality and market demand. We also adjust room rates for certain events, such as the China Import and Export Fair held twice a year in Guangzhou, the World Expo in Shanghai in 2010 and public health events such as COVID-19. Room rates for our franchised hotels are determined by the franchisees based on local market conditions.

Monitoring. Through our cloud-based property management system, we are able to monitor each hotel's occupancy status, average daily room rates, RevPAR and other operating data on a real-time basis. Real-time hotel operating information allows us to adjust our sales efforts and other resources to rapidly capitalize on changes in the market and to maximize operating efficiency.

Centralized cash management. Our leased and owned hotels deposit cash into our central account several times a week. We also generally centralize all payments for expenditures. Our manachised and franchised hotels manage their cash separately.

Centralized procurement. We have implemented a centralized procurement system to cope with our large procurement requirements. Given the scale of our hotel network and our centralized procurement system, we have the purchasing power to secure favorable terms from suppliers for all of our hotels.

Quality assurance. We have formed detailed brand standards on hotel facilities and interior decoration for us and our franchisees to follow. We have also developed an operating manual to which our staff closely adhere to ensure the consistency and quality of our customer experience. We conduct periodic internal quality checks of our hotels to ensure that our operating policies and procedures are followed. We also engage "mystery guests" from time to time to ensure that we are providing consistent quality services. Furthermore, we actively solicit customer feedback by conducting outbound e-mail surveys and monitor comments posted on our website and third-party websites.

Training. We view the quality and skill sets of our employees as essential to our business and thus have made employee training one of our top priorities. Our Research and Study Center of Huazhu Group, previously known as HanTing College and HuaZhu University, together with our regional management teams, offers structured training programs for our hotel managers, other hotel-based staff and corporate staff. Our hotel managers are required to attend a three-week intensive training program, covering topics such as our corporate culture, team management, sales and marketing, customer service, hotel operation standards and financial and human resource management. A substantial number of our hotel managers have received training completion certificates. Our Research and Study Center of Huazhu Group has prepared a new-hire training package to standardize the training for hotel-based staff across our hotel group. In addition, we provide our corporate staff with various training programs, such as managerial skills, office software skills and corporate culture. In 2021, our hotel-based staff and corporate staff on average received approximately 68 and 48 hours of training, respectively.

Technology Infrastructure and Digitalization

We have successfully developed and implemented an advanced proprietary and scalable group-level technology infrastructure, as well as complete suite of hotel-level digital transformation initiatives. They cover our hotel operations by leveraging advanced technologies such as algorithms, big data analytics, data mining, AI, machine learning and IoT. These facilities enable us to improve the efficiency of our operations, make timely decisions and enhance our profitability.

As part of the 500-day IT integration program for our acquired Deutsche Hospitality, we also have deployed our in-house developed applications to Deutsche Hospitality to improve its operational efficiency and enrich its customer experiences.

A Global Business Integration Project was also launched in 2021, which combines Huazhu's fast development and digital expertise with Deutsche Hospitality's service excellence, international know-how and network. The aim is to collaboratively adapt the existing systems and to develop new business models, platforms and tools to support Huazhu in becoming one of the fastest developing and best performing hotel owner, operator and franchisor in the international market.

The following discusses certain key aspects of our technology infrastructure as well as our digitalization initiatives:

Technology Infrastructure

Customer relationship management (CRM) system. Our integrated CRM system maintains information of our H Rewards members, including their reservation and consumption history and pattern, points accumulated and redeemed, and prepayment and balance. By closely tracking and monitoring member information and behavior, we are able to better serve the members of our loyalty program and offer targeted promotions to enhance customer loyalty. The CRM system also allows us to monitor the performance of our corporate client sales representatives.

Central reservation system (CRS). We have an around-the-clock, real-time central reservation system available 24 hours a day, seven days a week. Our central reservation system allows reservations through multiple channels including our 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.

Centralized revenue management system (RMS). Our RMS is the first in-house developed, large scale, fully automated RMS in China's hotel industry. Powered by in-house developed algorithms and AI, our RMS automatically adjusts room rates of all hotels within our hotel network (including directly operated hotels, manachised hotels and franchised hotels) in a centralized manner at the group level or the business unit level, based on the historical operating performance of each hotel, our competitors' room rates and local market conditions within minutes, effectively optimizing the hotel's average daily room rates and occupancy levels. We believe our centralized pricing system enhances our ability to adjust room rates in a timely fashion with a goal of optimizing average daily room rates and occupancy levels across our network.

Centralized procurement system (CPS). Leveraging Internet of Things ("IoT") technology, our CPS is one of the first and one of the largest centralized procurement systems in China's lodging industry in terms of total purchase. Our CPS has enabled us to efficiently manage our operating costs, especially with respect to supplies used in large quantities, and allows all hotels across our network to make bulk purchases of hotel supplies at the same time.

Digitalization Initiatives

Cloud-based property management system (Cloud-PMS). A property management system, or PMS, is a hotel management software suite that hotel managers and front desk staff use to manage every hotel's daily business operations. Our Cloud-PMS is a cloud-based, hotel-level application that is empowered by, and seamlessly integrated with, our centralized technology infrastructure (which is comprised of our RMS and other group-level modules). Unlike onsite-PMSs which require significant upfront hardware investment and are costly and time-consuming to upgrade, our cloud-based PMS is highly scalable and enables the simultaneous launch of new services across all of our hotels. This system enables each hotel within our network to efficiently and cost-effectively manage its room inventory, reservations and pricing on its own on a real-time basis through an Internet browser, which in turn optimizes each hotel's occupancy rate, average daily room rates and revenues generated per available room, or RevPAR. The system is designed to enable us to enhance our profitability and compete more effectively by integrating with our CRS and CRM. We believe our Cloud-PMS has enabled our management to more effectively assess the performance of our hotels on a timely basis and to efficiently allocate resources and effectively identify specific market and sales targets.

"Easy" series. We have implemented an "Easy" series digital system to improve our hotel's operating efficiency. For example, our "Easy House Keeping" digital system, which is the first of its kind in the industry, streamlines and digitizes various hotel housekeeping processes, including room cleaning, room status update and maintenance, which in turn reduces the time between check-out and check-in of a hotel room, increasing hotel room turnover efficiency. This system features an in-house developed, designated mobile application which automatically assigns cleaning or maintenance staff to a room that requires cleaning or repairs. In addition, our "Easy Invoicing" digital system greatly simplifies the check-out process for business travelers.

Self-check-in/out kiosks. Our user-friendly, patented self-check-in/out kiosks, featuring advanced technologies such as facial recognition, offer a completely automated replacement of the standard check-in/out services.

Digital payment initiatives. We currently offer a variety of convenient digital payment options for our hotel guests, including online credit card payment, Alipay, WeChat Pay and Apple Pay.

Smart robots. We are one of the first hotel groups in China that have achieved large-scale deployment of smart robots. These AI-powered smart robots, which we co-developed with a third-party technology company, can travel the entire hotel to make deliveries of snacks, toiletries and other hotel amenities, greet guests and lead them to their rooms, improving both the hotel's operating efficiency and guest experience.

AI assistant. Our intelligent AI assistant, which we co-developed with a well-known third-party intelligent speech and AI service provider, is the first AI assistant in China's hotel industry. Embedded in our mobile apps, our intelligent AI assistant can engage in conversation with hotel guests and answer their queries, thereby enhancing guest experience.

Smart rooms. A number of other smart features of our hotel rooms also help enhance the quality of guests' stay. For example, one of our AI initiatives, "Hello Huazhu," also enables voice control of room facilities such as lights, TV, air-conditioning and window shades.

Complimentary Wi-Fi. We were one of the first in China to offer complimentary Wi-Fi to all hotel guests in 2013. This initiative has greatly contributed to the growth of our customer base and has become mainstream in the industry.

Privacy and Data Security

We place a strong emphasis on data security. We have established an information security committee, which focuses on ensuring the security of customer data and preventing data leakage by formulating policies and procedures and providing us with data protection related guidance. We also have a dedicated information security center equipped with personnel specialized in data security, compliance and risk management. This center is involved in key aspects of our business operations and provides other departments with professional data security and risk management services.

We have in place extensive policies, processes, network architecture, and software to protect customer data. Our major systems, including those regarding property management, customer relationship management, as well as our website and mobile apps, have passed the Level III information security protection assessment conducted by the China National Accreditation Service for Conformity Assessment. We have also obtained the ISO27001 information security management certification and the ISO27701 privacy information management certification. Our payment system has passed the payment card industry (“PCI”) data security standard (“DSS”) requirements and security assessment procedures assessment. In addition, we collaborate with renowned consulting companies to strengthen the infrastructure of our information technologies and systems and to ensure compliance with data protection laws and regulations in the EU and China, such as the EU’s GDPR (as complemented by the German Federal Data Protection Act).

We collect personal information of our guests customarily required for their hotel booking, check-ins and check-outs, including their names, ID numbers, mobile phone numbers and email addresses. All of the guests’ personal information is classified as the most confidential data in our data security system. We have implemented stringent protocols to keep these data strictly confidential. We have a dedicated team of professionals who conduct regular security testing on our systems and address system errors and bugs; and a dedicated maintenance team for the maintenance of our systems, servers and databases. We also collaborate with renowned information security companies regarding 24/7 system monitoring, emergency response, and other expert consultation, to further strengthen our data security.

Sales and Marketing

Our marketing strategy is designed to enhance our brand recognition and customer loyalty. Building and differentiating the brand image of each of our hotel products is critical to increasing our brand recognition. We focus on targeting the distinct guest segments that each of our hotel products serves and adopting effective marketing measures based on thorough analysis and application of data and analytics. In 2021, approximately 83% of our room nights were sold through our own sales channels and the remaining 17% of our room nights through intermediaries in legacy Huazhu.

We use our RMS and Cloud-PMS systems to conduct pricing management for all of our hotels except for our franchised hotels. We review our hotel pricing regularly and adjust room rates as needed based on local market conditions and the specific location of each hotel, focusing mainly on three factors: (i) optimum occupancy rate of the hotel and our other hotels nearby, (ii) seasonal demand for the hotel and (iii) event-driven demand for the hotel.

A key component of our marketing efforts is the H Rewards, our loyalty program, which covers all of our brands. We believe the H Rewards loyalty program allows us to build customer loyalty and conduct lower-cost, targeted marketing campaigns. As of December 31, 2021, our H Rewards had more than 193 million members. In 2021, approximately 75% of our room nights were sold to our H Rewards members in legacy Huazhu. Members of the H Rewards are provided with discounts on room rates, free breakfasts (for gold and platinum members), more convenient check-out procedures and other benefits. H Rewards members can also accumulate points through stays in our hotels or by purchasing products and services provided at our hotels and from Hua Zhu Mall. These points can be used to offset the room charges in our hotels, buy products in Hua Zhu mall, book transportations and tickets through our platform or be redeemed for various coupons. The H Rewards includes five levels of membership: star, silver, rose gold, gold and platinum. Rose gold membership is only available for corporate members of the H Rewards. H 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 hotel industry in China is highly fragmented. A significant majority of the room supply has come from independent hotels, guest houses and other lodging facilities. In recent years hotel groups emerged and began to consolidate the market by converting independent hotels into hotel chains. As a multi-brand hotel group we believe that we compete primarily based on location, room rates, brand recognition, quality of accommodations, geographic coverage, service quality, range of services, guest amenities and convenience of the central reservation system. We primarily compete with other hotel chains as well as various independent hotels in each of the markets in which we operate, including Chinese hotel groups such as BTG Homeinns and Jinjiang, as well as international hotel groups such as Marriot, Intercontinental, Accor, Hilton and OYO. We also face competition from Airbnb and service apartments.

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.

The trademarks and logos used in our current hotels are under protection of the registered trademarks and logos. As of December 31, 2021, we registered 1,111 trademarks and logos with the China Trademark Office. As of December 31, 2021, we filed 157 trademark applications pending for examination and review by the PRC trademark office. As of the same date, we also registered 1,004 trademarks and filed 250 trademark applications outside China. As of December 31, 2021, we received 22 patents; another 7 patents were applied and under review by relevant PRC authority. We also received copyright registration certificates for 140 software programs developed by us as of December 31, 2021. In addition, we registered 894 national and international top-level domain names, including www.huazhu.com, as of December 31, 2021. 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 tradenames and trademarks as well as other intellectual property rights could have a negative impact on our brands 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 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.”

In October 2018, a proposed class action complaint was filed with the United States District Court in the Central District of California against us and our management alleging violations of the U.S. securities laws in relation to a possible data breach in August 2018. This case was voluntarily dismissed by the plaintiffs on February 27, 2019.

As of December 31, 2021, we had several pending legal and administrative proceedings, including lease contract terminations and disputes and management agreement disputes. As of the same date, our accrued contingencies remained was RMB54 million (US\$8 million).

Corporate Social Responsibility: Environmental Impact

We are committed to reducing our environmental footprint through various energy saving initiatives. For example, most of our hotels use LED lights and are equipped with eco-friendly air source heat pump systems and solar energy systems. A majority of Legacy DH hotels are using green electricity. We also continued our Green Living Initiative, which encourages customers to choose low-carbon and environmental-friendly way of accommodation by reusing towels and bed sheets, etc. Moreover, we encourage customers to choose electronic invoices through our Easy Invoice System to save paper resource and reduce carbon footprint. For Legacy DH, customers can choose Green Conference Services to achieve climate-friendly meetings with CO2 compensation. In the future, we will further control greenhouse gas emissions and actively promote energy conservation measures.

In addition, we keep improving our online energy consumption management system to timely and accurately track our hotels' energy consumption, including electricity, water and gas consumption. This system helps us monitor the consumption level and cost per room night and detect abnormal energy usage patterns. By analyzing data collected by this system, we are able to come up with energy-saving solutions and improve the overall energy efficiency of our hotels. In order to improve product performance and reduce environmental impact, we have also been upgrading the disposable items used in our hotels (such as slippers, toothbrushes, combs and paper cups) to environmental friendly ones.

Moreover, Huazhu, together with the World Travel and Tourism Council (WTTC) and some other hotel groups, are planning to launch an initiative to develop a global benchmark framework to accelerate the sustainable development process of hotel industry.

COVID-19 Outbreak: Response and Impact

In December 2019, COVID-19 was reported to have surfaced in Wuhan, China and subsequently spread throughout China. The travel industry has been adversely affected by the outbreak of the COVID-19 since the beginning of 2020 due to the reduced traveler traffic in China. In addition, after COVID-19 was declared by the World Health Organization as a Public Health Emergency of International Concern on January 31, 2020, many foreign countries issued travel bans to China which further harmed the travel industry in China. The Chinese government has also implemented strict nationwide containment measures against COVID-19, including travel restrictions, lock-down of certain cities and hotel closures. Such containment measures negatively affected our hotels' occupancy rate and revenue. For example, we had over 2,000 hotels temporarily closed at the peak in February 2020. Due to the Chinese government's effective control of COVID-19, China's domestic travel has gradually recovered, following eased travel restrictions and the national policy for resuming production and work. Although China has temporarily controlled the outbreak, our revPAR recovery was still significantly impacted by several COVID-19 resurgences. For example, the recovery was seriously interrupted by the large-scale outbreak of Omicron variant in over 30 provinces since early March. Many cities were locked-down, such as Shanghai and Jilin, which resulted in a sharp decline in business and leisure travels. As a result, our occupancy rate (excluding hotels under requisition) dropped to around 59% in March 2022. However, the outbreak also led to a raising demand for quarantine and accommodation needs of medical team and delivery riders. As of March 31, 2022, we had 1,299 hotels of legacy Huazhu under governmental requisition. For more information, please see "Item 3. Key Information — 3.D. Risk Factors — Risk Related to Our Business — The COVID-19 outbreak has adversely affected, and may continue to adversely affect, our financial and operating performance." and "Item 5. Operating and Financial Review and Prospects — 5.B. Liquidity and Capital Resources."

Since the COVID-19 outbreak, we have taken various preventative measures, such as intelligent non-contact services, across our hotels to help protect our employees and customers. In addition to the timely delivery of hotel supplies arranged by our centralized procurement team, we have also offered temporary franchise fee reductions and have helped our franchisees to obtain lower-interest bank loans to meet their short-term working capital needs. We are working diligently to keep all of our hotels in operation.

As COVID-19 spreads globally, the hotel operations of Deutsche Hospitality in Europe have also been adversely affected since early March 2020. Local governments in Europe imposed travel restrictions and lockdowns to contain the spread of COVID-19, and as a result, a number of our Deutsche Hospitality hotels were temporarily closed in 2020. The German government announced certain relief measures, including government subsidy and salary compensation for our furloughed employees. These government assistance measures help lessen the negative effects from substantially reduced occupancy and hotel closures. Thanks to the progress of vaccination campaigns and easing of social restrictions, Europe showed continuous business recovery trend. However, due to the third and fourth waves of the COVID-19 pandemic in European countries, the operations of Deutsche Hospitality in the fourth quarter of 2021 were impacted by tightened governmental control measures and testing requirements, which, as a result, disrupted the recovery trend. As of December 31, 2021, all hotels of Deutsche Hospitality that were temporarily closed due to COVID-19 had resumed operation. Deutsche Hospitality is undergoing a continuous RevPAR recovery since Germany unfolded its opening-up plan in mid-February 2022. The RevPAR in March 2022 recovered to 65% of 2019 level, improved from only 47% in January 2022.

We have taken various cost and cash flow mitigation measures to counter the negative impact of COVID-19 on our results of operations, such as (i) discussing with our leased hotel landlords for rent reduction and deferment, (ii) reducing or eliminating discretionary spending, including marketing, non-essential training, and capital expenditures, and (iii) freezing new recruitments, streamlining our staff, and placing a number of our hotel teams on temporary furlough and/or reducing their workdays to adjust for the lower hotel occupancy rate. The Chinese government also announced a number of relief measures for Chinese companies, including encouraged rental waivers, reduction and delayed payment of social insurance and taxes and continued support from financial institutions. In particular, lessors for legacy Huazhu's leased hotels in China have agreed to reduce and delayed our rental payment. In addition, Deutsche Hospitality have secured commercial insurance compensation for hotel closure. We also actively sought new business opportunities in the government's fight against COVID-19, such as offering hotel beds to support government for pandemic prevention and control. These measures have partially offset the adverse impact of COVID-19 on our operations.

The closure of our hotels and lower occupancy rate during this period may amount to an event of default under our banking arrangements. We have managed to obtain the required waiver since the outbreak of COVID-19 in 2020. Since the outbreak, we have also received further support from some of our banks in the form of additional banking facilities and lower interest rates.

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 regulations governing foreign ownership of hotel businesses in the PRC are the *Special Administrative Measures (Negative List) for the Access of Foreign Investment (Edition 2021)* issued on December 27, 2021, which became effective on January 1, 2022, and the *Industry Guidelines on Encouraged Foreign Investment (Edition 2020)* issued on December 27, 2020, which became effective as of January 27, 2021, both of which were promulgated by the PRC Ministry of Commerce, or the MOC, and the National Development and Reform Commission, or the NDRC, as well as other negative lists (generally with fewer limitations) applicable to the free trade zones. Pursuant to these regulations, there are no restrictions on foreign investment in limited service hotel businesses in China aside from business licenses and other permits that every hotel must obtain. Similar with other industries in China, regulations governing the hotel industry in China are still developing and evolving. As a result, most legislative actions consist of general measures such as industry standards, rules or circulars issued by different ministries rather than detailed legislations. This section summarizes the principal PRC regulations currently relevant to our business and operations.

Regulations on Hotel Operation

The Ministry of Public Security issued the *Measures for the Control of Security in the Hotel Industry* in November 1987 and amended it in 2011 and 2020, respectively, and the State Council promulgated the *Decision of the State Council on Establishing Administrative License for Necessarily Retained Items Requiring Administrative Examination and Approval* 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 the *Law of the PRC on Penalties for the Violation of Public Security Administration* promulgated in August, 2005 and amended in October 2012, and various local regulations, hotels failing to obtain the special industry license may be subject to warnings, orders to suspend or cease continuing business operations, confiscations of illegal gains or fines. Operators of hotel businesses who have obtained the special industry license but violate applicable administrative regulations may also be subject to revocation of such licenses in serious circumstances.

The State Council promulgated the *Administrative Regulations on Sanitation of Public Places* in April 1987 and amended it in February 2016 and in April 2019, according to which, a hotel must obtain a public area hygiene license before opening for business. Pursuant to this regulation, hotels failing to obtain a public area hygiene license may be subject to the following administrative penalties depending on the seriousness of their respective activities: (i) warnings; (ii) fines; or (iii) orders to suspend or cease continuing business operations. In March 2011, the Ministry of Health promulgated the *Implementation Rules of the Administrative Regulations on Sanitation of Public Places*, which was amended in January 2016 and December 2017, according to which, starting from May 1, 2011, hotel operators shall establish sanitation management system and keep records of sanitation management. The Standing Committee of the National People's Congress, or the SCNPC enacted the *Food Safety Law of the PRC* in February 2009, which was most recently amended in April 2021, according to which any hotel that provides food must obtain a license. The State Administration for Market Regulation, or the SAMR, (previously known as "China Food and Drug Administration") enacted the *Administrative Measures on Administration of Food Business Licensing* in August 2015 and amended it in November 2017, according to which any entity involving sales of food or food services must obtain a food business license, and any food service license which had been obtained prior to October 1, 2015 will be replaced upon expiry by the food business license. Pursuant to the *Food Safety Law of the PRC*, hotels failing to obtain the food business license (or formerly the food service license) may be subject to: (i) confiscation of illegal gains, food illegally produced for sale, and tools, facilities and raw materials used for illegal production; or (ii) fines between RMB50,000 and RMB100,000 if the value of food illegally produced is less than RMB10,000, or fines equal to 10 to 20 times of the value of food if such value is equal to or more than RMB10,000.

The *Fire Prevention Law of the PRC*, promulgated in April 1998 and amended in October 2008, April 2019 and April 2021 by the SCNPC, and the *Provisions on Supervision and Inspection on Fire Prevention and Control*, promulgated on April 30, 2009 and effective as of May 1, 2009 and amended on July 17, 2012 by the Ministry of Public Security, together with the *Interim Provisions on the Administration of Fire Protection Design Review and Final Inspection of Construction Projects*, promulgated on April 1, 2020 and effective as of June 1, 2020, require that (i) the fire prevention design documents of special construction projects, such as hotels with overall floor area of more than 10,000 square meters, shall be reviewed and inspected by local housing and urban-rural construction authorities before construction; (ii) the construction of specific construction projects, such as hotels with overall floor area of more than 10,000 square meters be inspected and accepted by local housing and urban-rural construction authorities from a fire prevention perspective before completion; and (iii) the public gathering places, such as hotels, shall complete fire prevention safety inspection with the local fire and rescue department, which is a prerequisite for business opening. Pursuant to these regulations, related hotels failing to obtain approval of fire prevention inspection and acceptance or failing fire prevention safety inspections (including acceptance check and safety check on fire prevention) may be subject to: (i) orders to suspend the construction of projects, use or operation of business; and (ii) fines between RMB30,000 and RMB300,000.

In January 2006, the State Council promulgated the *Regulations for Administration of Entertainment Places*, which was amended in February 2016 and November 2020. The Ministry of Culture issued the *Administrative Measures for Entertainment Places* in February 2013 and amended it in December 2017. Under these regulations, hotels that provide entertainment facilities, such as discos or ballrooms, are required to obtain a license for entertainment business operations.

On 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*, which was amended on August 18, 2016. Pursuant to this regulation, if an enterprise engaged in retail, accommodation and catering, or residential services issues any single-purpose commercial prepaid card to its customers, it shall undergo a record-filing procedure. For a hotel primarily engaged in the business of accommodation, the aggregate balance of the advance payment under the single-purpose commercial prepaid cards it issued shall not exceed 40% of its income from its primary business in the previous financial year.

On April 25, 2013, the Standing Committee of the National People's Congress issued the *Tourism Law of the PRC*, which became effective on October 1, 2013 and was most recently amended on October 26, 2018. According to this law, the accommodation operators shall fulfill their obligations under the agreements with customers. If the accommodation operators subcontract part of their services to any third party or involve any third party to provide services to customers, the accommodation operators shall assume the joint and several liabilities with the third parties for any damage caused to the customers.

Regulations on Leasing

Under the *Law of the PRC on Administration of Urban Real Estate* promulgated by the SCNPC, which took effect as of January 1995 and was amended in August 2007, August 2009 and August 2019, respectively, and the *Administrative Measures on Leasing of Commodity House* 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 May 2020, the National People's Congress, the China legislature, passed the *Civil Code of the PRC*, or the *Civil Code*, which took effect on January 1, 2021. According to Chapter 14, Book 3 of the *Civil Code*, which governs lease agreements, subject to consent of the lessor, the lessee may sublease the leased item to a third party. Where the lessee subleases the lease item, the leasing contract between the lessee and the lessor remains valid. The lessor is entitled to terminate the contract if the lessee subleases the lease item without the consent of the lessor.

Pursuant to Chapter 17, Book 2 of the *Civil Code*, which where a mortgagor leases the mortgaged property and the possession thereof has been transferred before the creation of mortgage interest, the previously established leasing relation shall not be affected; and where a mortgagor leases the mortgaged property after the creation of the mortgage interest, the leasing interest will be subordinated to the registered mortgage interest.

Regulations on Consumer Protection

In October 1993, the SCNPC promulgated the *Law of the PRC on the Protection of the Rights and Interests of Consumers*, or the *Consumer Protection Law*, which became effective on January 1, 1994 and was amended in October 2013. 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 listed 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. Art. 1198 of the *Civil Code* further increases the liabilities of business operators engaged in the operation of hotels, restaurants, or entertainment facilities and subjects such operators to tort liabilities for failing to guarantee the personal safety of others.

Regulations on Environmental Protection

In February 2012, the SCNPC issued the newly amended *Law of the PRC on Promoting Clean Production*, which regulates service enterprises such as restaurants, entertainment establishments and hotels and requires them to use technologies and equipment that conserve energy and water, serve other environmental protection purposes, and reduce or stop the use of consumer goods that waste resources or pollute the environment.

According to the *Environmental Protection Law of the PRC* promulgated by the SCNPC on December 26, 1989 and last amended on April 24, 2014, the *Environmental Impact Assessment Law of the PRC* promulgated by the SCNPC on October 28, 2002 and last amended on December 29, 2018, the *Administrative Regulations on Environmental Protection for Construction Projects* promulgated by the State Council on November 29, 1998 and amended on July 16, 2017, the *Interim Measures on Acceptance of Environmental Protection for Completion of Construction Projects* promulgated by the Ministry of Environmental Protection (renamed as the Ministry of Ecology and Environment) on November 20, 2017 and effective as of the same date and the *Category-Based Management Directory on the Environmental Impact Assessment for Construction Projects (Edition 2021)* issued by the Ministry of Ecology and Environment, hotels which involve Environment Sensitive Areas should submit a Form on Environmental Impact Assessment to competent environmental protection authorities for approvals, and shall prepare and make public an Acceptance Inspection Report of the Environmental Protection Facilities before commencing the operation. Such Environment Sensitive Areas are defined by the *Category-Based Management Directory on the Environmental Impact Assessment for Construction Projects (Edition 2021)*, which was issued by the Ministry of Ecology and Environment. Pursuant to the *Environmental Impact Assessment Law*, any hotel failing to obtain the approval of the 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 *Administrative Regulations on Environmental Protection for Construction Projects*, where the construction project is put into production or use when the environmental protection facilities have not undergone acceptance inspection or do not pass acceptance inspection, the responsible hotels may be ordered to make correction within a stipulated period and subject to a fine ranging from RMB200,000 to RMB1 million; where correction is not made within the stipulated period, a fine ranging from RMB1 million to RMB2 million will be imposed. The directly responsible person may be subject to a fine ranging from RMB50,000 to RMB200,000. If the construction project causes any significant environmental pollution or ecological damage, the production or use should be suspended, or the project should be closed down upon approval by the relevant local government. Furthermore, any hotel failing to public the Acceptance Inspection Report may be ordered to publicize the Report, and may be subject to a fine ranging from RMB50,000 to RMB200,000. The relevant breach may also be announced by local environmental protection authorities.

Regulations on Commercial Franchising

Franchise operations are subject to the supervision and administration of the MOC, and its regional counterparts. Such activities are currently regulated by the *Administrative Regulations on Commercial Franchising*, which was promulgated by the State Council on February 6, 2007 and became effective on May 1, 2007. The *Administrative Regulations on Commercial Franchising* were subsequently supplemented by the *Administrative Measures on 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 on 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. Franchisors engaged in franchising activities without satisfying the above requirements may be subject to penalties such as forfeit of illegal income and imposition of fines between RMB100,000 and RMB500,000 and may be bulletined by the MOC or its local counterparts. Franchise contracts shall include certain required provisions, such as terms, termination rights and payments.

Franchisors are generally required to file franchise contracts with the MOC or its local counterparts. Failure to report franchising activities may result in penalties such as fines up to RMB100,000. Such noncompliance may also be bulletined. In the first quarter of every year, franchisors are required to report to the MOC or its local counterparts any franchise contracts they executed, canceled, renewed or amended in the previous year.

The term of a franchise contract shall be no less than three years unless otherwise agreed by franchisees. The franchisee is entitled to terminate the franchise contract in his sole discretion within a set period of time upon signing of the franchise contract.

Pursuant to the *Administrative Measures on Information Disclosure of Commercial Franchises*, 30 days prior to the execution of franchise contracts, franchisors are required to provide franchisees with copies of the franchise contracts, as well as written true and accurate basic information on matters including:

- the name, domiciles, legal representative, registered capital, scope of business and basic information relating to its commercial franchising;
- basic information relating to the registered trademark, logo, patent, know-how and business model;
- the type, amount and method of payment of franchise fees (including payment of deposit and the conditions and method of refund of deposit);
- the price and conditions for the franchisor to provide goods, service and equipment to the franchisee;
- the detailed plan, provision and implementation plan of consistent services including operational guidance, technical support and business training provided to the franchisee;
- detailed measures for guiding and supervising the operation of the franchisor;
- investment budget for all franchised hotels of the franchisee;
- the current numbers, territory and operation evaluation of the franchisees within China;
- a summary of accounting statements audited by an accounting firm and a summary of audit reports for the previous two years;
- information on any lawsuit in which the franchisor has been involved in the previous five years;
- basic information regarding whether the franchisor and its legal representative have any record of material violation; and
- other information required to be disclosed by the MOC.

In the event of failure to disclose or misrepresentation, the franchisee may terminate the franchise contract and the franchisor may be fined up to RMB100,000. In addition, such noncompliance may be bulletined.

According to the *Manual of Guidance on Administration for Foreign Investment Access (Edition 2008)* promulgated by the MOC in December 2008, if an existing foreign-invested company wishes to operate a franchise in China, it must apply to the MOC or its local counterparts to expand its business scope to include “engaging in commercial activities by way of franchise.”

Regulations on Trademarks

Both the *Trademark Law of the PRC* adopted by the SCNPC on August 23, 1982 and revised on August 30, 2013 and April 23, 2019, and the *Implementation Regulation of the Trademark Law of the PRC* adopted by the State Council on August 3, 2002 and revised on April 29, 2014 give protection to the holders of registered trademarks and trade names. The National Intellectual Property Administration (Trademark Office) handles trademark registrations. Trademarks can be registered for a term of ten years and can be extended for another ten years if requested upon expiration of any ten-year term. Trademark licensing agreements should be submitted to the Trademark Office for record. Without the filing, the trademark licensing should not be used against a bona fide third party.

Regulations on Foreign Currency Exchange

The principal regulations governing foreign currency exchange in China are the *Foreign Exchange Control Regulations of the PRC* promulgated by the State Council, as amended on August 5, 2008, or the Foreign Exchange Regulations. Under the Foreign Exchange Regulations, the RMB is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless the prior approval of the State Administration of Foreign Exchange, or the SAFE, is obtained and prior registration with the SAFE is made.

The Circular on Reforming the Management Method regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (“Circular 19”), promulgated by the SAFE on March 30, 2015 and last amended on December 30, 2019, allows foreign-invested enterprises to make equity investments by using RMB funds converted from foreign exchange capital. Under Circular 19, the foreign exchange capital in the capital account of foreign-invested enterprises upon the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operation needs of the enterprises. The proportion of willingness-based foreign exchange settlement of capital for foreign-invested enterprises is temporarily set at 100%. The SAFE can adjust such proportion in due time based on the circumstances of the international balance of payments. However, Circular 19 and the *Circular on Reforming and Regulating the Management Policies on the Settlement of Capital Projects*, promulgated by the SAFE on and effective as of June 9, 2016, continues to prohibit foreign-invested enterprises from, among other things, using RMB fund converted from its foreign exchange capitals for expenditure beyond its business scope, investment and financing in securities and other investments except for bank’s principal-secured products, providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use.

On October 23, 2019, the SAFE promulgated the *Circular on Further Promoting the Facilitation of Cross-border Trade and Investment* (“Circular 28”). Pursuant to Circular 28, on the basis of allowing investment-oriented foreign-invested enterprise (including foreign-invested investment companies, foreign-invested venture capital enterprises and foreign-invested equity investment enterprises) to use capital funds for domestic equity investment in accordance with laws and regulations, non-investment foreign-invested enterprises shall be allowed to use capital funds for domestic equity investment in accordance with the laws under the premise of not violating the Negative List and the authenticity and compliance of their domestic invested projects.

According to the *Circular on Optimizing Administration of Foreign Exchange to Support the Development of Foreign-related Business* issued by the SAFE on April 10, 2020, eligible enterprises are allowed to make domestic payments by using their capital funds, foreign credits and the income under capital accounts of overseas listing, with no need to provide the evidentiary materials concerning authenticity of such capital for banks in advance, provided that their capital use shall be authentic and in line with provisions, and conform to the prevailing administrative regulations on the use of income under capital accounts. The concerned bank shall conduct spot checking in accordance with the relevant requirements.

On December 25, 2006, the People's Bank of China issued the *Administration Measures on Individual Foreign Exchange Control* and its Implementation Rules were issued by the SAFE on January 5, 2007, both of which became effective on February 1, 2007. The Implementation Rules was later amended on May 29, 2016. Under these regulations, all foreign exchange matters involved in the employee stock ownership plan, stock option plan and other similar plans, participated by onshore individuals shall be transacted upon approval from the SAFE or its authorized branch. On February 25, 2012, the SAFE promulgated the *Notice on Relevant Issues Concerning Foreign Exchange Control on Domestic Individuals Participating in the Stock Incentive Plan of An Overseas Listed Company*, 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 Foreign Investment

The SCNPC enacted the *Foreign Investment Law of the PRC* on March 15, 2019 and the State Council promulgated the *Implementation Regulations of Foreign Investment Law of the PRC* on December 26, 2019, both of which came into force on January 1, 2020. On December 30, 2019, the MOC and the SAMR jointly promulgated the *Measures on Reporting of Foreign Investment Information*, which also became effective on January 1, 2020. Under these laws and regulations, foreign investors or foreign-invested enterprises shall report and update investment information to the competent authorities for commerce through the Enterprise Registration System and the Enterprise Credit Information Publicity System. Any foreign investor or foreign-invested company found to be non-compliant with these reporting obligations may potentially be subject to fines and legal sanctions.

The *Foreign Investment Law of the PRC*, together with its Implementation Regulations replaced, in their entirety, the trio of previous laws regulating foreign investment in China, namely, the *Sino-foreign Equity Joint Venture Enterprise Law*, the *Sino-foreign Cooperative Joint Venture Enterprise Law* and the *Wholly Foreign-invested Enterprise Law*, together with their implementation rules and ancillary regulations. Generally speaking, the *Company Law of the PRC* or the *Partnership Law of the PRC* (promulgated by the SCNPC in February 1997 and amended in August 2006) shall apply with respect to the organization of foreign-invested enterprises. The *Foreign Investment Law of the PRC* provides that foreign invested enterprises established according to the previous laws regulating foreign investment may maintain their current structure and corporate governance during the five-year transition period. This implies that we may be required to adjust the structure and corporate governance of certain of our PRC subsidiaries in the transition period. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance requirements may lead to regulatory non-compliance and hence materially and adversely affect our current corporate structure, corporate governance and business operations.

Regulations on Share Capital

In October 2005, the SCNPC issued the amended *Company Law of the PRC*, which became effective on January 1, 2006 and was amended in October 2018. On June 17, 2014, the MOC issued the *Notice of the Ministry of Commerce on Improving the Administration of Foreign Investment Review*. 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 in accordance with the company's articles of association pursuant to which the restrictions or requirements on the percentage of initial capital contribution, the percentage of cash contribution and the period of contribution imposed on foreign-invested companies (including companies invested by investors from Taiwan, Hong Kong and Macao regions) are abolished. A company which proposes to reduce its registered capital shall prepare a balance sheet and a list of assets. The company shall notify its creditors within ten days from the date of resolution on reduction of registered capital and publish an announcement in the newspapers within 30 days. The creditors may, within 30 days from receipt of the notice or within 45 days from the announcement date, require the company to settle the debts or provide a corresponding guarantee. Shareholders of certain of our PRC subsidiaries have mandatory preemptive rights.

Regulations on Dividend Distribution

The principal regulations governing distribution of dividends of foreign-invested enterprises include the *Company Law of the PRC* (the "Company Law").

Under the Company Law, companies shall contribute 10% of the profits into their statutory surplus reserve upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital.

Regulations on Offshore Financing

On October 21, 2005, the SAFE issued *Notice on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles*, or Circular 75, which became effective as of November 1, 2005. Under Circular 75, if PRC residents use assets or equity interests in their PRC entities as capital contributions to establish offshore companies or inject assets or equity interests of their PRC entities into offshore companies to raise capital overseas, they are required to register with local SAFE branches with respect to their overseas investments in offshore companies. PRC residents are also required to file amendments to their registrations if their offshore companies experience material events involving capital variation, such as changes in share capital, share transfers, mergers and acquisitions, spin-off transactions, long-term equity or debt investments or uses of assets in China to guarantee offshore obligations. Moreover, Circular 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC in the past were required to complete the relevant registration procedures with the local SAFE branch by March 31, 2006. Under the relevant rules, failure to comply with the registration procedures set forth in Circular 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. PRC residents who control our company are required to register periodically with the SAFE in connection with their investments in us.

The SAFE issued a series of guidelines to its local branches with respect to the operational process for SAFE registration, including the *Notice of the State Administration of Foreign Exchange on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment*, or Circular 59, which came into effect as of December 17, 2012. The guidelines standardized more specific and stringent supervision on the registration required by Circular 75. For example, the guidelines impose obligations on onshore subsidiaries of an offshore entity to make true and accurate statements to the local SAFE authorities in case any shareholder or beneficial owner of the offshore entity is a PRC citizen or resident. Untrue statements by the onshore subsidiaries will lead to potential liability for the subsidiaries, and in some instances, for their legal representatives and other individuals.

On July 4, 2014, the SAFE issued the *Circular of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration of the Overseas Investment and Financing and Round-trip Investments by Domestic Residents through Special Purpose Vehicles*, or Circular 37, which became effective and suspended Circular 75 on the same date, and Circular 37 shall prevail over any other inconsistency between itself and relevant regulations promulgated previously. Pursuant to Circular 37, any PRC residents, including both PRC institutions and individual residents, are required to register with the local branch of the SAFE before making a contribution to an enterprise directly established or indirectly controlled by the PRC residents outside of the PRC for the purpose of overseas investment or financing with their legally owned domestic or offshore assets or equity interests, referred to in this circular as a “special purpose vehicle”. Under Circular 37, the term “PRC institutions” refers to entities with legal person status or other economic organizations established within the territory of the PRC. The term “PRC individual residents” includes all PRC citizens (also including PRC citizens abroad) and foreigners who habitually reside in the PRC for economic benefit. A registered special purpose vehicle is required to amend its SAFE registration or file with respect to such vehicle in connection with any change of basic information including PRC individual resident shareholder, name, term of operation, or PRC individual resident’s increase or decrease of capital, transfer or exchange of shares, merger, division or other material changes. In addition, if a non-listed special purpose vehicle grants any equity incentives to directors, supervisors or employees of domestic companies under its direct or indirect control, the relevant PRC individual residents could register with the local branch of the SAFE before exercising such options. The SAFE simultaneously issued guidance to its local branches with respect to the implementation of Circular 37. Under Circular 37, failure to comply with the foreign exchange registration procedures may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including restrictions on the payment of dividends and other distributions to its offshore parent company and the capital inflow from the offshore entity, and may also subject the relevant PRC residents and onshore company to penalties under the PRC foreign exchange administration regulations. See “Risk Factors—Risks Related to Doing Business in China—PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries’ ability to distribute profits to us, or otherwise adversely affect us.”

On September 14, 2015, the National Development and Reform Commission issued the *Circular of the National Development and Reform Commission on Promoting the Administrative Reform of the Record-filing and Registration System for the Issuance of Foreign Debts by Enterprises* to remove the quota review and approval system for the issuance of foreign debts (including bonds and loans for more than 1 year) by enterprises, reform and innovate the ways that foreign debts are managed, and implement the administration of record-filing and the registration system.

Regulations on Merger and Acquisition and Overseas Listing

On August 8, 2006, six PRC regulatory agencies, namely the MOC, the State Assets Supervision and Administration Commission, the State Administration of Taxation, the SAIC, the China Securities Regulatory Commission, or the CSRC, and the SAFE, jointly adopted the *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the New M&A Rule, which became effective on September 8, 2006. This New M&A Rule, as amended on June 22, 2009, purports, among other things, to require offshore special purpose vehicles, or SPVs, formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC published a notice on its official website specifying documents and materials required to be submitted to it by SPVs seeking the CSRC approval of their overseas listings.

While the application of this new regulation remains unclear, we believe, based on the advice of our PRC counsel, that the CSRC approval is not required in the context of our Listing because we established our PRC subsidiaries by means of direct investment other than by merger or acquisition of domestic companies, and we started to operate our business in the PRC through foreign invested enterprises before September 8, 2006, the effective date of the New M&A Rule. However, we cannot assure you that the relevant PRC government agency, including the CSRC, would reach the same conclusion as our PRC counsel. If the CSRC or other PRC regulatory body subsequently determines that CSRC’s approval was required for our Listing, we may face sanctions by the CSRC or other PRC regulatory agencies, which could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading prices of our ADSs and/or ordinary shares.

The New M&A Rule also established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the MOC be notified in advance of any change of control transaction in which a foreign investor takes control of a PRC domestic enterprise.

On July 30, 2017, for the purpose of promoting the reform of the foreign investment administrative system and simplifying the administrative procedures, the MOC amended the *Interim Measures for the Record-filing Administration of the Incorporation and Change of Foreign-invested Enterprises* which was promulgated in October 2016 and further amended in June 2018. According to the amended interim measures, a record-filing administration system shall apply to foreign investors' mergers and acquisitions of domestic non-foreign-invested enterprises and strategic investments in listed companies, provided that they do not involve the implementation of special access administrative measures prescribed by the PRC government or involve the mergers and acquisitions of affiliates.

On December 30, 2019, for the purpose of further promoting the foreign investment administration and simplifying the administrative procedures, the MOC and the SAMR promulgated the *Measures on Reporting of Foreign Investment Information*, which became effective on January 1, 2020 and suspended the *Interim Measures for the Record-filing Administration of the Incorporation and Change of Foreign-invested Enterprises* on the same date. Under this regulation, an information reporting system shall apply to foreign investors' mergers and acquisitions of domestic non-foreign-invested enterprises and strategic investments in listed companies, provided that they comply with the implementation of special access administrative measures prescribed by the PRC government and do not involve the mergers and acquisitions of affiliates. Specifically, under the information reporting system, where a new foreign-invested enterprise is incorporated or a non-foreign invested enterprise changes to a foreign-invested enterprise through acquisition, merger or other means, such incorporation or change no longer requires approval or record-filing of MOC, but shall be reported online to the commerce administrative authorities through the Enterprise Registration System and the National Enterprise Credit Information Publicity System, together with the registration with the relevant department of the SAMR through the same systems.

Regulation on Security Review

In August 2011, the MOC promulgated the *Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, 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. Based on the above regulations, on December 19, 2020, the NDRC and MOC jointly issued the *Measures for the Security Review of Foreign Investments*, which became effective as of January 18, 2021. The *Measures for the Security Review of Foreign Investments* establishes a comprehensive security review system of foreign investments, which, among others, expands the review subjects to various types of foreign investments that affect or may affect national security, including greenfield investments and investments in other forms. Similar to the previous regulations, the foreign investments subject to security review include investments having "national defense security" implications and investments by which foreign investors may acquire "de facto control" of invested enterprises having "national security" implications.

Regulations on Labor Contracts and Social Security

The *Labor Law of the PRC*, which was promulgated by the SCNPC on July 5, 1994, came into effect on January 1, 1995, and was amended on August 27, 2009 and December 29, 2018, the *Labor Contract Law of the PRC* that became effective on January 1, 2008, as amended on December 28, 2012, and the *Implementation Regulations on Labor Contract Law of the PRC* which was promulgated and came into effect on September 18, 2008 by the State Council seek to clarify the responsibilities of both employers and employees and codifies certain basic rights and protections of employees. Among others, the *Labor Contract Law of the PRC* provides that after completing two fixed-term employment contracts, an employee that desires to continue working for an employer is entitled to require a non-fixed-term employment contract. In addition, employees who have been employed for more than ten years by the same employer are entitled to require a non-fixed-term contract. The *Labor Contract Law of the PRC* 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 January 2014 and took effect in March 2014, to implement the provisions of the *Labor Contract Law of the PRC* regarding labor dispatch, a company is permitted to use dispatched employees for up to 10% of its labor force and the companies currently using dispatched employees are given a two-year grace period after March 1, 2014 to comply with this limit.

According to the *Individual Income Tax Law of the PRC*, which was promulgated on September 10, 1980 by the National People's Congress, last amended by the SCNPC on August 31, 2018 and came into effect on January 1, 2019, companies operating in China are required to withhold individual income tax on employees' salaries based on the actual salary of each employee upon payment.

According to the *Law on Social Insurance of the PRC*, which was promulgated by the SCNPC on October 28, 2010, came into effect on July 1, 2011, and was amended on December 29, 2018, the Provisional Regulations on the *Collection and Payment of Social Insurance Premium*, which was promulgated by the State Council on January 22, 1999 and amended on March 24, 2019, and the *Regulations on the Administration of Housing Provident Fund*, which was promulgated by the State Council on April 3, 1999 and came into effective on the same date, and was amended on March 24, 2002 and March 24, 2019, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity insurance and housing provident funds. Employers who fail to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

Considering the PRC governmental authorities have continued to introduce various new labor-related regulations since the effectiveness of the labor contract law, and the interpretation and implementation of these regulations are still evolving, we cannot assure you that our employment practice will at all times be deemed in compliance with the new regulations. If we are subject to severe penalties or incur significant liabilities in connection with labor disputes or investigations, our business and results of operations may be adversely affected. See "Risk Factors—Risks Related to Our Business—Our current employment practices may be adversely impacted under the applicable labor laws."

Regulation on Information Protection on Networks

On December 28, 2012, the SCNPC 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 usage rules and adhere to the principles of legality, rationality and necessarily, explicitly state the purposes, manners and scopes of collecting and using information, and obtain the consent of those from whom information is collected, and shall not collect and use information in violation of laws and regulations and the agreement between both sides; and the network service providers and other enterprises and institutions and their personnel must strictly keep such information confidential and may not divulge, alter, damage, sell, or illegally provide others with such information.

On July 16, 2013, the Ministry of Industry and Information Technology, or the MIIT, issued the *Provisions on the Protection of Personal Information of Telecommunication and Internet User*. The requirements under this order are stricter and specific compared to the above decision issued by the National People's Congress. According to the provisions, if a network service provider wishes to collect or use personal information, it may do so only if such collection is necessary for the services it provides. Furthermore, it must disclose to its users the purpose, method and scope of any such collection or usage, and must obtain consent from the users whose information is being collected or used. Network service providers are also required to establish and publish their protocols relating to personal information collection or usage, keep any collected information strictly confidential and take technological and other measures to maintain the security of such information. Network service providers are required to cease any collection or usage of the relevant personal information, and provide services for the users to de-register the relevant user account, when a user stops using the relevant Internet service. Network service providers are further prohibited from divulging, distorting or destroying any such personal information, or selling or providing such personal information unlawfully to other parties. In addition, if a network service provider appoints an agent to undertake any marketing or technical services that involve the collection or usage of personal information, the network service provider is required to supervise and manage the protection of the information. The provisions state, in broad terms, that violators may face warnings, fines, public exposure and, criminal liability whereas the case constitutes a crime.

