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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the Month of October 2017

Commission File Number: 001-34656

China Lodging Group, Limited

(Translation of registrant's name into English)

No. 2266 Hongqiao Road

Changning District

Shanghai 200336

People's Republic of China

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
Exhibit 99.1	Unaudited Condensed Consolidated Interim Financial Statements—China Lodging Group, Limited
Exhibit 99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations—China Lodging Group, Limited
Exhibit 99.3	Audited Consolidated Financial Statements—Crystal Orange Hotel Holdings Limited
Exhibit 99.4	Unaudited Pro Forma Condensed Combined Financial Information
EX-101.INS	XBRL Taxonomy Instance Document
EX-101.SCH	XBRL Taxonomy Extension Schema Document
EX-101.CAL	XBRL Taxonomy Calculation Linkbase Document
EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
EX-101.LAB	XBRL Taxonomy Label Linkbase Document
EX-101.PRE	XBRL Taxonomy Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA LODGING GROUP, LIMITED

(Registrant)

By: /s/ TEO NEE CHUAN

Name: Teo Nee Chuan

Title: *Chief Financial Officer*

Date: October 26, 2017

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CHINA LODGING GROUP, LIMITED

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CHINA LODGING GROUP, LIMITED

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

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

	As of		
	December 31, 2016	June 30, 2017	
	RMB	RMB	US\$'000
ASSETS			
Current assets:			
Cash and cash equivalents	3,235,007	2,980,375	439,629
Restricted cash	500	467,500	68,960
Accounts receivable, net of allowance of RMB11,424 and RMB10,122 as of December 31, 2016 and June 30, 2017, respectively	141,649	163,737	24,152
Loan receivables	22,410	65,885	9,719
Amounts due from related parties	98,453	124,301	18,335
Prepaid rent	446,127	502,447	74,115
Inventories	21,606	33,239	4,903
Other current assets	208,929	240,112	35,418
Total current assets	4,174,681	4,577,596	675,231
Property and equipment, net	3,710,468	4,462,948	658,320
Intangible assets, net	342,694	1,806,383	266,456
Land use rights	145,521	142,826	21,068
Long-term investments, including marketable securities measured at fair value of RMB204,945 and RMB146,633 as of December 31, 2016 and June 30, 2017, respectively	1,064,321	1,282,714	189,210
Goodwill	171,504	2,136,710	315,181
Loan receivables	7,269	6,856	1,011
Other assets	200,492	345,655	50,988
Deferred tax assets	176,414	241,795	35,667
Total assets	9,993,364	15,003,483	2,213,132

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

CHINA LODGING GROUP, LIMITED

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

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

	As of		
	December 31,	June 30, 2017	
	2016	RMB	US\$'000
	RMB		
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term debt	298,291	162,586	23,983
Long-term debt, current portion	—	135	20
Accounts payable	584,731	600,330	88,553
Amounts due to related parties	11,058	9,606	1,417
Salary and welfare payables	274,259	246,335	36,336
Deferred revenue	749,793	799,238	117,894
Accrued expenses and other current liabilities	895,837	1,065,785	157,212
Income tax payable	152,112	195,137	28,784
Total current liabilities	2,966,081	3,079,152	454,199
Long-term debt	—	3,658,041	539,590
Deferred rent	1,023,843	1,242,292	183,248
Deferred revenue	166,963	167,241	24,669
Other long-term liabilities	323,991	350,273	51,668
Deferred tax liabilities	96,329	458,760	67,671
Total liabilities	4,577,207	8,955,759	1,321,045
Commitment and contingencies (Note 13)			
Equity:			
Ordinary shares (US\$0.0001 par value per share; 8,000,000,000 shares authorized; 281,379,130 and 282,323,910 shares issued as of December 31, 2016 and June 30, 2017, and 278,282,366 and 279,227,146 shares outstanding as of December 31, 2016 and June 30, 2017, respectively)	204	204	30
Treasury shares (3,096,764 and 3,096,764 shares as of December 31 2016 and June 30, 2017, respectively)	(107,331)	(107,331)	(15,832)
Additional paid-in capital	3,699,056	3,753,504	553,671
Retained earnings	1,812,174	2,349,896	346,628
Accumulated other comprehensive (loss) income	(4,503)	32,743	4,830
Total China Lodging Group, Limited shareholders' equity	5,399,600	6,029,016	889,327
Noncontrolling interest	16,557	18,708	2,760
Total equity	5,416,157	6,047,724	892,087
Total liabilities and equity	9,993,364	15,003,483	2,213,132