On June 1, 2017, the *Cybersecurity Law of the PRC* promulgated in November, 2016 by the SCNPC became effective. This law also absorbed and restated the principles and requirements mentioned in the aforesaid decision and order, and further provides that, where an individual finds any network operator collects or uses his or her personal information in violation of the provisions of any law, regulation or the agreement of both parties, the individual shall be entitled to request the network operator to delete his or her personal information; if the individual finds that his or her personal information collected or stored by the network operator has any error, he or she shall be entitled to request the network operator to make corrections, and the network operator shall take measures accordingly. Pursuant to this law, the violators may be subject to: (i) warning; (ii) confiscation of illegal gains and fines equal to one to ten times of the illegal gains; or if without illegal gains, fines up to RMB1,000,000; or (iii) an order to shut down the website, suspend the business operation for rectification, or revoke business license. Besides, responsible persons may be subject to fines between RMB10,000 and RMB100,000.

On January 1, 2021, the *Civil Code* promulgated in May 2020 by the SCNPC became effective. The *Civil Code* protects individuals' right to personal information and provides for similar requirements for personal information protection as the Cybersecurity Law. Individuals may bring up civil litigations based on the Civil Code if their right to personal information is infringed upon.

From criminal law perspective, the PRC Criminal Law, as amended by its Amendment 7 (effective on February 28, 2009) and Amendment 9 (effective on November 1, 2015), prohibits institutions, companies and their employees from selling or otherwise illegally disclosing a citizen's personal information obtained during the course of performing duties or providing services or obtained through theft or other illegal ways.

Regulation on Information Protection on Networks in Europe

The Regulation (EU) 2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (GDPR), complemented by EU Member States law on data protection (e.g. in Germany the German Federal Data Protection Act), imposes certain requirements on the processing of personal data relating to natural persons. GDPR requirements will apply both to companies established in the EU and to companies, such as us, that are not established in the EU but process personal data of individuals who are in the EU (and in the EEA subject to the enactment of implementation procedures), where the processing activities relate to: (a) the offering of goods or services, irrespective of whether a payment of the data subject is required, to such data subjects in the EU; or (b) the monitoring of their behavior as far as their behavior takes place within the EU. Therefore, the GDPR applies to our EU entities as well as the offering of services by our non-EU entities when EU guests are targeted. The GDPR imposes on subject companies a large number of obligations, which relate for example, but are not limited, to (i) the principles applying to the processing of personal data, for example, lawfulness, fairness, transparency, purpose limitation, data minimization and “privacy by design”, accuracy, storage limitations to process and store personal data only as long as necessary, access restrictions on a “need to know basis”, and ensuring security and confidentiality of personal data by technical and organizational measures; (ii) the ability of the controller to demonstrate compliance with such principles (accountability); (iii) the obligation to identify a legal basis before the processing (special requirements apply to certain specific categories of data such as health related data and other sensitive data); and (iv) data subjects rights (for example, transparency, right of information about personal data processed, right of access/receive copies, right to rectification, right to erasure, right to restrict processing, right to data portability, and right to object to a processing under certain circumstances). This leads to companies being under the obligation to implement a number of formal processes and policies reviewing and documenting the privacy implications of the development, acquisition, or use of all new products and services, technologies, or types of data. The GDPR provides for substantial fines for breaches of data protection requirements, which, depending on the infringed provisions of the GDPR, can go up to either (thresholds depending on the obligations which have been breached): (i) 2% of the group’s annual worldwide turnover of the preceding financial year or EUR10 million, whichever is greater, or (ii) 4% of the group’s annual worldwide turnover of the preceding financial year or EUR20 million, whichever is greater. The fine may be imposed instead of, or in addition to, measures that may be ordered by supervisory authorities (for example, request to cease the processing). The GDPR and EU Member States law also provide for private enforcement mechanisms and, in the most severe cases, criminal liability.

The Directive (EC) 2002/58 of 12 July 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector imposes restrictions on the use of cookies and similar means as well as on website tracking, including the requirement to obtain informed consent for storage or access to information stored on a user’s terminal equipment in the EU in certain cases (in particular for cookies which track for marketing purposes). The forthcoming Regulation on privacy and electronic communications, aiming at repealing the Directive 2002/58, will update the current rules (it is not yet known when this will be enacted, but it is expected to include similar strict rules). Sanctions may be imposed on companies not fully compliant with all practices in relation to the implementation of the regulation on e-privacy; the relation to the GDPR is not fully clear, but in the worst case, the same sanctions as which under the GDPR may apply.

The following table sets forth summary information for our significant subsidiaries as of March 31, 2022.

Major Subsidiaries	Percentage of Ownership	Date of Incorporation/Acquisition	Place of Incorporation
China Lodging Holdings (HK) Limited	100%	October 22, 2008	Hong Kong
H World Holdings Singapore Pte. Ltd.	100%	April 14, 2010	Singapore
HanTing Xingkong (Shanghai) Hotel Management Co., Ltd.	100%	March 3, 2006	PRC
HanTing (Tianjin) Investment Consulting Co., Ltd	100%	January 16, 2008	PRC
HanTing Technology (Suzhou) Co., Ltd.	100%	December 3, 2008	PRC
HanTing (Shanghai) Enterprise Management Co., Ltd.	100%	December 14, 2010	PRC
Starway Hotel Management (Shanghai) Co., Ltd.	100%	May 1, 2012	PRC
HuaZhu Hotel Management Co., Ltd.	100%	August 16, 2012	PRC
Jizhu Information Technology (Shanghai) Co., Ltd.	100%	February 26, 2014	PRC
ACL Greater China Limited	100%	January 25, 2016	Hong Kong
Huazhu Investment I Limited	100%	November 10, 2017	Hong Kong
Yagao Meihua Hotel Management Co., Ltd.	100%	January 25, 2016	PRC
Orange Hotel Management (China) Co., Ltd.	100%	May 25, 2017	PRC
Beijing Crystal Orange Hotel Management Consulting Co., Ltd.	100%	May 25, 2017	PRC
Huazhu Hotel Management (Ningbo) Co., Ltd.	100%	July 20, 2018	PRC
H-World Information and Technology Co., Ltd (盟广信息技术有限公司)	86.85%	November 7, 2013	PRC
Steigenberger Hotels Aktiengesellschaft	100%	January 2, 2020	Germany
Intercity Hotel GmbH	100%	January 2, 2020	Germany

4.D. Property, Plants and Equipment

Our headquarters are located in Shanghai, China and occupy nearly 18,000 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, 2021, we leased 729 out of our 7,830 hotel facilities with an aggregate size of approximately 5.1 million square meters, including approximately 124,300 square meters subleased to others. As of December 31, 2021, we owned nine out of our 7,830 hotel facilities with an aggregate size of approximately 93,000 square meters. 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, fast-growing multi-brand hotel group in China with international operations. Our hotels are operated under three different models: leased and owned, franchised, and franchised hotels that we operate under management contracts, which we refer to as “manachised.” We expanded our hotel network from 5,618 hotels as of December 31, 2019 to 7,830 hotels as of December 31, 2021, representing a CAGR of 18.1%. As of December 31, 2021, we had 7,830 hotels in operation, including 738 leased and owned hotels and 7,092 manachised and franchised hotels, with an aggregate of 753,216 hotel rooms. As of the same date, we were developing an additional 2,608 hotels, including 46 leased and owned hotels and 2,562 manachised and franchised hotels. On January 2, 2020, we completed the acquisition of Deutsche Hospitality and have consolidated its financial information since then. As a result, our financial information for the years ended December 31, 2020 and 2021, and any future years are not comparable with our financial information for the prior years.

Our total revenue was RMB11,212 million, RMB10,196 million and RMB12,785 million (US\$2,006 million) in 2019, 2020 and 2021, respectively. We had net income attributable to Huazhu Group of RMB1,769 million and net loss attributable to Huazhu Group of RMB2,192 million in 2019 and 2020, respectively. We recorded net loss attributed to Huazhu Group of RMB465 million (US\$73 million) in 2021. Our adjusted EBITDA (non-GAAP) amounted to RMB3,349 million, negative RMB244 million and RMB1,571 million (US\$247 million) in 2019, 2020 and 2021, respectively, and our net cash provided by operating activities amounted to RMB3,293 million, RMB609 million and RMB1,342 million (US\$210 million) in these respective periods.

Specific factors affecting our results of operations

While our business is affected by factors relating to general economic conditions and the lodging industry in China and other jurisdictions in which we operate, including business and leisure travel of the customers and market competition (see “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” and “—The lodging industries in China and Europe are competitive, and if we are unable to compete successfully, our financial condition and results of operations may be harmed”), we believe that our results of operations are also affected by company-specific factors, including, among others:

- *The total number of hotels and hotel rooms in our hotel network.* Our revenues largely depend on the size of our hotel network. Furthermore, we believe that the expanded geographic coverage of our hotel network will enhance our brand recognition. Whether we can successfully increase the number of hotels and hotel rooms in our hotel group is largely affected by our ability to effectively identify and lease, own, manachise or franchise additional hotel properties at desirable locations on commercially favorable terms and the availability of funding to make necessary capital investments to open these new hotels.
- *The fixed-cost nature of our business.* A significant portion of our operating costs and expenses, including rent and depreciation and amortization, is relatively fixed. As a result, an increase in our revenues achieved through higher RevPAR generally will result in higher profitability. Vice versa, a decrease in our revenues, in particular with respect to hotels temporarily closed during the COVID-19 outbreak, could result in a disproportionately larger decrease in our earnings because our operating costs and expenses are unlikely to decrease proportionately.

- *The number of new leased and owned hotels under development.* Generally, the operation of each leased and owned hotel goes through three stages: development, ramp-up and mature operations. During the development stage, our leased and owned hotels generate no revenue. In addition, we bear the pre-opening expenses for a substantial majority of our leased and owned hotels, which generally range from approximately RMB1.5 million to RMB20.0 million per hotel. For certain of our hotels (under Deutsche Hospitality), the landlords are responsible for renovating the hotels (other than soft furnishing) and we are not required to pay rent until this renovation is completed. During periods when a large number of new leased and owned hotels are under development, the pre-opening expenses incurred may have a significant negative impact on our financial performance.
- *The mix of mature and new leased and owned hotels, manachised hotels and franchised hotels.* When a new hotel starts operation and goes through the ramp-up stage, the occupancy rate is relatively low and the room rate may be subject to discount. Revenues generated by these hotels are lower than those generated by mature hotels and may be insufficient to cover their operating costs, which are relatively fixed in nature and are similar to those of mature hotels. The lower profitability during the ramp-up stage for leased and owned hotels may have a significant negative impact on our financial performance. The length of the ramp-up stage may be affected by factors such as hotel size, seasonality and location. New hotels opened in lower-tier cities generally have longer ramp-up period. On average, it takes our hotels approximately six months to ramp up. We define mature leased and owned hotels as those that have been in operation for more than six months. Our mature leased and owned hotels have been and will continue to be the main contributor to our revenues in the foreseeable future.

Under the manachise and franchise models, we generate revenues from franchise and service fees we charge to each manachised and franchised hotel while the franchisee bears substantially all the capital expenditures, pre-opening and operational expenses. The hotel operating costs relating to manachised hotels are mainly costs for hotel managers as we hire and send them to manachised hotels. An increasing proportion of manachised and franchised hotels in our hotel mix will allow us to benefit from the recurring cash inflows from franchise and service fees with minimal upfront costs and capital expenditures.

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 5,618 as of December 31, 2019 to 7,830 as of December 31, 2021.

Our total number of hotel room-nights available for sale increased from 171.7 million as of December 31, 2019 to 243.0 million as of December 31, 2021. Due to the impact of COVID-19, we had a large number of hotels in China temporarily closed in the first quarter of 2020. During the first quarter of 2020, Chinese governmental authorities also requisitioned a total of 610 of our hotels (including approximately two million room-nights, approximately 12% of which were from our leased hotels) in various locations and during different periods for the accommodation of medical support workers and for quarantine purposes in relation to COVID-19. As of December 31, 2021, we had 147 hotels under governmental requisition in China. As a result, as of December 31, 2021, excluding hotels under governmental requisition or temporarily closed, the total room-nights available for sale was 234.8 million for legacy Huazhu.

As COVID-19 spread globally, the hotel operations of Deutsche Hospitality in Europe have also been adversely affected since early March 2020. Local governments in Europe imposed travel restrictions and lockdowns to contain the spread of COVID-19, and as a result, a number of our Deutsche Hospitality hotels were temporarily closed in 2020. As of December 31, 2021, all hotels of Deutsche Hospitality that were temporarily closed due to COVID-19 had resumed operation. As of December 31, 2021, excluding a small number of hotels which were temporarily closed for reasons unrelated to COVID-19, the total room-nights available for sale was 8 million for legacy DH.

The following table sets forth various measures of changes in the total number of hotels and hotel rooms (excluding room-nights of hotels under governmental requisition or temporarily closed) as of the dates indicated.

	As of December 31,				
	2019	2020		2021	
		Legacy Huazhu	Legacy DH	Legacy Huazhu	Legacy DH
Total hotels in operation	5,618	6,669	120	7,706	124
Leased and owned hotels	688	681	72	662	76
Manachised hotels	4,519	5,718	28	6,797	27
Franchised hotels	411	270	20	247	21
Total hotel rooms in operation	536,876	628,135	24,027	728,143	25,073
Leased and owned hotels	87,465	90,942	13,371	91,284	14,264
Manachised hotels	418,700	515,338	5,630	617,340	5,390
Franchised hotels	30,711	21,855	5,026	19,519	5,419
Total hotel room-nights available for sale	171,660,048	193,819,296	6,488,185	234,841,153	8,203,832
Leased and owned hotels	32,018,639	31,286,112	3,998,572	32,818,789	4,933,508
Manachised hotels	130,860,614	154,743,646	1,439,155	195,076,643	1,681,517
Franchised hotels	8,780,795	7,789,583	1,050,458	6,945,721	1,588,807

RevPAR. RevPAR is a commonly used operating measure in the lodging industry and is defined as the product of average occupancy rates and average daily room rates achieved. Occupancy rates of our hotels mainly depend on the locations of our hotels, product and service offering, the effectiveness of our sales and brand promotion efforts, our ability to effectively manage hotel reservations, the performance of managerial and other employees of our hotels, as well as our ability to respond to competitive pressure. From year to year, occupancy of our portfolio may fluctuate as a result of changes in the mix of our mature and ramp-up hotels, as well as special events such as the Shanghai Expo in 2010 and public health events such as COVID-19. We set the room rates of our hotels primarily based on the location of a hotel, room rates charged by our competitors within the same locality, and our relative brand and product strength in the city or city cluster. From year to year, average daily room rates of our portfolio may change due to our yield management practice, city mix change and special events such as the Shanghai Expo in 2010 and public health events such as COVID-19.

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The following table sets forth our RevPAR, average daily room rate and occupancy rate for legacy Huazhu's leased and owned hotels as well as manachised and franchised hotels for the periods indicated.

	Year Ended December 31,		
	2019	2020	2021
	(Excluding hotels under requisition)		
RevPAR ⁽¹⁾ (in RMB)			
Leased and owned hotels	240	166	202
Manachised hotels	189	147	168
Franchised hotels	174	129	155
Total hotels in operation	198	149	172
Average daily room rate ⁽¹⁾ (in RMB)			
Leased and owned hotels	276	241	286
Manachised hotels	223	204	231
Franchised hotels	240	208	238
Total hotels in operation	234	210	239
Occupancy rate (as a percentage)			
Leased and owned hotels	87	69	71
Manachised hotels	85	72	73
Franchised hotels	73	62	65
Total hotels in operation	84	71	72
Weight of hotel room-nights available for sale contributed by leased and owned hotels less than 6 months (as a percentage) ⁽²⁾	4	4	4

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

(2) Represents (i) the aggregate of monthly hotel room-nights available for sale in a given period of leased and owned hotels, which had been in operation for less than six months, divided by (ii) the aggregate of monthly total hotel room-nights available for sale in that given period.

RevPAR may change from period to period due to (i) the change in the mix of our leased and owned hotels in the ramp-up and mature phases, (ii) the change in the mix of our hotels in different cities and locations, (iii) the change in the mix of our hotels of different brands, and (iv) the change in same-hotel RevPAR. The RevPAR for all hotels in operation of legacy Huazhu (excluding hotels under governmental requisition) in 2021 was higher than the RevPAR for all of our hotels in operation of legacy Huazhu (excluding hotels under governmental requisition) in 2020 primarily due to relief of COVID-19 restriction measures and recovery from COVID-19. The RevPAR for all hotels in operation of legacy Huazhu (excluding hotels under governmental requisition) in 2020 was lower than the RevPAR for all of our hotels in operation in 2019, primarily due to the outbreak of COVID-19 and the Chinese government's measures to contain its spread, which resulted in lower occupancy rates and average daily room rates of our hotels.

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The following table sets forth the RevPAR, average daily room rate and occupancy rate for the leased hotels as well as manachised and franchised hotels of legacy DH for the periods indicated.

	Year Ended December 31,	
	2020	2021
RevPAR⁽¹⁾ (in EUR)		
Leased and owned hotels	30	29
Manachised hotels	29	31
Franchised hotels	34	41
All hotels in operation	31	32
Average daily room rate (in EUR)		
Leased and owned hotels	89	91
Manachised hotels	89	85
Franchised hotels	82	93
All hotels in operation	88	90
Occupancy rate (as a percentage)		
Leased and owned hotels	34	32
Manachised hotels	32	37
Franchised hotels	42	44
All hotels in operation	35	35

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

The RevPAR for all hotels in operation of legacy DH in 2021 was higher than that of 2020, primarily due to relief of COVID-19 restriction measures and recovery from COVID-19. The RevPAR for all hotels in operation of legacy DH in 2020 was lower than 2019, primarily due to the outbreak of COVID-19 in Europe and the relevant governments' measures to contain its spread.

The seasonality of our business may cause fluctuations in our quarterly RevPAR. We typically have the lowest RevPAR in the first quarter due to reduced travel activities in winter and during the Spring Festival holidays, and the highest RevPAR in the third quarter due to increased travel during summer, though this may not be true for this year given the COVID-19 impact. National and regional special events that attract large numbers of people to travel may also cause fluctuations in our RevPAR.

The following table sets forth quarterly RevPAR of legacy Huazhu's hotels for the periods indicated.

	For the Three Months Ended							
	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021
RevPAR (in RMB):								
Leased and owned hotels	92	138	211	217	156	252	206	193
Manachised hotels	88	126	173	181	135	203	173	159
Franchised hotels	75	106	162	174	125	194	156	144
Total hotels in operation	88	127	179	186	138	210	177	163

The following table sets forth the quarterly RevPAR of the hotels operated by legacy DH for the periods indicated.

	For the Three Months Ended								
	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021	
RevPAR (in EUR):									
Leased and owned hotels		51	15	34	16	12	17	45	41
Manachised hotels		37	18	35	16	12	19	51	37
Franchised hotels		44	16	41	22	20	29	52	57
Total hotels in operation		46	16	35	17	13	20	48	43

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Same-hotel RevPAR change. Our overall RevPAR trend does not reflect the trend of a stable and mature portfolio, because it may fluctuate when city mix and mix of mature and ramp-up hotels change. We track same-hotel year-over-year RevPAR change for legacy Huazhu’s hotels in operation for at least 18 months to monitor the RevPAR trend for our mature hotels on a comparable basis. The following table sets forth our same-hotel RevPAR for hotels in operation under legacy Huazhu (excluding hotels under governmental requisition) for at least 18 months for the periods indicated.

	For the Three Months Ended							
	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021
Number of hotels in operation for at least 18 months	3,271	3,539	3,712	3,876	4,209	4,537	4,803	5,075
RevPAR (RMB)	87	125	178	186	138	210	176	162
Same-hotel RevPAR change (as a percentage)	(52.8)	(40.8)	(19.8)	(7.6)	50.2	58.1	(5.9)	(15.6)

- (1) In calculating the same-hotel RevPAR change (as a percentage) of our mature hotels in a specified period, which are hotels in operation for at least 18 months as at the beginning of one of the months within this period, the average RevPAR of these hotels in the months in which they are mature hotels within this period is compared with the average RevPAR of these same hotels in the corresponding months of the prior year.

Financial Key Performance Indicators

Our financial key performance indicators consist of (i) revenues, (ii) operating costs and expenses, (iii) 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. The following table sets forth the revenues generated by our leased and owned as well as manachised and franchised hotels and other revenues, each in absolute amount and as a percentage of total revenues for the periods indicated.

	Year Ended December 31,					
	2019		2020		2021	
	(RMB)	%	(RMB)	%	(RMB)	(US\$)
(In millions except percentages)						
Revenues:						
Leased and owned hotels	7,718	68.8	6,908	67.8	8,118	1,274
Manachised and franchised hotels	3,342	29.8	3,136	30.8	4,404	691
Others	152	1.4	152	1.4	263	41
Total revenues	11,212	100.0	10,196	100.0	12,785	2,006

- *Leased and Owned Hotels.* In 2019, we generated revenue of RMB7,718 million from our leased and owned hotels, which accounted for 68.8% of our total revenues for the year. In 2020, we generated revenues of RMB6,908 million from our leased and owned hotels, which accounted for 67.8% of our total revenues for the year. In 2021, we generated revenue of RMB8,118 million (US\$1,274 million) from our leased and owned hotels, which accounted for 63.5% of our total revenues for the year. We expect that revenues from our leased and owned hotels will continue to constitute a majority of our total revenues in the foreseeable future. As of December 31, 2021, we had 46 leased and owned hotels under development.

For our leased hotels, we lease properties from real estate owners or lessors and we are responsible for hotel development and customization to conform to our standards, as well as for repairs and maintenance and operating costs and expenses of properties over the term of the lease. We are also responsible for substantially all aspects of hotel operations and management, including hiring, training and supervising the hotel managers and employees required to operate our hotels and purchasing supplies. Our typical lease term ranges from ten to 30 years. For a substantial majority of our hotels, we typically enjoy an initial two- to eight-month rent-free period. For certain of our hotels (under Deutsche Hospitality), the landlords are responsible for renovating the hotels (other than soft furnishing) and we are not required to pay rent until this renovation is completed. We generally pay fixed rent on a monthly, quarterly or biannual basis for the first three to five years of the lease term, after which we are generally subject to a 2% to 6% increase every three to five years or, for Deutsche Hospitality's hotels, generally annual adjustments based on consumer price index levels.

Our owned hotels include the hotels we acquired as part of our strategic alliance with Accor in 2016. and the ones we acquired through acquisition of Blossom Hotel Management in 2018.

Our revenues generated from leased and owned hotels are significantly affected by the following two operating measures:

- *The total number of room nights available from the leased and owned hotels in our hotel group.* The future growth of revenues generated from our leased and owned hotels will depend significantly upon our ability to expand our hotel group into new locations and maintain and further increase our RevPAR at existing hotels.
- *RevPAR achieved by our leased and owned hotels, which represents the product of average daily room rates and occupancy rates.* To understand factors impacting our RevPAR, please see “– Non-financial Key Performance Indicators – RevPAR.”
- *Manachised and Franchised Hotels.* In 2019, we generated revenues of RMB3,342 million from our manachised and franchised hotels, which accounted for 29.8% of our total revenues for the year. In 2020, we generated revenues of RMB3,136 million from our manachised and franchised hotels, which accounted for 30.8% of our total revenues for the year. In 2021, we generated revenues of RMB4,404 million (US\$691 million) from our manachised and franchised hotels, which accounted for 34.4% 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, 2021, we had 2,562 manachised and franchised hotels under development.
- *Manachised Hotels.* Our franchisees either lease or own their hotel properties and also invest in the renovation of their properties according to our product standards. Our franchisees are typically responsible for the costs of developing and operating the hotels, including renovating the hotels according to our standards, and all of the operating expenses. We manage our manachised hotels and impose the same standards for all manachised hotels to ensure product quality and consistency across our hotel network. Management services we provide to our franchisees for our manachised hotels generally include hiring, appointing and training hotel managers, managing reservations, providing sales and marketing support, conducting quality inspections and providing other operational support and information. We believe that our manachise model has enabled us to quickly and effectively expand our geographical coverage and market share in a less capital-intensive manner through leveraging the local knowledge and relationships of our franchisees.

We collect fees from our franchisees and do not bear the loss incurred or otherwise share any profit realized by our franchisees. They are also responsible for all costs and expenses related to hotel construction and refurbishing. Our franchise and management agreements for manachised hotels typically run for an initial term of eight to ten years, and for our hotels under Deutsche Hospitality, 15 to 20 years.

For our manachised hotels under legacy Huazhu, our franchisees are generally required to pay us an upfront franchise fee typically ranging between RMB80,000 and RMB1,000,000 per hotel. In general, we charge a monthly franchise fee of approximately 3% to 6.5% of the gross revenues generated by each manachised hotel. We also collect from franchisees a reservation fee for using our central reservation system and a membership registration fee for customers who join our H Rewards loyalty program at the manachised hotels. In addition, we charge system maintenance and support fees and other IT service fees from our franchisees for sharing our technology infrastructure with our manachised hotels. Furthermore, we employ and appoint hotel managers for the manachised hotels and charge franchisees manager fee on a monthly basis.

For our manachised hotels under Deutsche Hospitality, the franchisees have historically been required to pay Deutsche Hospitality a management fee consisting of a base fee of 0.5% to 3.5% of the hotel's turnover and an incentive fee of 6% to 10% of the hotel's adjusted gross operating profit. Deutsche Hospitality participates in the distribution of the manachised hotel's profit and charges a marketing fee for a few manachised hotels. General manager compensation of a manachised hotel, including salaries, social security contribution, and various benefits and bonuses, is borne by the manachised hotel. For some manachised hotels outside Germany, Deutsche Hospitality further charges a license fee of approximately 0.5% to 1% of the hotel's turnover. We are gradually adapting the terms of Deutsche Hospitality's franchise and management agreements to be similar to those of our other manachised hotels.

- *Franchised Hotels.* Under our typical franchise agreements, we provide our franchisees with training, central reservation, sales and marketing support, technology support, quality assurance inspections and other operational support and information. We do not appoint hotel managers for our franchised hotels. We collect fees from the franchisees of our franchised hotels and do not bear any loss incurred or otherwise, share any profit realized by our franchisees. Our franchise agreements for our franchised hotels typically run for an initial term of eight to ten years, and for our hotels under Deutsche Hospitality, 10 to 15 years.

For our franchised hotels under legacy Huazhu, we charge our franchised hotels fees on generally the same terms as our manachised hotels, except that we do not appoint hotel managers to our franchised hotels and thus do not charge these hotels a monthly management service fee.

For our franchised hotels under Deutsche Hospitality, the franchisees have historically been required to pay Deutsche Hospitality a franchise fee of approximately 0.5% to 4.0% of the hotel's gross room revenue turnover. Some hotels outside Germany are charged a fixed franchise fee ranging from EUR40,000 to EUR150,000 per year. Most franchised hotels are also charged a central service fee (or marketing fee in older contracts) and a license fee. We are gradually adapting the terms of Deutsche Hospitality's franchise agreements to be similar to those of our other franchised hotels.

- *Other Revenues.* Other revenues of RMB152 million, RMB152 million and RMB263 million (US\$41 million) in 2019, 2020 and 2021, respectively, represented revenues generated from services other than the operation of hotel businesses, which mainly included revenues from the provision of IT products and services to hotels and revenues from Hua Zhu mall and other revenues from legacy DH.

Operating Costs and Expenses. Our operating costs and expenses consist of costs for hotel operation, other operating cost, selling and marketing expenses, general and administrative expenses and pre-opening expenses. To mitigate the impact of COVID-19, we have taken measures to improve our cost structure, including negotiating with landlords to reduce or delay rental payments, streamlining our hotel staff, work shift sharing, temporary furlough of staff, and reducing or eliminating discretionary spending and capital expenditures. The following table sets forth the components of our operating costs and expenses, both in absolute amount and as a percentage of total revenues for the periods indicated.

	Year Ended December 31,						
	2019		2020		2021		
	(RMB)	%	(RMB)	%	(RMB)	(US\$)	
Total revenues	11,212	100.0	10,196	100.0	12,785	2,006	100.0
Operating costs and expenses							
Hotel operating costs:							
Rents	2,624	23.4	3,485	34.2	3,900	612	30.5
Utilities	404	3.6	478	4.7	507	80	4.0
Personnel costs	1,854	16.5	2,501	24.5	3,022	474	23.6
Depreciation and amortization	960	8.5	1,316	12.9	1,413	222	11.1
Consumables, food and beverage	793	7.1	885	8.7	969	152	7.6
Others	555	5.0	1,064	10.4	1,471	230	11.5
Total hotel operating costs	7,190	64.1	9,729	95.4	11,282	1,770	88.3
Other operating costs	57	0.5	52	0.5	58	9	0.4
Selling and marketing expenses	426	3.8	597	5.9	641	101	5.0
General and administrative expenses	1,061	9.5	1,259	12.3	1,545	242	12.1
Pre-opening expenses	502	4.5	288	2.8	81	13	0.6
Total operating costs and expenses	9,236	82.4	11,925	116.9	13,607	2,135	106.4

- Hotel Operating Costs.** Our hotel operating costs consist primarily of costs and expenses directly attributable to the operation of our leased and owned as well as manachised hotels. Leased and owned hotel operating costs primarily include rental payments and utility costs for hotel properties, compensation and benefits for our hotel-based employees, costs of hotel room consumable products and depreciation and amortization of leasehold improvements, intangible assets and land use rights. Manachised hotel operating costs primarily include compensation and benefits for manachised hotel managers and other limited number of employees directly hired by us, which are recouped by us in the form of monthly service fees. We anticipate that our hotel operating costs in absolute amount will increase as we continue to open new hotels. Our hotel operating costs as a percentage of our total revenue may change from period to period mainly driven by three factors: (i) the hotel operating costs as a percentage of revenues from our leased and owned hotels, (ii) the operating costs, mainly personnel costs, as a percentage of revenues from the manachised and franchised business and (iii) the weight of manachised and franchised hotels in our revenue mix.
- Selling and Marketing Expenses.** Our selling and marketing expenses consist primarily of commissions to travel intermediaries, expenses for marketing programs and materials, bank fees for processing bank card payments, and compensation and benefits for our sales and marketing personnel, including personnel at our centralized reservation center. We expect that our selling and marketing expenses will increase as our sales increase and as we further expand into new geographic locations and promote our brands.
- General and Administrative Expenses.** Our general and administrative expenses consist primarily of compensation and benefits for our corporate and regional office employees and other employees who are not sales and marketing or hotel-based employees, travel and communication expenses of our general and administrative staff, costs of third-party professional services, and office expenses for corporate and regional offices. We expect that our general and administrative expenses will increase as we hire additional personnel and incur additional costs in connection with the expansion of our business.
- Pre-opening Expenses.** Our pre-opening expenses consist primarily of rents, personnel cost, and other miscellaneous expenses incurred prior to the opening of a new leased or owned hotel.

Our pre-opening expenses are largely determined by the number of pre-opening hotels in the pipeline and the rental fees incurred during the development stage. Landlords typically offer a two- to eight-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. For certain of our hotels (under Deutsche Hospitality), the landlords are responsible for renovating the hotels (other than soft furnishing) and we are not required to pay rent until this renovation is completed. The following table sets forth the components of our pre-opening expenses for the periods indicated.

	Year Ended December 31,			
	2019 (RMB)	2020 (RMB)	2021 (RMB) (US\$)	
	(In millions)			
Rents	460	251	68	11
Personnel cost	14	15	5	1
Others	28	22	8	1
Total pre-opening expenses	502	288	81	13

Our hotel operating costs, selling and marketing expenses and general and administrative expenses include share-based compensation expenses. The following table sets forth the allocation of our share-based compensation expenses, both in absolute amount and as a percentage of total share-based compensation expenses, among the cost and expense items set forth below.

	Year Ended December 31,					
	2019		2020		2021	
	(RMB)	%	(RMB)	%	(RMB)	(US\$)
	(In millions except percentages)					
Hotel operating costs	35	31.8	42	34.4	39	6
Selling and marketing expenses	3	2.7	4	3.3	4	1
General and administrative expenses	72	65.5	76	62.3	66	10
Total share-based compensation expenses	110	100.0	122	100.0	109	17

We adopted our 2007 Global Share Plan and 2008 Global Share Plan in February and June 2007, respectively, expanded the 2008 Global Share Plan in October 2008, adopted the 2009 Share Incentive Plan in September 2009, and expanded the 2009 Share Incentive Plan in October 2009, August 2010 and March 2015. We did not grant any options to purchase our ordinary shares in 2019, 2020 and 2021. We granted 6,780,430, 4,934,070 and 2,163,420 shares of restricted stock in 2019, 2020 and 2021, 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.

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 and unrealized gains (losses) from fair value changes of equity securities. We present Adjusted EBITDA because it is used by our management to evaluate our operating performance. We also believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

The following tables present certain unaudited financial data and selected operating data for the periods indicated:

	Year Ended December 31,			
	2019 (RMB)	2020 (RMB)	2021 (RMB) (US\$)	
	(In millions)			
Non-GAAP Financial Data				
EBITDA ⁽¹⁾	3,555	(631)	1,366	215
Adjusted EBITDA ⁽¹⁾	3,349	(244)	1,571	247

(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 and unrealized gains (losses) from fair value changes of equity securities. We present Adjusted EBITDA because it is used by our management to evaluate our operating performance. We also believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies. Our calculation of EBITDA and Adjusted EBITDA does not deduct foreign exchange loss of RMB35 million and RMB317 million (US\$50 million) in 2019 and 2021, respectively, and foreign exchange gain of RMB175 million in 2020. 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 and unrealized gains (losses) from fair value changes of equity securities have been and will be incurred and are not reflected in the presentation of Adjusted EBITDA. 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, unrealized gains (losses) from fair value changes of equity securities, capital expenditures and other relevant items both in our reconciliations to the U.S. GAAP financial measures and in our consolidated financial statements, all of which should be considered when evaluating our performance.

The terms EBITDA 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.

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

	For the Year Ended December 31,			
	2019 (RMB)	2020 (RMB)	2021 (RMB)	(US\$)
	(In millions)			
Net income (loss) attributable to our company	1,769	(2,192)	(465)	(73)
Interest income	(160)	(119)	(89)	(14)
Interest expense	315	533	405	64
Income tax expense (benefit)	640	(215)	12	2
Depreciation and amortization	991	1,362	1,503	236
EBITDA (Non-GAAP)	3,555	(631)	1,366	215
Share-based compensation expenses	110	122	109	17
Unrealized (gains) losses from fair value changes of equity securities	(316)	265	96	15
Adjusted EBITDA (Non-GAAP)	<u>3,349</u>	<u>(244)</u>	<u>1,571</u>	<u>247</u>

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, impairment loss, noncash lease expense, investment loss (income) and changes in operating assets and liabilities. We use net cash provided by operating activities to assess the cash generation capability and return profile of our business. Compared with adjusted EBITDA, net cash provided by operating activities neutralizes the impact of straight-line based rental accounting and timing difference in certain areas of revenue recognition when assessing the return profile and profitability of our business. We had net cash provided by operating activities of RMB3,293 million and RMB609 million in 2019 and 2020, respectively. The year-over-year decrease from 2019 to 2020 was mainly due to the impact of COVID-19. Primarily due to the gradual recovery from COVID-19 in 2021, we had net cash provided by operating activities of RMB1,342 million (US\$210 million) in 2021. We expect that our net cash provided by operating activities will increase as we further expand our hotel network after the negative impact of COVID-19 gradually diminishes.

Taxation

We are incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, the British Virgin Islands and Seychelles, our subsidiaries are not subject to tax on income or capital gain. Under the current laws of Singapore, companies are subject to Singapore corporate income tax at a rate of 17%. Under the current laws of Germany, companies are subject to income tax at a standard rate of 15% (15.825% including solidarity surcharge), plus municipal trade tax of 7%-17%. Companies established in Japan are subject to Japan corporate income tax at a rate of 23.2% (30%-34% including local taxes). Companies established in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5%. Companies established in Taiwan are subject to Taiwan corporate income tax at a rate of 20%.

On March 16, 2007, the National People's Congress passed the Enterprise Income Tax Law and on December 6, 2007, the PRC State Council issued the *Implementation Regulations of the Enterprise Income Tax Law*, both of which became effective on January 1, 2008. The Enterprise Income Tax Law was most recently amended in December 2018. The Enterprise Income Tax Law and its Implementation Regulations, or the EIT Law, apply a uniform 25% enterprise income tax rate to both foreign-invested enterprises and domestic enterprises.

The EIT Law imposes a withholding tax of 10% on dividends distributed by a PRC foreign-invested enterprise to its immediate holding company outside of China, if such immediate holding company is considered a “non-resident enterprise” without any establishment or place within China or if the dividends received have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding tax rate. A holding company which is a tax resident in Hong Kong, for example, would be subject to a 5% withholding tax rate on the dividends received from its PRC subsidiary if it owns at least 25% equity in the PRC subsidiary and is the beneficial owner of the dividends. See “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 Enterprise Income Tax Law of the PRC, and depending on the determination of our PRC resident enterprise status, if we are not treated as a PRC resident enterprise, dividends paid to us by our PRC subsidiaries will be subject to PRC withholding tax; if we are treated as a PRC resident enterprise, we may be subject to 25% PRC income tax on our worldwide income, and holders of our ADSs or ordinary shares that are non-PRC resident investors may be subject to PRC withholding tax on dividends on and gains realized on their transfer of our ADSs or ordinary shares.”

Results of Operations

The following table sets forth a summary of our consolidated results of operations, both in absolute amount and as a percentage of total 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.

	Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	(RMB)	(US\$)	
(In millions except percentages)							
Consolidated Statement of Comprehensive Income Data:							
Revenues:							
Leased and owned hotels	7,718	68.8	6,908	67.8	8,118	1,274	63.5
Manachised and franchised hotels	3,342	29.8	3,136	30.8	4,404	691	34.4
Others	152	1.4	152	1.4	263	41	2.1
Total revenues	11,212	100.0	10,196	100.0	12,785	2,006	100.0
Operating costs and expenses ⁽¹⁾ :							
Hotel operating costs	7,190	64.1	9,729	95.4	11,282	1,770	88.3
Other operating costs	57	0.5	52	0.5	58	9	0.4
Selling and marketing expenses	426	3.8	597	5.9	641	101	5.0
General and administrative expenses	1,061	9.5	1,259	12.3	1,545	242	12.1
Pre-opening expenses	502	4.5	288	2.8	81	13	0.6
Total operating costs and expenses	9,236	82.4	11,925	116.9	13,607	2,135	106.4
Goodwill impairment loss	—	—	437	4.3	—	—	—
Other operating income, net	132	1.2	480	4.7	986	155	7.7
Income (loss) from operations	2,108	18.8	(1,686)	(16.5)	164	26	1.3
Interest income	160	1.4	119	1.2	89	14	0.7
Interest expenses	315	2.8	533	5.2	405	64	3.2
Other income (expense), net	331	3.0	(89)	(0.9)	157	25	1.2
Unrealized gain (loss) from fair value changes of equity securities	316	2.8	(265)	(2.6)	(96)	(15)	(0.7)
Foreign exchange (loss) gain	(35)	(0.3)	175	1.7	(317)	(50)	(2.5)
Income (loss) before income taxes	2,565	22.9	(2,279)	(22.3)	(408)	(64)	(3.2)
Income tax expense (benefit)	640	5.7	(215)	2.1	12	2	0.1
Loss from equity method investments	(164)	(1.5)	(140)	(1.4)	(60)	(9)	(0.5)
Net income (loss)	1,761	15.7	(2,204)	(21.6)	(480)	(75)	(3.8)
Less: net loss attributable to noncontrolling interest	(8)	(0.1)	(12)	(0.1)	(15)	(2)	(0.1)
Net income (loss) attributable to Huazhu Group Limited	1,769	15.8	(2,192)	(21.5)	(465)	(73)	(3.7)

Note:

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

	Year Ended December 31,			
	2019 (RMB)	2020 (RMB)	2021 (RMB)	2021 (US\$)
Share-based compensation expenses	110	122	109	17

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Total Revenues. Our total revenues increased by 25.4% from RMB10,196 million in 2020 to RMB12,785 million (US\$2,006 million) in 2021. This increase was primarily due to the gradual recovery from COVID-19 in China, which resulted in higher occupancy rates and RevPAR of our Legacy Huazhu hotels. Legacy Huazhu's total revenues for 2021 were RMB11,247 million (US\$1,765 million), representing a 29.8% increase compared to 2020.

- **Leased and Owned Hotels.** Total revenues from our leased and owned hotels increased by 17.5% from RMB6,908 million in 2020 to RMB8,118 million (US\$1,274 million) in 2021. This increase was primarily due to relief from the impact of COVID-19 in China, as a result of which the RevPAR for legacy Huazhu's leased and owned hotels (excluding those under governmental requisition), was RMB202 in 2021, compared to RMB166 for all of our leased and owned hotels in 2020. Legacy Huazhu's total revenues from leased and owned hotels in 2021 were RMB6,674 million (US\$1,047 million), representing a 22.7% increase compared to 2020. This increase was partially offset by a decrease in revenue from the leased hotels of Deutsche Hospitality due to the depreciation in Euro, although the revenue from the leased hotels of Deutsche Hospitality in Euro increased slightly from 2020 to 2021.
- **Manachised and Franchised Hotels.** Total revenues from our manachised and franchised hotels increased by 40.4% from RMB3,136 million in 2020 to RMB4,404 million (US\$691 million) in 2021. This increase was primarily due to relief from the impact of COVID-19. Legacy Huazhu's total revenues from manachised and franchised hotels in 2021 were RMB4,342 million (US\$681 million), representing a 40.4% increase compared to 2020. Legacy-DH's total revenues from manachised and franchised hotels in 2021 was RMB62 million, representing a 44.2% year-over-year increase due to the strong recovery of leisure travel, especially for Egypt.
- **Other Revenues.** Other revenues increased by 73.0% from RMB152 million in 2020 to RMB263 million (US\$41 million) in 2021.

Operating Costs and Expenses. Our total operating costs and expenses increased by 14.1% from RMB11,925 million in 2020 to RMB13,607 million (US\$2,135 million) in 2021.

- **Hotel Operating Costs.** Our hotel operating costs increased by 16.0% from RMB9,729 million in 2020 to RMB11,282 million (US\$1,770 million) in 2021. This increase was primarily due to higher rental costs in relation to our leased upscale hotels and acquired CitiGO hotels, higher personnel costs in relation to continuous hotel network expansion, and intangible assets impairment loss mainly related to legacy DH. Our hotel operating costs as a percentage of total revenues decreased from 95.4% in 2020 to 88.3% in 2021. The year-over-year decrease in the percentage was mainly attributable to recovery in our revenue from the impact of COVID-19. Legacy Huazhu's hotel operating costs in 2021 were RMB8.8 billion, representing 78.3% of legacy Huazhu's total revenues.
- **Selling and Marketing Expenses.** Our selling and marketing expenses increased by 7.4% from RMB597 million in 2020 to RMB641 million (US\$101 million) in 2021. Our selling and marketing expenses as a percentage of total revenues decreased from 5.9% in 2020 to 5.0% in 2021, primarily attributable to recovery in our revenue from the impact of COVID-19. Legacy Huazhu's selling and marketing expenses in 2021 were RMB460 million (US\$72 million), representing 4.1% of legacy Huazhu's total revenues.

- *General and Administrative Expenses.* Our general and administrative expenses increased by 22.7% from RMB1,259 million in 2020 to RMB1,545 million (US\$242 million) in 2021. Our general and administrative expenses as a percentage of total revenues remained relatively flat at 12.3% in 2020 and 12.1% in 2021. Legacy Huazhu's general and administrative expenses in 2021 were RMB1,164 million (US\$183 million), represented 10.3% of legacy Huazhu's total revenues, compared to RMB893 million in 2020. The increase was mainly due to investments in our business development team, our information technology, and our upscale hotel division.
- *Pre-opening Expenses.* Our pre-opening expenses decreased by 71.9% from RMB288 million in 2020 to RMB81 million (US\$13 million) in 2021. Our pre-opening expenses as a percentage of total revenues decreased from 2.8% in 2020 to 0.6% in 2021. The decrease was mainly attributable to the opening of certain upscale hotels in 2020. Our pre-opening expenses in 2021 was primarily from legacy Huazhu.

Other Operating Income, Net. Our other operating income increased significantly from RMB480 million in 2020 to RMB986 million (US\$155 million) in 2021, which was mainly attributable to COVID-19 related subsidy income for our legacy DH.

Income (Loss) from Operations. As a result of the foregoing, we had income from operations of RMB164 million (US\$26 million) in 2021, compared to loss from operations of RMB1,686 million in 2020. Legacy Huazhu's income from operations in 2021 was RMB891 million (US\$140 million).

Interest Income (Expense), Net. Our net interest expense was RMB316 million (US\$50 million) in 2021. Our interest income was RMB89 million (US\$14 million), and our interest expense was RMB405 million (US\$64 million) in 2021. Our net interest expense was RMB414 million in 2020. Our interest income was RMB119 million, and our interest expense was RMB533 million in 2020. The decrease in our net interest expense was primarily due to a decrease in bank borrowings in 2021.

Other Income (Expense), Net. We recorded other income, net of RMB157 million (US\$25 million) in 2021, compared to other expense, net of RMB89 million in 2020. This change was primarily attributable to the realized gain from partial disposal of Accor's shares in 2021.

Unrealized Gains (Losses) from Fair Value Changes of Equity Securities. Unrealized gains (losses) from fair value changes of equity securities mainly represents the unrealized gains (losses) from our investment in equity securities with readily determinable fair values, such as Accor hotels. Our unrealized losses from fair value changes of equity securities were RMB96 million (US\$15 million) in 2021, primarily due to decrease in the price of Accor's shares we held. We had unrealized losses from fair value changes of equity securities of RMB265 million in 2020.

Foreign Exchange (Loss) Gain. Our foreign exchange losses was RMB317 million (US\$50 million) in 2021, compared to our foreign exchange gain of RMB175 million in 2020. Our foreign exchange losses in 2021 was primarily attributable to the exchange loss related to our investment in Accor in Euro.

Income Tax (Expense) Benefit. Our income tax expense was RMB12 million (US\$2 million) in 2021, compared to income tax benefit of RMB215 million in 2020. Our effective tax rate in 2021 was negative 2.9%, compared with 9.4% in 2020. The negative effective tax rate in 2021 primarily resulted from the valuation allowance provided for deferred tax assets.

Equity Method Investments. Our loss from equity method investments decreased from RMB140 million in 2020 to RMB60 million (US\$9 million) in 2021, primarily due to the relief of losses incurred by certain of our investee companies from the impact of COVID-19.

Net Income (Loss) Attributable to Noncontrolling Interest. Net income attributable to noncontrolling interest represents joint venture partners' share of our net income or loss based on their equity interest in the leased and owned hotels owned by the joint ventures which are controlled and consolidated by us. Net loss attributable to noncontrolling interest was RMB15 million (US\$2 million) in 2021, primarily due to losses from certain of our joint ventures. The net loss attributable to noncontrolling interest was RMB12 million in 2020.

Net Income (Loss) Attributable to Huazhu Group Limited. As a result of the foregoing, net loss attributable to Huazhu Group Limited decreased from RMB2,192 million in 2020 to RMB465 million (US\$73 million) in 2021. In 2021, legacy Huazhu's net income attributable to Huazhu Group Limited was RMB153 million (US\$24 million).

EBITDA and Adjusted EBITDA. EBITDA (non-GAAP) was RMB1,366 million (US\$215 million) in 2021, compared with negative RMB631 million in 2020. Adjusted EBITDA (non-GAAP) was RMB1,571 million (US\$247 million) in 2021, compared with negative RMB244 million in 2020. This change was primarily due to relief from the impact of COVID-19 in 2021. In 2021, legacy Huazhu's EBITDA (non-GAAP) was RMB1,827 million (US\$287 million) and adjusted EBITDA (non-GAAP) was RMB2,032 million (US\$319 million).

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Total Revenues. Our total revenues decreased by 9.1% from RMB11,212 million in 2019 to RMB10,196 million in 2020. This decrease was primarily due to the impact of COVID-19, which resulted in lower occupancy rates and RevPAR of our hotels and the temporary closure of a large number of our hotels in China. Legacy Huazhu's total revenues for 2020 were RMB8.7 billion, representing a 22.7% decrease compared to 2019. The decrease in our revenue was offset in part by our consolidation of Deutsche Hospitality, which we acquired on January 2, 2020. However, due to the COVID-19 outbreak in Europe since March 2020, Deutsche Hospitality's operation results were also adversely affected in 2020.