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

CHINA LODGING GROUP, LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Six-month Period Ended June 30,		
	2016	2017	
	RMB	RMB	US\$'000
Revenues:			
Leased and owned hotels	2,531,497	2,766,593	408,094
Manachised and franchised hotels	669,934	796,914	117,551
Others	9,622	18,780	2,770
Total revenues	3,211,053	3,582,287	528,415
Less: Business tax and related taxes	116,149	—	—
Net revenues	3,094,904	3,582,287	528,415
Operating costs and expenses:			
Hotel operating costs	2,417,871	2,547,232	375,737
Other operating costs	3,029	5,672	837
Selling and marketing expenses	69,119	79,530	11,731
General and administrative expenses	225,475	301,032	44,405
Pre-opening expenses	35,390	67,246	9,919
Total operating costs and expenses	2,750,884	3,000,712	442,629
Other operating (expenses) income, net	(9,878)	28,474	4,200
Income from operations	334,142	610,049	89,986
Interest income	25,273	40,124	5,919
Interest expense	(6,608)	(18,228)	(2,689)
Other income, net	125,385	101,361	14,952
Foreign exchange gain (loss)	4,340	(9,955)	(1,468)
Income before income taxes	482,532	723,351	106,700
Income tax expense	(105,170)	(182,526)	(26,924)
Income (loss) from equity method investments	145	(5,632)	(831)
Net income	377,507	535,193	78,945
Less: net (loss) attributable to noncontrolling interest	(7,381)	(2,529)	(373)
Net income attributable to China Lodging Group, Limited	384,888	537,722	79,318
Other comprehensive income			
Unrealized securities holding gains (loss), net of tax of (6,173) and (3,168) for six-month period ended June 30, 2016 and 2017	2,776	(4,775)	(704)
Reclassification of realized gains to net income, net of tax	(67,921)	(5,282)	(779)
Foreign currency translation adjustments, net of tax of nil for six-month period ended June 30, 2016 and 2017	(4,169)	47,303	6,978
Comprehensive income	308,193	572,439	84,440
Comprehensive (loss) attributable to the noncontrolling interest	(7,381)	(2,529)	(373)
Comprehensive income attributable to China Lodging Group, Limited	315,574	574,968	84,813
Earnings per share:			
Basic	1.41	1.93	0.28
Diluted	1.37	1.87	0.28
Earnings per ADS:			
Basic	5.64	7.72	1.14
Diluted	5.50	7.47	1.10
Weighted average number of shares used in computation:			
Basic	272,932,730	278,785,660	278,785,660
Diluted	280,097,957	287,813,552	287,813,552

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

CHINA LODGING GROUP, LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Renminbi in thousands)

	Six-month Period Ended June 30,		
	2016	2017	
	RMB	RMB	US\$'000
Operating activities:			
Net income	377,507	535,193	78,945
Adjustments to reconcile net income to net cash provided by operating activities:			
Share-based compensation	31,095	31,820	4,694
Depreciation and amortization	345,430	362,414	53,459
Deferred taxes	(3,789)	2,039	301
Bad debt expenses	846	1,014	150
Deferred rent	52,635	63,322	9,340
Loss from disposal of property and equipment	6,841	15,679	2,313
Impairment loss	39,615	44,439	6,555
(Income) Loss from equity method investments	(145)	5,632	831
Investment gain	(118,752)	(64,789)	(9,557)
Excess tax benefit from share-based compensation	(3,519)	(15,725)	(2,320)
Changes in operating assets and liabilities net of effect of acquisitions:			
Accounts receivable	(43,020)	1,270	187
Prepaid rent	40,077	(31,127)	(4,591)
Inventories	4,321	(6,445)	(951)
Amounts due from related parties	(4,778)	(718)	(106)
Other current assets	(7,330)	(2,772)	(409)
Other assets	(3,958)	(35,405)	(5,223)
Accounts payable	20,546	(38,390)	(5,664)
Amounts due to related parties	3,929	(1,452)	(214)
Salary and welfare payables	(23,185)	(47,463)	(7,001)
Deferred revenue	151,748	(33,280)	(4,909)
Accrued expenses and other current liabilities	71,716	142,146	20,968
Income tax payable	20,755	36,647	5,406
Other long-term liabilities	26,414	20,469	3,019
Net cash provided by operating activities	<u>984,999</u>	<u>984,518</u>	<u>145,223</u>
Investing activities:			
Purchases of property and equipment	(285,187)	(341,956)	(50,441)
Purchases of intangibles	(4,917)	(1,073)	(158)
Amount received as a result of government zoning	2,099	—	—
Acquisitions net of cash received	136,110	(3,745,259)	(552,455)
Proceeds from disposal of subsidiary and branch net of cash disposed	(20,667)	—	—
Purchase of long-term investments	(123,674)	(295,526)	(43,593)
Proceeds from maturity/sale of long-term investments	10,289	126,206	18,616
Payment for shareholder loan to joint venture	(38,092)	(76,755)	(11,322)
Collection of shareholder loan from joint venture	—	48,500	7,154
Purchase of short-term investments	—	—	—
Proceeds from maturity/sale of short-term investments	526,443	—	—
Payment for the origination of loan receivables	(33,400)	(50,400)	(7,434)
Proceeds from collection of loan receivables	14,862	10,338	1,525
Increase in restricted cash	—	(467,000)	(68,886)
Net cash provided by (used in) investing activities	<u>183,866</u>	<u>(4,792,925)</u>	<u>(706,994)</u>