- *Leased and Owned Hotels.* Total revenues from our leased and owned hotels decreased by 10.5% from RMB7,718 million in 2019 to RMB6,908 million in 2020. This decrease was primarily due to (i) the temporary closure of a number of our leased and owned hotels in China and (ii) the decreased RevPAR for legacy Huazhu's leased and owned hotels (excluding those under governmental requisition), which was RMB166 in 2020, compared to RMB240 for all of our leased and owned hotels in 2019. Legacy Huazhu's total revenues from leased and owned hotels in 2020 were RMB5.4 billion, representing a 29.5% decrease compared to 2019. This decrease was offset in part by our consolidation of the revenue from the leased hotels of Deutsche Hospitality.
- *Manachised and Franchised Hotels.* Total revenues from our manachised and franchised hotels decreased by 6.2% from RMB3,342 million in 2019 to RMB3,136 million in 2020. This decrease was primarily due to (i) the temporary closure of a number of our manachised and franchised hotels; and (ii) the decreased RevPAR for legacy Huazhu's manachised and franchised hotels (excluding those under governmental requisition), which was RMB146 in 2020, compared to RMB188 for all of our manachised and franchised hotels in 2019. Legacy Huazhu's total revenues from manachised and franchised hotels in 2020 were RMB3.1 billion, representing a 7.5% decrease compared to 2019.
- *Other Revenues.* Other revenues were RMB152 million in 2020, same as in 2019.

Operating Costs and Expenses. Our total operating costs and expenses increased by 29.1% from RMB9,236 million in 2019 to RMB11,925 million in 2020.

- *Hotel Operating Costs.* Our hotel operating costs increased by 35.3% from RMB7,190 million in 2019 to RMB9,729 million in 2020. This increase was primarily due to our consolidation of Deutsche Hospitality. Our hotel operating costs as a percentage of total revenues increased from 64.1% in 2019 to 95.4% in 2020. The year-over-year increase in the percentage was mainly attributable to the decrease in our revenue. Legacy Huazhu's hotel operating costs in 2020 were RMB7.4 billion, representing 85.1% of legacy Huazhu's total revenues.
- *Selling and Marketing Expenses.* Our selling and marketing expenses increased by 40.1% from RMB426 million in 2019 to RMB597 million in 2020. This increase was mainly due to our consolidation of Deutsche Hospitality. Our selling and marketing expenses as a percentage of total revenues increased from 3.8% in 2019 to 5.9% in 2020, primarily attributable to the decrease in our revenue. Legacy Huazhu's selling and marketing expenses in 2020 were RMB388 million, representing 4.5% of legacy Huazhu's total revenues.

- *General and Administrative Expenses.* Our general and administrative expenses increased by 18.7% from RMB1,061 million in 2019 to RMB1,259 million in 2020. Our general and administrative expenses as a percentage of total revenues increased from 9.5% in 2019 to 12.3% in 2020. The increase was mainly attributable to the decrease in our total revenues. Legacy Huazhu's general and administrative expenses in 2020 were RMB893 million, represented 10.3% of legacy Huazhu's revenue. The decline in legacy Huazhu's general and administrative expenses in 2020 was mainly due to our cost-cutting initiatives, such as streamlining of head office headcounts.
- *Pre-opening Expenses.* Our pre-opening expenses decreased by 42.6% from RMB502 million in 2019 to RMB288 million in 2020. Our pre-opening expenses as a percentage of total revenues decreased from 4.5% in 2019 to 2.8% in 2020. The decrease was mainly attributable to the decrease in the hotels under development. Our pre-opening expenses in 2020 was primarily from legacy Huazhu.

Goodwill impairment loss. We incurred goodwill impairment loss of RMB437 million in 2020, which was related to goodwill acquired from the acquisition of Deutsche Hospitality.

Other Operating Income, Net. Our other operating income increased significantly from RMB132 million in 2019 to RMB480 million in 2020, which mainly attributable to subsidy income and insurance income from Deutsche Hospitality due to COVID-19.

Income (Loss) from Operations. As a result of the foregoing, we had loss from operations of RMB1,686 million in 2020, compared to income from operations of RMB2,108 million in 2019. Legacy Huazhu's loss from operations in 2020 was RMB100 million.

Interest Income (Expense), Net. Our net interest expense was RMB414 million in 2020. Our interest income was RMB119 million, and our interest expense was RMB533 million in 2020. Our net interest expense was RMB155 million in 2019. Our interest income was RMB160 million, and our interest expense was RMB315 million in 2019. The increase in our net interest expense was primarily due to increased bank borrowings in 2020 compared to 2019 and issuance of the 2026 Notes.

Other Income (Expense), Net. We recorded other expense, net of RMB89 million in 2020, compared to other income, net of RMB331 million in 2019. Other expense, net in 2020 was primarily attributable to impairment loss on investments totaling RMB92 million.

Unrealized Gains (Losses) from Fair Value Changes of Equity Securities. Our unrealized losses from fair value changes of equity securities were RMB265 million in 2020, primarily due to decreases in the prices of Accor's shares. We had unrealized gains from fair value changes of equity securities of RMB316 million in 2019. Unrealized gains (losses) from fair value changes of equity securities mainly represents the unrealized gains (losses) from our investment in equity securities with readily determinable fair values, such as Accor hotels.

Foreign Exchange (Loss) Gain. Our foreign exchange gain was RMB175 million in 2020, compared to our foreign exchange loss of RMB35 million in 2019. Our foreign exchange gain in 2020 was primarily attributable to the exchange gain related to our investment in Accor in Euro.

Income Tax (Expense) Benefit. Our income tax benefit was RMB215 million in 2020, compared to income tax expense of RMB640 million in 2019. Our effective tax rate in 2020 was 9.4%, which decreased from 25.0% in 2019. The relative low effective tax rate in 2020 primarily resulted from certain non-taxable loss of the fair value changes in equity securities investments and the valuation allowance provided for deferred tax assets.

Equity Method Investments. Our loss from equity method investments decreased from RMB164 million in 2019 to RMB140 million in 2020, primarily due to loss incurred by certain of our investee companies.

Net Income (Loss) Attributable to Noncontrolling Interest. Net income attributable to noncontrolling interest represents joint venture partners' share of our net income or loss based on their equity interest in the leased and owned hotels owned by the joint ventures which are controlled and consolidated by us. Net loss attributable to noncontrolling interest was RMB12 million in 2020, primarily due to losses from certain of our joint ventures. The net loss attributable to noncontrolling interest was RMB8 million in 2019.

Net Income (Loss) Attributable to Huazhu Group Limited. As a result of the foregoing, net loss attributable to Huazhu Group Limited was RMB2,192 million in 2020, compared to net income attributable to Huazhu Group Limited of RMB1,769 million in 2019. Excluding share-based compensation expenses and the unrealized gains (losses) from fair value changes of equity securities, adjusted net loss attributable to Huazhu Group Limited (non-GAAP) for the full year of 2020 was RMB1.8 billion. In 2020, legacy Huazhu's net loss attributable to Huazhu Group Limited was RMB847 million and adjusted net loss attributable to Huazhu Group Limited (non-GAAP) was RMB459 million.

EBITDA and Adjusted EBITDA. EBITDA (non-GAAP) was negative RMB631 million in 2020, compared with RMB3,555 million in 2019. Adjusted EBITDA (non-GAAP) was negative RMB244 million in 2020, compared with RMB3,349 million in 2019. This change was primarily due to the impact of COVID-19. In 2020, legacy Huazhu's EBITDA (non-GAAP) was RMB736 million and adjusted EBITDA (non-GAAP) was negative RMB1.1 billion.

Outstanding Indebtedness

In November 2017, we issued US\$475 million of the 2022 Notes. The 2022 Notes will mature on November 1, 2022 and bear interest at a rate of 0.375% per annum, payable in arrears semi-annually on May 1 and November 1, beginning May 1, 2018. In 2017, proceeds to us were RMB3,093 million (US\$467 million), net of issuance costs of RMB54 million (US\$8 million). The Notes can be converted into our ADSs at an initial conversion rate of 5.4869, before the ADS split, subject to change, of our ADSs per US\$1,000 principal amount of the Notes (equivalent to an initial conversion price of US\$182.25 per ADS). Holders of the Notes may require the Company to repurchase all or a portion of the Notes for cash on November 2, 2020, or upon a fundamental change, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest. In November 2020, we completed put right offer relating to the 2022 Notes. US\$6,000 aggregate principal amount of the 2022 Notes were validly surrendered and not withdrawn prior to the expiration of the put right offer.

In March 2019, we entered into a five-year RMB1.2 billion bank loan contract which will expire in March 2024. The interest rate resets every six months, and is based on the People's Bank of China five-year benchmark interest rate on the relevant reset date. The loan contains certain financial covenants including an EBITDA to interest coverage ratio and net tangible assets. In 2020, we obtained an exemption approval for this credit facility waiving the EBITDA to interest coverage ratio covenant until the six-months period ending June 30, 2021, subject to the satisfaction of certain amended covenants. We repaid RMB179 million in 2020. As of December 31, 2021, we had repaid all the bank borrowings under this facility. The weighted average interest rate of borrowings drawn under this agreement was 4.75% for 2020 and 2021.

In December 2019, we entered into a EUR440 million term facility and US\$500 million revolving credit facility agreement with several banks. The US\$500 million revolving credit facility is available for 35 months from the date of this agreement. The interest rate for each interest period is the aggregate of (i) the applicable margin and (ii) LIBOR (or, in relation to any loan in Euro, EURIBOR). The margin for each loan depends on the applicable leverage range, generally 2.0% per annum. There are some financial covenants including an EBITDA to interest coverage ratio and total equity related to these facilities. On April 17, 2020, our syndication banks approved to release us from the original financial covenants until the six-month period ending June 30, 2021, subject to the satisfaction of certain amended covenants. On December 11, 2020, we obtained a supplemental exemption, which released certain additional covenants contained in the waiver we obtained in April 2020. We have pledged shares of certain of our subsidiaries to secure these facilities. Certain of our subsidiaries also provide subsidiary guarantee for these facilities. We drew down EUR440 million and US\$500 million under the facility agreement in 2019 and repaid nil in 2019. We had drawn down of US\$200 million as of December 31, 2020 under the facility agreement and repaid EUR1 million and US\$700 million in 2020. The US\$500 million revolving credit had been fully paid off as of December 31, 2020. We did not draw down new revolving credit loans and this revolving credit facility was terminated in August 2021. Regarding the EUR440 million term facility, we repaid EUR101 million in 2021. As of December 31, 2021, the outstanding loan amount is EUR338 million. The weighted average interest rate of borrowings drawn under this agreement was 2.89% and 2.73% for 2020 and 2021, respectively.

In May 2020, we issued US\$500 million of the 2026 Notes. These notes will mature on May 1, 2026 and bear interest at a rate of 3.00% per annum, payable in arrears semi-annually on May 1 and November 1, beginning November 1, 2020. The 2026 Notes can be converted into our ADSs at an initial conversion rate of 23.9710, subject to adjustment upon the occurrence of certain events, of our ADSs per US\$1,000 principal amount of the notes (equivalent to an initial conversion price of approximately US\$41.72 per ADS). Holders of the notes may require the Company to repurchase all or a portion of the notes for cash on May 1, 2024, or upon a fundamental change, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest.

In January 2021, we entered into a twelve-year RMB650 million syndicated loan contract, which will mature in December 2032. This special loan is used to finance the construction project of our headquarters. The interest rate resets every year, and is based on the People's Bank of China five-year benchmark LPR minus 24 basis points on the pricing date. This special loan has financial covenants. As of December 31, 2021, we had RMB53 million outstanding under this facility. The weighted average interest rate of this loan was 4.41%, which was fully capitalized in 2021.

As of December 31, 2021, the unutilized credit facility available to us was RMB3.3 billion.

The temporary closure of our hotels and lower occupancy rate during the COVID-19 outbreak since January 2020 may trigger an event of default under our banking arrangements then. We have managed to obtain the required waiver since the outbreak of COVID-19 in 2020. We complied with the covenants under our existing facilities as of December 31, 2021.

5.B. Liquidity and Capital Resources

Our principal sources of liquidity have been cash generated from operating activities, proceeds from our global offering on the Hong Kong Stock Exchange, borrowings from commercial banks and issuance of the 2026 Notes. As of December 31, 2020 and 2021, we had RMB7.0 billion and RMB5.1 billion (US\$803 million), respectively, in cash and cash equivalents. Our cash and cash equivalents and restricted cash consist of cash on hand, liquid investments which have maturities of three months or less when acquired and are unrestricted as to withdrawal or use, deposits used as security against borrowings, and deposits restricted due to contract disputes or lawsuits or special purpose. Our cash and cash equivalents as of December 31, 2021 were primarily consisted of Renminbi and U.S. dollar.

Our businesses have been significantly impacted by the global outbreak of COVID-19 and experienced operating losses in the full year of 2020 and 2021. As of December 31, 2021, our current liabilities exceeded our current assets by RMB5,726 million (US\$898.0 million), which was mainly attributed to the scheduled repayments of our 2022 Notes and the outstanding bank borrowing of EUR338 million in connection with our long-term facility of EUR440 million that will due in December 2022. These conditions and events may raise substantial doubt about our ability to continue as a going concern within one year after the date that the financial statements are issued. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

We have implemented various hotel operation measures to improve hotel operations, negotiating with landlords for rental reduction, reducing and postponing discretionary capital expenditures, to improve our operational performance and cash flow. Our management believes the relevant conditions and events that raise substantial doubt on our going concern are mitigated by the following plans and actions:

- We have the ability to sell our short-term investments that can be readily convertible into cash, the fair value of which was approximately RMB2,589 million as of December 31, 2021;
- As of March 31, 2022, we had unused facilities of approximately RMB2,994 million. Based on our historical experience, requests for drawdowns will be approved by banks provided that we submit the required supporting documentation and the amount is within the credit limit granted;

In addition, we are in the process to obtain long term credit facilities from commercial banks. While final approval has not been obtained, our management believes it is likely that such credit facilities can be obtained to replace our existing long-term bank credit facility of EUR 440 million (RMB3,177 million) due in December 2022. Based on the above factors, our management believes that adequate sources of liquidity exist to fund our working capital and capital expenditures requirements, and to meet our other liabilities and commitments as they become due for at least twelve months from the issuance of these consolidated financial statements.

As of December 31, 2021, we had 46 properties for our leased and owned hotels under development. As of December 31, 2021, we expected to incur approximately RMB1,251 million of capital expenditures in connection with certain recently completed leasehold improvements and the funding of the leasehold improvements of those 46 leased and owned hotels. We intend to fund this planned expansion with our operating cash flow, our cash balance and our credit facilities.

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

	Year Ended December 31,			
	2019 (RMB)	2020 (RMB)	2021 (RMB) (US\$)	
	(In millions)			
Net cash provided by operating activities	3,293	609	1,342	210
Net cash used in investing activities	285	8,101	1,402	219
Net cash provided by (used in) financing activities	6,045	883	(1,801)	(283)
Effect of exchange rate changes on cash and cash equivalents	62	(300)	(88)	(14)
Net increase (decrease) in cash, cash equivalents and restricted cash	9,115	(6,909)	(1,949)	(306)
Cash, cash equivalents and restricted cash at the beginning of the year	4,884	13,999	7,090	1,113
Cash, cash equivalents and restricted cash at the end of the year	13,999	7,090	5,141	807

Operating Activities

In 2019, 2020 and 2021, we financed our operating activities primarily through cash generated from operations.

Net cash provided by operating activities amounted to RMB1,342 million (US\$210 million) in 2021, primarily attributable to (i) an add-back of RMB1,503 million (US\$236 million) in depreciation and amortization and (ii) an add-back of RMB2.3 billion (US\$361 million) in noncash lease expense, partially offset by (i) deferred taxes of RMB543 million (US\$85 million), (ii) our net loss of RMB480 million (US\$75 million); (iii) decrease in operating lease liabilities of RMB2.1 billion (US\$333 million); and (iv) decrease in accrued expenses and other current liabilities of RMB439 million (US\$69 million).

Net cash provided by operating activities amounted to RMB609 million in 2020, primarily attributable to (i) an add-back of RMB2,063 million in noncash lease expense, (ii) an add-back of RMB1,362 million in depreciation and amortization, and (iii) an add-back of RMB709 million in impairment loss, partially offset by (i) our net loss of RMB2,204 million, (ii) a decrease of RMB1,640 million in operating lease liability, and (iii) a deduction of RMB553 million in deferred taxes.

Net cash provided by operating activities amounted to RMB3,293 million in 2019, primarily attributable to (i) our net income of RMB1,761 million, (ii) an add-back of RMB2,235 million in noncash lease expense, (iii) an add-back of RMB991 million in depreciation and amortization, and (iv) an increase of RMB408 million in accrued expenses and other current liabilities, partially offset by (i) a decrease in operating lease liability of RMB2,036 million; and (ii) a deduction of investment income of RMB477 million.

Net cash provided by operating activities increased from RMB609 million in 2020 to RMB1,342 million (US\$210 million) in 2021, primarily due to recovery from COVID-19 which resulted in a change from net loss of RMB2,204 million in 2020 to net loss of RMB480 million (US\$75 million) in 2021, partially offset by (i) a decrease in impairment loss from RMB709 million in 2020 to RMB380 million (US\$60 million) in 2021 and (ii) an increase in changes of operating lease liabilities from RMB1,640 million in 2020 to RMB2,123 million (US\$333 million) in 2021.

Net cash provided by operating activities decreased from RMB3,293 million in 2019 to RMB609 million in 2020, primarily due to the impact of COVID-19, a change from net income of RMB1,761 million in 2019 to net loss of RMB2,204 million in 2020 and an increase in deferred taxes from RMB38 million in 2019 to RMB553 million in 2020, partially offset by (i) an increase in impairment loss from RMB13 million in 2019 to RMB709 million in 2020, (ii) a change from investment income of RMB477 million in 2019 to investment loss of RMB108 million in 2020, (iii) an increase in depreciation and amortization from RMB991 million in 2019 to RMB1,362 million in 2020.

Investing Activities

Our cash used in investing activities in 2021 is primarily related to purchases of property and equipment of RMB1,658 million (US\$260 million), proceeds from maturity/sale of investments of RMB1,494 million (US\$235 million), acquisitions, net of cash received of RMB742 million (US\$ 116 million), and purchase of investments of RMB521 million (US\$82 million).

Net cash used in investing activities decreased from RMB8,101 million in 2020 to RMB1,402 million (US\$219 million) in 2021, primarily due to (i) an decrease in acquisitions, net of cash received from RMB5,060 million in 2020 to RMB742 million (US\$116 million) in 2021, and (ii) purchase of investments decreased from RMB1,702 million in 2020 to RMB521 million (US\$82 million) in 2021, and (iii) an increase in proceeds from maturity/sale of investments from RMB396 million in 2020 to RMB1,494 million (US\$235 million) in 2021.

Net cash used in investing activities increased from RMB285 million in 2019 to RMB8,101 million in 2020, primarily due to (i) an increase in acquisitions, net of cash received from RMB244 million in 2019 to RMB5,060 million in 2020, which was primarily in connection with the acquisition of Deutsche Hospitality, and (ii) purchase of short term and long term investments increased from RMB328 million to RMB1,702 million, which were primarily related to purchase of Accor's shares, and (iii) a decrease in proceeds from maturity/sale and return of investments from RMB2,002 million in 2019 to RMB396 million in 2020.

Financing Activities

Our major financing activities since 2019 consist of loans with commercial banks, proceeds from global offering on the Hong Kong Stock Exchange, issuance of the 2026 Notes and payment of dividends.

We had net cash provided by financing activities of RMB883 million in 2020, compared with net cash used in financing activities of RMB1,801 million (US\$283 million) in 2021. Net cash used in financing activities in 2021 primarily consisted of proceeds from short-term bank borrowing of RMB2,288 million (US\$359 million), offset of (i) repayment of short-term bank borrowings of RMB2,474 million (US\$389 million); and (ii) repayment of long-term bank borrowings of RMB1,650 million (US\$259 million).

Net cash provided by financing activities decreased from RMB6,045 million in 2019 to RMB883 million in 2020. Net cash provided by financing activities in 2020 primarily consisted of (i) net proceeds of RMB6,018 million from our global offering on the Hong Kong Stock Exchange, (ii) proceeds from issuance of convertible senior notes, net of issuance cost of RMB3,499 million, (iii) proceeds from short-term bank borrowings of RMB1,658 million, and (iv) proceeds from long-term bank borrowings of RMB1,652 million, partially offset of (i) repayment of long-term bank borrowings of RMB9,163 million; and (ii) repayment of short-term bank borrowings of RMB1,993 million.

Net cash provided by financing activities in 2019 primarily consisted of (i) proceeds of RMB13,176 million from long-term bank borrowings and (ii) proceeds of RMB2,214 million from short-term bank borrowings, partially offset by (i) repayment of long-term bank borrowings of RMB6,760 million and (ii) repayment of short-term bank borrowings of RMB1,902 million.

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, 2021, approximately RMB3,678 million (US\$577 million) was not available for distribution to us by our PRC subsidiaries in the form of dividends, loans, or advances.

Furthermore, under regulations of the SAFE, the Renminbi is not convertible into foreign currencies for capital account items, such as loans, repatriation of investments and investments outside of China, unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made.

The EIT Law provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered resident enterprises. Currently, it is still unclear whether the PRC tax authorities would determine that we should be classified as a PRC resident enterprise. See “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 preferential withholding tax rate. A holding company which is a tax resident in Hong Kong, for example, would be subject to a 5% withholding tax 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 and holds more than 25% of the PRC company. In 2018, we revised our dividend policy that we may make a moderate dividend distribution every year with the range of 0.5% to 2.0% of its market capitalization from current year net income starting from 2018. Our board of directors has complete discretion in deciding whether to distribute dividends and the dividend amounts within the approved range. We are restricted from distributing cash dividends until June 30, 2021 pursuant to the waiver from certain financial covenants that we obtained on April 17, 2020 for the syndicated bank loans.

The EIT Law provides that PRC resident enterprises are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. Therefore, if we are treated as a PRC resident enterprise, we will be subject to PRC income tax on our worldwide income at the 25% uniform tax rate, which could have an impact on our effective tax rate and an adverse effect on our net income and results of operations, although we would be exempted from enterprise income tax on dividends distributed from our PRC subsidiaries to us, since such income received by PRC resident enterprise is tax exempted under the EIT Law.

Our German subsidiaries are permitted to pay dividends from their distributable profit as long as there are no agreements, such as debt covenants, that restrict such payments, in which regulations applying to stock corporations (Aktiengesellschaft) have to be taken into account. Pursuant to the Companies Act 1967 of Singapore, dividends are only payable out of profits. Typically, the directors will recommend a particular rate of dividend and the company will, in general meetings, declare the dividend subject to the maximum recommended by the directors.

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

Capital Expenditure

Our capital expenditures were incurred primarily in connection with leasehold improvements, investments in furniture, fixtures and equipment and technology, information and operational software. Our capital expenditures totaled RMB1,881 million, RMB1,533 million and RMB1,498 million (US\$235 million) in 2019, 2020 and 2021, respectively. Our capital expenditures in 2021 consisted of RMB1,479 million (US\$232 million) in property and equipment and RMB19 million (US\$3 million) in software and license. 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.

5.C. Research and Development, Patents and Licenses, etc.

See “Item 4. Information on the Company — B. Business Overview — Technology Infrastructure and Digitalization” and “— Intellectual Property”.

5.D. Trend Information

Jizhu Information and Technology (Shanghai) Co., Ltd. (“Jizhu Shanghai”), which was previously named as Mengguang Information and Technology (Shanghai) Co., Ltd, is a recognized software development entity located in Shanghai of PRC. In November 2018, Jizhu Shanghai was qualified as high and new tech enterprise, resulting in it being subject to a reduced tax rate of 15% in 2018, 2019 and 2020. In December 2021, Jizhu Shanghai was qualified as high and new tech enterprise, resulting Jizhu Shanghai subject to a reduced tax rate of 15% in 2021, 2022 and 2023. H-World Information and Technology Co., Ltd. is qualified as high and new tech enterprise, resulting in H-World Information and Technology Co., Ltd. being subject to a reduced tax rate of 15% in 2019, 2020 and 2021. Pursuant to the relevant regulations applicable to small and micro businesses, from January 1, 2019 to December 31, 2021, several PRC subsidiaries enjoy a preferential tax rate of 20% with a discount to taxable income. For entities with taxable income of less than RMB1 million, 75% of their taxable income would be exempted in tax computation, and for entities with taxable income over RMB1 million but less than RMB3 million, the discount would be 50%. Entities qualified as small and micro businesses should engage in industries which are not restricted or prohibited by the state and should simultaneously meet the following three conditions: annual taxable income does not exceed RMB3 million, the number of employees does not exceed 300, and the total assets does not exceed RMB50 million. The aggregate amount and per share effect of tax holidays were as follows:

	Year Ended December 31,		
	2019 (RMB)	2020 (RMB)	2021 (RMB)
Aggregate amount	45	31	37
Per share effect—basic	0.02	0.01	0.01
Per share effect—diluted	0.01	0.01	0.01

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 total 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. Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with U.S. GAAP, which requires our management to make estimates that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the balance sheet dates, as well as the reported amounts of revenues and expenses during the reporting periods. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations would be affected. We base our estimates on our own historical experience and other assumptions that we believe are reasonable after taking account of our circumstances and expectations for the future based on available information. We evaluate these estimates on an ongoing basis.

Our expectations regarding the future are 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.

We consider an accounting estimate to be critical if: (i) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (ii) changes in the estimate that are reasonably likely to occur from period to period or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations. There are other items within our financial statements that require estimation but are not deemed critical, as defined above. Changes in estimates used in these and other items could have a material impact on our financial statements. For a detailed discussion of our significant accounting policies and related judgments, see “Notes to Consolidated Financial Statements – Note 2 Significant Accounting Policies”.

Impairment of Goodwill and Brand Names Arising from the Acquisition of Deutsche Hospitality

Brand names are generally considered to have indefinite useful lives which are obtained through business acquisitions and originally recorded at their estimated fair values at the date of acquisition.

Determining whether impairment indicators exist and estimating the fair value of our goodwill reporting units and intangible assets for impairment testing require significant judgment. Brand names are evaluated for impairment using an income approach utilizing the relief from royalty method. The determination of the fair value using the discount cash flow model requires our management to make significant estimates and assumptions related to projected hotels' revenues, growth rates, projected operating cost, royalty saving rates and discount rates.

The assumptions used to assess impairment consider historical trends, macroeconomic conditions, and projections are consistent with our operating strategy, which involves uncertainty due to the impact of COVID-19. Changes in these estimates can have a significant impact on the assessment of fair value which could result in material impairment losses.

For the year ended December 31, 2021, we performed a quantitative assessment of goodwill for legacy DH. No goodwill impairment charges were recorded as a result of the testing. The estimated fair value of goodwill for legacy DH exceeded the calculated carrying value by more than 10%. A 5% decline in projected cash flows or increase in the discount rate would not result in an impairment.

We also performed quantitative impairment testing for brand names for legacy DH. As of December 31, 2021, the estimated fair value of one brand name acquired in DH acquisition was lower than its carrying value by approximately RMB160 million and impairment of RMB160 million was recognized. A 5% increase in the discount rate or decrease in royalty saving rate could reduce the fair value by RMB160 million and RMB120 million. In addition, the estimated fair value of both the other two brand names acquired in DH acquisition exceeded their carrying value by more than 10% and no impairment was recognized. A 5% increase in the discount rate or decrease in royalty saving rate would not result in an impairment.

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. 699 Wuzhong Road, Minhang District Shanghai 201103, People's Republic of China.

Directors and Executive Officers	Age	Position/Title
Qi Ji	55	Founder and Executive Chairman of the Board of Directors
John Jiong Wu	54	Co-founder, Independent Director
Tong Tong Zhao	55	Co-founder, Independent Director
Shangzhi Zhang	68	Director
Jian Shang	54	Independent Director
Theng Fong Hee	67	Independent Director
Lei Cao	47	Independent Director
Hui Jin	44	Chief Executive Officer
Xinxin Liu	44	President
Hui Chen	55	Chief Financial Officer

Qi Ji is our founder, and was appointed as a director on February 2007. Mr. Ji has also served as the executive chairman of our board since August 2009. Prior to his current role, he also served as our chief executive officer from January 2012 to May 2015, from 2007 to August 2009, and from November 2019 to September 2021. He co-founded Home Inns & Hotels Management Inc. and served as its chief executive officer from 2002 to January 2005. He also co-founded Trip.com (a company listed on the NASDAQ, ticker symbol: TCOM), one of the largest online travel services providers in China, in 1999, acted as its chief executive officer and president until 2001, and currently serves on Trip.com's board as an independent director. Mr. Ji received his bachelor degree in engineering mechanics and master degree in mechanical engineering from Shanghai Jiao Tong University in the PRC in 1989 and February 1992, respectively.

John Jiong Wu, a co-founder of our company, has served as our director since January 2007. He is founding partner and chairman of FengHe Fund Management Pte. Ltd. He served as the venture partner of Northern Light Venture Capital and was an angel investor and the chief technology officer of Alibaba Group from 2000 to 2007. Mr. Wu was a non-executive director of Viva Biotech Holdings (a company listed on the Hong Kong Stock Exchange, stock code: 1873) from 2018 to 2020. Mr. Wu received his Bachelor of Science in Computer Science degree from the University of Michigan in August 1989.

Tong Tong Zhao, a co-founder of our company, has served as our director since February 2007. Ms. Zhao has served in several companies, including the supervisor of Shanghai Asia-Tang Health Technology Development Co., Ltd., the executive director of Shanghai Hong Ying Hi-Tech Co., Ltd., and the executive director of Shanghai Xie Cheng Science and Technology Co., Ltd.. Ms. Zhao received her Master of Engineering degree from Shanghai Jiao Tong University in the PRC in March 1992 and her Master of Business Administration degree from McGill University in Canada in June 2003. She also obtained her bachelor's degree with a major in biomedical engineering from Southeast University in the PRC in July 1989.

Shangzhi Zhang has served as our director since June 2016. Mr. Zhang has been the executive director of Tianjin Amis Hotel Management Company since 2009. He acted as general delegate of Accor Hotel Group in China from January 1999 to December 2008, during which he was concurrently appointed as the executive director and general manager of Tianjin Accor Hotel Management Co., Ltd. in March 2003, and was responsible for brand Ibis' development and operation in China. He successively served as head of manager office, assistant to general manager and deputy general manager at China Export Commodity Bases Development Corporation, from January 1993 to 1998. Prior to that, Mr. Zhang held several positions at the Ministry of Foreign Economic Relations and Trade of PRC from February 1978 to December 1992. He was third secretary of the Commercial Bureau of Chinese Embassy in Zaire from October 1981 to September 1985. Mr. Zhang graduated from the University of International Business and Economics (formerly known as Beijing Institute of Foreign Trade) in the PRC with a major in French in January 1978. He studied for "joint interpreting and conference service" program at the Commission of the European Communities in Brussels from September 1987 to February 1988 and the French National School of Administration (École Nationale d'Administration) in France from 1990 to 1991. In 2014, Mr. Zhang received the medal award of "Chevalier de Legion d'honneur" from French government.

Jian Shang has served as our independent director since May 2014. Mr. Shang has been the general manager of Hong Shang Asset Management Co., Ltd. since July 2013. From September 2006 to November 2012, he served as chief executive officer of UBS SDIC Fund Management Company. Prior to that, he served as chief executive officer of Yin Hua Fund Management Co., Ltd., deputy chief executive officer of Hua An Fund Management Co., Ltd, and head of strategic planning of Shanghai Stock Exchange respectively from January 2001 to June 2006. Previously, he was a deputy division director of CSRC. Mr. Shang has been an independent non-executive director of Shanghai Realway Capital Assets Management Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 1835) since October 2018. Mr. Shang obtained his PhD in business administration and master of arts in economics from University of Connecticut in the United States in December 1997 and December 1994, respectively, and his bachelor's degree with a major in industrial and foreign trade from Shanghai Jiao Tong University in the PRC in July 1989.

Theng Fong Hee has served as our independent director of the Company since July 2020. Mr. Hee is a qualified advocate and solicitor in Singapore with over 30 years of experience. He has been a consultant of Harry Elias Partnership LLP since January 2014. Mr. Hee is a fellow of Singapore Institute of Arbitrators and Chartered Institute of Arbitrators (UK). He is also on the panel of arbitrators in various arbitration institutions including Singapore International Arbitration Centre (SIAC), China International Economic and Trade Arbitration Commission (CIETAC), Beijing Arbitration Commission (BAC), Shanghai International Economic and Trade Arbitration Commission (SHIAC), Hong Kong International Arbitration Centre (HKIAC), Hainan International Arbitration Court (HIAC), Chongqing Arbitration Commission (CQAC), Shanghai Arbitration Commission (SHAC), Wuhan Arbitration Commission (WHAC) and Asian International Arbitration Centre (AIAC). Mr. Hee is also an ambassador of Singapore International Mediation Centre (SIMC) and has been an accredited mediator of Singapore Mediation Centre (SMC) since March 2017. He serves as an independent director of several listed companies, including Zheneng Jinjiang Environment Holding Company Limited (a company listed on the Singapore Exchange, stock code: BWM) since June 2016, Straco Corporation Limited (a company listed on the Singapore Exchange, stock code: S85) since April 2016, Yanlord Land Group Limited (a company listed on the Singapore Exchange, stock code: Z25) since October 2017, China Aviation Oil (Singapore) Corporation Ltd (a company listed on the Singapore Exchange, stock code: G92) since April 2019, Haidilao International Holding Ltd. (a company listed on the Hong Kong Stock Exchange, stock code:6862) since September 2018, Tye Soon Limited (a company listed on the Singapore Exchange, stock code: BFU) from May 1997 to June 2020, APAC Realty Limited (a company listed on the Singapore Exchange, stock code: CLN) from September 2017 to June 2020, First Resources Limited (a company listed on the Singapore Exchange, stock code: EB5) from October 2007 to May 2018, YHI International Limited (a company listed on the Singapore Exchange, stock code: BPF) from May 2003 to April 2018, and Datapulse Technology Limited (a company listed on the Singapore Exchange, stock code: BKW) from January 1994 to December 2017. Mr. Hee currently serves as a Deputy Chairman of Singapore Medishield Life Council and an Advisory Committee Member of the Singapore Ministry of Law China Ready Programme for Singapore's legal industry.. He has been a director of F&H Singhome Fund II Ltd. since April 2012, F&H Singhome Fund III Ltd. since August 2015 and non-executive independent director of Green Link Digital Bank Pte. Ltd. since December 2021. Mr. Hee was awarded the Public Service Medal and Public Service Star awards respectively in 2008 and 2015. He was also appointed as a Justice of the Peace in April 2018. Mr. Hee obtained his bachelor's degree in law from National University of Singapore (formerly known as the University of Singapore) with honors in Singapore in May 1979 and also received a diploma in Chinese law from Soochow University in the PRC in October 2004. He has been admitted as an advocate and solicitor by the Supreme Court of Singapore since October 1981.

Lei Cao has served as our independent director since July 2020. She has been the head of tax Greater China in Philips Electronic Singapore Pte Ltd. since May 2012. Prior to that, Ms. Cao served as a senior tax director from January 2010 to May 2012 and a tax director from October 2007 to December 2009 in Philips China Investment Co., Ltd. She was also a tax director in Philips Electronics Singapore Pte Ltd from January 2006 to September 2007 and the senior tax manager in Philips China Investment Co., Ltd. from November 2003 to December 2005. Her primary role is to manage a team to provide tax solutions for Philips group in the responsible market, as well as to support and secure Philips group's interests and operations. Previously, Ms. Cao worked in Deloitte Touche Tohmatsu Certified Public Accountants LLP from September 1995 to October 2003 under various roles and her last position was a manager in the tax and business advisory department. Ms. Cao received a bachelor's degree with a major in international business management from Shanghai University of Finance and Economics in the PRC in July 1995. Ms. Cao is a PRC Certified Public Accountant, who has obtained her qualification from Shanghai Institute of Certified Public Accountants in December 2009, and is also a PRC Certified Tax Agent, who has obtained her qualification from Shanghai Certified Tax Agent Management Center in June 2000.

Hui Jin joined us in 2005 and has served as our chief executive officer since September 2021. He has successively served as the director of our Development Department, our vice president, executive vice president, and president, respectively. Mr. Jin worked with Shanghai Home Inns Hotels Management Limited as regional development manager during the period from March 2004 to December 2004. Mr. Jin received his executive master's degree from China Europe International Business School in the PRC in August 2014, and a Bachelor of Science degree in Psychology from the East China Normal University in the PRC in July 2000.

Xinxin Liu joined us in 2012 and has served as our president since September 2021. She has successively served as our chief information officer, chief digital officer and co-president. She was the founder and CEO of H-World Information and Technology Co., Ltd. (盟广信息技术有限公司), which is an IT company incubated by our Group in November 2013. Prior to joining us, Ms. Liu worked in Alcatel-Lucent Shanghai Bell from July 1999 to September 2012, and was the IT head before she left. Ms. Liu received her master's degree in master of business administration from Fudan University in the PRC in January 2008, and her bachelor's degree in economic information management from Beijing Technology and Business University (formerly known as Beijing Business Academy) in the PRC in June 1999.

Hui Chen has served as our chief financial officer since May 2021. Ms. Chen served as chief compliance officer since February 2020. Ms. Chen has deep financial management expertise in the travel and hotel industries in China. She was the chief financial officer of Cjia Group Limited, a Huazhu affiliate company providing apartment services, from March 2018 to February 2020. From 2014 to early 2016, Ms. Chen served as our executive vice president of finance responsible for internal financial management and chief financial officer. Her previous work experiences also include chief financial officer of Home Inns Group and finance director of Trip.com. Ms. Chen received her master's degree in management from Shanghai Jiaotong 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.

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, 2021, the aggregate cash compensation and benefits that we paid to our directors and executive officers were approximately RMB14 million (US\$2 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. A hundred 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. Seventy 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, March 2015 and May 2018. 430 million ordinary shares may be issued under our amended 2009 Share Incentive Plan, or the Amended 2009 Plan.

Plan Administration. The compensation committee administers our Amended and Restated 2007, 2008 and 2009 Plans. Our ESOP administration committee, currently comprised solely of Mr. Qi Ji, has been delegated certain authorities, among others, to grant, in its sole discretion, options, restricted stocks and restricted share units to be issued under the respective share incentive plans to any of our employees and consultants except for our directors and executive officers, and the aggregate number of shares covered by any single grant it makes shall not exceed 5,000,000 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.

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 Plan and our Amended and Restated 2008 Plan terminated in 2017 and 2018, respectively. Our Amended 2009 Plan will terminate in 2029. Our board of directors may amend, suspend, or terminate 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, 2021.

Name	Ordinary Shares Underlying Options Awarded	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
Qi Ji	4,000,000	0.153	October 1, 2009	October 1, 2019
	4,363,480	0.27525	July 17, 2012	July 17, 2018
Tong Tong Zhao	1,000,000	0.153	October 1, 2009	October 1, 2019
John Jiong Wu	1,000,000	0.153	October 1, 2009	October 1, 2019
Hui Jin	*	0.05	February 4, 2007	February 4, 2017
	*	0.4265	March 31, 2011	March 31, 2017
	*	0.5415	May 13, 2014	May 13, 2020
	*	0.4925	March 31, 2015	March 31, 2021
Xinxin Liu	*	0.5415	May 13, 2014	May 13, 2020
Other individuals as a group	169,165,700	0.050-0.5415	February 4, 2007 – April 1, 2015	February 4, 2017 – April 1, 2021

Name	Ordinary Shares Underlying Restricted Stocks Awarded	Date of Grant
Qi Ji	2,000,000	August 6, 2011
	8,978,800	July 17, 2012
	16,971,870	March 17, 2015
	10,982,240	March 26, 2015
Shangzhi Zhang	*	January 18, 2012
	*	January 10, 2013
	*	December 10, 2014
	*	March 13, 2017
Hui Jin	*	March 31, 2011
	*	July 2, 2012
	*	July 1, 2013
	*	July 17, 2014
	*	March 26, 2015
Jian Shang	*	May 5, 2014
	*	July 23, 2020
Xinxin Liu	*	January 10, 2013
	*	July 1, 2013
	*	July 17, 2014
	*	March 26, 2015
	*	March 17, 2017
	*	March 27, 2018
	*	March 7, 2019
	*	March 18, 2020
	*	February 1, 2021
Lei Cao	*	July 23, 2020
Hui Chen	*	November 3, 2020
Other individuals as a group	109,301,190	February 7, 2011 – December 16, 2021

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

6.C. Board Practices

General

Our board of directors currently consists of seven directors. 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. Pursuant to our amended and restated articles of association, our directors may be elected by our shareholders. If our board appoints any person as a director to fill a casual vacancy or as an addition to our existing board, such director shall be subject to re-election at our first subsequent general meeting or annual general meeting, respectively. There is no shareholding requirement for qualification to serve as a member of our board of directors.

Our board of directors may exercise all the powers of our company to borrow money, mortgage or charge its undertaking, property and uncalled capital, and issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of our company or of any third party.

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

Duties of Directors

Under Cayman Islands law, our directors owe fiduciary duties to our company, including a duty of loyalty, a duty to act honestly and a duty to act 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 or until his or her office is otherwise vacated in accordance with our amended and restated articles of association. 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 three directors, namely Mr. Jian Shang, Mr. Theng Fong Hee and Ms. Lei Cao. All directors satisfy the “independence” requirements of the NASDAQ Global Select Market and the SEC regulations. The chairman of our audit committee is Mr. Jian Shang, who 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;

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- reviewing with the independent auditors any audit problems or difficulties and management's response;
- reviewing and approving all proposed related-party transactions;
- discussing the annual audited financial statements with management and the independent auditors;
- discussing with management and the independent auditors major issues regarding accounting principles and financial statement presentations;
- reviewing reports prepared by management or the independent auditors relating to significant financial reporting issues and judgments;
- reviewing with management and the independent auditors related-party transactions and off-balance sheet transactions and structures;
- reviewing with management and the independent auditors the effect of regulatory and accounting initiatives and actions;
- reviewing policies with respect to risk assessment and risk management;
- reviewing our disclosure controls and procedures and internal control over financial reporting;
- timely reviewing reports from the independent auditors regarding all critical accounting policies and practices to be used by our company, all alternative treatments of financial information within GAAP that have been discussed with management and all other material written communications between the independent auditors and management;
- establishing procedures for the receipt, retention and treatment of complaints received from our employees regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time; and
- meeting separately, periodically, with management, the internal auditors and the independent auditors.

Compensation Committee

Our compensation committee 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 directors and senior executives;
- reviewing and evaluating our director and 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 18,352, 23,028 and 24,384 employees as of December 31, 2019, 2020 and 2021, 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. Some of our employees are represented by unions, with a variety of collective bargaining agreements in place. Generally, we consider the relationships between us and the unions that represent our employees to be respectful.

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, 2022 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.

	Ordinary Shares Beneficially Owned ⁽¹⁾	
	Number	%
Directors and Executive Officers:		
Qi Ji	981,862,630 ⁽²⁾	30.5 %
John Jiong Wu	76,393,880 ⁽⁴⁾	2.4 %
Tong Tong Zhao	263,246,520 ⁽³⁾	8.2 %
Shangzhi Zhang	*	*
Jian Shang	*	*
Theng Fong Hee	—	—
Lei Cao	—	—
Hui Jin	*	*
Xinxin Liu	*	*
Hui Chen	*	*
All Directors and Executive Officers as a Group	1,063,619,650 ⁽⁵⁾	33.1 %
Principal Shareholders:		
Winner Crown Holdings Limited	708,653,690 ⁽⁶⁾	22.0 %
East Leader International Limited	262,246,520 ⁽⁷⁾	8.1 %
Invesco Ltd.	315,743,750 ⁽⁸⁾	9.8 %
Trip.com Group Limited	220,494,460 ⁽⁹⁾	6.9 %
T. ROWE PRICE ASSOCIATES, INC.	190,450,221 ⁽¹⁰⁾	6.0 %

* 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, 2022. Percentage of beneficial ownership of each listed person or group is based on (i) 3,218,188,130 ordinary shares outstanding as of March 31, 2022, and (ii) the ordinary shares underlying share options exercisable by such person within 60 days after March 31, 2022.

- (2) Includes (i) 693,653,690 ordinary shares, and 1,500,000 ADSs representing 15,000,000 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) 3,497,670 ordinary shares and 746,475 ADSs representing 7,464,750 ordinary shares held by Mr. Qi Ji, and (iii) 262,246,520 ordinary shares held by East Leader International Limited, or 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 Trident Trust Company (Singapore) Pte. Limited, or Trident Trust. Trident Trust acts as trustee of the Tanya Trust with effect from 4th August 2021, of which Ms. Tong Tong Zhao and her family members are the beneficiaries.
- (3) Includes (i) 1,000,000 ordinary shares, and (ii) 262,246,520 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 Trident Trust. Trident Trust acts as trustee of the Tanya Trust with effect from 4th August 2021, of which Ms. Tong Tong Zhao and her family members are the beneficiaries. Ms. Zhao is the sole director of East Leader.
- (4) Includes 76,393,880 ordinary shares held by Mr. John Jiong Wu.
- (5) Includes ordinary shares and ordinary shares issuable upon exercise of all of the options that are exercisable within 60 days after March 31, 2021 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 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 Vistra Corporate Service Centre, Wickhams Cay II, Road Town, Tortola, VG1110, 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 Trident Trust. Trident Trust acts as trustee of the Tanya Trust with effect from 4th August 2021, 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 Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.
- (8) Based on Amendment No. 3 to Schedule 13G filed with the SEC on February 11, 2022 by Invesco Ltd.
- (9) Includes (i) 72,024,820 ordinary shares that Trip.com purchased from us, (ii) an aggregate of 116,469,640 of our ordinary shares that Trip.com purchased from the Chengwei Funds, CDH Courtyard Limited, the IDG Funds, the Northern Light Funds and Pinpoint Capital 2006 A Limited, and (iii) 3,200,000 ADSs representing 32,000,000 ordinary shares that Trip.com subscribed in our initial public offering. Trip.com is a Cayman Islands company and its address is 968 Jin Zhong Road, Shanghai 200335, People's Republic of China.
- (10) Based on Schedule 13G filed with the SEC on February 14, 2022 by T. ROWE PRICE ASSOCIATES, INC.

As of March 31, 2022, we had 3,218,188,130 ordinary shares issued and outstanding. To our knowledge, we had two record shareholders in the United States. 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.”

7.B. Related Party Transactions

Transactions with Trip.com

We conduct transactions in the ordinary course of our business with Trip.com, an entity in which Mr. Qi Ji, our founder, is a co-founder and independent director. Trip.com rendered reservation services to us to facilitate our customers in making reservations at our hotels from Trip.com's hotel booking system. In 2021, the aggregate commission fees of our leased and owned hotels paid to Trip.com for its reservation services amounted to RMB99 million (US\$16 million). In 2021, the lease expenses of our leased and owned hotel paid to Trip.com amounted to RMB19 million (US\$3 million).

In 2021, we provided technical and marketing services to Trip.com and recorded service fees amounted to RMB62 million (US\$10 million).

Transaction with Sheen Star

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 recognized service fees from Sheen Star in the amount of RMB5 million (US\$1 million) in 2021.

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 RMB22 million (US\$3 million) in 2021. We also recognized service fee from Accor of RMB3 million (US\$0.5 million) in 2021. Mr. Sébastien Bazin resigned as our director in December 2021, since then, Accor no longer has any board representation on our board of directors. Accor is no longer our related party as of the date of this annual report.

Transaction with Cjia Group

China Cjia Group Limited (the "Cjia Group") is one of our equity investees. We sold goods and provided IT and other services to Cjia Group amounted to RMB11 million (US\$2 million) in 2021.

In 2021, the lease expenses our lease hotels recognized to Cjia Group amounted to RMB12 million (US\$2 million). In 2021, we recognized sublease income from Cjia Group amounted to RMB6 million (US\$1 million).

In 2021, we acquired business from Cjia Group with consideration of RMB834 million (US\$131 million), primarily in relation to the business acquisition of CitiGo.

Transaction with China Hospitality JV

In 2018, we, together with TPG, formed China Hospitality JV, Ltd. ("China Hospitality JV"), in which we own 20% equity interest. We recognized service fee amounted to RMB2 million (US\$0.3 million) from China Hospitality JV in 2021.

Transaction with Shanghai Lianquan Hotel Management Co., Ltd. ("Lianquan")

Lianquan is one of our equity investees. In 2021, the sublease income we recognized from Lianquan amounted to RMB10 million (US\$2 million).

Transaction with Suzhou Huali Jinshi Construction Decoration Co., Ttd ("Huali Jinshi")

Huali Jinshi is one of our equity investees. In 2021, we incurred construction service fee of RMB42 million (US\$7 million) to Huali Jinshi.

Transaction with Shenzhen Hitone Investment Fund Partnership (LLP) (“Hitone”)

Hitone is one of our equity investees. In 2021, we made loan payment to Hitone of RMB5 million (US\$1 million) to Hitone.

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.”

8.A.8. Dividend Policy

On January 3, 2020, we declared a cash dividend of US\$0.34 per ordinary share, or US\$0.34 per ADS. Cash dividends are paid in U.S. dollars, and the total amount of cash distributed for the dividend was approximately US\$100 million, which was paid in full by February 5, 2020. The cash dividend per ordinary share presented in this paragraph did not retroactively reflect the Share Subdivision.

On March 3, 2022, we declared a cash dividend of US\$0.021 per ordinary share, or US\$0.21 per ADS. Cash dividends are paid in U.S. dollars, and the total amount of cash distributed for the dividend was approximately US\$68 million, which was paid in full in April 2022.

We are a holding company with no material operations of our own. We conduct our operations primarily through our subsidiaries in China, as well as our subsidiaries in Europe and other jurisdictions. As a result, our ability to pay dividends and to finance any debt we may incur depends upon dividends paid to us by our subsidiaries. If our subsidiaries or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our PRC subsidiaries are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Pursuant to laws applicable to entities incorporated in the PRC, our subsidiaries in the PRC must make appropriations from after-tax profit to non-distributable reserve funds. These reserve funds include one or more of the following: (i) a general reserve, (ii) an enterprise expansion fund and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires an annual appropriation of 10% of after-tax profit (as determined under accounting principles generally accepted in the PRC at each year-end) until the accumulative amount of such reserve fund reaches 50% of its registered capital; the other fund appropriations are at the subsidiaries' discretion. These reserve funds can only be used for specific purposes of enterprise expansion, staff bonus and welfare, and are not distributable as cash dividends. We may make a moderate dividend distribution every year with the range of 0.5% to 2.0% of our market capitalization from current year net income. If we pay any dividends, we will pay our ADS holders 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. We are restricted from distributing cash dividends until June 30, 2021 pursuant to the waiver from certain financial covenants that we obtained on April 17, 2020 for our syndicated bank loans. In March 2022, we announced that our board of directors declared a cash dividend of approximately US\$68million. To facilitate this dividend distribution and meet the oversea treasury demand, certain amount of dividends from our PRC subsidiaries to our oversea subsidiaries was planned. Other than these dividends distributions, we intend to indefinitely reinvest the remaining undistributed earnings of our PRC subsidiaries.

Our German subsidiaries are permitted to pay dividends from their distributable profit as long as there are no agreements, such as debt covenants, that restrict such payments, in which regulations applying to stock corporations (*Aktiengesellschaft*) have to be taken into account. See "Item 5—Operating and Financial Review and Prospects—A. Operating Results—Outstanding Indebtedness" for more information. The distributable profit is calculated based on the respective subsidiary's annual unconsolidated financial statements prepared in accordance with the German accounting principles, namely, the general accounting principles stated in the German Commercial Code (*Handelsgesetzbuch*). Distributions of dividends on shares of stock corporations (*Aktiengesellschaften*) for a given financial year are generally determined by a process in which the management board (*Vorstand*) and supervisory board (*Aufsichtsrat*) submit a proposal to the annual general shareholders' meeting (*Hauptversammlung*) held in the subsequent financial year and such annual general shareholders' meeting (*Hauptversammlung*) adopts a resolution. German law provides that a resolution concerning dividends and distribution thereof may be adopted only on the basis of a balance sheet profit (*Bilanzgewinn*) shown in the company's adopted annual single entity financial statements (*festgestellter Jahresabschluss*). If the management board and supervisory board adopt the financial statements, they can (but are not obliged to) allocate an amount of up to half of the company's net income for the year to other surplus reserves. Additions to the legal reserves and loss carryforwards must be deducted in advance when calculating the amount of net income for the year to be allocated to other surplus reserves. Dividends on shares resolved by the general shareholders' meeting (*Hauptversammlung*) are paid annually, generally shortly after the annual shareholders' meeting (*Hauptversammlung*), in compliance with the rules of the respective clearing system. Dividend payment claims by shareholders are subject to a three-year statute of limitations. Details concerning any dividends resolved by the annual shareholders' meeting (*Hauptversammlung*) and the respective paying agents specified by the company will be published in the electronic version of the Federal Gazette (*elektronischer Bundesanzeiger*). The German subsidiaries are mainly integrated into Steigenberger Hotels AG through control and profit and loss transfer agreements (*Beherrschungs- und Gewinnabführungsverträge*) in such a way that its annual profits or losses are automatically transferred to Steigenberger Hotels AG. Steigenberger Hotels AG is prohibited from conducting dividend distribution during the 60-month term of a facility it obtained in July 2020.

Pursuant to the Companies Act 1967 of Singapore, dividends are only payable out of profits. Typically, the directors will recommend a particular rate of dividend and the company in general meeting will declare the dividend subject to the maximum recommended by the directors.

Subject to certain contractual restrictions, our board of directors has complete discretion in deciding whether to distribute dividends and the dividend amounts within the approved range. Other than these dividends distributions, we intend to indefinitely reinvest the remaining undistributed earnings of our PRC subsidiaries.

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. In 2019, 2020 and 2021, no significant trading suspensions occurred.

Our ordinary shares have been listed on the Hong Kong Stock Exchange since September 22, 2020 under the stock code “1179.”

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. Our ordinary shares are also traded on the Hong Kong Stock Exchange under the stock code “1179.”

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, December 16, 2015 and December 23, 2020, 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.”

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 December 2018, and on December 6, 2007, the PRC State Council issued the *Implementation Regulations of the Enterprise Income Tax Law*, which was amended in April 2019, 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. Enterprises classified as “small and micro businesses” enjoy a preferential tax rate of 20% with a discount to taxable income.

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. The State Taxation Administration, or the STA (previously known as State Administration of Taxation, or the SAT), issued the *Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax 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 STA issued Public Announcement [2011] No. 45 in 2011 and Public Announcement [2014] No.9 in 2014, providing more guidance on the implementation of Circular 82 and clarifying matters including resident status determination, post-determination administration and competent tax authorities. The above-mentioned tax circulars 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 such tax circulars may reflect the STA’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. Currently, there are no further detailed rules or precedents applicable to us regarding the procedures and specific criteria for determining “de facto management body” for a company like us. 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”.

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 preferential withholding tax rate. A holding company which is a tax resident in Hong Kong, for example, would be subject to a 5% withholding tax rate on the dividends received from its PRC subsidiary if the holding company owns at least 25% equity in the PRC subsidiary and is the beneficial owner of the dividends.

The EIT Law provides that PRC resident enterprises are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. Therefore, if we are treated as a PRC “resident enterprise”, we will be subject to PRC income tax on our worldwide income at the 25% uniform tax rate, which could have an impact on our effective tax rate and an adverse effect on our net income and results of operations, although we would be exempt from enterprise income tax on dividends distributed from our PRC subsidiaries to us, 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 PRC 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 (the “MOF”), and the STA 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. Pursuant to Circular 36, most of our PRC subsidiaries’ business are subject to value-added tax, or VAT, at a rate of 6% as general VAT taxpayers, and they would be permitted to offset input VAT by providing valid VAT special invoices received from vendors against their VAT liability.

On March 20, 2019, the MOF, the STA and the General Administration of Customs of China jointly issued *the Public Announcement on Strengthening the VAT Reform Policies*, or Public Announcement [2019] No. 39, pursuant to which, during the period from April 1, 2019 to December 31, 2021, a general VAT taxpayer engaging in the provision of living services, postal service, telecommunications service or modern services with sales revenue from the provision of such services accounting for more than 50% of its total sales revenue is allowed to deduct extra 10% of the deductible input VAT for the current period from the VAT payable. Such rate of extra deduction of input VAT was increased to 15% during the period from October 1, 2019 to December 31, 2021 for general VAT taxpayers engaging in provision of living services with sales revenue from the provision of living services accounting for more than 50% of its total sales revenue pursuant to *the Public Announcement on Clarifying the VAT Super Deduction Policy for the Living Service Sector*, or Public Announcement [2019] No. 87, jointly issued by the MOF and the STA on September 30, 2019. Our PRC subsidiaries that provide living services and meet the required criteria stipulated in Public Announcement [2019] No. 39 and Public Announcement [2019] No. 87 would be permitted to enjoy such extra deduction of input VAT at a rate of 10% during period from April 1, 2019 to September 30, 2019, and at a rate of 15% during period from October 1, 2019 to December 31, 2021, and PRC subsidiaries that provide non-living services but meet the required criteria stipulated in Public Announcement [2019] No. 39 would be permitted to enjoy such extra deduction of input VAT at a rate of 10% during period from April 1, 2019 to December 31, 2021. The above-mentioned super VAT deduction policy was extended to December 31, 2022 pursuant to Public Announcement [2022] No. 11 jointly issued by the MOF and the STA on March 3, 2022. It is uncertain whether such preferential policy will continue to be applicable upon expiry.

On February 6, 2020, the MOF and the STA jointly issued *the Public Announcement on Tax Policies to Support Prevention and Control of Pneumonia Caused by COVID-19*, or Public Announcement [2020] No.8, which retroactively came into force on January 1, 2020, providing that revenue derived by VAT taxpayers from provision of living services shall be temporarily exempted from VAT from January 1, 2020. VAT taxpayers that elect to enjoy such temporary VAT exemption would not be permitted to issue VAT general invoices to customers. Such temporary VAT exemption policy was extended to March 31, 2021 pursuant to Public Announcement [2021] No. 7 jointly issued by the MOF and the STA on March 17, 2021, and was no longer applicable upon expiry.

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 exemption or for a lower withholding tax rate. Under the PRC Individual Income Tax Law (as amended), 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 183 days in aggregate in a calendar 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 transfer price for the transfer of the ADSs or ordinary shares minus the original value and related taxes paid for such transfer. 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.

United States Federal Income Tax Considerations

The following is a description of 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 within the meaning of Section 1221 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"). In addition, it does not describe all of the tax consequences that may be relevant in light of a U.S. Holder's particular circumstances, including alternative minimum tax consequences, the Medicare tax on net investment income, and different tax consequences that may apply 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 or arrangements that are treated as partnerships for U.S. federal income tax purposes (or partners therein);
- tax-exempt entities;
- persons that own or are deemed to own ten percent or more of our ordinary shares (measured by voting power or value); or
- persons who acquired our ordinary shares or ADSs pursuant to the exercise of an employee stock option or otherwise as compensation.

This discussion is based on the Code, administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, all as of the date hereof, and 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 beneficial owner of ordinary shares or ADSs that is a citizen or resident of the United States or a U.S. domestic corporation or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of such ordinary shares or ADSs. In general, a U.S. Holder who owns ADSs will be treated as the owner of the underlying ordinary 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 ordinary shares represented by the ADSs.

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.

Taxation of Distributions

Subject to the discussion under "—Passive Foreign Investment Company Rules" below, 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 treated as dividends for U.S. federal income tax purposes.

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 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 that are readily tradable on an established securities market in the United States, provided, in both cases, that the corporation is not a PFIC for the taxable year in which the dividend is paid or the preceding taxable year. Our ADSs are listed on the NASDAQ Global Select Market, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. As discussed below in “Passive Foreign Investment Company Rules”, based on our 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 our 2020 and 2021 taxable years. In addition, based on our 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 2022 taxable year. Since our ordinary shares are not themselves listed on an established securities market in the United States, dividends that we pay on our ordinary shares that are not backed by ADSs may not be eligible for the reduced tax rate. If, however, 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 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. 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.

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. See “Item. 10. Additional Information—E. Taxation—PRC Taxation.” As a result of recent changes to the foreign tax credit rules, for taxable years beginning after December 28, 2021, any PRC income tax withheld from dividends on our ordinary shares or ADSs is unlikely to be treated as creditable unless the U.S. Holder is eligible for and elects benefits under the Treaty. For years beginning on or before December 28, 2021, 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 may 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 generally will not be eligible for credit against a U.S. Holder’s federal income tax liability. A U.S. Holder who does not 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 taxes, 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.

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.

Sales or Other Dispositions 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 “— 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. As a result of recent changes to the foreign tax credit rules, for taxable years beginning after December 28, 2021, any PRC tax imposed on the sale or other disposition of our ordinary shares or ADSs by a U.S. Holder is unlikely to be treated as creditable unless the U.S. Holder is eligible for and elects benefits under the Treaty. 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 with respect to their particular circumstances.

Deposits and withdrawals of ordinary shares by U.S. Holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

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 2021 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 do not 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 intangible assets (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 intangible assets, 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.

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 an effective mark-to-market election for the first year that we are a PFIC, 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).

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 or provide relevant information 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 (IRS Form 8621 or other relevant form) containing such information as the U.S. Treasury may require. U.S. Holders should consult their tax advisers regarding the potential application of the PFIC rules, including potential reporting obligations.

Specified Foreign Financial Assets

Certain U.S. Holders that own “specified foreign financial assets” with an aggregate value in excess of US\$ 50,000 on the last day of the taxable year or US\$75,000 at any time during the taxable year 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. The understatement of income attributable to “specified foreign financial assets” in excess of US\$5,000 extends the statute of limitations with respect to the tax return to six years after the return was filed. 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.

German Taxation

Income Taxation

German-based corporations (AG and GmbH) are subject to corporate income tax (CIT) and in general also to trade tax, which is a profit tax levied by the municipalities (TT). CIT is charged at a rate of 15% on the taxable income. A 5.5% solidarity surcharge is charged on the CIT, resulting in an effective tax rate of 15.825%. Trade tax is also charged on the taxable income by the local municipalities whereas the tax rates depends on the local multiplier of each municipality. Thus, TT rates vary from town to town. Typically, TT is levied at an effective rate of 7% – 17.5%. For Frankfurt, the TT rate amounts to 16.1% and for Munich to 17.15%. Partnerships themselves (GmbH & Co. KG) that qualifies as so-called entrepreneurial partnerships for tax purposes (*Mitunternehmerschaften*) are subject to TT but not subject to CIT. For CIT purposes, a partnership is tax transparent; i.e., the taxable income of a partnership is determined at the level of the partnership itself and then allocated to the partners in proportion to their interest in the partnership, irrespective of an actual distribution. In case a partner of a partnership is a corporation, the income is subject to CIT at the level of the partners. If the conditions are fulfilled, expenses of the partner that arise in connection with its partnership participation are tax deductible from the taxable income of the partnership as so-called special purpose expenses (Sonderbetriebsausgaben), subject to general rules that may be applicable in relation to deduction of expenses and further provided that the expenses are included in the tax-filing at the level of the partnership.

German branches/permanent establishments of foreign corporations are subject to CIT and TT. In case of permanent establishments, the German double tax treaties generally assign the taxation right to the state in which the permanent establishment is located. The participation of a foreign corporation (China Lodging Holdings Singapore Pte. Ltd.) in a German partnership (DH Group GmbH & Co. KG) as limited partner can create a permanent establishment of the foreign corporation in Germany for CIT and TT purposes.

Participation exemption

Dividends received by a German corporation are generally exempt from CIT if in particular a participation quota of at least 10% at the beginning of the year the dividend distribution takes place is fulfilled and the distributed dividend has not reduced the taxable income of the distributing entity; 5% of the dividends are deemed as non-deductible business expenses. Consequently, dividends are effectively 95% tax exempt. The effective CIT including solidarity surcharge on dividends therefore amounts to approximately 0.8% (= 5% taxable portion x 15.825% tax rate). This participation exemption applies regardless of a minimum holding period or the residence of the subsidiary (German or foreign). The participation exemption *inter alia* does not apply if the shares are held as a trading stock of banks and financial institutions.

The 95% exemption applies to TT under additional requirements. For dividends from German corporations the minimum shareholding at the beginning of the year must be at least 15% instead of 10%; Otherwise, the dividends are fully taxable for TT purposes. The same hold principally true with regard to the TT-treatment of dividends from foreign corporations.

The 95% participation exemption also applies to capital gains from the disposal of shares in corporations. Exceptions only apply in case of certain tax neutral restructurings made in the past and in case of past tax-effective write-downs. The 95% participation exemption for capital gains applies to both CIT and TT. Again, the participation exemption for capital gains *inter alia* does not apply if the shares are held as a trading stock of banks and financial institutions or as an investment of a life or health insurance company.

Tax group for CIT and TT purposes

A tax group in Germany allows a set-off of taxable income (positive and negative) for CIT and TT purposes at the level of the entity heading the tax group (parent company). Such tax group requires in particular the holding of the majority in voting rights (financial integration) from the beginning of the fiscal year of the parent subsidiary company as well as the implementation and proper execution of a profit and loss transfer agreement for a fixed minimum period of at least five calendar years. Accordingly, all profits made as well as all losses suffered at the level of the subsidiary/ies in a tax group as determined pursuant to German accounting rules (HGB) have to be transferred to or need to be compensated by the head of the tax group. One advantage of the tax group is that the profit transfer is not subject to dividend taxation (i.e. no CIT/TT on the 5% non-deductible expenses). Only corporations subject to unlimited corporate income tax with its place of registered office and management in Germany and seat in a EU or EEA country can be subsidiaries in a tax group.

Withholding Taxes

Dividends paid by German corporations are subject to withholding tax (Kapitalertragsteuer) at a rate of 25% plus 5.5% solidarity surcharge thereupon. A German resident shareholder in the form of a corporation may offset the paid withholding tax against its tax burden or if higher than its tax burden get a refund in the course of the tax assessment. For shareholders which are non-resident in Germany, the withholding tax may generally become a final tax cost unless exemptions apply.

In this regard, for example, a 40% (resp. two fifths) refund on the withholding tax is granted upon application at the Federal Central Tax Office (Bundeszentralamt für Steuern), if the dividend recipient is domiciled abroad and there is no double taxation treaty with Germany. Therefore, an effective withholding tax rate of 15.825% on dividends for German non-resident shareholders applies. However, this refund is subject to enhanced substance requirements.

According to the EU Parent-Subsidiary Directive as implemented into German domestic law, the withholding tax can be reduced to zero (upon prior application and issuance of a respective tax exemption certificate), if the dividends are paid by a German subsidiary to its EU shareholder corporation that has held a 10% minimum participation in the German subsidiary for at least 12 months and respective substance requirements pursuant to German anti-treaty shopping provisions are met.

Furthermore, based on double tax treaties between Germany and the shareholder's country of residence, the withholding tax may be (upon application) reduced to 5% to 15%. Also in these cases, the WHT reduction has to be applied for and substance requirements have to be met.

By contrast, profit distributions paid by a partnership (for example, GmbH & Co. KG) are not subject to withholding tax because they are qualified as "withdrawals" rather than dividends from a German income tax perspective.

If a partnership receives dividends from its corporate subsidiaries and if these corporate subsidiaries are to be actually attributable to the permanent establishment of the German partnership, the dividend withholding tax cannot be reclaimed at the level of a partnership but only at the level of its partners. This also applies to foreign partners of the German partnership which creates a permanent establishment due to the participation in a partnership in Germany and are therefore subject to limited CIT and thus, have to file a CIT return in Germany.

However, reclaiming of the dividend withholding tax in such German CIT return of the foreign partner can only be made in case the corporate subsidiaries of the partnership are actually attributable to the permanent establishment of the German partnership. As a German partnership is a semi-transparent entity, the corporate subsidiaries must be in a functional relationship with the partnership in order to be attributed to the German permanent establishment of the partnership. If the corporate subsidiaries are not attributable to the permanent establishment of the German partnership, they would be directly attributed to the foreign partner of the partnership. In this case, the dividends from such corporations would be seen as directly received by the foreign partner and not by the German partnership, leading to the application of the general refund procedure explained above (including the prove of substance).

Singapore Taxation

Corporate Tax

The prevailing corporate tax rate in Singapore is 17% with effect from Year of Assessment 2010. In addition, the partial tax exemption scheme for Year of Assessment 2019 and before applies on the first S\$300,000 of normal chargeable income; specifically 75% of up to the first S\$10,000 of a company's normal chargeable income, and 50% of up to the next S\$290,000 is exempt from corporate tax. Starting from Year of Assessment 2020, the partial tax exemption scheme applies on the first S\$200,000 of a company's normal chargeable income; specifically 75% of up to the first S\$10,000 of a company's normal chargeable income, and 50% of up to the next S\$190,000 is exempt from corporate tax. The remaining chargeable income (after the partial tax exemption) will be taxed at 17%. For the Years of Assessment 2018, 2019 and 2020, companies will be granted a corporate income tax rebate of 40%, 20% and 25% respectively of the tax payable for the year of assessment, subject to a cap of S\$15,000, S\$10,000 and S\$15,000 respectively per year of assessment.

Singapore has a tax exemption scheme for new start-up companies that was introduced in Year of Assessment 2005 to support entrepreneurship and help the growth of local enterprises. For the Year of Assessment 2019 and before, there will be a full exemption on the first S\$100,000 of normal chargeable income, and a further 50% exemption on the next S\$200,000 of normal chargeable income. From Year of Assessment 2020 onwards, there will be a 75% exemption on the first S\$100,000 of normal chargeable income, and a further 50% exemption on the next S\$100,000 of normal chargeable income.

Our subsidiaries in Singapore are subject to Singapore corporate income tax at a rate of 17%.

Dividend Distributions

Singapore adopts a one-tier corporate tax system under which the tax collected from corporate profits is a final tax and the after-tax profits of a company resident in Singapore can be distributed to its shareholders as tax-exempt dividends. Such dividends are tax-exempt in the hands of the shareholders, irrespective of whether the shareholder is a company or an individual and whether or not the shareholder is a Singapore tax resident. Singapore does not currently impose withholding tax on dividends paid to resident or non-resident shareholders.

Goods and Services Tax

Goods and services tax in Singapore is a consumption tax that is levied on the import of goods into Singapore, as well as nearly all supplies of goods and services in Singapore at a prevailing rate of 7%.

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 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.

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 do not rely on derivative financial instruments to manage our interest risk exposure. Interest-earning instruments carry a degree of interest rate risk.

We have not been exposed to material risks due to changes in interest rates. However, our future interest income and interest expense may be different from expected due to changes in market interest rates.

Foreign Exchange Risk

A significant portion of our revenues, expenses and financial assets are denominated in the Renminbi. Our reporting currency is Renminbi. The functional currencies of entities within Deutsche Hospitality include Euro and other currencies such as Swiss Franc. Our exposure to foreign exchange risk primarily relates to cash and cash equivalents and loans denominated in U.S. dollars and Euro, and our investment in equity securities of Accor denominated in Euro. 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 and between U.S. dollars and Euro because the value of our business is effectively denominated in RMB and Euro, while the ADSs will be traded in U.S. dollars.

The value of the RMB against the U.S. dollar, the Hong Kong dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of RMB into foreign currencies, including U.S. dollars and Hong Kong dollar, has been based on rates set by the People's Bank of China. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy caused the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the RMB has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future. To the extent we hold assets denominated in U.S. dollars, any appreciation of the RMB against the U.S. dollar could result in a change to our statement of operations and a reduction in the value of our U.S. dollar denominated assets. On the other hand, a decline in the value of the RMB against the U.S. dollar and the Hong Kong dollar could reduce the U.S. dollar equivalent amounts of our financial results, the value of your investment in our company and the dividends we may pay in the future, if any, all of which may have a material adverse effect on the prices of ADSs and ordinary shares. To the extent that we need to convert U.S. dollars or Hong Kong dollars into Renminbi or Euro for our operations, appreciation of the Renminbi or Euro against the U.S. dollar or Hong Kong dollar would have an adverse effect on the Renminbi or Euro amount we receive from the conversion.

By way of example, assuming we had converted a U.S. dollar denominated cash balance of US\$1 million as of December 31, 2021 into Renminbi at the exchange rate of US\$1.00 for RMB6.3726, such cash balance would have been approximately RMB6.37 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 RMB6.44 million (US\$1.0 million) as of December 31, 2021.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

12.A. Debt Securities

Not applicable.

12.B. Warrants and Rights

Not applicable.

12.C. Other Securities

Not applicable.

12.D. American Depositary Shares

Fees and Charges Our ADS holders May Have to Pay

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An ADS holder will be required to pay the following service fees to the depository, 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
• Depository Services	Up to U.S. 5¢ per ADS held on the applicable record date(s) established by the Depository (U.S. 2¢ per ADS for the year of 2021)

An ADS holder will also be responsible to pay certain fees and expenses incurred by the depository 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.

In the event of refusal to pay the depository fees, the depository may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depository 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 depository. An ADS holder will receive prior notice of such changes.

Fees and Other Payments Made by the Depository to Us

The depository 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 depository fees charged in respect of the ADR program or otherwise, upon such terms and conditions as we and the depository may agree from time to time. For the year ended December 31, 2021, we have received a total of RMB29 million (US\$5 million) from the depository as reimbursement for our expenses incurred in connection with investor relationship programs related to the ADS program.

Dealing and Settlement of Ordinary Shares in Hong Kong

Our ordinary shares trade on the Hong Kong Stock Exchange in board lots of 100 ordinary shares. Dealings in our ordinary shares on the Hong Kong Stock Exchange are conducted in Hong Kong dollars.

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

- Hong Kong Stock Exchange trading fee of 0.005% of the consideration of the transaction, charged to each of the buyer and seller;
- SFC transaction levy of 0.0027% of the consideration of the transaction, charged to each of the buyer and seller;
- Financial Reporting Council (FRC) transaction levy of 0.00015% of the consideration of the transaction, charged to each of the buyer and seller;
- trading tariff of HK\$0.50 on each and every purchase or sale transaction. The decision on whether or not to pass the trading tariff onto investors is at the discretion of brokers;
- transfer deed stamp duty of HK\$5.00 per transfer deed (if applicable), payable by the seller;
- ad valorem stamp duty at a total rate of 0.26% of the value of the transaction, with 0.13% payable by each of the buyer and the seller;
- stock settlement fee, which is currently 0.002% of the gross transaction value, subject to a minimum fee of HK\$2.00 and a maximum fee of HK\$100.00 per side per trade;
- brokerage commission, which is freely negotiable with the broker (other than brokerage commissions for IPO transactions which are currently set at 1% of the subscription or purchase price and will be payable by the person subscribing for or purchasing the securities); and
- the Hong Kong share registrar will charge between HK\$2.50 to HK\$20, depending on the speed of service (or such higher fee as may from time to time be permitted under the Hong Kong Listing Rules), for each transfer of ordinary shares from one registered owner to another, each share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong.

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

Conversion between ADSs and ordinary shares

Our branch register of members in Hong Kong, or the Hong Kong share register, is maintained by our Hong Kong share registrar, Computershare Hong Kong Investor Services Limited. Our principal register of members, or the Cayman share register, is maintained by our principal share registrar, Conyers Trust Company (Cayman) Limited.

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

In connection with the Hong Kong public offering, and to facilitate fungibility and conversion between ADSs and ordinary shares and trading between NASDAQ and the Hong Kong Stock Exchange, we moved a portion of our issued ordinary shares from our principal register of members maintained in the Cayman Islands to our Hong Kong share register.

Converting ordinary shares Trading in Hong Kong into ADSs

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

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

- If ordinary shares have been deposited with CCASS, the investor must transfer ordinary shares to the depositary's account with the custodian within CCASS by following the CCASS procedures for transfer and submit and deliver a duly completed and signed conversion form to the depositary via his or her broker.
- If ordinary shares are held outside CCASS, the investor must arrange to deposit, his or her ordinary shares into CCASS for delivery to the depositary's account with the custodian within CCASS, submit and deliver a request for conversion form to the custodian and after duly completing and signing such conversion form, deliver such conversion form to the custodian.
- Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, the depositary will issue the corresponding number of ADSs in the name(s) requested by an investor and will deliver the ADSs to the designated DTC account of the person(s) designated

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

Converting ADSs to Ordinary Shares Trading in Hong Kong

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

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

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

- To withdraw ordinary shares from our ADS program, an investor who holds ADSs may turn in such ADSs at the office of the depositary (and the applicable ADR(s) if the ADSs are held in certificated form), and send an instruction to cancel such ADSs to the depositary.
- Upon payment or net of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, the depositary will cancel the ADSs and instruct the custodian to deliver ordinary shares underlying the canceled ADSs to the CCASS account designated by an investor.
- If an investor prefers to receive ordinary shares outside CCASS, he or she must receive ordinary shares in CCASS first and then arrange for withdrawal from CCASS. Investors can then obtain a transfer form signed by HKSCC Nominees Limited (as the transferor) and register ordinary shares in their own names with the Hong Kong share registrar.

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

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

Depositary Requirements

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

- production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with procedures it may establish, from time to time, consistent with the deposit agreement, including, but not limited to, presentation of transfer documents.

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

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

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None of these events occurred in any of the years ended December 31, 2019, 2020 and 2021.

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

In June 2021, we effected a share subdivision to sub-divide each ordinary share with a par value of US\$0.0001 each into ten ordinary shares with a par value of US\$0.00001 each. Concurrent with the share subdivision, the ratio of ADS to ordinary share was adjusted from one (1) ADS representing one (1) ordinary share to one (1) ADS representing ten (10) ordinary shares after share subdivision.

The following “Use of Proceeds” information relates to the registration statement on Form F-3 (File Number 333-221129), together with the prospectus supplement to register additional securities that became effective on September 17, 2020, for our public offering of 20,422,150 ordinary shares and the underwriters’ full exercise of their over-allotment option to purchase an additional 3,063,300 ordinary shares, or the Hong Kong Public Offering. The net proceeds we received from the Hong Kong Public Offering totaled approximately HKD6,887 million (US\$889 million), after deducting underwriting commissions and fees and offering expenses. Goldman Sachs (Asia) L.L.C. and CMB International Capital Limited were the representatives of the underwriters for our Hong Kong Public Offering.

The total expenses incurred for our company’s account in connection with our Hong Kong Public Offering was approximately HKD149 million (US\$19 million), which included HKD87 million (US\$11 million) in underwriting discounts and commissions and approximately HKD62 million (US\$8 million) of other costs and expenses for our Hong Kong Public Offering. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates.

For the period from September 22, 2020 to December 31, 2021, we used net proceeds from our Hong Kong Public Offering as following (i) US\$360 million to fund the capital expenditures and expenses to strengthen our hotel network, including opening of new hotels and the upgrade and on-going maintenance of existing hotels, (ii) US\$300 million to repay part of our US\$500 million revolving credit facility that we drew down in December 2019; (iii) US\$130 million to enhance our technology platform, including our H Rewards loyalty program; and (iv) US\$99 million for general corporate purposes.

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.

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, 2021 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, 2021.

In the course of auditing our internal control over financial reporting as of December 31, 2021, we and our independent registered public accounting firm identified no material weakness but certain significant control deficiencies at our legacy DH acquired in January 2020, which related to i) insufficient evidence to indicate the control owner performed the controls steps effectively for certain controls; ii) insufficient evidence to indicate the controls owner verified the completeness and accuracy of certain information used to perform certain controls; and iii) inappropriate access security management together with password settings of the S+S financial system. We are in the process of implementing remediation measures to remediate the identified significant deficiencies.

Attestation Report of the Registered Public Accounting Firm

The effectiveness of our internal control over financial reporting as of December 31, 2021 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.

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, 2020 and 2021.

	Year Ended December 31,	
	2020	2021
	US\$	US\$
	(In millions)	
Audit Fees ⁽¹⁾	3.3	2.9
Audit-Related Fees ⁽²⁾	0.6	—
Tax Fees ⁽³⁾	—	0.5
Total	<u>3.9</u>	<u>3.4</u>

Note: (1) Audit Fees. This category includes the aggregate fees billed for the professional services rendered by our principal auditors for the interim review of quarterly financial statements and the audit of our annual financial statements, the issuance of our ordinary shares of our secondary listing on the Hong Kong Stock Exchange

(2) Audit-Related Fees. This category includes the aggregate fees billed for the professional services rendered by our principal auditors for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under “Audit Fees.” Audit-Related Fees in 2020 was to support the issuance of the 2026 Notes.

(3) Tax Fees. This category includes the aggregate fees billed for the professional services rendered by our principal auditors for tax compliance and tax advice.

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 August 21, 2019. Under the terms of the approved program, we may repurchase up to \$750 million worth of our issued and outstanding ADSs in open market at prevailing market prices or privately negotiated transaction, depending on market conditions and other factors, as well as in accordance with restrictions relating to volume, price and timing. This share repurchase plan will be effective for five years. 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 2019. and 2020. We repurchased 640 ADSs in 2021. The following table sets forth information about our purchases of outstanding ADSs in 2021.

Period	(a) Total Number of ADSs Purchased	(b) Average Price Paid per ADSs (US\$)	(c) Total Number of ADSs Purchased as Part of Publicly Announced Plans or Programs	(d) Approximately Dollar Value of ADSs that May Yet be Purchased Under the Plans or Programs (in US\$million)
January 2021	—	—	—	750
February 2021	—	—	—	750
March 2021	—	—	—	750
April 2021	—	—	—	750
May 2021	—	—	—	750
June 2021	—	—	—	750
July 2021	—	—	—	750
August 2021	—	—	—	750
September 2021	—	—	—	750
October 2021	—	—	—	750
November 2021	—	—	—	750
December 2021	640	33.15	640	750

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 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.

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>.

Under Rule 19C.11 of the Hong Kong Listing Rules, we are exempt from certain corporate governance requirements of the Hong Kong Stock Exchange, including Appendix 14 of the Hong Kong Listing Rules (Corporate Governance Code and Corporate Governance Report) and Appendix 16 of the Hong Kong Listing Rules (Disclosure of Financial Information).

In connection with our listing on the Hong Kong Stock Exchange, the Hong Kong Stock Exchange and the SFC granted certain waivers and exemptions from strict compliance with the relevant provisions of the Hong Kong Listing Rules and the SFO, respectively, and the SFC also granted a ruling under the Takeovers Codes.

Not a Public Company in Hong Kong

Section 4.1 of the Takeovers Codes provides that the Takeovers Codes applies to takeovers, mergers and share repurchases affecting public companies in Hong Kong and companies with a primary listing in Hong Kong. According to the Note to Section 4.2 of the Introduction to the Takeovers Codes, a Grandfathered Greater China Issuer within the meaning of Rule 19C.01 of the Hong Kong Listing Rules with a secondary listing on the Hong Kong Stock Exchange will not normally be regarded as a public company in Hong Kong under Section 4.2 of the Introduction to the Takeovers Codes.

The SFC granted a ruling that we are not a “public company in Hong Kong” for the purposes of Section 4.2. Therefore, the Takeovers Codes do not apply to us. In the event that the bulk of trading in the Shares migrates to Hong Kong such that our Company would be treated as having a dual-primary listing pursuant to Rule 19C.13 of the Hong Kong Listing Rules, the Takeovers Codes will apply to our Company.

Disclosure of Interests under Part XV of SFO

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

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

The U.S. Exchange Act and the rules and regulations promulgated thereunder require disclosure of interests by shareholders that are broadly equivalent to Part XV of the SFO. For relevant disclosure in respect of the substantial shareholder's interests, see "Item 7. Major Shareholders and Related Party Transactions — A. Major Shareholders."

We undertook to file with the Hong Kong Stock Exchange, as soon as practicable, any declaration of shareholding and securities transactions filed with the SEC. We further undertook to disclose in present and future listing documents any shareholding interests as disclosed in an SEC filing and the relationship between our directors, officers, members of committees and their relationship to any controlling shareholder.

Corporate Communication

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

Since our listing on the Hong Kong Stock Exchange, we made the following arrangements:

- We issue all corporate communications as required by the Hong Kong Listing Rules on our own website in English and Chinese, and on the Hong Kong Stock Exchange's website in English and Chinese.
- We continue to make arrangements to provide printed copies of proxy materials and notices to our shareholders at no costs upon request.
- We have added to the "Investor Relations" page of our website which directs investors to all of our filings with the Hong Kong Stock Exchange.

The Hong Kong Stock Exchange granted us a waiver from strict compliance with the requirements under Rule 2.07A of the Hong Kong Listing Rules.

Rule 13.25B of the Hong Kong Listing Rules requires a listed issuer to publish a monthly return in relation to movements in its equity securities, debt securities and any other securitized instruments, as applicable, during the period to which the monthly return relates. Pursuant to the Joint Policy Statement Regarding the Listing of Overseas Companies, or Joint Policy Statement, we sought a waiver from Rule 13.25B subject to satisfying the waiver condition that the SFC has granted a partial exemption from strict compliance with Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO) in respect of disclosure of shareholders' interests. As we have obtained a partial exemption from the SFC, the Hong Kong Stock Exchange granted a waiver from strict compliance with Rule 13.25B of the Hong Kong Listing Rules. We disclose information about share repurchases, if any, in our quarterly earnings releases and annual reports on Form 20-F which are furnished or filed with the SEC in accordance with applicable U.S. rules and regulations.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

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.

ITEM 19. EXHIBITS

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	The Amended and Restated Articles of Association of the Registrant currently in effect, adopted by way of a special resolution passed on December 23, 2020 (incorporated by reference to Exhibit 3.1 from our report on Form 6-K filed with the Securities and Exchange Commission on June 29, 2021).
2.1	Registrant's Specimen American Depositary Receipt (Incorporated by reference to Form 424b3 (file no. 333-225171) filed with the Securities and Exchange Commission on June 29, 2021.).
2.2	Registrant's Specimen Certificate for Ordinary Shares (Incorporated by reference to Exhibit 4.1 from our Form F-3 (file no. 333-25801) filed with the Securities and Exchange Commission on July 19, 2021.)
2.3	Form of Amendment No. 1 to Deposit Agreement among the Registrant, the Depositary and all Holders and Beneficial Owners of the American Depositary Shares issued thereunder. (Incorporated by reference to Exhibits (a)(i) from the post-effective amendment No. 1 to Form F-6 (file no. 333-225171) filed with the Securities and Exchange Commission on May 7, 2021.)
2.4*	Description of Securities
4.1	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.)
4.2	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.)

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- 4.3 [Amendment to the Amended and Restated 2009 Share Incentive Plan, amended as of March 26, 2015. \(Incorporated by reference to Exhibit 99.2 from our report on Form 6-K filed with the Securities and Exchange Commission on March 27, 2015.\)](#)
- 4.4 [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.\)](#)
- 4.5 [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.\)](#)
- 4.6 [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.\)](#)
- 4.7 [Supplemental Registration Rights Agreement between the registrant and Trip.com dated August 3, 2020](#)
- 4.8 [Investor and Registration Rights Agreement between the Registrant and AAPC Hong Kong Limited, dated January 25, 2016 \(Incorporated by reference to Exhibit 4.19 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 20, 2016.\)](#)
- 4.9 [ADS Lending Agreement between the Registrant and Deutsche Bank AG, London Branch dated October 26, 2017 \(Incorporated by reference to Exhibit 99.1 on Form 6-K filed with the Securities and Exchange Commission on October 31, 2017.\)](#)
- 4.10 [Base Capped Call Transaction Confirmation between the Registrant and Deutsche Bank AG, London Branch dated October 26, 2017 \(Incorporated by reference to Exhibit 4.25 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 20, 2018.\)](#)
- 4.11 [Base Capped Call Transaction Confirmation between the Registrant and JPMorgan Chase Bank, National Association dated October 26, 2017 \(Incorporated by reference to Exhibit 4.26 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 20, 2018.\)](#)
- 4.12 [Base Capped Call Transaction Confirmation between the Registrant and Morgan Stanley & Co. LLC dated October 26, 2017 \(Incorporated by reference to Exhibit 4.27 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 20, 2018.\)](#)
- 4.13 [Additional Capped Call Transaction Confirmation between the Registrant and Deutsche Bank AG, London Branch dated October 31, 2017 \(Incorporated by reference to Exhibit 4.28 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 20, 2018.\)](#)
- 4.14 [Additional Capped Call Transaction Confirmation between the Registrant and JPMorgan Chase Bank, National Association dated October 31, 2017 \(Incorporated by reference to Exhibit 4.29 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 20, 2018.\)](#)
- 4.15 [Additional Capped Call Transaction Confirmation between the Registrant and Morgan Stanley & Co. LLC dated October 31, 2017 \(Incorporated by reference to Exhibit 4.30 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 20, 2018.\)](#)
- 4.16 [Indenture between the Registrant and Wilmington Trust, National Association dated November 3, 2017 \(Incorporated by reference to Exhibit 4.31 from our annual report on Form 20-F filed with the Securities and Exchange Commission on April 20, 2018.\)](#)
- 4.17 [Indenture between the Registrant and Wilmington Trust, National Association dated May 12, 2020](#)
- 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.\)](#)

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12.1*	Certification of Hui Jin, Chief Executive Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2*	Certification of Hui Chen, 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.
15.1*	Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP, Independent Registered Public Accounting Firm.
101.INS*	Inline XBRL Instance Document — the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104.*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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

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

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.

HUAZHU GROUP LIMITED

By: /s/ Hui Jin

Name: Hui Jin

Title: Chief Executive Officer

Date: April 27, 2022

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DECEMBER 31, 2019, 2020 AND 2021**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF HUAZHU GROUP LIMITED

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Huazhu Group Limited and its subsidiaries (the “Company”) as of December 31, 2021 and 2020, the related consolidated statements of comprehensive income, consolidated statements of changes in equity, and cash flows, for each of the three years in the period ended December 31, 2021, and the related notes and the financial statement schedules (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2021, 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 27, 2022, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Convenience Translation

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 outside the People’s Republic of China.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Impairment Assessment of Goodwill and Brand Names Arising from the Acquisition of Deutsche Hospitality -Refer to Notes 2, 3, 6 and 8 to the financial statements

Critical Audit Matter Description

The Company has goodwill and brand names with indefinite lives arising from the acquisition of Deutsche Hospitality (“legacy DH”) in 2020. As of December 31, 2021, the carrying values of the goodwill and brand names assigned to the legacy DH reporting unit were RMB2,076 million and RMB3,419 million, respectively. The Company determines whether the carrying values of such goodwill and brand names are impaired on an annual basis and more frequently when indicators of potential impairment exist. The impairment evaluation involves the comparison of the fair value of the legacy DH reporting unit and each brand names to their respective carrying value.

The Company determines the estimated fair value of the legacy DH reporting unit and each brand name assigned to the legacy DH reporting unit using the discounted cash flow methodology under income approach. The determination of the fair value using the discount cash flow model requires management to make significant estimates and assumptions related to projected hotels’ revenues, growth rates, projected operating cost, royalty saving rates and discount rates (collectively the “significant assumptions”). These significant assumptions used to calculate the fair value of the reporting unit and brand names change from year to year based on forecasted operating results and are sensitive to change market conditions and consumer demands.

As a result of significant negative impacts on hotel demands due to travel restrictions resulted from the outbreak COVID-19 pandemic, the Company performed impairment analyses on the goodwill and brand names of the legacy DH reporting unit when indicators of potential impairment existed as well as on November 30, 2021 for annual assessment. The Company concluded through such analyses no impairment on goodwill and RMB160 million of impairment on brand names of DH reporting unit for the year ended December 31, 2021.

We identified discounted cash flows used in the impairment assessment of goodwill and brand names of legacy DH as a critical audit matter because of the significant estimates and assumptions management makes in the discounted cash flows used to estimate the fair value of the reporting unit and the high sensitivity of legacy DH’s operations to changes in consumer demands. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our internal fair value specialists, when performing audit procedures to evaluate the reasonableness of management’s estimates and assumptions related to the cash flow forecasts and selection of the discount rates.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the discounted cash flow model used in the Company’s impairment assessment of goodwill and brand name included the following, among others:

- We tested the effectiveness of internal controls which address risks of material misstatements with respect to management’s impairment assessment of Group’s goodwill and brand names including internal controls related to significant assumption used in the discounted cash flow model.
- We tested management’s calculations of discounted cash flows used in the impairment analysis by :
 - Evaluating whether the key assumptions used in the cash flow projections such as projected hotels’ revenues, growth rates, projected operating cost, royalty saving rates are reasonable and supportable by comparing management’s forecasts with the Company’s historical revenue and operating results, Company’s strategic and operational plans, and forecasts provided by industry reports and reports of the selected companies in its peer group.
 - With the assistance of internal fair value specialists, evaluating the reasonableness of the discount rates by developing a range of independent estimates and comparing those to the related rates selected by management.
 - Evaluating the reasonableness of management’s sensitivity analyses of the significant assumptions used in the discounted cash flow model by obtaining an understanding of how management analyzed the sensitivity of its

significant assumptions to change and assessing the overall impact on the estimate of fair value compared to the carrying value due to the changes in these significant assumptions.

- Testing the mathematical accuracy of the calculations within the discounted cash flow model.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Shanghai, China

April 27, 2022

We have served as the Company's auditor since 2009.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF HUAZHU GROUP LIMITED

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Huazhu Group Limited and its subsidiaries (the “Company”) as of December 31, 2021 based on criteria established in *Internal Control — Integrated Framework (2013 framework)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the “PCAOB”), the financial statements as of and for the year ended December 31, 2021 of the Company and our report dated April 27, 2022 expressed an unqualified opinion on those financial statements and included explanatory paragraphs regarding the convenience translation of Renminbi amounts into United States dollar amounts.

Basis for Opinion

The Company’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 Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness 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.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Shanghai, China
April 27, 2022

HUAZHU GROUP LIMITED

CONSOLIDATED BALANCE SHEETS

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

	As of December 31,		
	2020	2021	2021
	US\$ million (Note 2)		
ASSETS			
Current assets:			
Cash and cash equivalents	7,026	5,116	803
Restricted cash	64	25	4
Short-term investments measured at fair value	3,903	2,589	406
Accounts receivable, net of allowance of RMB41 and RMB50 as of December 31, 2020 and 2021, respectively	404	521	82
Loan receivables - current, net	304	218	34
Amounts due from related parties, net	178	149	23
Inventories	89	88	14
Other current assets, net	914	847	133
Total current assets	12,882	9,553	1,499
Property and equipment, net	6,682	7,056	1,107
Intangible assets, net	5,945	5,385	845
Operating lease right-of-use assets	28,980	29,942	4,698
Finance lease right-of-use assets	2,041	2,235	351
Land use rights, net	213	206	32
Long-term investments	1,923	1,965	308
Goodwill	4,988	5,132	805
Amounts due from a related party	—	1	0
Loan receivables, net	135	98	15
Other assets, net	743	834	131
Deferred tax assets	623	862	136
Total assets	65,155	63,269	9,927
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term debt	1,142	6,232	978
Accounts payable	1,241	968	152
Amounts due to related parties	132	197	31
Salary and welfare payables	526	591	93
Deferred revenue	1,272	1,366	214
Operating lease liabilities, current	3,406	3,628	569
Finance lease liabilities, current	31	41	6
Accrued expenses and other current liabilities	2,440	1,838	288
Income tax payable	339	418	66
Total current liabilities	10,529	15,279	2,397
Long-term debt	10,856	3,565	559
Operating lease liabilities, non-current	27,048	28,012	4,396
Finance lease liabilities, non-current	2,497	2,684	421
Deferred revenue	662	785	123
Other long-term liabilities	771	903	142
Retirement benefit obligations	179	144	23
Deferred tax liabilities	1,181	853	134
Total liabilities	53,723	52,225	8,195
Commitments and contingencies (Note 21)			
Equity:			
Ordinary shares (US\$0.00001 par value per share; 80,000,000,000 shares authorized; 3,243,644,440 and 3,255,971,250 shares issued as of December 31, 2020 and 2021, and 3,108,425,680 and 3,120,746,090 shares outstanding as of December 31, 2020 and 2021, respectively) ¹	0	0	0
Treasury shares (30,967,640 and 30,974,040 shares as of December 31, 2020 and 2021, respectively)	(107)	(107)	(17)
Additional paid-in capital	9,808	9,964	1,563
Retained earnings	1,502	1,037	163
Accumulated other comprehensive income	127	41	6
Total Huazhu Group Limited shareholders' equity	11,330	10,935	1,715
Noncontrolling interest	102	109	17
Total equity	11,432	11,044	1,732
Total liabilities and equity	65,155	63,269	9,927

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

¹ In June 2021, the Company effected a share split that each issued and unissued ordinary share of the Company with a par value of US\$0.0001 was sub-divided into 10 ordinary shares with a par value of US\$0.00001 each. The ratio of ADS to ordinary share was adjusted from one (1) ADS representing one (1) ordinary share to one (1) ADS representing ten (10) ordinary shares. Except otherwise stated, the share split has been retrospectively applied for all periods presented.

HUAZHU GROUP LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Renminbi in millions, except share and per share data, unless otherwise stated)

	Years Ended December 31,			2021
	2019	2020	2021	
				US\$ ¹ million (Note 2)
Revenues:				
Leased and owned hotels	7,718	6,908	8,118	1,274
Manachised and franchised hotels	3,342	3,136	4,404	691
Others	152	152	263	41
Total revenues	11,212	10,196	12,785	2,006
Operating costs and expenses:				
Hotel operating costs	7,190	9,729	11,282	1,770
Other operating costs	57	52	58	9
Selling and marketing expenses	426	597	641	101
General and administrative expenses	1,061	1,259	1,545	242
Pre-opening expenses	502	288	81	13
Total operating costs and expenses	9,236	11,925	13,607	2,135
Goodwill impairment loss	—	437	—	—
Other operating income, net	132	480	986	155
Income (loss) from operations	2,108	(1,686)	164	26
Interest income	160	119	89	14
Interest expense	315	533	405	64
Other income (expense), net	331	(89)	157	25
Unrealized gains (losses) from fair value changes of equity securities	316	(265)	(96)	(15)
Foreign exchange (loss) gain	(35)	175	(317)	(50)
Income (loss) before income taxes	2,565	(2,279)	(408)	(64)
Income tax expense (benefit)	640	(215)	12	2
Loss from equity method investments	(164)	(140)	(60)	(9)
Net income (loss)	1,761	(2,204)	(480)	(75)
Less: net loss attributable to noncontrolling interest	(8)	(12)	(15)	(2)
Net income (loss) attributable to Huazhu Group Limited	1,769	(2,192)	(465)	(73)
Other comprehensive income (loss)				
Gain (loss) arising from defined benefit plan, net of tax of nil, RMB13, and RMB4 for the year ended 2019, 2020 and 2021, respectively	—	(27)	13	2
Foreign currency translation adjustments, net of tax of nil for the year ended 2019, 2020 and 2021, respectively	(7)	203	(99)	(16)
Comprehensive income (loss)	1,754	(2,028)	(566)	(89)
Less: comprehensive loss attributable to the noncontrolling interest	(8)	(12)	(15)	(2)
Comprehensive income (loss) attributable to Huazhu Group Limited	1,762	(2,016)	(551)	(87)
Earnings (losses) per share:				
Basic	0.62	(0.75)	(0.15)	(0.02)
Diluted	0.59	(0.75)	(0.15)	(0.02)
Weighted average number of shares used in computation:				
Basic	2,843,051,378	2,927,398,409	3,114,124,244	3,114,124,244
Diluted	3,043,098,899	2,927,398,409	3,114,124,244	3,114,124,244

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

HUAZHU GROUP LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Renminbi in millions, except share data, unless otherwise stated)

	Ordinary Shares			Treasury Shares		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest	Total Equity
	Issued shares	Outstanding shares	Amount	Shares	Amount					
Balance at January 1, 2019	2,965,978,880	2,830,760,120	0	30,967,640	(107)	3,713	2,610	(42)	145	6,319
Issuance of ordinary shares upon exercise of options and vesting of restricted stocks	28,265,970	28,265,970	0	—	—	14	—	—	—	14
Share-based compensation	—	—	—	—	—	110	—	—	—	110
Net income	—	—	—	—	—	—	1,769	—	(8)	1,761
Cash dividends approved	—	—	—	—	—	—	(678)	—	—	(678)
Dividends paid to noncontrolling interest holders	—	—	—	—	—	—	—	—	(5)	(5)
Capital contribution from noncontrolling interest holders	—	—	—	—	—	—	—	—	22	22
Acquisition of noncontrolling interest	—	—	—	—	—	(3)	—	—	(36)	(39)
Foreign currency translation adjustments	—	—	—	—	—	—	—	(7)	—	(7)
Disposal of noncontrolling interest for deconsolidation	—	—	—	—	—	—	—	—	3	3
Balance at December 31, 2019	2,994,244,850	2,859,026,090	0	30,967,640	(107)	3,834	3,701	(49)	121	7,500
Cumulative effect of the adoption of ASU 2016-13	—	—	—	—	—	—	(7)	—	—	(7)
Balance at January 1, 2020	2,994,244,850	2,859,026,090	0	30,967,640	(107)	3,834	3,694	(49)	121	7,493
Issuance of ordinary shares upon exercise of options and vesting of restricted stocks	14,543,070	14,543,070	0	—	—	2	—	—	—	2
Conversion of Convertible Senior Notes due 2022	2,020	2,020	0	—	—	—	—	—	—	0
Share-based compensation	—	—	—	—	—	122	—	—	—	122
Net loss	—	—	—	—	—	—	(2,192)	—	(12)	(2,204)
Dividends paid to noncontrolling interest holders	—	—	—	—	—	—	—	—	(4)	(4)
Capital contribution from noncontrolling interest holders	—	—	—	—	—	—	—	—	10	10
Issuance of ordinary shares in Hong Kong public offering	234,854,500	234,854,500	0	—	—	5,968	—	—	—	5,968
Acquisition of noncontrolling interest	—	—	—	—	—	(118)	—	—	(18)	(136)
Foreign currency translation adjustments	—	—	—	—	—	—	—	203	—	203
Disposal of noncontrolling interest for deconsolidation	—	—	—	—	—	—	—	—	0	0
Noncontrolling interest recognized in connection with acquisitions	—	—	—	—	—	—	—	—	3	3
Noncontrolling interest recognized from partial disposal	—	—	—	—	—	—	—	—	2	2
Loss arising from defined benefit plan, net of tax	—	—	—	—	—	—	—	(27)	—	(27)
Balance at December 31, 2020	3,243,644,440	3,108,425,680	0	30,967,640	(107)	9,808	1,502	127	102	11,432
Issuance of ordinary shares upon exercise of options and vesting of restricted stocks	12,325,470	12,325,470	0	—	—	—	—	—	—	0
Conversion of Convertible Senior Notes due 2022	1,340	1,340	0	—	—	—	—	—	—	0
Share-based compensation	—	—	—	—	—	109	—	—	—	109
Net loss	—	—	—	—	—	—	(465)	—	(15)	(480)
Dividends paid to noncontrolling interest holders	—	—	—	—	—	—	—	—	(4)	(4)
Capital contribution from noncontrolling interest holders	—	—	—	—	—	—	—	—	16	16
Acquisition of noncontrolling interest	—	—	—	—	—	(3)	—	—	(11)	(14)
Foreign currency translation adjustments	—	—	—	—	—	—	—	(99)	—	(99)
Repurchase of ordinary shares	—	(6,400)	(0)	6,400	0	0	—	—	—	0
Net settlement on shares repurchased for withholding taxes related to share-based awards	—	—	—	—	—	50	—	—	—	50
Noncontrolling interest recognized in connection with acquisitions	—	—	—	—	—	—	—	—	21	21
Income arising from defined benefit plan, net of tax	—	—	—	—	—	—	—	—	13	13
Balance at December 31, 2021	3,255,971,250	3,120,746,090	0	30,974,040	(107)	9,964	1,037	41	109	11,044

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

HUAZHU GROUP LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Renminbi in millions, unless otherwise stated)

	Years Ended December 31,			
	2019	2020	2021	2021
	US\$ ⁷ million (Note 2)			
Operating activities:				
Net income (loss)	1,761	(2,204)	(480)	(75)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Share-based compensation	110	122	109	17
Depreciation and amortization	991	1,362	1,503	236
Amortization of issuance cost of convertible senior notes and upfront fee of bank borrowings	28	83	60	9
Deferred taxes	(38)	(553)	(543)	(85)
Credit loss	21	65	105	16
Loss (gain) from disposal of property and equipment	(10)	1	(14)	(2)
Impairment loss	13	709	380	60
Loss from equity method investments, net of dividends	213	145	60	9
Investment loss (income)	(477)	108	67	11
Interest accretion for finance lease	—	27	4	1
Noncash lease expense	2,235	2,063	2,306	361
Changes in operating assets and liabilities, net of effect of acquisitions:				
Accounts receivable	(34)	35	(113)	(18)
Inventories	(17)	0	2	0
Amounts due from related parties	32	(14)	12	2
Other current assets	(80)	(147)	6	1
Other assets	(175)	(86)	(64)	(9)
Accounts payable	(1)	31	7	1
Amounts due to related parties	17	20	(4)	(1)
Salary and welfare payables	(28)	(46)	72	11
Deferred revenue	279	(52)	224	35
Accrued expenses and other current liabilities	408	445	(439)	(69)
Operating lease liabilities	(2,036)	(1,640)	(2,123)	(333)
Income tax payable	(35)	94	83	13
Other long-term liabilities	116	41	122	19
Net cash provided by operating activities	3,293	609	1,342	210
Investing activities:				
Purchases of property and equipment	(1,527)	(1,745)	(1,658)	(260)
Purchases of intangibles	(5)	(28)	(17)	(3)
Purchases of land use rights	(3)	(3)	—	—
Amount received as a result of government zoning	13	—	33	5
Acquisitions, net of cash received	(244)	(5,060)	(742)	(116)
Proceeds from disposal of subsidiary and branch, net of cash disposed	2	4	3	1
Purchases of short term and long term investments	(328)	(1,702)	(521)	(82)
Proceeds from maturity/sale and return of investments	2,002	396	1,494	235
Payment for shareholder loan to equity investees	(87)	(15)	(5)	(1)
Collection of shareholder loan from equity investees	88	15	25	4
Payment for the origination of loan receivables	(454)	(130)	(176)	(27)
Proceeds from collection of loan receivables	258	167	162	25
Net cash used in investing activities	(285)	(8,101)	(1,402)	(219)

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Financing activities:				
Proceeds from issuance of ordinary shares in Hong Kong public offering	—	6,018	—	—
Payment of ordinary share issuance costs	—	(32)	(19)	(3)
Net settlement on shares repurchased for withholding taxes related to share-based awards	—	—	50	7
Net proceeds from issuance of ordinary shares upon exercise of options	14	1	1	0
Payment of share repurchase	—	—	(0)	(0)
Proceeds from short-term bank borrowings	2,214	1,658	2,288	359
Repayment of short-term bank borrowings	(1,902)	(1,993)	(2,474)	(389)
Proceeds from long-term bank borrowings	13,176	1,652	53	8
Repayment of long-term bank borrowings	(6,760)	(9,163)	(1,650)	(259)
Funds advanced from noncontrolling interest holders	2	14	4	1
Repayment of funds advanced from noncontrolling interest holders	(19)	(9)	(1)	(0)
Acquisitions of noncontrolling interest	(39)	(98)	(29)	(4)
Contribution from noncontrolling interest holders	22	10	16	3
Proceeds from long-term finance liabilities (failed sale and leaseback “failed SLB”)	—	83	38	6
Repayment of long-term finance liabilities (failed SLB)	—	(42)	(46)	(7)
Dividends paid to noncontrolling interest holders	(5)	(4)	(4)	(1)
Dividends paid	(658)	(678)	—	—
Repayment of convertible senior notes	—	—	(0)	(0)
Proceeds from issuance of convertible senior notes	—	3,499	—	—
Direct financing costs paid	—	(10)	—	—
Principal payments of finance lease	—	(23)	(28)	(4)
Net cash provided by (used in) financing activities	6,045	883	(1,801)	(283)
Effect of exchange rate changes on cash and cash equivalents, and restricted cash	62	(300)	(88)	(14)
Net increase (decrease) in cash, cash equivalents and restricted cash	9,115	(6,909)	(1,949)	(306)
Cash, cash equivalents and restricted cash at the beginning of the year	4,884	13,999	7,090	1,113
Cash, cash equivalents and restricted cash at the end of the year	13,999	7,090	5,141	807
Supplemental disclosure of cash flow information:				
Cash and cash equivalents	3,234	7,026	5,116	803
Restricted cash	10,765	64	25	4
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	13,999	7,090	5,141	807
Interest paid, net of amounts capitalized	414	476	297	47
Income taxes paid	712	238	477	75
Cash paid for amounts included in the measurement of operating lease liabilities	2,905	3,309	3,770	592
Cash paid for amounts included in the measurement of finance lease liabilities	—	63	92	14
Non-cash right-of-use assets obtained in exchange for operating lease liabilities	4,176	1,422	2,565	403
Non-cash right-of-use assets obtained in exchange for finance lease liabilities	—	270	501	79
Non-cash right-of-use assets obtained in acquisition for operating lease	22	8,645	1,710	268
Non-cash right-of-use assets obtained in acquisition for finance lease	—	1,794	—	—
Non-cash lease liabilities obtained in acquisition for operating lease	—	8,849	1,692	266
Non-cash lease liabilities obtained in acquisition for finance lease	—	2,187	—	—
Supplemental schedule of non-cash investing and financing activities:				
Purchases of property and equipment included in payables	963	736	486	76
Consideration payable for business acquisition	16	—	86	13
Purchase of intangible assets included in payables	3	5	2	0
Reimbursement of government zoning included in receivables	—	2	—	—
Cash dividends declared in payables	678	—	—	—

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

HUAZHU GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 and 2021
(Renminbi in millions, except share and per share data, unless otherwise stated)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Huazhu Group Limited (the “Company”) was incorporated in the Cayman Islands under the laws of the Cayman Islands on January 4, 2007. The principal business activities of the Company and its subsidiaries and consolidated variable interest entities (the “Group”) are to develop leased and owned, manachised and franchised hotels mainly in the People’s Republic of China (“PRC”).

On January 2, 2020, the Group completed the acquisition of 100% equity interest of Steigenberger Hotels Aktiengesellschaft Germany (“Deutsche Hospitality” or “DH”). Deutsche Hospitality was engaged in the business of leasing, franchising, operating and managing hotels under five brands in the midscale and upscale market in Europe, the Middle East and Africa. After the acquisition, “legacy DH” refers to Deutsche Hospitality and its subsidiaries and “legacy Huazhu” refers to the Group excluding Deutsche Hospitality.

The Group completed public offering in Hong Kong in September 2020 with proceeds of RMB6,018 and the trading of ordinary shares on the Hong Kong Stock Exchange commenced on September 22, 2020 under the stock code “1179”.

In June 2021, the Company effected a share split that each issued and unissued ordinary share of the Company with a par value of US\$0.0001 was sub-divided into 10 ordinary shares with a par value of US\$0.00001 each. The ratio of ADS to ordinary share was adjusted from one (1) ADS representing one (1) ordinary share to one (1) ADS representing ten (10) ordinary shares. Except otherwise stated, the share split has been retrospectively applied for all periods presented.

Leased and owned hotels

The Group leases hotel properties from property owners or purchases properties directly and is responsible for all aspects of hotel operations and management, including hiring, training and supervising the managers and employees required to operate the hotels. In addition, the Group is responsible for hotel development and customization to conform to the standards of the Group brands at the beginning of the lease or the construction, as well as repairs and maintenance, operating expenses and management of properties over the term of the lease or the land and building certificate.

As of December 31, 2020 and 2021, the Group had 753 and 738 leased and owned hotels in operation, respectively.

Manachised and franchised hotels

Typically the Group enters into certain franchise and management arrangements with franchisees for which the Group is responsible for providing branding, quality assurance, training, reservation, hiring and appointing of the hotel general manager and various other support services relating to the hotel renovation and operation. Those hotels are classified as manachised hotels. Under typical franchise and management agreements, the franchisee is required to pay an initial franchise fee and ongoing franchise and management service fees, the majority of which are equal to a certain percentage of the revenues of the hotel. The franchisee is responsible for the costs of hotel development, renovation and the costs of its operations. The term of the franchise and management agreements are typically eight to ten years for legacy Huazhu and 15 to 20 years for manachised hotels and 10 to 15 years for franchised hotels under legacy DH 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, 2020 and 2021, the Group had 5,746 and 6,824 manachised hotels in operation and 290 and 268 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 (“U.S. GAAP”).

The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business are dependent on, among other things, the Group's ability to generate cash flows from operations, and the Group's ability to arrange adequate financing arrangements, to support its working capital requirements.

The Group's businesses have been significantly impacted by the global outbreak of COVID-19 and as a result, incurred net losses during the year ended December 31, 2020 and 2021. As of December 31, 2021, the Group's total current liabilities exceeded its total current assets by RMB5,726 (US\$898 million), which mainly attributed to the scheduled repayments of the Group's Convertible Senior Notes of US\$475 million (RMB3,027) due in November 2022, and the outstanding bank borrowing of EUR338 million (RMB2,440) under its long-term bank credit facility of EUR440 million (RMB3,177) due in December 2022. These conditions may raise substantial doubt about the Group's ability to continue as a going concern within one year after the date that the financial statements are issued. The financial statements do not include any adjustments that might be necessary if the Group is unable to continue as a going concern.

However, the management has evaluated the significance of the conditions and regards the going concern assumption as appropriate based on the following considerations:

- The Group generated positive cash flow from operations for several consecutive years with a net operating cash inflow of RMB1,342 for the year ended December 31, 2021;
- The Group has performed a review of its cash flow forecasts for the twelve month period after the date that the financial statements are issued and believes that its operating cash flow will be positive.

Management believes the relevant conditions that raise substantial doubt on going concern are mitigated by the following plans and actions:

- The Group has the ability to sell its short-term investments that can be readily convertible into cash, the fair value of which was approximately RMB2,589 as of December 31, 2021;
- As of March 31, 2022, the Group had unused bank credit facilities of approximately RMB2,994. Based on the Group's historical experience, requests for drawdowns will be approved by the banks provided that the Group submits the required supporting documentation and the amount is within the credit limit granted;

In addition, the Group is in the process to obtain long term credit facilities from commercial banks. While final approval has not been obtained, management of the Group believe it is likely such credit facilities can be obtained to replace its existing long-term bank credit facility of EUR 440 million (RMB3,177) due in December 2022. Based on the above factors, management believes that adequate sources of liquidity exist to fund the Group's working capital and capital expenditures requirements, and to meet its other liabilities and commitments as they become due for at least twelve months from the issuance of these consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its majority-owned subsidiaries and consolidated variable interest entities (the "VIEs"). All intercompany transactions and balances are eliminated on consolidation.

Variable Interest Entities

The Group evaluates the need to consolidate certain variable interest entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support.

The Company is deemed as the primary beneficiary of and consolidates variable interest entities when the Company has the power to direct the activities that most significantly impact the economic success of the entities and effectively assumes the obligation to absorb losses and has the rights to receive benefits that are potentially significant to the entities.

As of December 31, 2020 and 2021, the Group consolidated eight and seven entities under VIE model, and the impact of the consolidated VIEs are immaterial to the Group's consolidated financial statements.

The Group evaluates its business activities and arrangements with the entities that operate the manachised and franchised hotels and the funds that it serves as general partner or fund manager to identify potential variable interest entities. Generally, these entities that operate the manachised and franchised hotels qualify for the business scope exception, therefore consolidation is not appropriate under the variable interest entity consolidation guidance. For the disclosure of significant non-consolidated variable interest entities, see Note 7 Investments.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Group bases its estimates on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Significant accounting estimates reflected in the Group's consolidated financial statements include the useful lives and impairment of property and equipment, right-of-use assets and intangible assets with definite lives, valuation allowance of deferred tax assets, purchase price allocation, impairment of investment, goodwill and intangible assets without definite lives and incremental borrowing rate used to measure lease liabilities.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and demand deposits, which are unrestricted as to withdrawal and use, and which have original maturities of three months or less when purchased.

Restricted cash

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

Investments

Investments represent equity-method investments, equity investments with readily determinable fair values, equity investments without readily determinable fair values and available-for-sale debt securities.

The Group accounts for equity investment in entities with significant influence under equity-method accounting. Under this method, the Group's pro rata share of income (loss) from investment is recognized in the consolidated statements of comprehensive income. Dividends received reduce the carrying amount of the investment. When the Group's share of loss in an equity-method investee equals or exceeds its carrying value of the investment in that entity, the Group continues to report its share of equity method losses in the statements of comprehensive income to the extent and as an adjustment to the carrying amount of its other investments in the investee. Equity-method investment is reviewed for impairment by assessing if the decline in market value of the investment below the carrying value is other-than-temporary. In making this determination, factors are evaluated in determining whether a loss in value should be recognized. These include consideration of the intent and ability of the Group to hold investment and the ability of the investee to sustain an earnings capacity, justifying the carrying amount of the investment. Impairment losses are recognized in other expense when a decline in value is deemed to be other-than-temporary.

Investments in equity securities that have readily determinable fair values (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are measured at fair value, with unrealized gains and losses from fair value changes recognized in net income in the consolidated statements of comprehensive income.

Investments in equity securities without readily determinable fair values are measured at cost minus impairment adjusted by observable price changes in orderly transactions for the identical or a similar investment of the same issuer. These investments are measured at fair value on a nonrecurring basis when there are events or changes in circumstances that may have a significant adverse effect. An impairment loss is recognized in the consolidated statements of comprehensive income equal to the amount by which the carrying value exceeds the fair value of the investment.

Debt securities that the company has no intent to hold till maturity or may sell the security in response to the changes in economic conditions are classified as available-for-sale debt securities. Available-for-sale debt securities are reported at fair value, with unrealized gains and losses (other than impairment losses) recognized in accumulated other comprehensive income or loss. Realized gains and losses on debt securities are recognized in the net income in the consolidated statements of comprehensive income. Before the adoption of Accounting Standards Update (“ASU”) 2016-13 (codified as ASC 326), Measurement of Credit Losses on Financial Instruments, the amount of the total impairment related to the credit loss was recognized in the income statement and the amount related to all other factors is recognized in other comprehensive income, net of applicable taxes, and the impairment losses recognized in the income statement cannot be reversed for any future recoveries. After the adoption of ASC 326 on January 1, 2020, credit-related impairment is measured as the difference between the debt security’s amortized cost basis and the present value of expected cash flows and is recognized as an allowance on the balance sheet with a corresponding adjustment to earnings. The allowance should not exceed the amount by which the amortized cost basis exceeds fair value.

As a result of the impairment analysis, the Group recorded an impairment of RMB10, RMB92 and RMB63 in 2019, 2020 and 2021, respectively.

Accounts receivable, loan receivables and other financial assets

Accounts receivable, net

Accounts receivable mainly consist of franchise fee receivables, amounts due from corporate customers, travel agents, hotel guests and credit card receivables, which are recognized and carried at the original invoice or accrued amount less an allowance for credit losses. Before the year 2020, the Group established an allowance for doubtful accounts primarily based on the aging of the receivables and factors surrounding the credit risk of specific customers. After the adoption of ASC 326 Financial instruments- credit losses on January 1, 2020, the accounts receivable balance reflects invoiced and accrued revenue and is presented net of an allowance for credit losses. The Group establishes current expected credit losses (“CECL”) for pools of assets with similar risk characteristics by evaluating historical levels of credit losses, current economic conditions that may affect a customer’s ability to pay, and creditworthiness of significant customers. When specific customers are identified as no longer sharing the same risk profile as their current pool, they are removed from the pool and evaluated separately. The Group mainly focuses on historical collection experience and considers aging or specific customer circumstance.

Additionally, the Group records an allowance on other forms of financial assets, including other current assets, other assets and amounts due from related parties with the similar approach of accounts receivable.

Loan receivables, net

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%, and with other unrelated third-parties with the annual interest rates mostly ranging from 4.8% to 15.0%. 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. Before the year of 2020, the Group evaluates the credit risk associated with the loans, and estimates the cash flow expected to be collected over the life of loans on an individual basis based on the Group’s past experiences, the borrowers’ financial position, their financial performance and their ability to continue to generate sufficient cash flows. A credit allowance will be established for the loans unable to collect. The Group adopted ASC 326 on January 1, 2020 utilizing the modified retrospective approach. After the adoption of ASC 326, the Group estimates the CECL based on the expectation of future economic conditions, historical collection experience and a loss-rate approach whereby the allowance is calculated using the probability of default and recovery rates and multiplying it by the asset’s amortized cost at the balance sheet date.

Inventories

Inventories mainly consist of small appliances, bedding and daily consumables, operating supplies, food and beverage inventory items. Small appliances and bedding for new hotels opened are stated at cost, less accumulated amortization, and are amortized over their estimated useful lives, generally one year, from the time they are put into use. Daily consumables and beddings replacement are expensed when used.

Property and equipment, net

Property and equipment, net are stated at cost less accumulated depreciation. The renovations, betterments and interest cost incurred during construction are capitalized. Depreciation of property and equipment is provided using the straight line method over their expected useful lives. The expected useful lives are as follows:

Leasehold improvements	Shorter of the lease term or their estimated useful lives
Buildings	20-40 years
Furniture, fixtures and equipment	1-20 years
Motor vehicles	5 years

Construction in progress represents leasehold improvements and property under construction or being installed and is stated at cost. Cost comprises original cost of property and equipment, installation, construction and other direct costs. Construction in progress is transferred to leasehold improvements and depreciation commences when the asset is ready for its intended use.

Expenditures for repairs and maintenance are expensed as incurred. Gain or loss on disposal of property and equipment, if any, is recognized in the consolidated statements of comprehensive income as the difference between the net sales proceeds and the carrying amount of the underlying asset.

Intangible assets, net

Intangible assets consist primarily of brand name, master brand agreement, non-compete agreements, franchise or manachise agreements 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 or manachise agreements, favorable lease agreements and other intangible assets acquired from business combination are recognized and measured at fair value upon acquisition.

Non-compete agreements and franchise or manachise agreements are amortized over the expected useful life and remaining franchise contract terms, respectively. Purchased software is stated at cost less accumulated amortization.

The favorable lease agreements in which the Group acts as a lessor were accounted as intangible assets as before, which are amortized over remaining operating lease terms.

Intangible assets with finite useful lives are amortized using the straight-line method over their respective estimated useful lives over which the assets are expected to contribute directly or indirectly to the future cash flows of the Group. These estimated useful lives are generally as follows:

Franchise or manachise agreements	Remaining contract terms from 10 to 20 years
Non-compete agreements	2 - 10 years based on specified non-compete period
Purchased software	3 - 10 years based on the estimated usage period
Other intangible assets including trademark, licenses and other rights	2 - 15 years based on the contractual term, the length of license agreements and the effective terms of other legal rights

Almost all the brand names acquired by the Group are considered to have indefinite useful lives since there are no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of these brands and these brands can be renewed at nominal cost. Master brand agreement, acquired in Accor acquisition, granted the Group certain franchise rights with initial term of 70 years, and can be renewed without substantial obstacles. As a result, the useful life is determined to be indefinite. The Group evaluates the brand name and master brand agreement each reporting period to determine whether events and circumstances continue to support an indefinite useful life. Impairment is tested annually or more frequently if events or changes in circumstances indicate that it might be impaired. The Group measures the impairment by comparing the fair value of brand names and master brand agreement with its carrying amount. If the carrying amount of brand names and master brand agreement exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess. The Group measures the fair value of the brand names under the relief-from-royalty method, the master brand agreement under the multi-period excess earnings method. The determination of the fair value requires management to make significant estimates and assumptions related to forecasts of future revenues, operating margin, royalty saving rate and discount rates to estimate the net present value of future cash flows.

Management performs its annual brand names and master brand agreement impairment test on November 30 and when triggering events occurred. As of December 31, 2020 and 2021, the estimated fair value of the indefinite-lives intangible assets of legacy Huazhu significantly exceeded of its carrying value. Therefore, there was no impairment loss recognized for the years ended December 31, 2019, 2020 and 2021. For its indefinite-lives intangible assets of legacy DH, there were 3 brand names acquired in DH acquisition. The estimated fair value of one brand name was lower than its carrying amount, and an impairment of RMB160 was recognized, which reduced the carrying value by 6%. A 5% increase in the discount rate or decrease in royalty saving rate could result in further impairment charges of approximately RMB160 and RMB120, respectively. In addition, the estimated fair value of the other two brand names acquired in DH acquisition exceeded its carrying value by approximately RMB82 and RMB57, which accounted for 13% and 14% of its carrying value, respectively. A 5% increase in the discount rate or decrease in royalty saving rate could reduce the fair value of these two brand names by RMB48 and RMB33, or RMB36 and RMB23, respectively.

Land use rights

The land use rights represent the operating lease prepayments for the rights to use the land in the PRC under ASC 842, which are amortized on a straight-line basis over the remaining term of the land certificates, between 30 to 50 years. Amortization expense of land use rights for the years ended December 31, 2019, 2020 and 2021 amounted to RMB8, RMB7 and RMB7, respectively.

Impairment of long-lived assets

The Group evaluates its long-lived assets including property and equipment, net, right-of-use 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 long-lived assets exceeded the future undiscounted net cash flows, and recognized an impairment loss of RMB3, RMB180 and RMB157 during the years ended December 31, 2019, 2020 and 2021, respectively.

Fair value of the long-lived assets was determined by the Group based on the income approach using the discounted cash flow associated with the underlying assets, which incorporated certain assumptions including projected hotels' revenue, growth rates and projected operating costs based on current economic condition, expectation of management and projected trends of current operating results.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable assets less liabilities acquired.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Before the adoption of ASU No. 2017-04, Intangibles-Goodwill and Other, the Group performed a two-step goodwill impairment test. The first step compares the fair values of each reporting unit to its carrying amount, including goodwill. A reporting unit is identified as an operating segment or one level below an operating segment (also known as a component) for which discrete financial information is available and is regularly reviewed by segment manager. Before the acquisition of Deutsche Hospitality, all the acquired business has been migrated to the Group's business, and the Group's management regularly reviews operation data including industrial metrics of revenue per available room, occupancy rate, and number of hotels by scale/brand, rather than discrete financial information for the purpose of performance evaluation and resource allocation at brand level. The Group concluded that it had only one reporting unit, and therefore the goodwill impairment testing was performed on consolidation level. If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. The Group adopted ASU No. 2017-04, Intangibles-Goodwill and Other on January 1, 2020, which requires a one-step impairment test in which an entity compares the fair value of a reporting unit with its carrying amount and recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if any. Upon the acquisition of Deutsche Hospitality, the Group concludes there are two reporting units, which are legacy Huazhu and legacy DH since the segment manager regularly reviews discrete financial information for legacy Huazhu and legacy DH separately. The goodwill impairment testing was performed at each reporting unit level. If the carrying amount of a reporting unit exceeds its fair value, an impairment amounts to that excess should be recognized in the statement of comprehensive income.

Fair value of the equity value 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.

Management performs its annual goodwill impairment test on November 30 and when triggering events occurred. The Group recorded an impairment of nil, RMB437 and nil for the years ended December 31, 2019, 2020 and 2021. The Group considered assumptions based on the current economic environment in its annual impairment assessment, including the inherent risk and uncertainty due to the stay-in-place measures enacted, consumer confidence levels, and the ongoing impact of the COVID-19 pandemic on the hospitality industry. Based on the analysis, the Group concluded that the goodwill of legacy Huazhu was not impaired for the years ended December 31, 2019, 2020 and 2021 as the estimated fair value of the reporting unit of legacy Huazhu far exceeded its carrying value as of the end of each year. For the goodwill of legacy DH, the Group performed impairment test and recorded an impairment of RMB437 during the year of 2020. The estimated fair value of the reporting unit of legacy DH exceeded its carrying value, as such no impairment charges were recorded for the year ended December 31, 2021.

As of December 31, 2020 and 2021, the estimated fair value of the reporting unit of legacy Huazhu exceeded over 100% of its carrying value. As of December 31, 2020 and 2021, the estimated fair value of the reporting unit of legacy DH exceeded its carrying value by approximately RMB244 and RMB421, which accounted for 6% and 13% of its carrying value. A 5% decline in the underlying projected cash flow or increase in the discount rate could have resulted in goodwill impairment charges of approximately RMB42 and RMB175 in 2020. A 5% decline in the underlying projected cash flows or increase in the discount rate could have reduced the fair value of approximately RMB313 and RMB359 in 2021.

Revenue recognition

Revenue are primarily derived from products and services in leased and owned hotels, contracts of managed and franchised hotels with third-party franchisees as well as activities other than the operation of hotel businesses.

Leased and owned hotel revenues

Leased and owned hotel revenues are primarily derived from the rental of rooms, food and beverage sales and other ancillary goods and services, including but not limited to souvenir, laundry, parking and conference reservation. Each of these products and services represents an individual performance obligation and, in exchange for these services, the Group receives fixed amounts based on published rates or negotiated contracts. Payment is due in full at the time when the services are rendered or the goods are provided. Room rental revenue is recognized on a daily basis when rooms are occupied. Food and beverage revenue and other goods and services revenue are recognized when they have been delivered or rendered to the guests as the respective performance obligations are satisfied.

Manachised and franchised hotel revenues

The manachise and franchise agreement contains the following promised services:

- *Intellectual Property (“IP”) license* grant the right to access the Group’s hotel system IP, including brand names.
- *Pre-opening services* include providing services (e.g., install IT information system and provide access to purchase platform, help to obtain operational qualification, and help to recruit and train employees) to the franchisees to assist in preparing for the hotel opening.
- *System maintenance services* include providing standardization hotel property management system (“PMS”), central reservation system (“CRS”) and other internet related services.
- *Hotel management services* include providing day-to-day management services of the hotels for the franchisees.

The promises to provide pre-opening services and system maintenance services are not distinct performance obligation because they are attendant to the license of IP. Therefore, the promises to provide pre-opening services and system maintenance services are combined with the license of IP to form a single performance obligation. Hotel management services forms a single distinct performance obligation.

Manachised and franchised hotel revenues are derived from franchise or manachise agreements where the franchisees are primarily required to pay (i) an initial one-time franchise fee, and (ii) continuing franchise fees, which mainly consist of (a) on-going management and franchise service fees, (b) central reservation system usage fees, system maintenance and support fees and (c) reimbursements for hotel manager fees.

Initial one-time franchise fee, is typically fixed and collected upfront and recognized as revenue over the term of the franchise contract. The Group does not consider this advance consideration to include a significant financing component, since it is used to protect the Group from the franchisees failing to adequately complete some or all of its obligations under the contract.

On-going management and franchise service fees are generally calculated as a certain percentage of the room revenues of the franchised hotel. Generally, management and franchise service fees are due and payable on a monthly basis as services are provided and revenue is recognized over time as services are rendered.

Central reservation system usage fees, other system maintenance and support fees are typically billed and collected monthly along with base management and franchise fees, and revenue is generally recognized as services are provided.

Reimbursements for hotel manager fees, which cover the manachised hotel managers’ payroll, social welfare benefits and certain other out-of-pocket expenses that the Group incurs on behalf of the manachised hotels. The reimbursements are recognized over time within revenues for the reimbursement of costs incurred on behalf of manachised hotels.

Above policies are only applicable to legacy Huazhu. For manachised hotels under Deutsche Hospitality, the franchisees have historically been required to pay Deutsche Hospitality an on-going management fees consisting of a base fee as a percentage of the hotel's gross revenues and an incentive fee as a percentage of the hotel's gross adjusted profit. For franchised hotels under Deutsche Hospitality, the franchisees have historically been required to pay Deutsche Hospitality a license fee, a franchise fee and a central service fee. The manachised and franchised hotel revenues of Deutsche Hospitality are recognized over time as services are rendered. The Group is gradually conforming the terms of Deutsche Hospitality's franchise and management agreements to those of hotels under legacy Huazhu.

Since the COVID-19 outbreak in January 2020, the Group has offered one-time reduction on continuing franchise fees of approximately RMB132 and RMB105 for 2020 and 2021 to help franchisees meet their short-term working capital needs. There is no change to the scope of services or other terms of the agreements. Previously recognized revenue on the original contract was not adjusted.

Other Revenues

Other revenues are derived from activities other than the operation of hotel businesses, which mainly include revenues from the provision of IT products and services and Hua Zhu mall. Revenues from Hua Zhu mall are commissions charged from suppliers for goods sold through the platform and are recognized upon delivery of goods to end customers when its suppliers' obligation is fulfilled. Revenues from IT products are recognized when goods are delivered and revenues from IT services are recognized when services are rendered.

Loyalty Program

Under the loyalty program the Group administers, members earn loyalty points that can be redeemed for future products and services. Points earned by loyalty program members represent a material right to free or discounted goods or services in the future. The loyalty program has one performance obligation that consists of marketing and managing the program and arranging for award redemptions by members. The Group is responsible for arranging for the redemption of points, but the Group does not directly fulfill the redemption obligation except at leased and owned hotels. Therefore, the Group is the agent with respect to this performance obligation for manachised and franchised hotels, and is the principal with respect to leased and owned hotels.

For leased and owned hotels, a portion of the leased and owned revenues is deferred until a member redeems points. The amount of revenue the Group recognize upon point redemption is impacted by the estimate of the "breakage" for points that members will never redeem in the Group's owned and leased hotels.

For manachised and franchised hotels, the portion of revenue deferred by manachised and franchised hotels are collected by the Group which will be refunded upon redemption of points at manachised and franchised hotels. The estimated breakage for points earned in manachised and franchised hotels are recognized as manachised and franchised revenue for each period. The Group estimates breakage based on the Group's historical experience and expectations of future member behavior and will true up the estimated breakage at end of each period.

Above policies are only applicable to legacy Huazhu. The loyalty program initiated by Deutsche Hospitality has substantially the same rights, nature and redeemable approaches as legacy Huazhu, therefore the accounting treatment is the same. As of December 31, 2021, the contract liabilities related to Deutsche Hospitality were immaterial and the loyalty program of Deutsche Hospitality was in the progress of being migrated to that of legacy Huazhu.

Membership fees from the Group's customer loyalty program are all from legacy Huazhu, which are earned and recognized on a straight-line basis over the expected membership duration of the different membership levels and also applicable to legacy Huazhu only. Such duration is estimated based on the Group's and management's experience and is adjusted on a periodic basis to reflect changes in membership retention. The membership duration is estimated to be two to five years which reflects the expected membership retention. Revenues recognized from membership fees were RMB224, RMB223 and RMB243 for the years ended December 31, 2019, 2020 and 2021, respectively, which amount were included in revenues from leased and owned hotel or revenues from manachised and franchised hotels depending on the type of hotels the membership was sold at.

Contract Balances

The Group's payments from customers are based on the billing terms established in contracts. Customer billings are classified as accounts receivable when the Group's right to consideration is unconditional. If the right to consideration is conditional on future performance under the contract, the balance is classified as a contract asset. Payments received in advance of performance under the contract are classified as current or non-current contract liabilities on the Group's consolidated balance sheets and are recognized as revenue as the Group performs under the contract.

Value-Added Taxes and surcharges

The accommodation services of the Group in PRC and Germany are subject to a range from 6% to 19% of Value-Added Taxes, respectively. The Group is subject to education surtax and urban maintenance and construction tax, on the services provided in the PRC.

Advertising and promotional expenses

Advertising related expenses, including promotion expenses and production costs of marketing materials, are charged to the consolidated statements of comprehensive income as incurred, and amounted to RMB99, RMB150 and RMB165 for the years ended December 31, 2019, 2020 and 2021, 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 under legacy Huazhu. 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 by legacy Huazhu were RMB148, RMB154 and RMB110 for the years ended December 31, 2019, 2020 and 2021, respectively, which were recorded as other operating income.

Government grants represent cash received by the Group as compensation for COVID-19 impacts in various countries under legacy DH. The grants consist of short term work compensation, fixed costs compensation and revenue based compensation. Short term work compensation recognized by legacy DH was RMB244 and RMB197 for the year ended December 31, 2020 and 2021, which was netted with operating costs and expenses. Other grants recognized by legacy DH were RMB17 and RMB765 for the year ended December 31, 2020 and 2021, which were recorded as other operating income.

Leases

As a lessee

Starting from January 1, 2019, the Group adopted ASU 2016-02, Leases (Topic 842), which supersedes the lease accounting guidance under Topic 840, and generally requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use (ROU) assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements. All of the Group's leases were classified under ASC Topic 842 as operating leases upon this adoption and there are both capital lease and operating lease under legacy DH since the acquisition of DH. The Group elected the practical expedients under ASU 2016-02 which includes the use of hindsight in determining the lease term and the practical expedient package to not reassess whether any expired or existing contracts are or contain leases, to not reassess the classification of any expired or existing leases, and to not reassess initial direct costs for any existing leases. The adoption of ASU 2016-02 did not materially affect the consolidated statements of income or consolidated statements of cash flows and had no impact on the debt covenant compliance under the current agreements.

The Group recognizes a lease liability for future fixed lease payments and variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date and a ROU asset representing the right to use the underlying asset for the lease term. Lease liabilities are recognized at commencement date based on the present value of fixed lease payments and variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date) over the lease term using the rate implicit in the lease, if available, or the Group's incremental borrowing rate. As its leases do not provide an implicit borrowing rate, the Group uses an incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at the commencement date. Upon adoption of ASU 2016-02, the Group elected to use the remaining lease term as of January 1, 2019 in the estimation of the applicable discount rate for leases that were in place at adoption. For the initial measurement of the lease liability for leases commencing after January 1, 2019, the Group uses the discount rate as of the commencement date of the lease, incorporating the entire lease term. Current maturities of operating lease liabilities and finance lease liabilities are classified as operating lease liabilities, current and finance lease liabilities, current, respectively, in the Group's consolidated balance sheets. Long-term portions of operating lease liabilities and finance lease liabilities are classified as operating lease liabilities, non-current and finance lease liabilities, non-current, respectively, in the Group's consolidated balance sheets. Most leases have initial terms ranging from 10 to 20 years for legacy Huazhu, and from 20 to 25 years for legacy DH. The lease term includes lessee options to extend the lease and periods occurring after a lessee early termination option, only to the extent it is reasonably certain that the Group will exercise such extension options and not exercise such early termination options, respectively. The Group's lease agreements may include nonlease components, mainly common area maintenance, which are combined with the lease components as the Group elects to account for these components as a single lease component, as permitted. The Group elected the practical expedient of not to separate land components outside PRC from leases of specified property and equipment at the ASC842 transition date. Besides, the Group's lease payments are generally fixed and certain agreements contain variable lease payments based on the operating performance of the leased property and the changes in the index of consumer pricing index ("CPI"). Almost all the lease agreements with variable lease payments based on the changes in CPI are held by legacy DH. For operating leases, the Group recognizes lease expense on a straight-line basis over the lease term and variable lease payments that depend on an index or a rate are initially measured using the index or rate at the commencement date, otherwise variable lease payments are recognized in the period in which the obligation for those payments is incurred. The operating lease expense is recognized as hotel operating costs, general and administrative expenses and pre-opening expenses in the consolidated statements of comprehensive income. For finance lease, lease expense is generally front-loaded as the finance lease ROU asset is depreciated on a straight-line basis over the shorter of the lease term or useful life of the underlying asset within hotel operating costs in the consolidated statements of comprehensive income, but interest expense on the lease liability is recognized in interest expense in the consolidated statements of comprehensive income using the effective interest method which results in more expense during the early years of the lease. Additionally, the Group elected not to recognize leases with lease terms of 12 months or less at the commencement date. Lease payments on short-term leases are recognized as an expense on a straight-line basis over the lease term, not included in lease liabilities. The Group's lease agreements do not contain any significant residual value guarantees or restricted covenants.

The ROU assets are measured at the amount of the lease liabilities with adjustments, if applicable, for lease prepayments made prior to or at lease commencement, initial direct costs incurred by the Group, deferred rent and lease incentives, and any off-market terms (that is, favorable or unfavorable terms) present in the lease when the Group acquired leases in a business combination in which the acquiree acts as a lessee. The Group evaluates the carrying value of ROU assets if there are indicators of impairment and reviews the recoverability of the related asset group. The Group excludes the lease obligation from the carrying value of the asset group. Accordingly, the lease payments (both principal and interest) don't reduce the undiscounted expected future cash flows used to test the asset group for recoverability. If the carrying value of the asset group cannot be recoverable and is in excess of the estimated fair value, the Group records an impairment loss in the consolidated statements of comprehensive income. Noncash lease expense are used as the noncash add-back for the amortization of the operating ROU assets to the operating section of the consolidated statements of cash flow.

The Group reassesses of a contract is or contains a leasing arrangement and re-measures ROU assets and liabilities upon modification of the contract. The Group will derecognize ROU assets and liabilities, with difference recognized in the consolidated statements of comprehensive income on the contract termination.

In April 2020, the FASB released a Q&A which allows lessees and lessors to make an election to either apply the lease modification guidance or the variable rents guidance under ASC 840 and ASC 842 for lease concessions related to COVID-19 as long as the total cash flows as a result of the concession are substantially the same or less than those in the contract before the concession. A preparer can make this election without the need to determine whether a force majeure clause exists in the lease. The Group has elected to account for the lease concessions as variable lease expenses.

The favorable lease agreements and unfavorable lease agreements in which the Group acts as a lessee were reclassified to operating lease right-of-use assets on January 1, 2019, upon adoption of ASC 842, Leases, which are amortized combining with right-of-use assets over remaining operating lease terms. These estimated useful lives are generally as follows:

Favorable lease agreements acquired before the adoption of ASC 842	Remaining lease terms from 1 to 20 years
Unfavorable lease agreements	Remaining lease terms from 3 to 13 years

Sublease

The Group subleases property which are not suitable to operate hotels to third parties under operating leases. In accordance with the provisions of ASC 842, since the Group has not been relieved as the primary obligor of the head lease, the Group cannot net the sublease income against its lease payment to calculate the lease liability and ROU asset. The Group’s practice has been, and will continue to, straight-line the sub-lease income over the term of the sublease, which is consistent with the accounting treatment under ASC840.

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. For a particular tax-paying component of an entity and within a particular tax jurisdiction, all deferred tax liabilities and assets, as well as any related valuation allowance, shall be offset and presented as a single noncurrent amount. However, an entity shall not offset deferred tax liabilities and assets attributable to different tax-paying components of the entity or to different tax jurisdictions.

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\$”). Monetary assets and liabilities denominated in currencies other than the functional currency are remeasured in functional currency at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the functional currency during the year are converted into the functional currency at the applicable rates of exchange prevailing on the day transactions occurred. Transaction gains and losses are recognized in the statements of comprehensive income.

Assets and liabilities are translated into RMB at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of comprehensive income.

The financial records of the Group’s subsidiaries are maintained in local currencies, which are the functional currencies.

Comprehensive income

Comprehensive income includes all changes in equity except for those resulting from investments by owners and distributions to owners and is comprised of net income, foreign-currency translation adjustments and gain (loss) arising from defined benefit plan.

Concentration of credit risk

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, restricted cash, short-term and long-term investments, loan receivables, amount due from related parties, other current assets, other assets and accounts receivable. All of the Group's cash and cash equivalents and restricted cash are held with financial institutions that Group's management believes to be high credit quality. In addition, the Group's investment policy limits its exposure to concentrations of credit risk and the Group's short-term and long-term investments consist of equity investments in listing and private companies. The Group's loan receivables are lent to entities with high credit quality. The Group conducts credit evaluations on its group and agency customers and generally does not require collateral or other security from such customers. The Group periodically evaluates the creditworthiness of the existing customers in determining credit losses for accounts receivable, loan receivable and financial assets, including other current assets, other assets and amounts due from related parties based on the expectation of future economic conditions, historical collection experience and a loss-rate approach.

Fair value

The Group defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

The established fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs may be used to measure fair value include:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group measures fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates. The Group's financial instruments include cash and cash equivalent, restricted cash, loan receivables current and non-current portion, receivables, payables, short-term debts, long-term debts. The carrying amounts of these short-term financial instruments approximate their fair value due to their short-term nature. The long-term debts and long-term loan receivables approximate their fair values, because the bearing interest rate approximates market interest rate, and market interest rates have not fluctuated significantly since the commencement of loan contracts signed. The carrying amounts of convertible senior notes were RMB3,290, RMB6,318 and RMB6,186 and the corresponding fair value estimated based on quoted market price were RMB3,711, RMB7,747 and RMB6,681, as of December 31, 2019, 2020 and 2021, respectively. The fair value of pension plan assets is discussed in Note 18.

As of December 31, 2020 and 2021, 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:

As of 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)
2020	Equity securities with readily determinable fair value	3,903	3,903	—	—
2020	Available-for-sale debt securities	220	—	220	—
2020	Employee benefit plan assets	6	6	—	—
2021	Equity securities with readily determinable fair value	2,589	2,589	—	—
2021	Available-for-sale debt securities	220	—	220	—
2021	Employee benefit plan assets	5	5	—	—

The following table presents the Group's assets measured at fair value on a non-recurring basis for the years ended December 31, 2020 and 2021:

Years Ended December 31,	Description	Fair Value for Years 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)	
2020	Property and equipment	2	—	—	2	41
2020	Operating lease right-of-use assets	71	—	—	71	139
2020	Long-term investment	—	—	—	—	92
2020	Goodwill	2,328	—	—	2,328	437
2021	Property and equipment	33	—	—	33	24
2021	Operating lease right-of-use assets	88	—	—	88	48
2021	Intangible assets	2,556	—	—	2,556	245
2021	Long-term investment	—	—	—	—	63

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 RMB3, RMB43 and RMB57 was not fully recoverable and consequently recorded an impairment charge of RMB3, RMB41 and RMB24 for the years ended December 31, 2019, 2020 and 2021, respectively. The Group also determined that the operating lease right-of-use assets amount with a carrying amount of nil, RMB210 and RMB136 was not fully recoverable and recorded an impairment charge of nil, RMB139 and RMB48 for the years ended December 31, 2019, 2020 and 2021, respectively.

Fair value of the property and equipment and operating lease right-of-use assets impairment testing were 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 ranged between negative 15% and 4%, 8.64% and 20%, respectively, for the years ended December 31, 2019, 2020 and 2021, respectively.

As a result of the impairment assessment, the Group determined that the intangible assets amount with a carrying amount of nil, nil and RMB2,801 exceeded their fair value and recorded an impairment charge of nil, nil and RMB245 for the years ended December 31, 2019, 2020 and 2021, respectively.

As a result of the impairment assessment, the Group determined that the long-term investment amount with a carrying amount of RMB10, RMB92 and RMB63 was fully impaired as a result of the impairment assessment for the years ended December 31, 2019, 2020 and 2021, respectively.

As a result of the impairment assessment, the Group determined that the goodwill amount with a carrying amount of nil, RMB2,768 and nil was impaired and recorded an impairment charge of nil, RMB437 and nil for the years ended December 31, 2019, 2020 and 2021, respectively.

Share-based compensation

The Group recognizes share-based compensation in the consolidated statements of comprehensive income based on the fair value of equity awards on the date of the grant, with compensation expenses recognized over the period in which the grantee is required to provide service to the Group in exchange for the equity award. Vesting of certain equity awards are based on the performance conditions for a period of time following the grant date. Share-based compensation expense is recognized according to the Group's judgement of likely future performance and will be adjusted in future periods based on the actual performance. The share-based compensation expenses have been categorized as either hotel operating costs, general and administrative expenses or selling and marketing expenses, depending on the job functions of the grantees. For the years ended December 31, 2019, 2020 and 2021, the Group recognized share-based compensation expenses of RMB110, RMB122 and RMB109, respectively, which were classified as follows:

	Years Ended December 31,		
	2019	2020	2021
Hotel operating costs	35	42	39
Selling and marketing expenses	3	4	4
General and administrative expenses	72	76	66
Total	<u>110</u>	<u>122</u>	<u>109</u>

Earnings (losses) per share

Basic earnings (losses) per share is computed by dividing income attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the year. Diluted earnings (losses) per share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares, which consist of the ordinary shares issuable upon the conversion of the convertible senior notes (using the if-converted method) and ordinary shares issuable upon the exercise of stock options and vest of nonvested restricted stocks (using the treasury stock method).

The loaned shares under the ADS lending agreement are excluded from both the basic and diluted earnings (losses) per share calculation unless default of the ADS lending arrangement occurs which the Group considered the possibility is remote.

Segment and geography information

The Group identifies a business as an operating segment if: i) it engages in business activities from which it may earn revenues and incur expenses; ii) its operating results are regularly reviewed by the Chief Operating Decision Maker (“CODM”) to make decisions about resources to be allocated to the segment and assess its performance; and iii) it has available discrete financial information. The Group’s chief operating decision maker has been identified as the chief executive officer. Before the acquisition of DH completed on January 2, 2020, CODM regularly reviews the operation data, such as industrial metrics of revenue per available room, occupancy rate, and number of hotels by scale/brand, to assess the performance and allocate the resources at brand level. All the acquired business including Accor, Crystal Orange and Blossom Hotel Management has been migrated to the Group’s business, and the Group operates and manages its business as a single segment. After the acquisition of DH, CODM regularly reviews the operating data and EBITDA, which is defined as earnings before interest income, interest expense, income tax expense (benefit) and depreciation and amortization, a financial measure for legacy Huazhu and legacy DH separately to evaluate their performance. Therefore, in January 2020, the Group modified its operating segment structure to be two operating segments which are legacy Huazhu and legacy DH as a result of a change in the way management intends to evaluate results and allocate resources within the Group. In identifying its reportable segments, the Group assesses nature of operating segments and evaluates the operating results of each reporting segments. Both operating segments meet the quantitative thresholds and should be considered as two reportable segments.

The following table provides a summary of the Group’s operating segment results for the years ended December 31, 2020 and 2021. The Group presents segment information after elimination of intercompany transactions.

	Years Ended December 31,					
	2020			2021		
	Legacy Huazhu	Legacy DH	Total	Legacy Huazhu	Legacy DH	Total
Total revenues	8,664	1,532	10,196	11,247	1,538	12,785
Operating costs and expenses	8,978	2,947	11,925	10,549	3,058	13,607
Goodwill impairment loss	—	437	437	—	—	—
Other operating income, net	214	266	480	193	793	986
Interest income	118	1	119	88	1	89
Interest expense	427	106	533	291	114	405
Other (expenses) income, net	(92)	3	(89)	139	18	157
Unrealized (losses) gains from fair value changes of equity securities	(266)	1	(265)	(96)	—	(96)
Foreign exchange gain (loss)	176	(1)	175	(294)	(23)	(317)
(Loss) income before income tax	(591)	(1,688)	(2,279)	437	(845)	(408)
Income tax expense (benefit)	151	(366)	(215)	249	(237)	12
(Loss) from equity method investments	(117)	(23)	(140)	(50)	(10)	(60)
Net loss attributable to noncontrolling interest	(12)	—	(12)	(15)	—	(15)
Net (loss) income attributable to Huazhu Group Limited	(847)	(1,345)	(2,192)	153	(618)	(465)
Income tax expense (benefit)	151	(366)	(215)	249	(237)	12
Interest income	118	1	119	88	1	89
Interest expense	427	106	533	291	114	405
Depreciation and amortization	1,123	239	1,362	1,222	281	1,503
EBITDA	736	(1,367)	(631)	1,827	(461)	1,366

The following table presents total assets for operating segments, reconciled to consolidated amounts:

	As of December 31,					
	2020			2021		
	Legacy Huazhu	Legacy DH	Total	Legacy Huazhu	Legacy DH	Total
Total assets	46,243	18,912	65,155	45,353	17,916	63,269

The following tables represent revenues and property and equipment, net, intangible assets, net, right-of-use assets, land use rights, net and goodwill by geographical region.

Revenues:

	Years Ended December 31,	
	2020	2021
China	8,647	11,231
Germany	1,212	1,263
All others	337	291
Total	10,196	12,785

Property and equipment, net, intangible assets, net, right-of-use assets, land use rights, net and goodwill:

	As of December 31,	
	2020	2021
China	30,635	33,143
Germany	15,670	13,884
All others	2,544	2,929
Total	48,849	49,956

Other than China and Germany, there were no countries that individually represented more than 10% of the total revenue and certain long lived assets for the years ended and as of December 31, 2020 and 2021.

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, 2020 and 2021, under the repurchase plan, the Company had repurchased an aggregate of 30,967,640 and 30,974,040 ordinary shares on the open market for cash consideration of RMB107 and RMB107, respectively. The repurchased shares were presented as “treasury shares” in shareholders’ equity on the Group’s consolidated balance sheets.

Recently Issued Accounting Pronouncements

Adopted Accounting Standards

In August 2018, the FASB issued ASU 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Topic 715-20). The amendment modifies the disclosure requirements for employers that sponsor defined benefit pension or other post-retirement plans. The revised guidance is effective for financial statements issued for fiscal years beginning after December 15, 2020, with early adoption permitted. The Group adopted the guidance on January 1, 2021, as required. There was no material impact on the Group’s consolidated financial statements and related disclosures as a result of adopting this new standard.

In December 2019, the FASB has issued ASU No. 2019-12, Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes. The guidance issued in this update simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition for deferred tax liabilities for outside basis differences. This ASU also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Group adopted the guidance on January 1, 2021, as required. There was no material impact on the Group’s consolidated financial statements and related disclosures as a result of adopting this new standard.

In January 2020, the FASB has issued ASU No. 2020-01, Investments — Equity Securities (Topic 321), Investments — Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) - Clarifying the Interactions Between Topic 321, Topic 323, and Topic 815 — a consensus of the FASB Emerging Issues Task Force. This update addresses the accounting for certain equity securities upon the application or discontinuation of the equity method of accounting. Further, the update addresses scope considerations for forward contracts and purchased options on certain securities. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company adopted the guidance on January 1, 2021, as required. There was no material impact on the Group’s consolidated financial statements and related disclosures as a result of adopting this new standard.

Accounting Standards Not Yet Adopted

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (“ASU 2021-08”). The amendments create an exception to the general recognition and measurement principal in ASC 805, Business Combinations to measure assets and liabilities acquired in a business combination at fair value. Instead, an acquirer in a business combination will be required to apply ASC 606 to recognize and measure contract assets and contract liabilities that result from contracts accounted for under ASC 606 on the acquisition date and will generally result in the acquirer recognizing amounts consistent with those recorded by the acquiree immediately before the acquisition date. ASU 2021-08 is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years, with early adoption permitted. The Group does not expect the adoption of this ASU will have a significant impact on the consolidated financial statements.

In November 2021, the FASB issued ASU 2021-10, Government Assistance (Topic 832) — Disclosures by Business Entities about Government Assistance. The amendments in this ASU require disclosures about transactions with a government that have been accounted for by analogizing to a grant or contribution accounting model to increase transparency about (1) the types of transactions, (2) the accounting for the transactions, and (3) the effect of the transactions on an entity’s financial statements. The amendments in this ASU are effective for all entities within their scope for financial statements issued for annual periods beginning after December 15, 2021. Early application of the amendments is permitted. The Group does not expect this ASU would have a material impact on the consolidated financial statements.

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 = RMB6.3726, on December 30, 2021, 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 30, 2021, or at any other rate.

3. ACQUISITIONS

(i) During the years ended December 31, 2019, 2020 and 2021, the Group acquired three, three and three individual companies for total cash consideration of RMB54, RMB26 and RMB51, respectively. The business acquisitions were accounted for under purchase accounting. The assets and liabilities of these hotels and companies acquired in 2019, 2020 and 2021 were immaterial to the consolidated financial statements.

(ii) On January 2, 2020, the Group completed the acquisition of 100% equity interest of Deutsche Hospitality. Deutsche Hospitality was engaged in the business of leasing, franchising, operating and managing hotels under five brands in the midscale and upscale market in Europe, the Middle East and Africa. The aggregated consideration was EUR720 million (equivalent to RMB5,624) which has been fully paid in cash as of January 2, 2020.

The total revenue and net loss of the acquiree included in the consolidated statements of comprehensive income for the year ended December 31, 2020 were RMB1,532 and RMB1,345, respectively.

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The following table summarizes unaudited pro forma results of operation for the years ended December 31, 2019 and 2020 assuming that the acquisition occurred as of January 1, 2019. The pro forma results have been prepared for comparative purpose only based on management's best estimate and do not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred as of January 1, 2019.

	<u>Period Ended December 31,</u>	
	<u>2019</u>	<u>2020</u>
Pro forma total revenue	14,995	10,196
Pro forma net income (loss) attributable to Huazhu Group Limited	<u>1,780</u>	<u>(2,204)</u>

The Group incurred transaction cost of RMB70 for the acquisition, which was expensed in 2019. These expenses are non-recurring in nature, and were eliminated from the calculation of pro forma net income above.

The allocation of the purchase price as of the date of acquisition is summarized as follows:

		<u>Amortization Period</u>
Current assets	785	
Property and equipment, net	586	2-25 years
Operating lease right-of-use assets	8,616	Remaining lease terms
		Shorter of estimated useful lives of the assets and the
		lease terms
Financing lease right-of-use assets	1,794	
Franchise or manachise agreements	270	Remaining contract terms
Brand names	3,873	Indefinite-life
Non-compete agreement	10	2 years
Goodwill	2,694	
Deferred tax assets	170	
Other non-current assets	280	
Operating lease liabilities, current	(296)	
Finance lease liabilities, current	(21)	
Other current liabilities	(784)	
Operating lease liabilities, non-current	(8,553)	
Finance lease liabilities, non-current	(2,166)	
Other noncurrent liabilities	(330)	
Deferred tax liabilities	<u>(1,304)</u>	
Total	<u>5,624</u>	

Goodwill was recognized as a result of expected synergies from combining operations of the Group and acquired business and other intangible assets that don't qualify for separate recognition. The goodwill generated from the DH acquisition is allocated to the reporting unit of legacy DH. None of the Goodwill is expected to be deductible for tax purposes.

(iii) On April 30, 2021, the Group completed the acquisition of 100% equity interest of CitiGO hotels from Cjia Group, a related party of the Group. CitiGO brand is a light luxury and social hotel brand, which are mainly distributed in first and second-tier cities in China. The aggregated consideration was RMB783 and RMB749 was paid in cash as of December 31, 2021.

The total revenue and net loss of the acquiree included in the consolidated statements of comprehensive income for the year ended December 31, 2021 were RMB184 and RMB34, respectively.

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The following table summarizes unaudited pro forma results of operation for the years ended December 31, 2020 and 2021 assuming that the acquisition of CitiGO hotels occurred as of January 1, 2020. The transaction cost incurred was not material. 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, 2020.

	<u>Period Ended December 31,</u>	
	<u>2020</u>	<u>2021</u>
Pro forma total revenue	10,346	12,861
Pro forma net loss attributable to Huazhu Group Limited	(2,318)	(480)

The allocation of the purchase price as of the date of acquisition is summarized as follows:

		<u>Amortization Period</u>
Current assets	34	
Property and equipment	296	5-12 years
Operating lease right-of-use assets	1,119	Remaining lease terms
Other non-current assets	33	
Franchise agreement	61	Remaining contract terms
Brand names	90	Indefinite-life
Goodwill	372	
Operating lease liabilities, current	(153)	
Other current liabilities	(23)	
Operating lease liabilities, non-current	(987)	
Other noncurrent liabilities	(5)	
Deferred tax liabilities	(33)	
Noncontrolling interest	(21)	
Total	<u>783</u>	

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. All the acquired business has been migrated to the Group’s business. The goodwill generated from the CitiGO acquisition is allocated to the reporting unit of legacy Huazhu. None of the Goodwill is expected to be deductible for tax purposes.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregated Revenues

The following tables present the Group’s revenues disaggregated by the nature of the product or service:

	<u>Years Ended December 31,</u>		
	<u>2019</u>	<u>2020</u>	<u>2021</u>
Room revenues	7,057	5,735	7,024
Food and beverage revenues	351	608	694
Others	310	565	400
Leased and owned hotels revenue	<u>7,718</u>	<u>6,908</u>	<u>8,118</u>
Initial one-time franchise fee	93	110	109
On-going management and service fees	1,228	1,057	1,479
Central reservation system usage fees, other system maintenance and support fees	908	908	1,399
Reimbursements for hotel manager fees	581	657	897
Other fees	532	404	520
Manachised and franchised hotels revenue	<u>3,342</u>	<u>3,136</u>	<u>4,404</u>
Other revenues	<u>152</u>	<u>152</u>	<u>263</u>
Total revenues	<u>11,212</u>	<u>10,196</u>	<u>12,785</u>

Contract Balances

The Group's contract assets are insignificant at December 31, 2020 and 2021.

	As of December 31,	
	2020	2021
Current contract liabilities	1,272	1,366
Long-term contract liabilities	662	785
Total contract liabilities	1,934	2,151

The contract liabilities balances above which are classified as deferred revenue on the consolidated balance sheet, as of December 31, 2020 and 2021 were comprised of the following:

	As of December 31,	
	2020	2021
Initial fees received from franchisees owners	924	1,074
Cash received for membership fees and not recognized as revenue	430	519
Advances received from customers	529	505
Deferred revenue related to the loyalty program	51	53
Total	1,934	2,151

The Group classifies initial fees received from franchisees into current liabilities when the hotel has not yet opened. Initial fees received from franchisees for pre-opening hotels are RMB429 and RMB496 as of December 31, 2020 and 2021, respectively. Once the hotel opens, initial one-time franchise fee will be recognized as revenue over the term of the franchise contract and the initial fees received from franchisees that has not been recognized as revenue will be reclassified into current contract liabilities and long-term contract liabilities, respectively.

The Group recognized revenues that were previously deferred as contract liabilities of RMB748 and RMB613 during the years ended December 31, 2020 and 2021, respectively.

Revenue Allocated to Remaining Performance Obligations

Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods.

As of December 31, 2021, the Group had RMB53 of deferred revenues related to unsatisfied performance obligations under H Rewards that will be recognized as revenues when the points are redeemed, which the Group estimate will occur over the next two years. The Group had RMB1,074 of deferred revenues related to initial fees received from franchisees owners are expected to be recognized as revenues over the remaining contract periods over generally one to ten years. Additionally, the Group had RMB519 of deferred revenues related to membership fees that are expected to be recognized as revenues over the remaining membership life, which is estimated to be one to five years. The Group also had RMB505 of deferred revenues related to advances received from customers, which are expected to be recognized as revenues in future periods over the terms of the related contracts.

The Group did not estimate revenues expected to be recognized related to the Group's unsatisfied performance for the following:

- Revenues related to on-going management and franchise service fees, as they are considered sales-based royalty fees.
- Revenues related to central reservation system usage fees, other system maintenance and support fees, and reimbursement for hotel manager fee, as the related revenues from the satisfaction of these performance obligations is recognized when the Group is entitled to invoice the amount.

5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following:

	As of December 31,	
	2020	2021
Cost:		
Buildings	247	305
Leasehold improvements	9,542	10,467
Furniture, fixtures and equipment	2,008	2,348
Motor vehicles	1	3
	11,798	13,123
Less: Accumulated depreciation	5,764	6,845
	6,034	6,278
Construction in progress	648	778
Property and equipment, net	6,682	7,056

Depreciation expense was RMB967, RMB1,219 and RMB1,352 for the years ended December 31, 2019, 2020 and 2021, respectively.

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

6. INTANGIBLE ASSETS, NET

Intangible assets, net consist of the following:

	As of December 31,	
	2020	2021
<i>Intangible assets with indefinite lives:</i>		
Brand names (Note 3)	5,319	5,010
Master brand agreement	192	192
<i>Intangible assets with finite lives:</i>		
Franchise or manachise agreements	356	366
Favorable lease agreements from sublease	12	11
Purchased software	108	142
Other intangible assets	70	70
Total	6,057	5,791
Less: Accumulated amortization	112	163
Less: Accumulated impairment loss(Note2)	—	243
Total	5,945	5,385

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.

Amortization expense of intangible assets for the years ended December 31, 2019, 2020 and 2021 amounted to RMB16, RMB62, and RMB65, respectively.

The annual estimated amortization expense for the above intangible assets excluding brand names and master brand agreement for the following years is as follows:

	Amortization for Intangible Assets
2022	37
2023	36
2024	32
2025	31
2026	28
Thereafter	180
Total	344

7. INVESTMENTS

The investments as of December 31, 2020 and 2021 were as follows:

	As of December 31,	
	2020	2021
Equity securities with readily determinable fair values:		
Accor	3,849	2,508
Other marketable securities	54	81
Equity securities without readily determinable fair values:		
Cjia/Cjia Group	183	168
OYO	66	54
Other equity securities without readily determinable fair values	72	71
Equity-method investments:		
AAPC LUB	490	525
Hotel related funds	476	488
China Hospitality JV	103	99
Zleep	88	68
Commerz Real Institute	—	85
Other investments	225	187
Available-for-sale debt securities:		
Cjia/Cjia Group	220	220
Total	5,826	4,554

Equity securities with readily determinable fair values:

In 2019, 2020 and 2021, the Group purchased 282,787 and 8,737,987 and 1,180,000 ordinary shares of Accor, respectively, a hotel group listed in Paris stock exchange, from open market. In 2020 and 2021, the Group sold out 1,003,654 and 5,172,458 of these shares with losses of RMB21 and gains of RMB209 realized, respectively. As of December 31, 2021, the Group accumulatively hold 12,212,552 shares of Accor, which accounts for less than 5% of Accor total outstanding shares where the Group does not have the ability to significantly influence the operations of this entity. In 2020 and 2021, the Group recognized unrealized losses from fair value changes of Accor of RMB253 and RMB94, respectively.

At December 31, 2020 and 2021, the Group had RMB54 and RMB81, respectively, of other marketable securities, which represent investments in entities in hospitality or related industries where the Group does not have the ability to significantly influence the operations of these entities. In 2019, 2020 and 2021, the Group recognized unrealized losses from fair value changes of other marketable securities of RMB35, RMB12 and RMB2, respectively.

Equity securities without readily determinable fair values:

As of December 31, 2018, the Group had approximately 17% equity interest and US\$45 million in preferred shares of China Cjia Group Limited (“Cjia Group”). In addition, the Group had RMB 252 convertible notes in Cjia Group. In 2019, Cjia Group repurchased from the Group part of its ordinary shares and preferred shares and issued new shares to an unrelated investor. As a result, the Group recognized a gain of RMB9 in other income in 2019. As of December 31, 2020 and 2021, the Group had approximately 15% and 16% ordinary shares of Cjia Group, respectively. The Group accounted for the ordinary shares in Cjia Group under equity-method as the Group has the ability to exert significant influence. The convertible notes are recorded as available-for-sale debt securities. The preferred shares are accounted for as equity securities without readily determined fair value as they are not in substance ordinary shares. The Group recognized investment loss of RMB45, RMB49 and RMB15 in income (loss) from equity method investments in 2019, 2020 and 2021, respectively. Loss from equity method investments reduced the cost of equity-method investment to zero and further adjusted the carrying amount of preferred shares and convertible notes.

In September 2017, the Group purchased approximately 1% equity interest of Oravel Stays Private limited (“OYO”), an India leading hospitality company. During the year ended December 31, 2021, the group sold part of equity interest, and recognized investment income of RMB52 in 2021. As of December 31, 2021, the Group owned less than 1% equity interest of OYO. The Group accounted the investment as equity securities without readily determinable fair values since the Group does not have the ability to exert significant influence over OYO.

Other equity securities without readily determinable fair values included several insignificant investments in certain privately-held companies. As a result of the COVID-19 pandemic, the Group recognized an impairment of RMB45 and nil for these equity securities for the year ended December 31, 2020 and 2021, respectively.

Equity-method investments:

In January 2016, the Group acquired approximately 28% equity interest in AAPC LUB. The Group accounted for the investment in AAPC LUB under equity-method as the Group has the ability to exert significant influence. The Group recognized investment income of RMB47, RMB21 and RMB35 in income (loss) from equity method investments in 2019, 2020 and 2021, respectively. In 2019, 2020 and 2021, the Group received cash dividend from AAPC LUB of RMB39, nil and nil which was recognized as return on investment.

As of December 31, 2020 and 2021, the Group had RMB476 and RMB488, respectively, of investments in hotel related funds. Those funds were VIEs and were managed by or power shared with unrelated third-parties. However, the Group determined that they were not the primary beneficiary of those VIEs since the Group did not have the power to direct the activities of these VIEs that most significantly impacted their economic performance. The Group accounted for the investment under equity-method as the Group’s influence over the funds is more than minor. The Group recognized investment income of RMB11, investment loss of RMB16 and RMB55, in income (loss) from equity method investments in 2019, 2020 and 2021, respectively. The maximum potential financial statement loss the Group could incur if the investment funds were to default on all of their obligations is the loss of value of the interests in such investments of RMB488 that the Group holds as of December 31, 2021.

In 2018, the Group partnered with an unrelated third party investor to form China Hospitality JV, Ltd. (“China Hospitality JV”), of which the Group holds 20% equity interest. The business of China Hospitality JV was to acquire and operate two hotel properties, one of which has been converted into office buildings in 2020. The Group accounted for the investment in China Hospitality JV under equity-method as the Group has the ability to exert significant influence. The Group recognized investment loss of RMB2, RMB12, and RMB4 in income (loss) from equity method investments in 2019, 2020 and 2021, respectively.

In February 2019, Deutsche Hospitality acquired 51% of the shares in Zleep Hotels A/S (“Zleep”), a hotel brand in Scandinavia. The Group’s interest in Zleep is accounted for using the equity method in the consolidated financial statements because the Group has joint control only in the business and finance decisions due to voting right restrictions. The Group recognized investment loss of RMB23 and RMB12 in income (loss) from equity method investments in 2020 and 2021.

In 2021, the Group partnered with an unrelated third party investor who acted as a general partner to form Commerz Real Institute, of which the Group holds 34% equity interest as a limited shareholder at the consideration of EUR12 million. Commerz Real Institute was designed as an open-ended investment fund to build a portfolio of hotels in prestigious locations. The Group accounted for the investment in Commerz Real Institute under equity-method as the Group's significant influence over the funds is more than minor. The Group recognized investment loss of RMB1 in income (loss) from equity method investments in 2021.

Other investments included several insignificant equity investments in certain privately-held companies. As a result of the COVID-19 pandemic, the Group recognized an impairment of RMB47 and RMB63 for these equity investments for the year ended December 31, 2020 and 2021.

8. GOODWILL

The changes in the carrying amount of goodwill for the years ended December 31, 2020 and 2021 were as follows:

	Legacy Huazhu	Legacy DH	Total
Balance at January 1, 2020			
Goodwill	2,661	—	2,661
Accumulated impairment loss	(4)	—	(4)
	<u>2,657</u>	<u>—</u>	<u>2,657</u>
Goodwill acquired during the year (Note 3)	3	2,694	2,697
Impairment loss	—	(437)	(437)
Net foreign exchange-goodwill	—	74	74
Net foreign exchange-impairment loss	—	(3)	(3)
Balance at December 31, 2020			
Goodwill	2,664	2,768	5,432
Accumulated impairment loss	(4)	(440)	(444)
	<u>2,660</u>	<u>2,328</u>	<u>4,988</u>
Goodwill acquired during the year (Note 3)	372	6	378
Net foreign exchange-goodwill	—	(278)	(278)
Net foreign exchange-impairment loss	—	44	44
Balance at December 31, 2021			
Goodwill	3,036	2,496	5,532
Accumulated impairment loss	(4)	(396)	(400)
	<u>3,032</u>	<u>2,100</u>	<u>5,132</u>

9. DEBT

The short-term and long-term debt as of December 31, 2020 and 2021 were as follows:

	As of December 31,	
	2020	2021
<i>Short-term debt:</i>		
Long-term bank borrowings, current portion	251	2,464
Short-term bank borrowings	851	692
Convertible senior notes, current portion	—	3,029
FF&E liability, current portion	40	47
Total	1,142	6,232
<i>Long-term debt:</i>		
Long-term bank borrowings, non-current portion	4,384	211
Convertible senior notes, non-current portion	6,318	3,158
FF&E liability, non-current portion	135	180
Others	19	16
Total	10,856	3,565

Bank borrowings

In December 2019, the Group entered into a EUR440 million term facility and US\$500 million revolving credit facility agreement with several banks. The US\$500 million revolving credit facility is available for 35 months after the date of the agreement. The interest rate on the loan for each interest period is the aggregate of the applicable Margin and LIBOR or EURIBOR in relation to any loan in EUR. The Margin for each loan depends on the applicable leverage range, generally means 2.0% per annum. There are some financial covenants including interest coverage ratio, leverage and book equity related to this facility. On April 17, 2020, the Group obtained an exemption approval for the EUR440 million and US\$500 million long-term credit facility, providing that with satisfaction of amended covenants, the original financial covenants will not be applicable until the six-month period ending June 30, 2021. The amended covenants include book equity, borrowings, EBITDA and minimum cash related to this facility. On December 11, 2020, the Group obtained a further waiver, which released certain covenants included in the amended covenants signed on April 17, 2020. The Group was fully in compliance with the further amended covenants for the years ended December 31, 2020 and 2021. The Group had drawn down EUR440 million and US\$500 million as of December 31, 2019 under the facility agreement and repaid nil in 2019. The Group had drawn down US\$200 million as of December 31, 2020 under the facility agreement and repaid EUR1 million and US\$700 million in 2020. The US\$500 million revolving credit had been fully paid off as of December 31, 2020. In 2021, the Group did not draw down any revolving credit loan and the available credit facility under this agreement of US\$500 million was terminated in August 2021. Regarding the EUR440 million term facility, the Group had repaid EUR101 million in 2021. As of December 31, 2021, the outstanding loan amount was EUR338 million and has been reclassified to long-term bank borrowings, current portion. The weighted average interest rate of borrowings drawn under this agreement was 2.89% and 2.73% for the years ended December 31, 2020 and 2021 respectively.

In March 2019, the Group entered into a five-year RMB1,190 bank loan contract expiring in March 2024. The interest rate resets every six months, and is based on the People's Bank of China five-year benchmark interest rate on the pricing date. The loan contains certain financial covenants including interest coverage ratio and net tangible assets and the Group was in compliance as of December 31, 2019. In 2020, the Group obtained an exemption approval for the RMB1,190 long-term credit facility, providing that with satisfaction of amended covenants, the original financial covenants of interest coverage ratio will not be applicable until the six-month period ending June 30, 2021. The amended covenants include borrowings, EBITDA and cash dividend distribution limitation related to this facility. The Group was fully in compliance with the amended covenants for the years ended December 31, 2020 and 2021. The Group had repaid RMB179 in 2020 in accordance with the agreed repayment schedule. During the year ended December 31, 2021, the Group had repaid all the bank borrowings. The weighted average interest rate of borrowings drawn under this agreement was 4.75% for the years ended December 31, 2020 and 2021.

In January 2021, the Group entered into a twelve-year RMB650 syndicated loan contract expiring in December 2032. The special loan is used for the construction project of the Group's headquarters buildings, which was in progress in 2021. The interest rate resets every year, and is based on the People's Bank of China five-year benchmark LPR minus 24 basis points on the pricing date. The mortgage ratio covenant is related to this facility and the Group was in compliance as of December 31, 2021. As of December 31, 2021, the outstanding loan amount is RMB53. The weighted average interest rate of borrowings drawn under this agreement was 4.41%, which was fully capitalized for the years ended December 31, 2021.

Convertible Senior Notes due 2022

On November 3, 2017, the Company issued US\$475 million of Convertible Senior Notes (the "2022 Notes"). The 2022 Notes mature on November 1, 2022 and bear interest at a rate of 0.375% per annum, payable in arrears semi-annually on May 1 and November 1, beginning May 1, 2018. In 2017, proceeds to the Company were RMB3,093 (equivalently US\$467 million), net of issuance costs of RMB54 (equivalently US\$8 million).

Holders of the 2022 Notes have the option to convert their Notes at any time prior to the close of business on the second business day immediately preceding the maturity date. The 2022 Notes can be converted into the Company's ADSs at an initial conversion rate of 5.4869, before the ADSs split, of the Company's ADSs per US\$1,000 principal amount of the 2022 Notes (equivalent to an initial conversion price of US\$182.25 per ADS before the ADSs split effected in May 2018). The conversion rate is subject to adjustment in some events but is not adjusted for any accrued and unpaid interest. In addition, following a make-whole fundamental change (as defined in the Indenture) that occur prior to the maturity date or following the Company's delivery of a notice of a tax redemption, the Company will increase the conversion rate for a holder who elects to convert its notes in connection with such a corporate event or such tax redemption. During the year ended December 31, 2020 and 2021, RMB0.06 and RMB0.04 of the 2022 Notes had been converted into 202 ADSs and 134 ADSs upon the holders' request, respectively.

The holders were able to require the Company to repurchase all or portion of the 2022 Notes for cash on November 2, 2020, or upon a fundamental change, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest. During the year ended December 31, 2020 and 2021, RMB0.04 and nil of the 2022 Notes had been repurchased in cash upon the holders' request.

The conversion option meets the definition of a derivative. However, since the conversion option is considered indexed to the Company's own stock and classified in stockholders' equity, the scope exception is met, accordingly the bifurcation of conversion option from the 2022 Notes is not required. There is no beneficial conversion feature ("BCF") attribute to the 2022 Notes as the set conversion prices for the 2022 Notes are greater than the respective fair values of the ordinary share price at date of issuance.

The feature of mandatory redemption upon maturity is clearly and closely related to the debt host and this feature is no need to be bifurcated. Furthermore, the Company concluded that the feature of contingent put options upon tax events or fundamental changes does not need to be considered as an embedded derivative to be bifurcated.

Therefore, the Company accounted for the 2022 Notes in accordance with ASC 470, as a single instrument. Issuance costs related to the 2022 Notes was recorded in consolidated balance sheet as a direct deduction from the principal amount of the 2022 Notes, and was amortized over the period from November 3, 2017, the date of issuance, to November 1, 2020, the first put date of the 2022 Notes, using the effective interest method. On December 31, 2019, the Group reclassified the 2022 Notes as short-term debt as the 2022 Notes holders have a put option which can be exercised within one year. After November 2, 2020, the Group reclassified the 2022 Notes as long-term debt as the put option was expired. As of December 31, 2021, the Group reclassified the 2022 Notes as short-term debt as the 2022 Notes will mature on November 1, 2022.

ADS Lending Arrangement

Concurrent with the offering of the 2022 Notes, the Company entered into ADS lending agreements with the affiliates of the initial purchasers of the 2022 Notes ("ADS Borrowers"), pursuant to which the Company lent to the ADS Borrowers 2,606,278 ADSs (the "Loaned ADSs") at a price equal to par, or \$0.0004 per ADS before the ADSs split ("ADS lending arrangement"). The purpose of the ADS lending arrangements is to facilitate privately negotiated transactions in which the ultimate holders of the 2022 Notes may elect to hedge their investment in the related notes. In May 2018, the Company changed the ADS to ordinary share ratio from one ADS representing four ordinary shares to one ADS representing one ordinary share. Therefore, as of December 31, 2019, 2020 and 2021, the outstanding number of Loaned ADSs was 10,425,112.

The Loaned ADSs must be returned to the Company by the earliest of (a) the maturity date of the 2022 Notes, November 1, 2022, (b) upon the Company's election to terminate the ADS lending agreement at any time after the later of (x) the date on which the entire principal amount of the 2022 Notes ceases to be outstanding, and (y) the date on which the entire principal amount of any additional convertible securities that the Company has in writing consented to permit the ADS Borrower to hedge under the ADS lending agreement ceases to be outstanding, in each case, whether as a result of conversion, redemption, repurchase, cancellation or otherwise; and (c) the termination of the ADS lending agreement. The Company is not required to make any payment to the initial purchasers or ADS Borrower upon the return of the Loaned ADSs. The ADS Borrowers do not have the choice or option to pay cash in exchange for the return of the Loaned ADSs.

No collateral is required to be posted for the Loaned ADSs. The initial purchasers are required to remit to the Company any dividends paid to the holders of the Loaned ADSs. An ADS Borrower has the ability to vote without restriction. However, the ADS Borrowers have agreed not to vote on the Loaned ADSs.

In accordance with FASB ASC Sub-topic 470-20, the Company has accounted for the ADS lending agreement initially at fair value and recognized it as an issuance cost associated with the convertible debt offering. As a result, additional debt issuance costs of RMB26 (equivalently US\$4 million) were recorded on the issuance date with a corresponding increase to additional paid-in-capital. This debt issuance costs have also been amortized from the date of issuance to the put date of Notes, using the effective interest method.

In accordance with ASC Topic 470-20, although legally issued, the Loaned ADSs are not considered outstanding, and then excluded from basic and diluted earnings per share unless default of the ADS lending arrangement occurs, at which time the Loaned ADSs would be included in the basic and diluted earnings per share calculation. As of December 31, 2021, it is not probable that the ADS Borrower or the counterparty to the ADS lending arrangement will default.

Capped Call Options

In connection with the issuance of the 2022 Notes, the Group has entered into capped call option transactions with some of the initial purchasers or their affiliates (the "Option Counterparties") to reduce the potential dilution to existing shareholders of the Group upon conversion of the 2022 Notes. The cap price of the capped call transactions will initially be US\$221.31 per ADS before the ADSs split, subject to adjustment under the terms of the capped call transactions. The total premium paid by the Group for the capped call transactions was RMB177 (equivalently US\$27 million) on the purchased date. The capped call option is classified in stockholders' equity, recorded at the cost with no subsequent changes in fair value be recorded.

Convertible Senior Notes due 2026

On May 12, 2020, the Company issued US\$450 million Convertible Senior Notes (the "2026 Notes"). On May 26, 2020, the Company issued an additional US\$50 million in aggregate principal amount of the 2026 Notes pursuant to the exercise in full by the initial purchasers of an option to purchase additional notes. The 2026 Notes will mature on May 1, 2026 and bear interest at a rate of 3.00% per annum, payable in arrears semi-annually on May 1 and November 1 of each year, beginning on November 1, 2020. In 2020, proceeds to the Company were RMB3,499 (equivalently US\$493 million), net of issuance costs of RMB49 (equivalently US\$7 million).

Holders of the 2026 Notes have the option to convert their Notes at any time prior to the close of business on the second business day immediately preceding the maturity date. The 2026 Notes can be converted into the Company's ADSs at an initial conversion rate of 23.971 of the Company's ADSs per US\$1,000 principal amount of the 2026 Notes (equivalent to an initial conversion price of US\$41.72 per ADS). The conversion rate is subject to adjustment in some events but is not adjusted for any accrued and unpaid interest. In addition, following a make-whole fundamental change (as defined in the Indenture) that occur prior to the maturity date or following the Company's delivery of a notice of a tax redemption, the Company will increase the conversion rate for a holder who elects to convert its notes in connection with such a corporate event or such tax redemption.

The holders may require the Company to repurchase all or portion of the 2026 Notes for cash on May 1, 2024, or in the event of certain fundamental changes, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest.

The conversion option meets the definition of a derivative. However, since the conversion option is considered indexed to the Company’s own stock and classified in stockholders’ equity, the scope exception is met, accordingly the bifurcation of conversion option from the 2026 Notes is not required. There is no beneficial conversion feature (“BCF”) attribute to the 2026 Notes as the set conversion prices for the 2026 Notes are greater than the respective fair values of the ordinary share price at date of issuance.

The feature of mandatory redemption upon maturity is clearly and closely related to the debt host and this feature is no need to be bifurcated. Furthermore, the Company concluded that the feature of contingent put options upon tax events or fundamental changes does not need to be considered as an embedded derivative to be bifurcated. The Company believes that the likelihood of occurrence of events considered a fundamental change is remote.

Therefore, the Company accounted for the 2026 Notes in accordance with ASC 470, as a single instrument. Issuance costs related to the 2026 Notes is recorded in consolidated balance sheet as a direct deduction from the principal amount of the 2026 Notes, and is amortized over the period from May 12, 2020, the date of issuance, to May 1, 2024, the first put date of the 2026 Notes, using the effective interest method.

FF&E Liability

The Group entered into several contracts with lessors to install furniture, fixtures and equipment (“FF&E”) in various leased hotels prior to the respective commencement date. Those transactions are classified as “failed” sale and leaseback transactions, as the control of the furniture, fixtures and equipment does not transfer to the lessor. Consequently, the received consideration from the lessor is accounted for as a liability. The current portion and non-current portion of FF&E liability are recorded in short-term debt and long-term debt, respectively.

Debt Maturities

The contractual maturities of the Group’s debt as of December 31, 2021 were as follows:

Year Ending December 31,	Principle Amounts
2022	6,232
2023	111
2024	3,314
2025	71
2026	23
Thereafter	76
Total	9,827

10. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	As of December 31,	
	2020	2021
Payable to franchisees	1,349	710
Other payables	535	535
Accrued rental, utilities and other accrued expenses	245	209
Liabilities related to customer loyalty program	111	135
Value-added tax, other tax and surcharge payables	124	132
Payable to noncontrolling interest holders	76	117
Total	2,440	1,838

Payable to franchisees mainly represents room charges received on behalf of franchisees and are payable within one year. From time to time, the Group receives cash advances from noncontrolling interest holders of entities that are not wholly owned by the Group. Such advances are non-interest bearing and are payable within one year.

11. HOTEL OPERATING COSTS

Hotel operating costs include all direct costs incurred in the operation of the leased and owned hotels, manachised and franchised hotels and consist of the following:

	Years Ended December 31,		
	2019	2020	2021
Rents	2,624	3,485	3,900
Utilities	404	478	507
Personnel costs	1,854	2,501	3,022
Depreciation and amortization	960	1,316	1,413
Consumable, food and beverage	793	885	969
Others	555	1,064	1,471
Total	<u>7,190</u>	<u>9,729</u>	<u>11,282</u>

12. PRE-OPENING EXPENSES

The Group expenses all costs incurred in connection with start-up activities, including pre-operating costs associated with new hotel facilities and costs incurred with the formation of the subsidiaries, such as organization costs. Pre-opening expenses primarily include rental expenses and employee costs incurred during the hotel pre-opening period.

	Years Ended December 31,		
	2019	2020	2021
Rents	460	251	68
Personnel costs	14	15	5
Others	28	22	8
Total	<u>502</u>	<u>288</u>	<u>81</u>

13. SHARE-BASED COMPENSATION

In February 2007, the Group adopted the 2007 Global Share Plan which allows the Group to offer incentive awards to employees, officers, directors and consultants or advisors (the "Participants"). Under the 2007 Global Share Plan, the Group may issue incentive awards to the Participants to purchase not more than 100,000,000 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 30,000,000 ordinary shares. In October 2008, the Group increased the maximum number of incentive awards available under the 2008 Global Share Plan to 70,000,000. 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 30,000,000 ordinary shares. In August 2010, the Group increased the maximum number of incentive awards available under the 2009 Share Incentive Plan to 150,000,000. In March 2015, the Group increased the maximum number of incentive awards available under the 2009 Share Incentive Plan to 430,000,000. The 2007 and 2008 Global Share Plans and 2009 Share Incentive Plan (collectively, the "Incentive Award Plans") contain the same terms and conditions. The incentive awards granted under the Incentive Award Plans typically have a maximum life of ten years and vest in typical ways as listed below:

- a.) Vest 50% on the second anniversary of the stated vesting commencement date with the remaining 50% vesting ratably over the following two years;
- b.) Vest over a period of ten years in equal yearly installments;

As of December 31, 2021, the Group had granted 245,776,690 options and 243,059,070 nonvested restricted stocks, which were subject to adjustment on performance condition.

Share options

No share options were granted during the years 2019, 2020 and 2021.

As of December 31, 2021, total unrecognized compensation expense related to the option arrangements was nil.

During the years ended December 31, 2019, 2020 and 2021, 10,883,580, 466,320 and nil options were exercised with an aggregate intrinsic value of RMB255, RMB11 and nil, 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 2019, 2020 and 2021, the Group granted 2,217,120, nil and nil nonvested restricted stocks, respectively to senior officers and managers, each was in ten tranches with performance conditions. Each tranche is accounted for as a separate award with the same grant date, its own service inception date and requisite service period. The share-based compensation cost is recognized for each vesting tranche during the respective service period based on the estimated performance conditions at the service inception date. The Group reassesses the performance condition at each reporting period for true up. For each tranche, 50% vests on the second anniversary of the vesting commencement date with the remaining 50% vesting ratably over the following two years.

The following table summarized the Group's nonvested restricted stock activities in 2021.

	Number of Restricted Stocks	Weighted Average Grant Date Fair Value US\$
Nonvested restricted stocks outstanding at January 1, 2021	70,954,080	1.18
Granted	2,163,420	4.20
Forfeited	(4,607,340)	1.64
Vested	(12,325,470)	1.58
Adjusted for performance conditions	(2,488,200)	0.61
Nonvested restricted stocks outstanding at December 31, 2021	<u>53,696,490</u>	<u>1.20</u>

As of December 31, 2021, there was RMB355 in unrecognized compensation costs, net of estimated forfeitures, related to unvested restricted stocks, which is expected to be recognized over a weighted-average period of 3.30 years.

The total fair value of nonvested restricted stocks vested in 2019, 2020 and 2021 was RMB443, RMB368 and RMB389, respectively.

14. EARNINGS (LOSSES) PER SHARE

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

	Years Ended December 31,		
	2019	2020	2021
Net income (loss) attributable to ordinary shareholders — basic	1,769	(2,192)	(465)
Eliminate the dilutive effect of interest expense of convertible senior notes	40	—	—
Net income attributable to ordinary shareholders — diluted	<u>1,809</u>	<u>(2,192)</u>	<u>(465)</u>
Weighted average ordinary shares outstanding — basic	2,843,051,378	2,927,398,409	3,114,124,244
Incremental weighted-average ordinary shares from assumed exercise of share options and nonvested restricted stocks using the treasury stock method	93,975,271	—	—
Dilutive effect of convertible senior notes	106,072,250	—	—
Weighted average ordinary shares outstanding — diluted	<u>3,043,098,899</u>	<u>2,927,398,409</u>	<u>3,114,124,244</u>
Basic earnings (losses) per share	<u>0.62</u>	<u>(0.75)</u>	<u>(0.15)</u>
Diluted earnings (losses) per share	<u>0.59</u>	<u>(0.75)</u>	<u>(0.15)</u>

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For the years ended December 31, 2019, 2020 and 2021, 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 at non-weighted basis:

	As of December 31,		
	2019	2020	2021
Outstanding employee options and nonvested restricted stocks	—	70,954,080	53,696,490
Shares of convertible senior notes	—	226,827,410	226,827,410
Total	—	297,781,490	280,523,900

15. Cash Dividend

In November 2019, the Group approved a cash dividend in the total amount of approximately US\$100 million on its outstanding shares as of the close of trading on January 10, 2020. Such dividend of RMB678 was recorded as dividends payable as of December 31, 2019, and fully paid in February 2020.

The Group did not declare cash dividend to its shareholders in 2020 and 2021.

On March 03, 2022, the Group approved and declared a cash dividend of US\$0.021 per ordinary share on its outstanding shares as of the close of trading on March 24, 2022. Such dividend of US\$68 million was fully paid in April 2022.

16. LEASES

The Group's leases mainly related to building and the rights to use the land. The total expense related to short-term leases were insignificant for period of 2019, 2020 and 2021, and sublease income of the Group which is recognized in revenues in the consolidated statements of comprehensive income were RMB121, RMB112 and RMB134 for the years ended December 31, 2019, 2020 and 2021, respectively. The Group recognizes a negative lease expense of RMB250 and RMB88 for 2020 and 2021 under the relief as the Group elects using the variable lease expense approach.

A summary of supplemental information related to operating leases in 2020 and 2021 is as follows:

	Years Ended December 31,	
	2020	2021
Lease cost:		
Operating fixed lease cost	3,964	4,074
Finance lease cost		
— Amortization of ROU assets	74	79
— Interest on lease liabilities	90	96
Short term lease cost	0	0
Operating variable lease cost	(171)	(25)
Total lease cost	3,957	4,224
Other information:		
Weighted average remaining lease term		
Operating leases	14 years	13 years
Finance leases	29 years	28 years
Weighted average discount rate		
Operating leases	6.23 %	6.31 %
Finance leases	3.96 %	3.97 %

Lease expense for all the Group's leases (including fixed lease cost, variable lease cost and short-term lease cost) for the year ended December 31, 2019 were RMB3,104.

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As of December 31, 2021, the maturities of lease liabilities in accordance with ASC 842 in each of the next five years and thereafter are as follows:

<u>Year Ending December 31,</u>	<u>Total Operating Leases</u>	<u>Total Finance Leases</u>
2022	4,055	140
2023	4,066	155
2024	4,037	157
2025	3,871	157
2026	3,655	158
Thereafter	26,035	3,824
Total minimum lease payments	45,719	4,591
Less: amount representing interest	14,079	1,866
Present value of minimum lease payments	<u>31,640</u>	<u>2,725</u>

As of December 31, 2021, the Group has entered 32 lease contracts that the Group expects to account for as operating or finance leases, the future undiscounted lease payments for these non-cancellable lease contracts are RMB8,732, which is not reflected in the consolidated balance sheets.

As of December 31, 2020, the maturities of lease liabilities in accordance with ASC 842 in each of the next five years and thereafter were as follows:

<u>Year Ending December 31,</u>	<u>Total Operating Leases</u>	<u>Total Finance Leases</u>
2021	3,858	129
2022	3,826	144
2023	3,733	146
2024	3,660	147
2025	3,466	147
Thereafter	25,730	3,575
Total minimum lease payments	44,273	4,288
Less: amount representing interest	13,819	1,760
Present value of minimum lease payments	<u>30,454</u>	<u>2,528</u>

As of December 31, 2020, the Group has entered 31 lease contracts that the Group expects to account for as operating or finance leases, the future undiscounted lease payments for these non-cancellable lease contracts are RMB8,511, which is not reflected in the consolidated balance sheets.

17. INCOME TAXES

The Group is subject to different income tax rates in various countries and jurisdictions under laws and relevant interpretations depending on the place of formation. Under the current laws of Germany, companies are subject to income tax at a standard rate of 15% (15.825% including solidarity surcharge), plus municipal trade tax of 7%-17%. The income tax rates in other countries and jurisdictions are of little effect on the financial statements. In other major jurisdictions, including Austria, Netherlands and Belgium, the Group is subject to a range from 9% to 25% of the statutory income tax rate, respectively.

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Under the Law of the People’s Republic of China on Enterprise Income Tax (“EIT Law”), which was effective from January 1, 2008, domestically-owned enterprises and foreign-invested enterprises are subject to a uniform tax rate of 25%, and the industries and projects that are encouraged and supported by the State may enjoy tax preferential treatment. Jizhu Information and Technology (Shanghai) Co., Ltd. (“Jizhu Shanghai”), which once called Mengguang Information and Technology (Shanghai) Co., Ltd, is a recognized software development entity located in Shanghai of PRC. In November 2018, Jizhu Shanghai was qualified as high and new tech enterprise, resulting Jizhu Shanghai subject to a reduced tax rate of 15% in 2018, 2019 and 2020. In December 2021, Jizhu Shanghai was qualified as high and new tech enterprise, resulting Jizhu Shanghai subject to a reduced tax rate of 15% in 2021, 2022 and 2023. H-World Information and Technology Co., Ltd. is qualified as high and new tech enterprise, resulting H-World Information and Technology Co., Ltd. subject to a reduced tax rate of 15% in 2019, 2020 and 2021. Pursuant to the relevant regulations applicable to small and micro businesses, from January 1, 2019 to December 31, 2021, several PRC subsidiaries enjoy a preferential tax rate of 20% with a discount to taxable income. For taxable income less than RMB1, 75% of the taxable income would be exempted in tax computation, and for taxable income over RMB1 but less than RMB3, the discount would be 50%. Entities qualified as small and micro businesses shall be engaged in industries not restricted or prohibited by the state, which simultaneously meet the following three conditions: annual taxable income does not exceed RMB3, the number of employees does not exceed 300, and the total assets does not exceed RMB50.

Income (loss) before income taxes consists of:

	Years Ended December 31,		
	2019	2020	2021
PRC including Hong Kong and Taiwan	2,334	(392)	617
Germany	—	(1,606)	(632)
Other	231	(281)	(393)
Total	<u>2,565</u>	<u>(2,279)</u>	<u>(408)</u>

Income tax expense (benefit) is comprised of the following:

	Years Ended December 31,		
	2019	2020	2021
Current Tax	678	338	555
Deferred Tax	(38)	(553)	(543)
Total	<u>640</u>	<u>(215)</u>	<u>12</u>

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

	Years Ended December 31,		
	2019	2020	2021
PRC statutory tax rate	25 %	25 %	25 %
Tax effect of non-deductible expenses and non-taxable income in determining taxable profit	(3)%	(6)%	(6)%
Effect of different tax rate of group entities operating in other jurisdictions	1 %	(2)%	(6)%
Effect of change in valuation allowance	2 %	(10)%	(24)%
Effect of tax holiday	(2)%	1 %	9 %
Effect of cash dividends	4 %	0 %	(8)%
Effect of excess tax benefit of share-based rewards	(2)%	1 %	7 %
Effective tax rate	<u>25 %</u>	<u>9 %</u>	<u>(3)%</u>

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

	Years Ended December 31,		
	2019	2020	2021
Aggregate amount	45	31	37
Per share effect—basic	0.02	0.01	0.01
Per share effect—diluted	0.01	0.01	0.01

The principal components of the Group's deferred income tax assets and liabilities as of December 31, 2020 and 2021 are as follows:

	As of December 31,	
	2020	2021
Deferred tax assets:		
Net loss carryforward	888	1,271
Deferred revenue	283	326
Long-term assets	388	238
Bad debt provision	18	40
Accrued payroll	69	45
Other accrued expenses	3	3
Share-based compensation	31	29
Others	12	150
Valuation allowance	(369)	(466)
Total deferred tax assets, net of valuation allowance	<u>1,323</u>	<u>1,636</u>
Deferred tax liabilities:		
Fair value adjustment for Building, land use rights and identified intangible assets due to acquisition	1,782	1,596
Others	99	31
Total deferred tax liabilities	<u>1,881</u>	<u>1,627</u>
Net deferred tax (liabilities) assets	<u>(558)</u>	<u>9</u>
Analysis as:		
Deferred tax assets	623	862
Deferred tax liabilities	1,181	853
Net deferred tax (liabilities) assets	<u>(558)</u>	<u>9</u>

Deferred tax assets and liabilities have been offset where the Group has a legally enforceable right to do so, and intends to settle on a net basis.

The Group considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will more likely than not be realized. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carryforward periods, the Group's experience with tax attributes expiring unused and tax planning alternatives. Valuation allowances have been established for deferred tax assets based on a more likely than not threshold. The Group's ability to realize deferred tax assets depends on its ability to generate sufficient taxable income within the carryforward periods provided for in the tax law. Movement of the valuation allowance is as follows:

	Years Ended December 31,		
	2019	2020	2021
Balance at the beginning of the year	(107)	(152)	(369)
Provided	(79)	(249)	(151)
Reversed	24	32	37
Written off	10	—	17
Balance at the end of the year	<u>(152)</u>	<u>(369)</u>	<u>(466)</u>

As of December 31, 2021, the Group's PRC subsidiaries had tax loss carryforwards of RMB2,115, which will expire between 2022 and 2026 if not used, and RMB1,532, which will expire between 2022 and 2028 if not used. The Germany Companies had tax loss carryforwards of RMB1,192, which can be offset in the future without anytime restriction.

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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, 2020 and 2021, the Group had recorded liabilities for uncertain tax benefit of approximately RMB50 and RMB60 mainly associated with the interests on intercompany loans and other permanent differences related to Corporate Income and Trade Taxes, respectively. No interest or penalty expense was recorded for the years ended December 31, 2019, 2020 and 2021. In 2022, the Group will decrease its income tax liability by RMB 0.1 for unrecognized tax benefits previously recorded in 2012 as the statute of limitations for the tax liabilities of certain tax positions will expire under the PRC Tax Administration and Collection Law.

	Years Ended December 31,		
	2019	2020	2021
Balance at January 1	14	18	50
Addition for tax positions	4	32	10
Balance at December 31	18	50	60

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. If there is a favorable tax treaty between mainland China and the jurisdiction of the foreign holding company, the income tax rate may be reduced. For example, holding companies in Hong Kong that are also tax residents in Hong Kong are eligible for a 5% withholding tax on dividends under the Tax Memorandum between China and the Hong Kong Special Administrative Region if the holding company is the beneficial owner of the dividends and holds more than 25% of the PRC company. 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. In 2018, the Group revised its dividend policy that it may make a moderate dividend distribution every year with the range of 0.5% to 2.0% of its market capitalization from current year net income starting from 2018. The Group’s board of directors has complete discretion in deciding whether to distribute dividends and the dividend amounts within the approved range. The Group was restricted from distributing cash dividends until June 30, 2021 pursuant to the waiver from certain financial covenants that the Group obtained on April 17, 2020 for the syndicated bank loans and therefore did not accrue PRC dividend withholding tax in 2020. In March 2022, the Group announced that its board of directors declared a cash dividend of approximately US\$68 million. To facilitate this dividend distribution and meet the overseas treasury demand, certain amount of dividends from the Group’s PRC subsidiaries to its overseas subsidiaries was planned. PRC dividend withholding tax of RMB32 was accrued as of December 31, 2021. Other than these dividends distributions, the Group intends to indefinitely reinvest the remaining undistributed earnings of RMB3,763 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 RMB0.1 is specifically listed as a special circumstance. In the case of a transfer pricing related adjustment, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. The Group’s PRC subsidiaries are therefore subject to examination by the PRC tax authorities from 2017 through 2021 on non-transfer pricing matters, and from 2012 through 2021 on transfer pricing matters. Generally, the statute of limitations for the assessment and collection of taxes is four years. The four-year period usually starts at the end of the year in which the tax return is filed. If no tax return is filed, the statute of limitations starts with the end of the third year following the year in which the tax arose. Extended limitations of 5 and 10 years will apply in the event of tax evasion or tax fraud. The statute of limitations may be suspended for a variety of reasons, for example, appeal of assessment by taxpayers, announcement or start of a tax audit, obvious mistake in tax assessment, etc.

According to the German General Fiscal Code, the statute of limitations for the assessment and collection of taxes is four years. The four-year period usually starts at the end of the year in which the tax return is filed. If no tax return is filed, the statute of limitations starts with the end of the third year following the year in which the tax arose. Extended limitations of 5 and 10 years will apply in the event of tax evasion or tax fraud. The statute of limitations may be suspended for a variety of reasons, for example, appeal of assessment by taxpayers, announcement or start of a tax audit, obvious mistake in tax assessment, etc.

18. EMPLOYEE BENEFIT PLANS

a. Defined Benefit Plans

Retirement benefit obligation result all from the German pension plan after the completion of the acquisition of DH as this pension plan is the most significant defined benefit plan in the Group.

The Group is required to recognize the funded status of the pension plan, which is the difference between the fair value of plan assets and projected benefit obligations, in the consolidated balance sheets and make corresponding adjustments for changes in the value through accumulated other comprehensive income(loss), net of taxes.

The following table presents the projected benefit obligation, fair value of plan assets, funded status and accumulated benefit obligation for the plans during the years ended December 31, 2020 and 2021:

	Year Ended December 31,	
	2020	2021
Change in Projected Benefit Obligation:		
Begin of the year	147	193
Current service cost	5	5
Interest cost	1	0
Contributions by plan participants	1	1
Actuarial loss (gain)	38	(14)
Foreign currency translation	3	(19)
Benefits paid	(7)	(9)
Settlements	(1)	—
Administrative Expenses, Taxes and Premiums Paid	0	0
Curtailments	(1)	—
Acquisitions	—	0
Effect of other economic events	7	—
End of the year	193	157

	Year Ended December 31,	
	2020	2021
Change in Plan Assets:		
Begin of the year	32	6
Actual return (loss) on plan assets	(2)	0
Foreign currency translation	1	(0)
Employer contributions	9	1
Employee contributions	1	0
Benefits paid	(8)	(2)
Acquisitions	—	0
Other economic events	(27)	—
End of the year	6	5
Excess of defined benefit obligation over the fair value of plan assets	187	152
Accumulated benefit obligation	193	157

Amounts recognized in the consolidated balance sheets consisted of the following:

	As of December 31,	
	2020	2021
Salary and welfare payables	8	8
Retirement benefit obligation	179	144
Liability in the balance sheet	187	152

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The net amount recognized in accumulated other comprehensive gain or loss was RMB27 loss and RMB13 gain for the year ended December 31, 2020 and 2021, respectively.

The net periodic pension cost (credit) and the estimated unrecognized prior service cost and net loss that will be amortized into net periodic pension cost (credit) during the years ended December 31, 2020 and 2021 is immaterial.

The principal actuarial assumptions used were as follows:

	As of December 31,	
	2020	2021
Discount rate- Germany	0.33 %	0.89 %
Discount rate- other	0.12 %	0.39 %
Inflation rate	1.00 %	1.00 %
Future salary increases	1.50 %	2.17 %
Future pension increases	1.80 %	1.69 %

The investment objectives for the various plans are preservation of capital, current income and long-term growth of capital. All plan assets are managed by outside investment managers. Asset allocations are reviewed periodically by the investment managers.

Expected long-term returns on plan assets are determined using historical performance for debt and equity securities held by the Group's plans, actual performance of plan assets and current and expected market conditions. Expected returns are formulated based on the target asset allocation. The target asset allocation for the plan, as a percentage of total plan assets, as of December 31, 2021 was 26 percent in funds that invest in equity securities and 29 percent in funds that invest in debt securities.

The following tables present the fair value hierarchy of total plan assets measured at fair value by asset category as of December 31, 2020 and 2021:

	As of December 31,	
	2020	2021
Level 1		
Equity funds	1	1
Bond funds	2	2
Property	2	1
Other	1	1
Total	6	5

The Group expect to contribute approximately RMB1 to the plan in 2022.

As of December 31, 2021, the benefits expected to be paid in the year ended December 31, 2022 are RMB9.

b. Defined Contribution Plans

Full time employees of the Group in the PRC participate in a government-mandated defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. PRC labor regulations require the Group to accrue for these benefits based on a certain percentage of the employees' salaries. The total contribution for such employee benefits were RMB413, RMB283 and RMB544 for the years ended December 31, 2019, 2020 and 2021, respectively. The Group has no ongoing obligation to its employees subsequent to its contribution to the PRC plan. In an attempt to mitigate the adverse financial effects of the COVID-19 pandemic on employers, the Chinese Government had announced temporary reductions in, and exemptions from, the payment of contributions in 2020. The supportive policies have been gradually reduced in 2021.

Furthermore, the Group pays contribution to governmental and private pension insurance organizations based on legal regulations in some countries out of China. The contributions are recognized as expense and amount RMB129 and RMB55 for the years ended December 31, 2020 and 2021.

19. RESTRICTED NET ASSETS

Pursuant to laws applicable to entities incorporated in the PRC, the subsidiaries of the Group in the PRC must make appropriations from after-tax profit to non-distributable reserve funds. These reserve funds include one or more of the following: (i) a general reserve, (ii) an enterprise expansion fund and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end) until the accumulative amount of such reserve fund reaches 50% of their registered capital; the other fund appropriations are at the subsidiaries' discretion. These reserve funds can only be used for specific purposes of offsetting future losses, enterprise expansion and staff bonus and welfare and are not distributable as cash dividends and amounted to RMB604, RMB771 and RMB826 as of December 31, 2019, 2020 and 2021, respectively. In addition, due to restrictions on the distribution of share capital from the Group's PRC subsidiaries, the PRC subsidiaries share capital of RMB2,852 at December 31, 2021 is considered restricted. As a result of these PRC laws and regulations, as of December 31, 2021, approximately RMB3,678 is not available for distribution to the Group by its PRC subsidiaries in the form of dividends, loans or advances.

Pursuant to laws applicable to entities incorporated in the Europe, certain subsidiaries of the Group must make appropriations from after-tax profit to non-distributable reserve funds. These reserve funds include general reserve which is not distributable as cash dividends or other cash disbursements and amounted to RMB11 as of December 31, 2021. In addition, due to restrictions on the distribution of share capital from the Deutsche Hospitality and its subsidiaries, the share capital of RMB4 at December 31, 2021 is considered restricted.

20. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

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The following entities are considered to be related parties to the Group. The related parties mainly act as service providers and service recipients to the Group. The Group is not obligated to provide any type of financial support to these related parties.

Related Party	Nature of the Party	Relationship with the Group
Trip.com Group Limited (“Trip.com”)	Online travel services provider	Mr. Qi Ji is a director
Sheen Star Group Limited (“Sheen Star”)	Investment holding company	Equity method investee of the Group, controlled by Mr. Qi Ji
Accor Hotels (“Accor”)	Hotel Group	Shareholder of the Group
China Cjia Group Limited (“Cjia Group”)	Apartment Management Group	Equity method investee of the Group
Shanghai CREATER Industrial Co., Ltd. (“CREATER”)	Staged office space company	Equity method investee of the Group
Shanghai Zhuchuang Enterprise Management Co., Ltd. (“Zhuchuang”)	Staged office space company	Equity method investee of the Group
China Hospitality JV, Ltd. (“China Hospitality JV”)	Property management company	Equity method investee of the Group
Smart Lodging Group (Cayman) Limited (“Smart Lodging”)	Hotel chain	Equity method investee of the Group
Shanghai Lianquan Hotel Management Co., Ltd. (“Lianquan”)	Hotel management company	Equity method investee of the Group
Suzhou Huali Jinshi Construction Decoration Co., Ltd. (“Huali Jinshi”)	Building decoration company	Equity method investee of the Group
Shenzhen Hitone Investment Fund Partnership (LLP) (“Hitone”)	Fund	Equity method investee of the Group

CREATER ceased to be related parties of the Group from August 2019.

Accor ceased to be related parties of the Group from December 2021.

(a) Related party balances

Amounts due from related parties were mainly comprised of shareholder loans to Sheen Star, Cjia Group, Zhuchuang and Lianquan, which are short-term in nature and mainly payable on demand, service fee and room charges withheld by Trip.com. As the Group adopted ASU 2016-13 on January 1, 2020 utilizing the modified retrospective approach, the Group recorded credit losses of RMB18 and RMB17 for the years ended December 31, 2020 and 2021.

	As of December 31,	
	2020	2021
Sheen Star	52	33
Zhuchuang	27	27
Trip.com	22	17
Cjia Group	22	29
Accor	1	—
Lianquan	58	49
Others	14	12
Allowance for expected credit losses	(18)	(17)
Total	178	150

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Amounts due to related parties were mainly comprised of payables for brand use fee, reservation fee and other service fee to Trip.com and Accor, acquisition consideration, consultation fee to and cash received on behalf of Cjia Group and payables for construction service fee to Huali Jinshi, which are short-term in nature and payable on demand.

	As of December 31,	
	2020	2021
Trip.com	48	44
Accor	8	—
Cjia Group	42	101
Huali Jinshi	29	47
Others	5	5
Total	132	197

(b) Related party transactions

During the years ended December 31, 2019, 2020 and 2021, significant related party transactions were as follows:

	Years Ended December 31,		
	2019	2020	2021
Commission expenses to Trip.com	72	78	99
Lease expenses to Trip.com	18	18	19
Lease expenses to Cjia Group	—	—	12
Service fee to Huali Jinshi	99	41	42
Service fee to Cjia Group	6	17	—
Brand use fee, reservation fee and other related service fee to Accor	28	17	22
Goods sold and service provided to Cjia Group	21	18	11
Early termination compensation of sublease to Cjia Group	—	8	—
Loan payment to Smart Lodging	30	—	—
Loan payment to Lianquan	32	—	—
Loan payment to Hitone	—	—	5
Service fee from Trip.com	41	66	62
Service fee from Accor	9	3	3
Service fee from China Hospitality JV	6	1	2
Service fee from Sheen Star	4	4	5
Sublease income from Lianquan	7	12	10
Sublease income from Cjia Group	14	9	6
Early termination compensation of franchise agreement from China Hospitality JV	—	26	—
Purchase of property and equipment from Cjia Group	—	11	—
Interest income from Sheen Star	8	1	0
Interest income from CREATER	6	—	—
Business acquisition of CitiGO from Cjia Group	—	—	783
Business acquisition of one individual company from Cjia Group	—	—	51

21. COMMITMENTS AND CONTINGENCIES**(a) Commitments**

As of December 31, 2021, the Group's commitments related to leasehold improvements and installation of equipment for hotel operations was RMB413, which is expected to be incurred within one year.

(b) Contingencies

The Group is subject to periodic legal or administrative proceedings in the ordinary course of the Group's business, including lease contract terminations and disputes, and management agreement disputes. The Group does not believe that any currently pending legal or administrative proceeding to which the Group is a party will have a material adverse effect on the financial statements. As of December 31, 2021, the accrued contingent liability was RMB54.

**ADDITIONAL FINANCIAL INFORMATION — FINANCIAL STATEMENTS SCHEDULE I
HUAZHU GROUP LIMITED
FINANCIAL INFORMATION FOR PARENT COMPANY**

BALANCE SHEETS

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

	As of December 31,		
	2020	2021	2021 US\$ million (Note 2)
Assets			
Current assets:			
Cash and cash equivalents	1,892	581	91
Short-term investments	51	81	13
Other current assets	16	1	0
Total current assets	1,959	663	104
Investment in subsidiaries	16,103	16,928	2,656
Total assets	18,062	17,591	2,760
Liabilities and equity			
Current liabilities:			
Short-term debt	—	3,028	475
Amount due to subsidiaries	273	257	40
Accrued expenses and other current liabilities	141	213	34
Total current liabilities	414	3,498	549
Long-term debt	6,318	3,158	496
Total liabilities	6,732	6,656	1,045
Equity:			
Ordinary shares (US\$0.00001 par value per share; 80,000,000,000 shares authorized; 3,243,644,440 and 3,255,971,250 shares issued as of December 31, 2020 and 2021, and 3,108,425,680 and 3,120,746,090 shares outstanding as of December 31, 2020 and 2021, respectively)	0	0	0
Treasury shares (30,967,640 and 30,974,040 shares as of December 31, 2020 and 2021, respectively)	(107)	(107)	(17)
Additional paid-in capital	9,808	9,964	1,563
Retained earnings	1,502	1,037	163
Accumulated other comprehensive income	127	41	6
Total equity	11,330	10,935	1,715
Total liabilities and equity	18,062	17,591	2,760

ADDITIONAL FINANCIAL INFORMATION — FINANCIAL STATEMENTS SCHEDULE I
HUAZHU GROUP LIMITED
FINANCIAL INFORMATION FOR PARENT COMPANY

STATEMENTS OF COMPREHENSIVE INCOME
(Renminbi in millions, unless otherwise stated)

	Years Ended December 31,			US\$'million (Note 2)
	2019	2020	2021	
Operating costs and expenses:				
General and administrative expenses	115	155	110	17
Total operating costs and expenses	<u>115</u>	<u>155</u>	<u>110</u>	<u>17</u>
Loss from operations	(115)	(155)	(110)	(17)
Interest income	10	2	8	1
Interest expense	201	154	128	20
Foreign exchange gain (loss)	5	(8)	(3)	(0)
Other income, net	30	32	15	2
Unrealized loss from fair value changes of equity securities	(27)	(10)	(2)	(0)
Income (loss) in investment in subsidiaries	2,067	(1,899)	(245)	(39)
Net income (loss) attributable to Huazhu Group Limited	<u>1,769</u>	<u>(2,192)</u>	<u>(465)</u>	<u>(73)</u>
Other comprehensive (loss) income, net of tax	(7)	176	(86)	(14)
Comprehensive income (loss)	<u>1,762</u>	<u>(2,016)</u>	<u>(551)</u>	<u>(87)</u>

**ADDITIONAL FINANCIAL INFORMATION — FINANCIAL STATEMENTS SCHEDULE I
HUAZHU GROUP LIMITED
FINANCIAL INFORMATION FOR PARENT COMPANY**

**CONDENSED STATEMENTS OF CASH FLOWS
(Renminbi in millions, unless otherwise stated)**

	Years Ended December 31,			
	2019	2020	2021	2021
	US\$ ² million (Note 2)			
Net cash (used in) provided by operating activities	(212)	49	9	2
Investing activities:				
Investment in subsidiaries	(1,039)	(6,267)	(1,050)	(165)
Receipt of investment in subsidiaries	9	—	—	—
Purchase of short-term investments	—	—	(34)	(5)
Net cash used in investing activities	(1,030)	(6,267)	(1,084)	(170)
Financing activities:				
Proceeds from issuance of ordinary shares in Hong Kong public offering	—	6,018	—	—
Payment of ordinary share issuance costs	—	(10)	(15)	(2)
Net settlement on shares repurchased for withholding taxes related to share-based awards	—	—	50	7
Payment of share repurchase	—	—	(0)	(0)
Net proceeds from issuance of ordinary shares upon exercise of option	14	1	1	0
Proceeds of advances from subsidiaries	109	—	0	0
Proceeds from short-term bank borrowings	1,265	—	—	—
Repayment of short-term bank borrowings	—	(282)A	—	—
Proceeds from long-term bank borrowings	5,206	—	—	—
Repayment of long-term bank borrowings	(5,169)	—	—	—
Proceeds from issuance of convertible senior notes	—	3,499	—	—
Repayment of convertible senior notes	—	(0)	(0)	(0)
Debt financing costs paid	—	(9)	—	—
Dividends paid	(658)	(678)	—	—
Net cash provided by financing activities	767	8,539	36	5
Effect of exchange rate changes on cash and cash equivalents	141	(790)	(272)	(43)
Net (decrease) increase in cash and cash equivalents	(334)	1,531	(1,311)	(206)
Cash, cash equivalents at the beginning of the year	695	361	1,892	297
Cash, cash equivalents at the end of the year	361	1,892	581	91

A—In 2020, Except for repayment of short-term bank borrowings by cash, short-term bank borrowings of RMB 4,628 was settled by investment in subsidiaries.

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

**ADDITIONAL FINANCIAL INFORMATION — FINANCIAL STATEMENTS SCHEDULE I
HUAZHU GROUP LIMITED
FINANCIAL INFORMATION FOR PARENT COMPANY**

Note to Schedule I

Schedule I has been provided pursuant to the requirements of Rule 12-04(a) and 5-04-(c) of Regulation S-X, which require condensed financial information as to the financial position, change in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year.

The condensed financial information has been prepared using the same accounting policies as set out in the accompanying consolidated financial statements except that the equity method has been used to account for investments in its subsidiaries. Such investments in subsidiaries are presented on the balance sheets as investment in subsidiaries and the profit of the subsidiaries is presented as income in investment in subsidiaries.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The footnote disclosures contain supplemental information relating to the operations of the Company and, as such, these statements should be read in conjunction with the notes to the accompanying consolidated financial statements.

As of December 31, 2021, there are no material contingencies, mandatory dividend, and significant provision of long-term obligation or guarantee of the Company, except for those which have separately disclosed in the consolidated financial statements.

**ADDITION INFORMATION — FINANCIAL STATEMENTS SCHEDULE II
HUAZHU GROUP LIMITED**

This financial information has been prepared in conformity with accounting principles generally accepted in the United States.

VALUATION AND QUALIFYING ACCOUNTS

	<u>Balance at Beginning of Year</u>	<u>Charge to Costs and Expenses</u>	<u>Charge to Other Accounts</u>	<u>Addition Due to Acquisition</u>	<u>Charge Taken Against Allowance</u>	<u>Write off</u>	<u>Balance at End of Year</u>
	(Renminbi in millions)						
Allowance for accounts receivable, loan receivables and other financial assets:							
2019	17	21	—	—	—	(16)	22
2020	22	65	7	—	—	(7)	87
2021	87	105	—	—	—	(64)	128
Valuation allowance for deferred tax assets							
2019	107	79	—	—	(24)	(10)	152
2020	152	249	—	—	(32)	—	369
2021	369	151	—	—	(37)	(17)	466

Description of Rights of Each Class of Securities Registered under Section 12 of the Securities Exchange Act of 1934

American Depositary Shares (“ADSs”), each representing ten ordinary shares of Huazhu Group Limited (our company) are listed on the Nasdaq Global Select Market and the shares are registered under Section 12(b) of the Exchange Act. Shares underlying the ADSs are held by Citibank, N.A., as depositary, and holders of ADSs will not be treated as holders of the ordinary shares. Ordinary shares of our company are listed on the Hong Kong Stock Exchange. This exhibit contains a description of the rights of (i) the holders of ordinary shares and (ii) ADS holders.

Description of Ordinary Shares (Items 9.A.3, 9.A.5, 9.A.6, 10.B.3, 10.B.4, 10.B.6, 10.B.7, 10.B.8, 10.B.9 and 10.B.10 of Form 20-F)

General

All of our outstanding ordinary shares are fully paid and non-assessable. Certificates representing the ordinary shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares. Each of our ordinary shares has a par value US\$0.00001.

Preemptive Rights

The shareholders of our company do not have preemptive right.

Transfer of Shares

Subject to any applicable restrictions set forth in our amended and restated articles of association, including, for example, the board of directors' discretion to refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve, or any share issued under the share incentive plans for employees upon which a restriction on transfer imposed thereby still subsists, any of our shareholders may transfer all or any of his or her shares by an instrument of transfer in the usual or common form or in a form prescribed by the NASDAQ Global Select Market or the Hong Kong Stock Exchange or in another form that our directors may approve.

Our directors may decline to register any transfer of any share which is not paid up or on which we have a lien. Our directors may also decline to register any transfer of any share unless:

- the instrument of transfer is lodged with us accompanied by the certificate for the shares to which it relates and such other evidence as our directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of share;
- the instrument of transfer is properly stamped (in circumstances where stamping is required);
- in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four; and
- fee of such maximum sum as the NASDAQ Global Select Market or the Hong Kong Stock Exchange may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer, they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on notice being given by advertisement in such one or more newspapers or by any other means in accordance with the requirements of the NASDAQ Global Select Market or the Hong Kong Stock Exchange, be suspended and the register closed at such times and for such periods as our directors may from time to time determine; provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as our directors may determine.

Limitations or Qualifications

The rights of our shareholders are not materially limited or qualified.

Dividend Rights

Subject to the Companies Act, the Company in general meeting or our directors may declare dividends in any currency to be paid to our shareholders. Dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our directors determine is no longer needed. Our board of directors may also declare and pay dividends out of the share premium account or any other fund or account that can be authorized for this purpose in accordance with the Companies Act.

Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provides (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for this purpose as paid up on that share and (ii) all dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

Our directors may also pay any dividend that is payable on any shares semi-annually or on any other dates, whenever our financial position, in the opinion of our directors, justifies such payment.

Our directors may deduct from any dividend or bonus payable to any shareholder all sums of money (if any) presently payable by such shareholder to us on account of calls or otherwise.

No dividend or other money payable by us on or in respect of any share shall bear interest against us.

In respect of any dividend proposed to be paid or declared on our share capital, our directors may resolve and direct that (i) such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that our shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof if our directors so determine) in cash in lieu of such allotment or (ii) the shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as our directors may think fit. On the recommendation of our directors, we may also by ordinary resolution resolve in respect of any particular dividend that, notwithstanding the foregoing, a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend interest or other sum payable in cash to the holder of shares may be paid by check or warrant sent by mail addressed to the holder at his registered address, or addressed to such person and at such addresses as the holder may direct. Every check or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the check or warrant by the bank on which it is drawn shall constitute a good discharge to us.

All dividends unclaimed for one year after having been declared may be invested or otherwise made use of by our board of directors for the benefit of our company until claimed. Any dividend unclaimed after a period of six years from the date of declaration of such dividend shall be forfeited and reverted to us.

Whenever our directors or the Company in general meeting have resolved that a dividend be paid or declared, our directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe for our securities or securities of any other company. Where any difficulty arises with regard to such distribution, our directors may settle it as they think expedient. In particular, our directors may issue fractional certificates, ignore fractions altogether or round the same up or down, fix the value for distribution purposes of any such specific assets, determine that cash payments shall be made to any of our shareholders upon the footing of the value so fixed in order to adjust the rights of the parties, vest any such specific assets in trustees as may seem expedient to our directors, and appoint any person to sign any requisite instruments of transfer and other documents on behalf of the persons entitled to the dividend, which appointment shall be effective and binding on our shareholders.

Voting Rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting every shareholder who is present in person or by proxy (or, in the case of a shareholder being a corporation, by its duly authorized representative) shall have one vote on a show of hands, and on a poll every shareholder present in person or by proxy (or, in the case of a shareholder being a corporation, by its duly appointed representative) shall have one vote for each fully paid share of which such shareholder is the holder.

No shareholder shall be entitled to attend and vote or be reckoned in a quorum at any general meeting unless such shareholder is duly registered as our shareholder at the applicable record date for that meeting and all calls or other sums due by such shareholder to us have been paid.

If a clearing house (or its nominee(s)), being a corporation, is our shareholder, it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting or at any meeting of any class of shareholders provided that the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision is entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of our shares held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

While there is nothing under the laws of the Cayman Islands which specifically prohibits or restricts the creation of cumulative voting rights for the election of directors of the Company, it is not a concept that is accepted as a common practice in the Cayman Islands, and the Company has made no provisions in its amended and restated articles of association to allow cumulative voting for such elections.

Liquidation

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares: (i) if we are wound up and the assets available for distribution among our shareholders are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu among those shareholders in proportion to the amount paid up on the shares held by them, respectively and (ii) if we are wound up and the assets available for distribution among the shareholders as such are insufficient to repay the whole of the paid-up capital, those assets shall be distributed so that, as nearly as may be, the losses shall be borne by the shareholders in proportion to the capital paid up at the commencement of the winding up on the shares held by them, respectively.

If we are wound up, the liquidator may with the sanction of our special resolution and any other sanction required by the Companies Act, divide among our shareholders in specie or kind the whole or any part of our assets (whether or not they shall consist of property of the same kind) and may, for such purpose, set such value as the liquidator deems fair upon any property to be divided and may determine how such division shall be carried out as between the shareholders or different classes of shareholders. The liquidator may also vest the whole or any part of these assets in trustees upon such trusts for the benefit of the shareholders as the liquidator shall think fit, but so that no shareholder will be compelled to accept any assets, shares or other securities upon which there is a liability.

Share Repurchase

We are empowered by the Companies Act and our amended and restated articles of association to purchase our own shares, subject to certain restrictions. Our directors may only exercise this power on our behalf, subject to the Companies Act, our amended and restated memorandum and articles of association and to any applicable requirements imposed from time to time by the NASDAQ Global Select Market, the SEC, or by any other recognized stock exchange on which our securities are listed.

Sinking Fund Provision

There are no sinking fund provisions applicable to our ordinary shares.

Modification of Rights of Shares

Except with respect to share capital (as described below) and the location of the registered office, alterations to our amended and restated memorandum and articles of association may only be made by special resolution, meaning a majority of not less than two-thirds of votes cast at a shareholders meeting.

Subject to the Companies Act, all or any of the special rights attached to shares of any class (unless otherwise provided for by the terms of issue of the shares of that class) may be varied, modified or abrogated, with the sanction of a special resolution, passed at a separate general meeting of the holders of the shares of that class. The provisions of our amended and restated articles of association relating to general meetings shall apply similarly to every such separate general meeting, but so that the quorum for the purposes of any such separate general meeting or at its adjourned meeting shall be a person or persons together holding (or represented by proxy) on the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, that every holder of shares of the class shall be entitled on a poll to one vote for every such share held by such holder and that any holder of shares of that class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

Anti-takeover Provisions in the Amended and Restated Memorandum and Articles of Association

Our amended and restated memorandum and articles of association contain provisions which may have the effect of limiting the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity 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. Our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more classes or series and to fix their designations, powers, preferences, and relative participating, optional or other rights and the qualifications, limitations or restrictions, including, without limitation, dividend rights, conversion rights, voting rights, terms of redemption privileges and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares, in the form of ADSs or otherwise. In the event these preferred shares have better voting rights than our ordinary shares, in the form of ADSs or otherwise, they could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult.

Disclosure of Shareholder Ownership

There are no provisions in our amended and restated memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

Differences in Corporate Law

The Companies Act is modeled after similar laws in the United Kingdom but does not follow recent changes in United Kingdom laws. In addition, the Companies Act differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Act applicable to us and the laws applicable to companies incorporated in the United States.

Mergers and Similar Arrangements. Under the laws of the Cayman Islands, two or more companies may merge or consolidate in accordance with Section 233 of the Companies Act. A merger means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such constituent companies as the surviving company. A consolidation means the combination of two or more constituent companies into a new consolidated company and the vesting of the undertaking, property and liabilities of such constituent companies in the new consolidated company. In order to merge or consolidate, the directors of each constituent company must approve a written plan of merger or consolidation which must be authorized by each constituent company by a special resolution of the shareholders and such other authorization as may be specified in such company's articles of association. The consent of each holder of a fixed or floating security interest of a constituent company in a proposed merger or consolidation must also be obtained.

For a director who has a financial interest in the plan of merger or consolidation, he should declare the nature of his interest at the board meeting where the plan was considered. Following such declaration, subject to any separate requirement for Audit Committee approval under the applicable law or any applicable requirements imposed from time to time by the NASDAQ Global Select Market, the SEC, or by any other recognized stock exchange on which the securities are listed, and unless disqualified by the chairman of the relevant board meeting, he may vote on the plan of merger or consolidation.

A shareholder resolution is not required if a Cayman Islands incorporated parent company is seeking to merge with one or more of its Cayman Islands incorporated subsidiary companies (i.e., companies where at least ninety per cent (90%) of the issued shares of which (of one or more classes) that are entitled to vote are owned by the parent company). In any event, all shareholders must be given a copy of the plan of merger or consolidation irrespective of whether they are entitled to vote at the meeting or consent to the written resolution to approve the plan of merger or consolidation.

The shareholders of the constituent companies are not required to receive shares of the surviving or consolidated company but may receive debt obligations or other securities of the surviving or consolidated company, or money and other assets or a combination thereof. Further, some or all of the shares of a class or series may be converted into a kind of asset while the other shares of the same class or series may receive a different kind of asset. As such, not all the shares of a class or series must receive the same kind of consideration.

After the plan of merger or consolidation has been approved by the directors, authorized by a resolution of the shareholders and the holders of fixed or floating security interest have given their consent, the plan of merger or consolidation is executed by each company and filed, together with certain ancillary documents, with the Registrar of Companies in the Cayman Islands.

A shareholder may dissent from a merger or consolidation. A shareholder properly exercising his dissent rights is entitled to payment in cash of the fair value of his shares. Such dissent rights are unavailable in respect of shares subject to a plan of merger or consolidation for which (i) an open market exists on a recognized stock exchange or recognized interdealer quotation system at the expiry date of the period allowed for written notice of an election to dissent subject to the provisions of the Companies Act.

A shareholder dissenting from a merger or consolidation must object in writing to the merger or consolidation before the vote by the shareholders on the merger or consolidation. If the merger or consolidation is approved by the shareholders, the company must within 20 days give notice of this fact to each shareholder who gave written objection. Such shareholders then have 20 days to give to the company their written election in the form specified by the Companies Act to dissent from the merger or consolidation.

Upon giving notice of his election to dissent, a shareholder ceases to have any rights of a shareholder except the right to be paid the fair value of his shares. As such, the merger or consolidation may proceed in the ordinary course notwithstanding the dissent.

Within seven days of the later of the delivery of the notice of election to dissent and the effective date of the merger or consolidation, the company must make a written offer to each dissenting shareholder to purchase his shares at a specified price that the company determines to be their fair value. The company and the shareholder then have 30 days to agree upon the price. If the company and a shareholder fail to agree on the price within the 30 days, then within 20 days thereafter, the company shall or any dissenting shareholder may file a petition with the Grand Court for a determination of the fair value of the shares of all dissenting shareholders. At the petition hearing, the Grand Court shall determine the fair value of the shares of such dissenting shareholders as it finds are involved, together with a fair rate of interest, if any, to be paid by the company upon the amount determined to be the fair value.

Shareholders' Suits. In principle, we will normally be the proper plaintiff and a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, exceptions to the foregoing principle apply in circumstances in which:

- a company is acting or proposing to act illegally or beyond the scope of its authority;
- the act complained of, although not beyond the scope of its authority, could be effected duly if authorized by more than a simple majority vote which has not been obtained; or
- those who control the company are perpetrating a "fraud on the minority."

Corporate Governance. Cayman Islands laws do not restrict transactions with directors, requiring only that directors exercise a duty of care and owe a fiduciary duty to the companies for which they serve. Under our amended and restated memorandum and articles of association, subject to any separate requirement for audit committee approval under the applicable rules of the NASDAQ Global Select Market or unless disqualified by the chairman of the relevant board meeting, so long as a director discloses the nature of his interest in any contract or arrangement which he is interested in, such a director may vote in respect of any contract or proposed contract or arrangement in which such director is interested and may be counted in the quorum at such a meeting.

Description of Debt Securities, Warrants and Rights and Other Securities (Items 9.A.7, 12.A, 12.B and 12.C of Form 20-F)

Not applicable.

Description of American Depositary Shares (Items 12.D.1 and 12.D.2 of Form 20-F)

Citibank, N.A. acts as the depository for the American Depositary Shares. Citibank's depository offices are located at 388 Greenwich Street, New York, New York 10013. American Depositary Shares are frequently referred to as "ADSs" and represent ownership interests in securities that are on deposit with the depository. ADSs may be represented by certificates that are commonly known as "American Depositary Receipts" or "ADRs." The depository typically appoints a custodian to safe-keep the securities on deposit. In this case, the custodian is Citibank, N.A.-Hong Kong, located at 9/F, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

We have appointed Citibank as depository pursuant to a deposit agreement. A copy of the deposit agreement is on file with the SEC, under cover of a Registration Statement on Form F-6 (Registration No. 333-165402). You may obtain a copy of the deposit agreement from the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and from the SEC's website (www.sec.gov).

We are providing you with a summary description of the material terms of the ADSs and of your material rights as an owner of ADSs. Please remember that summaries by their nature lack the precision of the information summarized and that the rights and obligations of an owner of ADSs will be determined by reference to the terms of the deposit agreement and not by this summary. For the complete information, you should read the entire deposit agreement and the form of American Depositary Receipt. The portions of this summary description that are italicized describe matters that may be relevant to the ownership of ADSs but that may not be contained in the deposit agreement.

Each ADS represents the right to receive, and to exercise the beneficial ownership interests in, ten (10) ordinary shares on deposit with the depository and/or the custodian. An ADS also represents the right to receive, and to exercise the beneficial interests in, any other property received by the depository or the custodian on behalf of the owner of the ADS but that has not been distributed to the owners of ADSs because of legal restrictions or practical considerations. We and the depository may agree to change the ADS-to-ordinary shares ratio by amending the deposit agreement. This amendment may give rise to, or change, the depository fees payable by ADS owners. The custodian, the depository and their respective nominees will hold all deposited property for the benefit of the holders and beneficial owners of ADSs. The deposited property does not constitute the proprietary assets of the depository, the custodian or their nominees. Beneficial ownership in the deposited property will under the terms of the deposit agreement be vested in the beneficial owners of the ADSs. The depository, the custodian and their respective nominees will be the record holders of the deposited property represented by the ADSs for the benefit of the holders and beneficial owners of the corresponding ADSs. A beneficial owner of ADSs may or may not be the holder of ADSs. Beneficial owners of ADSs will be able to receive, and to exercise beneficial ownership interests in, the deposited property only through the registered holders of the ADSs, the registered holders of the ADSs (on behalf of the applicable ADS owners) only through the depository, and the depository (on behalf of the owners of the corresponding ADSs) directly, or indirectly, through the custodian or their respective nominees, in each case upon the terms of the deposit agreement.

The owner of ADSs becomes a party to the deposit agreement and therefore will be bound to its terms and to the terms of any ADR that represents your ADSs. The deposit agreement and the ADR specify our rights and obligations as well as your rights and obligations as owner of ADSs and those of the depository. As an ADS holder you appoint the depository to act on your behalf in certain circumstances. The deposit agreement and the ADRs are governed by New York law. However, our obligations to the holders of ordinary shares will continue to be governed by the laws of the Cayman Islands, which may be different from the laws in the United States.

In addition, applicable laws and regulations may require you to satisfy reporting requirements and obtain regulatory approvals in certain circumstances. You are solely responsible for complying with such reporting requirements and obtaining such approvals. Neither the depository, the custodian, us or any of their or our respective agents or affiliates shall be required to take any actions whatsoever on behalf of you to satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.

We will not treat you, being an owner of ADSs, as one of our shareholders and you will not have direct shareholder rights. The depository will hold on your behalf the shareholder rights attached to the ordinary shares underlying your ADSs. As an owner of ADSs you will be able to exercise the shareholders rights for the ordinary shares represented by your ADSs through the depository only to the extent contemplated in the deposit agreement. To exercise any shareholder rights not contemplated in the deposit agreement you will, as an ADS owner, need to arrange for the cancellation of your ADSs and become a direct shareholder.

The manner in which you own the ADSs (e.g., in a brokerage account vs. as registered holder, or as holder of certificated vs. uncertificated ADSs) may affect your rights and obligations, and the manner in which, and extent to which, the depositary's services are made available to you. As an owner of ADSs, you may hold your ADSs either by means of an ADR registered in your name, through a brokerage or safekeeping account, or through an account established by the depositary in your name reflecting the registration of uncertificated ADSs directly on the books of the depositary (commonly referred to as the "direct registration system" or "DRS"). The direct registration system reflects the uncertificated (book-entry) registration of ownership of ADSs by the depositary. Under the direct registration system, ownership of ADSs is evidenced by periodic statements issued by the depositary to the holders of the ADSs. The direct registration system includes automated transfers between the depositary and The Depository Trust Company ("DTC"), the central book-entry clearing and settlement system for equity securities in the United States. If you decide to hold your ADSs through your brokerage or safekeeping account, you must rely on the procedures of your broker or bank to assert your rights as ADS owner. Banks and brokers typically hold securities such as the ADSs through clearing and settlement systems such as DTC. The procedures of such clearing and settlement systems may limit your ability to exercise your rights as an owner of ADSs. Please consult with your broker or bank if you have any questions concerning these limitations and procedures. All ADSs held through DTC will be registered in the name of a nominee of DTC. This summary description assumes you have opted to own the ADSs directly by means of an ADS registered in your name and, as such, we will refer to you as the "holder." When we refer to "you," we assume the reader owns ADSs and will own ADSs at the relevant time.

The registration of the ordinary shares in the name of the depositary or the custodian shall, to the maximum extent permitted by applicable law, vest in the depositary or the custodian the record ownership in the applicable ordinary shares with the beneficial ownership rights and interests in such ordinary shares being at all times vested with the beneficial owners of the ADSs representing the ordinary shares. The depositary or the custodian shall at all times be entitled to exercise the beneficial ownership rights in all deposited property, in each case only on behalf of the holders and beneficial owners of the ADSs representing the deposited property.

Dividends and Distributions

As a holder of ADSs, you generally have the right to receive the distributions we make on the securities deposited with the custodian. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders of ADSs will receive such distributions under the terms of the deposit agreement in proportion to the number of ADSs held as of a specified record date, after deduction of the applicable fees, taxes and expenses.

Distributions of Cash

Whenever we make a cash distribution for the securities on deposit with the custodian, we will deposit the funds with the Custodian. Upon receipt of confirmation of the deposit of the requisite funds, the depositary will arrange for the funds received in a currency other than U.S. dollars to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders, subject to the applicable laws and regulations.

The conversion into U.S. dollars will take place only if practicable and if the U.S. dollars are transferable to the United States. The amounts distributed to holders will be net of the fees, expenses, withheld taxes and governmental charges payable by holders under the terms of the deposit agreement. The depositary will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the custodian in respect of securities on deposit.

Distributions of Ordinary Shares

Whenever we make a free distribution of ordinary shares for the securities on deposit with the custodian, we will deposit the applicable number of ordinary shares with the custodian. Upon receipt of confirmation of such deposit, the depositary will either distribute to holders new ADSs representing the ordinary shares deposited or modify the ADS-to-ordinary shares ratio, in which case each ADS you hold will represent rights and interests in the additional ordinary shares so deposited. Only whole new ADSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new ADSs or the modification of the ADS-to-ordinary shares ratio upon a distribution of ordinary shares will be made net of the fees, expenses, withheld taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such taxes or governmental charges, the depositary may sell all or a portion of the new ordinary shares so distributed.

No such distribution of new ADSs will be made if it would violate a law (i.e., the U.S. securities laws) or if it is not operationally practicable. If the depositary does not distribute new ADSs as described above, it may sell the ordinary shares received upon the terms described in the deposit agreement and will distribute the proceeds of the sale as in the case of a distribution of cash.

Distributions of Rights

Whenever we intend to distribute rights to purchase additional ordinary shares, we will give prior notice to the depositary and we will assist the depositary in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional ADSs to holders.

The depositary will establish procedures to distribute rights to purchase additional ADSs to holders and to enable such holders to exercise such rights if it is lawful and reasonably practicable to make the rights available to holders of ADSs, and if we provide all of the documentation contemplated in the deposit agreement (such as opinions to address the lawfulness of the transaction). You may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new ADSs upon the exercise of your rights. The depositary is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new ordinary shares other than in the form of ADSs.

The depositary will not distribute the rights to you if:

- We do not timely request that the rights be distributed to you or we request that the rights not be distributed to you; or
- We fail to deliver satisfactory documents to the depositary; or
- It is not reasonably practicable to distribute the rights.

The depositary will sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the depositary is unable to sell the rights, it will allow the rights to lapse.

Elective Distributions

Whenever we intend to distribute a dividend payable at the election of shareholders either in cash or in additional shares, we will give prior notice thereof to the depositary and will indicate whether we wish the elective distribution to be made available to you. In such case, we will assist the depositary in determining whether such distribution is lawful and reasonably practicable.

The depositary will make the election available to you only if we timely request it to do so, if it is reasonably practicable and if we have provided all of the documentation contemplated in the deposit agreement. In such case, the depositary will establish procedures to enable you to elect to receive either cash or additional ADSs, in each case as described in the deposit agreement. The depositary is not obligated to establish procedures to facilitate the distribution and exercise by holders of elective distributions to subscribe for new ordinary shares other than in the form of ADSs.

If the election is not made available to you, you will receive either cash or additional ADSs, depending on what a shareholder would receive upon failing to make an election, as more fully described in the deposit agreement.

Other Distributions

Whenever we intend to distribute property other than cash, ordinary shares or rights to purchase additional ordinary shares, we will notify the depositary in advance and will indicate whether we wish such distribution to be made to you. If so, we will assist the depositary in determining whether such distribution to holders is lawful and reasonably practicable.

If it is reasonably practicable to distribute such property to you, if we timely request the depositary to do so and if we provide to the depositary all of the documentation contemplated in the deposit agreement, the depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, withheld taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such taxes and governmental charges, the depositary may sell all or a portion of the property received.

The depositary will not distribute the property to you and will sell the property if:

- We do not request that the property be distributed to you or if we ask that the property not be distributed to you; or
 - We do not deliver satisfactory documents to the depositary; or
 - The depositary determines that all or a portion of the distribution to you is not reasonably practicable.
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The proceeds of such a sale will be distributed to holders as in the case of a cash distribution.

Redemption

Whenever we decide to redeem any of the securities on deposit with the custodian, we will timely notify the depository. If it is reasonably practicable and if we provide all of the documentation contemplated in the deposit agreement, the depository will provide notice of the redemption to the holders.

The custodian will be instructed to surrender the shares being redeemed against payment of the applicable redemption price. The depository will convert the redemption funds received in a currency other than U.S. dollars into U.S. dollars upon the terms of the deposit agreement and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their ADSs to the depository. You may have to pay fees, expenses, taxes and other governmental charges upon the redemption of your ADSs. If less than all ADSs are being redeemed, the ADSs to be retired will be selected by lot or on a pro rata basis, as the depository may determine.

Changes Affecting Ordinary Shares

The ordinary shares held on deposit for your ADSs may change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such ordinary shares or a recapitalization, reorganization, merger, consolidation or sale of assets.

If any such change were to occur, your ADSs would, to the extent permitted by law, represent the right to receive the property received or exchanged in respect of the ordinary shares held on deposit. The depository may in such circumstances deliver new ADSs to you, amend the deposit agreement, the ADRs and the applicable Registration Statement(s) on Form F-6, call for the exchange of your existing ADSs for new ADSs and take any other actions that are appropriate to reflect as to the ADSs the change affecting the ordinary shares. If the depository may not lawfully distribute such property to you, the depository may sell such property and distribute the net proceeds to you as in the case of a cash distribution.

Issuance of ADSs upon Deposit of Ordinary Shares

The depository may create ADSs on your behalf if you or your broker deposit ordinary shares with the custodian. The depository will deliver these ADSs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of ordinary shares to the custodian. Your ability to deposit ordinary shares and receive ADSs may be limited by legal considerations applicable at the time of deposit.

The issuance of ADSs may be delayed until the depository or the custodian receives confirmation that all required approvals have been given and that the ordinary shares have been duly transferred to the custodian. The depository will only issue ADSs in whole numbers.

When you make a deposit of ordinary shares, you will be responsible for transferring good and valid title to the depository. As such, you will be deemed to represent and warrant that:

- The ordinary shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained.
- All preemptive (and similar) rights, if any, with respect to such ordinary shares have been validly waived or exercised.
- You are duly authorized to deposit the ordinary shares.
- The ordinary shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, and are not, and the ADSs issuable upon such deposit will not be, "restricted securities" (as defined in the deposit agreement).
- The ordinary shares presented for deposit have not been stripped of any rights or entitlements.

If any of the representations or warranties are incorrect in any way, we and the depository may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

Transfer, Combination and Split Up of ADRs

As an ADR holder, you will be entitled to transfer, combine or split up your ADRs and the ADSs evidenced thereby. For transfers of ADRs, you will have to surrender the ADRs to be transferred to the depositary and also must:

- ensure that the surrendered ADR certificate is properly endorsed or otherwise in proper form for transfer;
- provide such proof of identity and genuineness of signatures as the depositary deems appropriate;
- provide any transfer stamps required by the State of New York or the United States; and
- pay all applicable fees, charges, expenses, taxes and other government charges payable by ADR holders pursuant to the terms of the deposit agreement, upon the transfer of ADRs.

To have your ADRs either combined or split up, you must surrender the ADRs in question to the depositary with your request to have them combined or split up, and you must pay all applicable fees, charges and expenses payable by ADR holders, pursuant to the terms of the deposit agreement, upon a combination or split up of ADRs.

Withdrawal of Ordinary Shares Upon Cancellation of ADSs

As a holder, you will be entitled to present your ADSs to the depositary for cancellation and then receive the corresponding number of underlying ordinary shares at the Custodian's offices. Your ability to withdraw the ordinary shares held in respect of the ADSs may be limited by U.S. and Cayman Islands legal considerations applicable at the time of withdrawal. In order to withdraw the ordinary shares represented by your ADSs, you will be required to pay to the depositary the fees for cancellation of ADSs and any charges and taxes payable upon the transfer of the ordinary shares being withdrawn. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the ADSs will not have any rights under the deposit agreement.

If you hold ADSs registered in your name, the depositary may ask you to provide proof of identity and genuineness of any signature and such other documents as the depositary may deem appropriate before it will cancel your ADSs. The withdrawal of the ordinary shares represented by your ADSs may be delayed until the depositary receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that the depositary will only accept ADSs for cancellation that represent a whole number of securities on deposit.

You will have the right to withdraw the securities represented by your ADSs at any time except for:

- Temporary delays that may arise because (i) the transfer books for the ordinary shares or ADSs are closed, or (ii) ordinary shares are immobilized on account of a shareholders' meeting or a payment of dividends.
- Obligations to pay fees, taxes and similar charges.
- Restrictions imposed because of laws or regulations applicable to ADSs or the withdrawal of securities on deposit.

The deposit agreement may not be modified to impair your right to withdraw the securities represented by your ADSs except to comply with mandatory provisions of law.

Voting Rights

As a holder, you generally have the right under the deposit agreement to instruct the depositary to exercise the voting rights for the ordinary shares represented by your ADSs. The voting rights of holders of ordinary shares are described in "Description of Ordinary Shares —Voting Rights" above.

At our request, the depositary will distribute to you any notice of shareholders' meeting received from us together with information explaining how to instruct the depositary to exercise the voting rights of the securities represented by ADSs.

If the depositary timely receives voting instructions from a holder of ADSs, it will endeavor to vote the securities represented by the holder's ADSs. In the event voting takes place at a shareholders' meeting by show of hands, the depositary will instruct the custodian to vote in accordance with the voting instructions received from a majority of holders of ADSs who provided voting instructions. In the event voting takes place at a shareholders' meeting by poll, the depositary will instruct the custodian to vote in accordance with the voting instructions received from the holders of ADSs.

In the event of voting by poll, holders of ADSs in respect of which no timely voting instructions have been received shall be deemed to have instructed the depositary to give a discretionary proxy to a person designated by us to vote the ordinary shares represented by such holders' ADSs; provided, that no such instructions shall be deemed given and no such discretionary proxy shall be given with respect to any matter as to which we inform the depositary that (i) we do not wish such proxy to be given, (ii) substantial opposition exists or (iii) the rights of our shareholders may be adversely affected. No discretionary proxy shall be given with respect to any vote by show of hands.

Please note that the ability of the depositary to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the depositary in a timely manner.

The depositary will not join in demanding a vote by poll. A holder of ADSs will not be able to exercise any rights that may attach to the ordinary shares represented by such ADSs to requisition a shareholder meeting or propose resolutions for a shareholder vote. At our request, the depositary will represent deposited ordinary shares for the purpose of establishing a quorum regardless of whether voting instructions have been provided with respect thereto.

Amendments and Termination

We may agree with the depositary to modify the deposit agreement at any time without your consent. We undertake to give holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the deposit agreement. We will not consider to be materially prejudicial to your substantial rights any modifications or supplements that are reasonably necessary for the ADSs to be registered under the Securities Act or to be eligible for book-entry settlement, in each case without imposing or increasing the fees and charges you are required to pay. In addition, we may not be able to provide you with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law.

You will be bound by the modifications to the deposit agreement if you continue to hold your ADSs after the modifications to the deposit agreement become effective. The deposit agreement cannot be amended to prevent you from withdrawing the ordinary shares represented by your ADSs (except as permitted by law).

We have the right to direct the depositary to terminate the deposit agreement. Similarly, the depositary may in certain circumstances on its own initiative terminate the deposit agreement. In either case, the depositary must give notice to the holders at least 30 days before termination. Until termination, your rights under the deposit agreement will be unaffected.

After termination, the depositary will continue to collect distributions received (but will not distribute any such property until you request the cancellation of your ADSs) and may sell the securities held on deposit. After the sale, the depositary will hold the proceeds from such sale and any other funds then held for the holders of ADSs in a non-interest bearing account. At that point, the depositary will have no further obligations to holders other than to account for the funds then held for the holders of ADSs still outstanding (after deduction of applicable fees, taxes and expenses) or as may be required by law.

Books of Depositary

The depositary will maintain ADS holder records at its depositary office. You may inspect such records at such office at all reasonable times but solely for the purpose of communicating with other holders in the interest of business matters relating to the ADSs and the deposit agreement.

The depositary will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of ADSs. These facilities may be closed from time to time, to the extent not prohibited by law.

The depositary may close the transfer books at any time and from time to time, when deemed necessary or at the reasonable written request of us, to the extent not prohibited by law.

Limitations on Obligations and Liabilities

The deposit agreement limits our obligations and the depository's obligations to you. Please note the following:

- We and the depository are obligated only to take the actions specifically stated in the deposit agreement without negligence or bad faith. Without limiting the foregoing, neither we nor the depository is obligated to participate in any action, suit or other proceeding relating to deposited property or the ADSs without satisfactory indemnity. The depository disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the deposit agreement.
- The depository disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document forwarded to you on our behalf or for the accuracy of any translation of such a document, for the investment risks associated with investing in ordinary shares, for the validity or worth of the ordinary shares, for any tax consequences that result from the ownership of ADSs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the deposit agreement, for the timeliness of any of our notices or for our failure to give notice.
- We and the depository will not be obligated to perform any act that is inconsistent with the terms of the deposit agreement.
- We and the depository disclaim any liability if we are prevented or forbidden from acting on account of any law or regulation, any provision of our amended and restated Memorandum and Articles of Association, any provision of any securities on deposit or by reason of any act of God or war or other circumstances beyond our control.
- We and the depository disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for the deposit agreement or in our amended and restated Memorandum and Articles of Association or in any provisions of securities on deposit.
- We and the depository further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting ordinary shares for deposit, any holder of ADSs or authorized representatives thereof, or any other person believed by either of us in good faith to be competent to give such advice or information.
- We and the depository also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit which is made available to holders of ordinary shares but is not, under the terms of the deposit agreement, made available to you.
- We and the depository may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.
- We and the depository also disclaim liability for any consequential or punitive damages for any breach of the terms of the deposit agreement.

Foreign Currency Conversion

The depository will arrange for the conversion of all foreign currency received into U.S. dollars if such conversion is practical, and it will distribute the U.S. dollars in accordance with the terms of the deposit agreement. You may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not practical or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the depository may take the following actions in its discretion:

- Convert the foreign currency to the extent practical and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practical.
 - Distribute the foreign currency to holders for whom the distribution is lawful and practical.
 - Hold the foreign currency (without liability for interest) for the applicable holders.
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Affiliate Transactions

The depositary may execute transactions contemplated herein (e.g., foreign currency conversions, and sales of deposited securities and other property) through one or more divisions of Citibank or through one or more Citibank affiliates, and any such entity may act as principal for its own account and not as agent, advisor, broker or fiduciary on behalf of any other person and may earn and retain revenue from such transactions, including, without limitation, transaction spreads and commissions. The depositary does not guarantee or represent that the price or rate obtained in any such transaction, or the method for obtaining such price or rate, will be the most favorable that could be obtained at that time.

Governing Law

The deposit agreement, the ADRs and the ADSs will be interpreted in accordance with the laws of the State of New York. The rights of holders of ordinary shares (including ordinary shares represented by ADSs) are governed by the laws of the Cayman Islands. We and the depositary have agreed that the federal or state courts in the City of New York shall have jurisdiction to hear and determine any suit, action or proceeding and to settle any dispute between us that may arise out of or in connection with the Deposit Agreement. We also submitted to the jurisdiction of these courts, and we have appointed an agent for service of process in the City of New York.

Conversion between Ordinary Shares Trading in Hong Kong and ADSs (Items 12.D.1 and 12.D.4 of Form 20-F)

In connection with the listing of our ordinary shares on the Hong Kong Stock Exchange, we have established a branch register of members in Hong Kong, or the Hong Kong share register, which is maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Our principal register of members, or the Cayman share register, is maintained by our Principal Share Registrar.

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

In connection with the Hong Kong public offering, and to facilitate fungibility and conversion between ADSs and ordinary shares and trading between the NASDAQ Global Select Market and the Hong Kong Stock Exchange, we moved a portion of our issued ordinary shares that are represented by ADSs from our Cayman share register to our Hong Kong share register.

Our ADSs

Our ADSs are traded on the NASDAQ Global Select Market. Dealings in our ADSs on the NASDAQ Global Select Market are conducted in U.S. Dollars. ADSs may be held either:

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

The depositary for our ADSs is Citibank, N.A., whose office is located at 388 Greenwich Street, New York, New York 10013, United States. The depositary's custodian in Hong Kong is Citibank, N.A. – Hong Kong branch, whose office is located at 9/F Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

Converting Ordinary Shares Trading in Hong Kong into ADSs

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

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

- If ordinary shares have been deposited with CCASS, the investor must transfer ordinary shares to the depositary's account with the custodian within CCASS by following the CCASS procedures for transfer and submit and deliver a duly completed and signed conversion form to the depositary via his or her broker.
- If ordinary shares are held outside CCASS, the investor must arrange to deposit his or her ordinary shares into CCASS for delivery to the depositary's account with the custodian within CCASS, submit and deliver a request for conversion form to the custodian and after duly completing and signing such conversion form, deliver such conversion form to the custodian.
- Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, the depositary will issue the corresponding number of ADSs in the name(s) requested by an investor and will deliver the ADSs to the designated DTC account of the person(s) designated by an investor or his or her broker.

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

Converting ADSs to Ordinary Shares Trading in Hong Kong

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

An investor that holds ADSs indirectly through a broker should follow the broker's procedure and instruct the broker to arrange for cancellation of the ADSs, and transfer of the underlying ordinary shares from Citibank's account on the CCASS system to the investor's Hong Kong stock account.

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

- To withdraw ordinary shares from our ADS program, an investor who holds ADSs may turn in such ADSs at the office of the depositary (and the applicable ADR(s) if the ADSs are held in certificated form), and send an instruction to cancel such ADSs to the depositary.
- Upon payment or net of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, the depositary will instruct the custodian to deliver ordinary shares underlying the canceled ADSs to the CCASS account designated by an investor.
- If an investor prefers to receive ordinary shares outside CCASS, he or she must receive ordinary shares in CCASS first and then arrange for withdrawal from CCASS. Investors can then obtain a transfer form signed by HKSCC Nominees Limited (as the transferor) and register ordinary shares in their own names with the Hong Kong Share Registrar.

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

Temporary delays may arise. For example, the transfer books of the depositary may from time to time be closed to ADS cancellations. In addition, completion of the above steps and procedures is subject to there being a sufficient number of ordinary shares on the Hong Kong share register to facilitate a withdrawal from the ADS program directly into the CCASS system.

We are not under any obligation to maintain or increase the number of ordinary shares on the Hong Kong share register to facilitate such withdrawals.

Depositary Requirements

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

- production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with procedures it may establish, from time to time, consistent with the Deposit Agreement, including presentation of transfer documents.

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

All costs attributable to the transfer of ordinary shares to effect a withdrawal from or deposit of ordinary shares into our ADS program will be borne by the investor requesting the transfer. In particular, holders of ordinary shares and ADSs should note that the Hong Kong share registrar will charge between HK\$2.50 to HK\$20.00, depending on the speed of service (or such higher fee as may from time to time be permitted under the Hong Kong Listing Rules), for each transfer of ordinary shares from one registered owner to another, each share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong.

In addition, holders of Shares and ADSs must pay US\$5.00 (or less) per 100 ADSs for each issuance of ADSs and for each cancellation of ADSs, as the case may be, in connection with the deposit of Shares into, or withdrawal of ordinary shares from, our ADS program.

List of subsidiaries of Huazhu Group Limited

List of Subsidiaries**I. Directly-Owned Subsidiaries:**

China Lodging Investment Limited (Cayman Islands)
 China Lodging Holdings (HK) Limited (Hong Kong)
 H World Holdings Singapore Pte. Ltd. (Singapore)
 Sheen Step Group Limited (Seychelles)
 CLG Special Investments Limited (Cayman Islands)
 City Home Group Limited (Cayman Islands)
 HanTing (Tianjin) Investment Consulting Co., Ltd. (PRC)

II. Indirectly-Owned Subsidiaries:**1. 100% Owned Subsidiaries**

1.001 Starway Hotels (Hong Kong) Limited (Hong Kong)
 1.002 Crystal Orange Hotel Holdings Limited (BVI)
 1.003 Orange Hotel Hong Kong Limited (Hong Kong)
 1.004 ACL Greater China Limited (Hong Kong)
 1.005 Ibis China Investment Limited (Hong Kong)
 1.006 TAHM Investment Limited (Hong Kong)
 1.007 Huazhu Investment I Limited (Hong Kong)
 1.008 Huazhu Investment II Limited (Hong Kong)
 1.009 Starway Hotel Holdings Limited (BVI)
 1.010 Hi Inn Hotel Holdings Limited (BVI)
 1.011 Hi Inn Hotel (Hong Kong) Limited (Hong Kong)
 1.012 Starway Lodging (Hong Kong) Limited (Hong Kong)
 1.013 City Home Investment Limited (Hong Kong)
 1.014 Huazhu K.K. (Japan)
 1.015 Huazhu Investment GmbH (Germany)
 1.016 DH Group GmbH & Co. KG (Germany)
 1.017 Huazhu Hospitality Inc (BVI)
 1.018 Huazhu Hospitality (Hong Kong) Limited (Hong Kong)
 1.019 Steigenberger Hotels Aktiengesellschaft (Germany)
 1.020 IntercityHotel GmbH (Germany)
 1.021 H.E.A.D. HOTEL EQUIPMENT AND DESIGN GmbH (Germany)
 1.022 Sourcify GmbH (Germany)
 1.023 Steigenberger Consulting GmbH (Germany)
 1.024 D.H. Deutsche Hospitality GmbH (Germany)
 1.025 Jaz Hotel GmbH (Germany)
 1.026 Steigenberger Spa GmbH (Germany)
 1.027 MAXX Hotel GmbH (Germany)
 1.028 STAG Hotelverwaltungs-Gesellschaft mbH (Austria)
 1.029 Steigenberger Hotels AG (Switzerland)
 1.030 STAG Hotels Netherlands B.V. (Netherlands)
 1.031 Scheveningen Hotel Holding B.V. (Netherlands)
 1.032 STAG Belgium N.V. (Belgium)
 1.033 Steigenberger Italia S.r.l. (Italy)
 1.034 Steigenberger DMCC (UAE)
 1.035 Tunisian Hospitality Group SARL (Tunisia)
 1.036 Zleep Hotel GmbH (Germany)
 1.037 STAG Hotels Hungary Szállodaipari Kft. (Hungary)
 1.038 Deutsche Hospitality Hotels Spain S.L. (Spain)
 1.039 Steigenberger Akademie GmbH (Germany)
 1.040 STEIGENBERGER HOTELFACHSCHULE GmbH (Germany)
 1.041 Steigenberger Berufsfachschule für Assistenten im Hotel- und Tourismusmanagement gGmbH (Germany)

1.042 STEIGENBERGER HOTELBERUFSSCHULE GmbH (Germany)
1.043 Yagao Meihua Hotel Management Co., Ltd.
1.044 Tianjin Yagao Hotel Management Co., Ltd.
1.045 Starway Hotel Management (Shanghai) Co., Ltd.
1.046 Orange Hotel Management (China) Co., Ltd.
1.047 Beijing Crystal Orange Hotel Management Consulting Co., Ltd.
1.048 Beijing Orange Times Softwares Technology Co., Ltd.
1.049 Yiju (Shanghai) Hotel Management Co., Ltd.
1.050 Shanghai HanTing Hotel Management Group, Ltd.
1.051 HanTing Xingkong (Shanghai) Hotel Management Co., Ltd.
1.052 Hanting (Shanghai) Enterprise Management Co., Ltd.
1.053 Huazhu (Hainan) Hotel Management Co., Ltd.
1.054 Shanghai Huaxiang Catering Management Co., Ltd.
1.055 Hai Haiyou Hotel Management (Ningbo) Co., Ltd.
1.056 Xingji Hotel Management (Ningbo) Co., Ltd.
1.057 Suzhou Ibis Hotel Limited
1.058 Nanjing Yiya Hotel Management Co., Limited
1.059 Wuxi Ibis Hotel Limited
1.060 Tianjin Ibis Hotel Limited
1.061 Chengdu Kehua Ibis Hotel Limited
1.062 Chengdu Ibis Hotel Limited
1.063 Ya'an Ibis Hotel Limited
1.064 Huasu (Hainan) Enterprise Management Co., Ltd.
1.065 Jizhu Information Technology (Shanghai) Co., Ltd.
1.066 Huazhu Hotel Management (Ningbo) Co., Ltd.
1.067 Huazhu Xingshun (Suzhou) Tourism Investment Co., Ltd.
1.068 Shanghai Chengge Hotel Management Co., Ltd.
1.069 Huazhu Hotel Management (Shenzhen) Co., Ltd.
1.070 Shanghai Shuohong Hotel Management Co., Ltd.
1.071 Shanghai Ibis Hotel Management Co., Limited
1.072 Nanjing Meiyue Hotel Management Co., Ltd.
1.073 Xi'an Anruosi Hotel Management Co., Ltd.
1.074 Xi'an Yusi Hotel Management Co., Ltd.
1.075 Ibis Xiamen Hotel Limited
1.076 Tianjin Jingjingjing Catering Service Co., Ltd.
1.077 Beijing Yaoting Hotel Management Co., Ltd.
1.078 Beijing Xiting Hotel Management Co., Ltd.
1.079 Shanghai Meiting Hotel Management Co., Ltd.
1.080 Shanghai Yiju Hotel Management Co., Ltd. (上海逸居酒店管理有限公司)
1.081 Wuxi Yiju Hotel Management Co., Ltd.
1.082 Shanghai Yate Hotel Management Co., Ltd.
1.083 Shanghai Songting Hotel Management Co., Ltd.
1.084 Shanghai Xinting Hotel Management Co., Ltd. (上海鑫庭酒店管理有限公司)
1.085 Shanghai Qinting Hotel Management Co., Ltd. (上海沁庭酒店管理有限公司)
1.086 Shanghai Lingting Hotel Management Co., Ltd.
1.087 Shanghai Xinting Hotel Management Co., Ltd. (上海新庭酒店管理有限公司)
1.088 Shanghai Pengting Hotel Management Co., Ltd.
1.089 Shanghai Luting Hotel Management Co., Ltd.
1.090 Shanghai Haoting Hotel Management Co., Ltd. (上海灏庭酒店管理有限公司)
1.091 Shanghai Yuyi Hotel Management Co., Ltd.
1.092 Shanghai Changting Hotel Management Co., Ltd. (上海长庭酒店管理有限公司)
1.093 Shanghai Guiting Hotel Management Co., Ltd.
1.094 Shanghai Jiating Hotel Management Co., Ltd.
1.095 Shanghai Senting Hotel Management Co., Ltd.
1.096 Shanghai Xiting Hotel Management Co., Ltd.
1.097 Shanghai Yaogu Shangwu Hotel Management Co., Ltd.
1.098 Shanghai Aiting Hotel Management Co., Ltd.
1.099 Shanghai Yiju Hotel Management Co., Ltd. (上海宜居酒店管理有限公司)
1.100 Shanghai Qinting Hotel Management Co., Ltd. (上海钦庭酒店管理有限公司)

- 1.101 Shanghai Changting Hotel Management Co., Ltd. (上海畅庭酒店管理有限公司)
 - 1.102 Hangzhou Muting Hotel Management Co., Ltd.
 - 1.103 Hangzhou Anting Hotel Management Co., Ltd.
 - 1.104 Hangzhou Qiuting Hotel Management Co., Ltd.
 - 1.105 Hangzhou Yishitan Investment and Management Co., Ltd.
 - 1.106 Hangzhou Senting Hotel Management Co., Ltd.
 - 1.107 Hangzhou Hemei Hanting Hotel Co., Ltd.
 - 1.108 Nanjing Ningru Hotel Management Co., Ltd.
 - 1.109 Beijing Zhongting Hotel Management Co., Ltd.
 - 1.110 Beijing HanTing Jiamei Hotel Management Co., Ltd.
 - 1.111 Beijing HanTing Ruijing Hotel Management Co., Ltd.
 - 1.112 Beijing Dongting Hotel Management Co., Ltd.
 - 1.113 Beijing Jiating Hotel Management Co., Ltd.
 - 1.114 Beijing Anting Hotel Management Co., Ltd.
 - 1.115 Beijing Yueting Hotel Management Co., Ltd.
 - 1.116 Tianjin Yiting Hotel Management Co., Ltd.
 - 1.117 Tianjin Xingting Hotel Management Co., Ltd.
 - 1.118 Tianjin HanTing Xingkong Hotel Management Co., Ltd.
 - 1.119 Xi'an HanTing Fukai Hotel Management Co., Ltd.
 - 1.120 Xi'an Fengting Hotel Management Co., Ltd.
 - 1.121 Jinan Hanting Hotel Management Co., Ltd.
 - 1.122 Zibo HanTing Hotel Management Co., Ltd.
 - 1.123 Xiamen Wuting Hotel Co., Ltd.
 - 1.124 Xiamen Tingju Hotel Co., Ltd.
 - 1.125 Xiamen Xiating Hotel Co., Ltd.
 - 1.126 Guangzhou Chengting Hotel Management Co., Ltd.
 - 1.127 Guangzhou Shangbin Hotel Co., Ltd.
 - 1.128 Guangzhou Mengting Hotel Management Co., Ltd.
 - 1.129 Guangzhou Huiting Hotel Management Co., Ltd.
 - 1.130 Guangzhou Meiting Hotel Management Co., Ltd.
 - 1.131 Shenzhen Shenting Hotel Management Co., Ltd.
 - 1.132 Shenzhen HanTing Hotel Management Co., Ltd.
 - 1.133 Nanchang Yinting Hotel Management Co., Ltd.
 - 1.134 Taiyuan Hanting Jiangnan Hotel Management Co., Ltd.
 - 1.135 Wuhan Changting Hotel Management Co., Ltd.
 - 1.136 Wuhan HanTing Hotel Management Co., Ltd.
 - 1.137 Shenyang Maruika Hotel Management Co., Ltd.
 - 1.138 Kunming Xiting Hotel Management Co., Ltd.
 - 1.139 Baotoushi Anting Hotel Management Co., Ltd.
 - 1.140 Huazhu Hotel Management Co., Ltd.
 - 1.141 Hanting Technology (Suzhou) Co., Ltd.
 - 1.142 Tianjin Huasu Enterprise Management Co., Ltd.
 - 1.143 Shanghai Keting E-Commerce Co., Ltd.
 - 1.144 Shanghai Huazhu Commercial Factoring Co., Ltd.
 - 1.145 Shanghai Zhiyu Information Consulting Co., Ltd.
 - 1.146 Shanghai Huazhu Hanting Xiyue Enterprise Management Co., Ltd.
 - 1.147 Jiangsu Youxiang Financial Consulting Co., Ltd.
 - 1.148 Banma Yigou E-Commerce Co., Ltd.
 - 1.149 Shanghai Huiting Hotel Management Co., Ltd. (上海荟庭酒店管理有限公司)
 - 1.150 Shanghai Huiyue Hotel Management Co., Ltd.
 - 1.151 Shanghai Fanting Hotel Management Co., Ltd.
 - 1.152 Shanghai Yinting Hotel Management Co., Ltd.
 - 1.153 Shanghai Minting Hotel Management Co., Ltd.
 - 1.154 Shanghai Rongting Hotel Management Co., Ltd.
 - 1.155 Shanghai Guangting Hotel Management Co., Ltd.
 - 1.156 Shanghai Lanting Hotel Management Co., Ltd.
 - 1.157 Shanghai Baiting Hotel Management Co., Ltd.
 - 1.158 Shanghai HanTing Service Apartment Hotel Management Co., Ltd.
 - 1.159 Shanghai Jiangting Hotel Management Co., Ltd.
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1.160 Shanghai Xingting Hotel Management Co., Ltd.
1.161 Shanghai Baoting Hotel Management Co., Ltd.
1.162 Shanghai Fangpu Hotel Management Co., Ltd.
1.163 Shanghai Manao Hotel Management Co., Ltd.
1.164 Hangzhou Pingting Hotel Management Co., Ltd.
1.165 Hangzhou Wenxuan Hotel Management Co., Ltd.
1.166 Hangzhou Miaoting Hotel Management Co., Ltd.
1.167 Jinan Luoting Hotel Management Co., Ltd.
1.168 Xi'an Yahua Hotel Management Co., Ltd.
1.169 Nanjing Quanji Hotel Management Co., Limited
1.170 Kunshan Siting Enterprise Management Co., Ltd.
1.171 Kunshan Bizhu Enterprise Management Co., Ltd.
1.172 Hangzhou Yilai Hotel Chain Co., Ltd.
1.173 Huazhu Enterprise Management Co., Ltd.
1.174 Shanghai Aiqu Enterprise Management Co., Ltd.
1.175 Shanghai Wuqin Equity Fund Co., Ltd.
1.176 Huazhu Investment (Shanghai) Co., Ltd.
1.177 Shanghai Jijing Catering Co., Ltd.
1.178 Shanghai Yiju Hotel Management Co., Ltd. (上海宜桔酒店管理有限公司)
1.179 Shanghai Shangting Hotel Management Co., Ltd.
1.180 Shanghai Hongting Hotel Management Co., Ltd.
1.181 Shanghai Duting Hotel Management Co., Ltd.
1.182 Shanghai Hongxi Hotel Management Co., Ltd.
1.183 Shanghai Haoting Hotel Management Co., Ltd. (上海郝庭酒店管理有限公司)
1.184 Shanghai Tongji Hotel Management Co., Ltd.
1.185 Shanghai Chunting Hotel Management Co., Ltd.
1.186 Shanghai Moting Hotel Management Co., Ltd.
1.187 Hangzhou Ansheng Hotel Management Co., Ltd.
1.188 Hangzhou Heju Hanting Hotel Co., Ltd.
1.189 Suzhou Lishan Yatai Hotel Management Co., Ltd.
1.190 Suzhou Yongchangjiahe Hotel Management Co., Ltd.
1.191 Wantong Yiguan (Beijing) Hotel Management Co., Ltd.
1.192 Beijing Dongnian Hotel Co., Ltd.
1.193 Zhuhai Manneijiali Investment Development Company Limited
1.194 Guangzhou Zhongting Quanji Hotel Management Co., Ltd.
1.195 Guangzhou Didu Hotel Management Co., Ltd.
1.196 Guangzhou Bihua Hotel Management Co., Ltd.
1.197 Shanghai Hegao Hotel Management Co., Ltd.
1.198 Tianjin Lanyuan Hotel Management Co., Ltd.
1.199 Shenzhen Chengxuan Hotel Management Co., Ltd.
1.200 Shenzhen Qiquan Hotel Management Co., Ltd.
1.201 Shenzhen Quanji Shennan Hotel Management Co., Ltd.
1.202 Nantong Botong Hotel Co., Ltd.
1.203 Shanghai Jizhu Investment Management Co., Ltd.
1.204 Kunshan Hanka Catering Management Co., Ltd.
1.205 Ningbo Huating Investment Consulting Co., Ltd.
1.206 Ningbo Huating Galaxy Investment Management Co., Ltd.
1.207 Shanghai Huazhu Chengxing Management Consulting Co., Ltd.
1.208 Shanghai Yate Zhongtan Hotel Management Co., Ltd.
1.209 Hangzhou Yueli Yilai Hotel Co., Ltd.
1.210 Hangzhou Maolu Yilai Hotel Co., Ltd.
1.211 Hangzhou Qiandaohu Yilai Resort Co., Ltd.
1.212 Beijing Qitian Holiday Hotel Co., Ltd.
1.213 Beijing Crystal Orange Hotel Management Co., Ltd.
1.214 Beijing Orange Times Hotel Management Co., Ltd.
1.215 Beijing Crystal Orange Times Hotel Management Co., Ltd.
1.216 Shanghai Juchao Department Management Co., Ltd.
1.217 Guiyang Yangguang Hotel Management Co., Ltd.
1.218 Beijing Yuecheng Hotel Management Co., Ltd.

1.219 Hangzhou Yuecheng Hotel Management Co., Ltd.
1.220 He Garden Hotel (Beijing) Co., Ltd.
1.221 Xi 'an Chengjia Fukai Hotel Management Co., Ltd.
1.222 Shanghai Shiju Catering Service Co., Ltd.
1.223 Tianjin Mengguang Information Technology Co., Ltd.
1.224 Ningbo Futing Enterprise Management Co., Ltd.
1.225 Huanmei Information Technology (Shanghai) Co., Ltd.
1.226 Huanmei International Travel Service (Shanghai) Co., Ltd.
1.227 Hanting Hesheng (Suzhou) Hotel Management Co., Ltd.
1.228 Beijing Hanting Hotel Management Co., Ltd.
1.229 Shanghai HanTing Guancheng Hotel Management Co., Ltd.
1.230 Tianjin Huazhu Finance Leasing Co., Ltd.
1.231 Jiangsu Keting Commercial and Trade Co., Ltd
1.232 Ningbo Jishi Investment Management LLP
1.233 Ningbo Jisu Investment Management LLP
1.234 Ningbo Qiji Galaxy Investment Management Center LLP
1.235 Blossom Hotel Investment Management (Kunshan) Co., Ltd.
1.236 Shanghai Keting Cultural Communication Co., Ltd.
1.237 Shanghai Blossom House Investment Management Co., Ltd.
1.238 Shanghai Blossom Hotel Management Co., Ltd.
1.239 Shanghai Changguan Investment Management Co., Ltd.
1.240 Kunshan Blossom Commercial and Trading Co., Ltd.
1.241 Wuxi Blossom House Culture Tourism Investment Co., Ltd.
1.242 Suzhou Blossom Hotel Investment Management Co., Ltd.
1.243 Huzhou Blossom House Hotel Investment Management Co., Ltd.
1.244 Ningbo Blossom House Hotel Management Co., Ltd.
1.245 Lijiang Blossom House Hotel Management Co., Ltd.
1.246 Dqingzhou Blossom House Hotel Management Co., Ltd.
1.247 Guangzhou Huange Hotel Management Co., Ltd.

2. Majority-Owned Subsidiaries

2.01	Elan Hotel Holdings Limited (BVI)	89.13%	equity interests owned by	China Lodging Holdings (HK) Limited
2.02	Elan Hotel (Hong Kong) Limited (Hong Kong)	100%	equity interests owned by	Elan Hotel Holdings Limited (BVI)
2.03	Jihao Hotel Management (Shanghai) Co., Ltd.	100%	equity interests owned by	Elan Hotel (Hong Kong) Limited (Hong Kong)
2.04	Shanghai Leshu Hotel Management Co., Ltd.	100%	equity interests owned by	Shanghai Ruiji Hotel Management Co., Ltd.
2.05	Shanghai Mingxin Hotel Management Co., Ltd.	100%	equity interests owned by	Shanghai Ruiji Hotel Management Co., Ltd.
2.06	Shanghai Mingjing Hotel Investment Management Co., Ltd.	100%	equity interests owned by	Shanghai Ruiji Hotel Management Co., Ltd.
2.07	Xiamen Leshu Hotel Management Co., Ltd.	100%	equity interests owned by	Shanghai Ruiji Hotel Management Co., Ltd.
2.08	Fuzhou Leshu Hotel Management Co., Ltd.	100%	equity interests owned by	Shanghai Ruiji Hotel Management Co., Ltd.
2.09	Wuhan Liye Yuchuang Enterprises Management Co., Ltd.	100%	equity interests owned by	Shanghai Yuchuang Investment Management Co. Ltd.
2.10	Changxing Longguan Culture Development Co., Ltd.	100%	equity interests owned by	Shanghai Longhua Investment Management Co. Ltd.
2.11	Shanghai Mengxu Intelligent Technology Co., Ltd.	100%	equity interests owned by	H-World Information and Technology Co., Ltd.
2.12	Beijing Tiandui Information Technology Co., Ltd.	100%	equity interests owned by	H-World Information and Technology Co., Ltd.
2.13	Suzhou Zhongzhou Express Hotel Co. Ltd.	100%	equity interests owned by	Henan Zhongzhou Express Hotel Investment Co., Ltd.
2.14	Jiaozuo Zhongzhou Express Hotel Co. Ltd.	100%	equity interests owned by	Henan Zhongzhou Express Hotel Investment Co., Ltd.
2.15	Hangzhou Yuexi Hotel Management Co., Ltd.	91.83%	equity interests owned by	Blossom Hill Hotel Investment Management (Kunshan) Co., Ltd.
2.16	Suzhou Blossom House Hotel Management Co., Ltd.	60%	equity interests owned by	Blossom Hotel Investment Management (Kunshan) Co., Ltd.
2.17	Kunshan Zhouzhuang Blossom House Hotel Investment Management Co., Ltd.	60%	equity interests owned by	Blossom Hotel Investment Management (Kunshan) Co., Ltd.
2.18	Sichuan Blossom House Hotel Investment Management Co., Ltd.	51%	equity interests owned by	Blossom Hotel Investment Management (Kunshan) Co., Ltd.
2.19	Shanghai Longhua Investment Management Co., Ltd.	51%	equity interests owned by	Shanghai Changguan Investment Management Co., Ltd.

2.20	Guangzhou Yahua Puxin Hotel Co., Ltd.	80%	equity interests owned by	Yagao Meihua Hotel Management Co., Ltd.
2.21	Shanghai Meixie Hotel Management Co., Ltd.	60%	equity interests owned by	Yagao Meihua Hotel Management Co., Ltd.
2.22	Wuhu Jiangting Hotel Management Co., Ltd.	99.97%	equity interests owned by	Shanghai HanTing Hotel Management Group, Ltd.
2.23	Shanghai Suting Hotel Management Co., Ltd.	99%	equity interests owned by	Shanghai HanTing Hotel Management Group, Ltd.
2.24	Nanjing Yangting Hotel Management Co., Ltd.	99%	equity interests owned by	Shanghai HanTing Hotel Management Group, Ltd.
2.25	Beijing Hanting Oriental Hotel Management Co., Ltd.	99%	equity interests owned by	Shanghai HanTing Hotel Management Group, Ltd.
2.26	Urumqi Luting Hotel Management Co., Ltd.	99%	equity interests owned by	Shanghai HanTing Hotel Management Group, Ltd.
2.27	Urumqi Qiting Hotel Management Co., Ltd.	99%	equity interests owned by	Shanghai HanTing Hotel Management Group, Ltd.
2.28	Chongqi Yiting Hotel Management Co., Ltd.	99%	equity interests owned by	Shanghai HanTing Hotel Management Group, Ltd.
2.29	Xi'an Shengting Hotel Management Co., Ltd.	99%	equity interests owned by	Shanghai HanTing Hotel Management Group, Ltd.
2.30	Xi'an Bangting Hotel Management Co., Ltd.	99%	equity interests owned by	Shanghai HanTing Hotel Management Group, Ltd.
2.31	Shanghai Liansheng Hotel Co., Ltd.	90%	equity interests owned by	Shanghai HanTing Hotel Management Group, Ltd.
2.32	Chengdu Changting Hotel Management Co., Ltd.	80%	equity interests owned by	Shanghai HanTing Hotel Management Group, Ltd.
2.33	Nanjing Leting Hotel Management Co., Ltd.	80%	equity interests owned by	Shanghai HanTing Hotel Management Group, Ltd.
2.34	Chengdu Yuting Hotel Management Co., Ltd.	60%	equity interests owned by	Shanghai HanTing Hotel Management Group, Ltd.
2.35	Shanghai Huiting Hotel Management Co., Ltd. (上海辉庭酒店管理有限公司)	55%	equity interests owned by	Shanghai HanTing Hotel Management Group, Ltd.
2.36	Wuxi Hanting Hotel Management Co., Ltd.	55%	equity interests owned by	Shanghai HanTing Hotel Management Group, Ltd.
2.37	Chengdu HanTing Yangchen Hotel Management Co., Ltd.	51%	equity interests owned by	Shanghai HanTing Hotel Management Group, Ltd.
2.38	Changsha Changting Hotel Management Co., Ltd.	51%	equity interests owned by	Shanghai HanTing Hotel Management Group, Ltd.
2.39	Jinan Hanjia Hotel Management Co., Ltd.	99%	equity interests owned by	HanTing Xingkong (Shanghai) Hotel Management Co., Ltd.
2.40	Shanghai Dingting Hotel Management Co., Ltd.	55%	equity interests owned by	HanTing Xingkong (Shanghai) Hotel Management Co., Ltd.
2.41	Nanjing Zhuting Hotel Management Co., Ltd.	51%	equity interests owned by	HanTing Xingkong (Shanghai) Hotel Management Co., Ltd.
2.42	Hangzhou Chenji Hotel Management Co., Ltd.	51%	equity interests owned by	HanTing Xingkong (Shanghai) Hotel Management Co., Ltd.
2.43	Xi'an Jvting Hotel Management Co., Ltd.	90%	equity interests owned by	Huazhu Hotel Management Co., Ltd.
2.44	Henan Zhongzhou Express Hotel Investment Co., Ltd.	85%	equity interests owned by	Huazhu Hotel Management Co., Ltd.
2.45	Suzhou Zhujiangnan Hotel Management Co., Ltd.	66%	equity interests owned by	Huazhu Hotel Management Co., Ltd.
2.46	Shanghai Huawei Education Technology Co., Ltd.	60%	equity interests owned by	Huazhu Hotel Management Co., Ltd.
2.47	Beijing Huazhu Ruijing Hotel Management Co., Ltd.	60%	equity interests owned by	Huazhu Hotel Management Co., Ltd.
2.48	Shanghai Junrui Hotel Co., Ltd.	60%	equity interests owned by	Huazhu Hotel Management Co., Ltd.
2.49	Wenzhou Yaozhu Hotel Management Co., Ltd.	60%	equity interests owned by	Huazhu Hotel Management Co., Ltd.
2.50	Xi'an Quanji Maoting Hotel Management Co., Ltd.	51%	equity interests owned by	Huazhu Hotel Management Co., Ltd.
2.51	Yongle Huazhu Hotel & Resort Group	50%	equity interests owned by	Huazhu Hospitality (Hong Kong) Limited
2.52	Beijing Shenzhou Business Travel Hotel Investment Management Co., Ltd.	85%	equity interests owned by	Hanting (Shanghai) Enterprise Management Co., Ltd.
2.53	Shenzhen Shijie Chengjia Hotel Management Co., Ltd.	51%	equity interests owned by	Shanghai Chengge Hotel Management Co., Ltd.
2.54	Shanghai Ruicheng Hotel Management Co., Ltd.	50%	equity interests owned by	Shanghai Chengge Hotel Management Co., Ltd.
2.55	Shanghai Shenzhou Business Travel Hotel Co., Ltd.	100%	equity interests owned by	Beijing Shenzhou Business Travel Hotel Investment Management Co., Ltd.
2.56	Shanghai Yuchuang Investment Management Co. Ltd.	91.67%	equity interests owned by	Huazhu Investment (Shanghai) Co., Ltd.
2.57	Shanghai Ruiji Hotel Management Co., Ltd.	50%	equity interests owned by	Huazhu Investment (Shanghai) Co., Ltd.
2.58	Nanjing Starway Hotel Management Co., Ltd.	95%	equity interests owned by	Starway Hotel Management (Shanghai) Co., Ltd.
2.59	Beijing Hualige Hotel Management Co., Ltd.	40%	equity interests owned by	Starway Hotel Management (Shanghai) Co., Ltd.
2.60	Hefei Jucheng Hotel Management Consulting Co., Ltd.	70%	equity interests owned by	Beijing Crystal Orange Hotel Management Consulting Co., Ltd.
2.61	Shanghai Hua Yu Zhou enterprise Management Co., Ltd.	55%	equity interests owned by	Huazhu Enterprise Management Co., Ltd.
2.62	H-World Information and Technology Co., Ltd.	86.85%	equity interests owned by	Huazhu Hotel Management Co., Ltd.
2.63	Nanjing Jinlv Huazhu Mingri City Hotel Co., Ltd.	100%	equity interests owned by	Jiangsu Jinlv Huazhu Hotel Management Co., Ltd.

2.64	Shanghai Xingqing Hotel Management Co., Ltd.	30%	equity interests owned by	Yagao Meihua Hotel Management Co., Ltd., and 60% equity interests controlled by Hanting Xingkong (Shanghai) Hotel Management Co., Ltd.
2.65	Shanghai Qiting Hotel Management Co., Ltd.	99.9999%	equity interests owned by	Ningbo Hongting Investment Management Center LLP, and 0.0001% equity interests owned by Ningbo Huating Investment Consulting Co., Ltd.
2.66	Kunshan Jizhu Enterprise Management Co., Ltd.	99.99%	equity interests owned by	Ningbo Hongting Investment Management Center LLP, and 0.01% equity interests owned by Huazhu Hotel Management Co., Ltd.
2.67	Zhengzhou Tiancheng Express Hotel Co. Ltd.	65%	equity interests owned by	Henan Zhongzhou Express Hotel Investment Co., Ltd., and 35% equity interests owned by Huazhu Hotel Management Co., Ltd.
2.68	Jiangsu Jinlv Huazhu Hotel Management Co., Ltd.	39%	equity interests owned by	Huazhu Hotel Management Co., Ltd., and 15% equity interests owned by Ningbo Futing Enterprise Management Co., Ltd.
2.69	Ningbo Hongting Investment Management Center LLP			Ningbo Qiji Galaxy Investment Management Center LLP acts as the GP and holds 12.09% of partnership share, Huazhu Hotel Management Co., Ltd. acts as the LP and holds 27.91% of partnership share

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act

I, Hui Jin, certify that:

1. I have reviewed this annual report on Form 20-F of Huazhu Group Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting;

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 27, 2022

By: /s/ Hui Jin

Name: Hui Jin

Title: Chief Executive Officer

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act

I, Hui Chen, certify that:

1. I have reviewed this annual report on Form 20-F of Huazhu Group Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting;
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 27, 2022

By: /s/ Hui Chen
Name: Hui Chen
Title: Chief Financial Officer

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The certification set forth below is being submitted to the Securities and Exchange Commission in connection with the Annual Report on Form 20-F for the year ended December 31, 2021 (the "Report") of Huazhu Group Limited (the "Company") for the purpose of complying with Rule 13a-14(b) or Rule 15d14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Hui Jin, the Chief Executive Officer of the Company, and Hui Chen, the Chief Financial Officer of the Company, each certifies that, to the best of his or her knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2022

By: /s/ Hui Jin
Name: Hui Jin
Title: Chief Executive Officer

By: /s/ Hui Chen
Name: Hui Chen
Title: Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-258001 on Form F-3 and Registration Statement Nos. 333-166179, 333-192295 and 333-203460 on Form S-8 of our reports dated April 27, 2022, relating to the financial statements of Huazhu Group Limited and the effectiveness of Huazhu Group Limited's internal control over financial reporting appearing in this Annual Report on Form 20-F for the year ended December 31, 2021.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Shanghai, China
April 27, 2022