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

CHINA LODGING GROUP, LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Renminbi in thousands)

	Six-month Period Ended June 30,		
	2016	2017	
	RMB	RMB	US\$'000
Financing activities:			
Net proceeds from issuance of ordinary shares upon exercise of options	5,241	6,618	976
Proceeds from short-term debt	281,719	136,488	20,133
Repayment of short-term debt	—	(267,764)	(39,497)
Proceeds from long-term debt	—	3,633,174	535,922
Funds advanced from noncontrolling interest holders	4,000	36,689	5,412
Repayment of funds advanced from noncontrolling interest holders	(200)	(1,677)	(247)
Acquisition of noncontrolling interest	—	(3,750)	(553)
Contribution from noncontrolling interest holders	34,304	6,941	1,024
Dividends paid to noncontrolling interest holders	(1,130)	(2,330)	(344)
Dividend paid	(276,262)	—	—
Excess tax benefit from share-based compensation	3,519	15,725	2,320
Net cash provided by financing activities	51,191	3,560,114	525,146
Effect of exchange rate changes on cash and cash equivalents	8,458	(6,339)	(935)
Net increase (decrease) in cash and cash equivalents	1,228,514	(254,632)	(37,560)
Cash and cash equivalents at the beginning of the period	1,237,838	3,235,007	477,189
Cash and cash equivalents at the end of the period	2,466,352	2,980,375	439,629
Supplemental disclosure of cash flow information:			
Interest paid, net of amounts capitalized	5,091	6,673	984
Income taxes paid	88,204	144,237	21,276
Supplemental schedule of non-cash investing and financing activities:			
Purchases of property and equipment included in payables	409,560	503,727	74,304
Consideration payable for business acquisition	59,490	118,459	17,474
Purchase of intangible assets included in payables	10,110	6,655	982
Reimbursement of government zoning included in receivables	—	2,700	398
Issuance of ordinary shares for acquisition	1,143,521	—	—

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

CHINA LODGING GROUP, LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016 AND 2017

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

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

China Lodging Group, Limited (the "Company") was incorporated in the Cayman Islands under the laws of the Cayman Islands on January 4, 2007. The principal business activities of the Company and its subsidiaries (the "Group") are to develop leased and owned, manachised and franchised hotels under the "Joya Hotel", "Manxin Hotel", "JI Hotel", "Starway Hotel", "HanTing Hotel", "Elan Hotel", "Hi Inn", "VUE Hotel", "Crystal Orange Hotel", "Orange Hotel Select", and "Orange Hotel" brands in the People's Republic of China ("PRC"). The Group also has the rights as master franchisee for Mercure, Ibis and Ibis Styles, and co-development rights for Grand Mercure and Novotel, in Pan-China region.

Leased and owned hotels

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

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

As of December 31, 2016 and June 30, 2017, the Group had 624 and 686 leased and owned hotels in operation, respectively.

Manachised and franchised hotels

Typically the Group enters into certain franchise and management arrangements with franchisees for which the Group is responsible for providing branding, quality assurance, training, reservation, hiring and appointing of the hotel general manager and various other support services relating to the hotel renovation and operation. Those hotels are classified as manachised hotels. Under typical franchise and management agreements, the franchisee is required to pay an initial franchise fee and ongoing franchise and management service fees, the majority of which are equal to a certain percentage of the revenues of the hotel. The franchisee is responsible for the costs of hotel development, renovation and the costs of its operations. The term of the franchise and management agreements are typically eight to ten years and are renewable upon mutual agreement between the Group and the franchisee. The Group also has some franchised hotels in which cases the Group does not provide a hotel general manager. As of December 31, 2016 and June 30, 2017, the Group had 2,471 and 2,654 manachised hotels in operation and 174 and 201 franchised hotels in operation, respectively.

CHINA LODGING GROUP, LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016 AND 2017

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

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Basis of presentation

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP") and applicable rules and regulations of the Securities and Exchange Commission, regarding financial reporting, and include all normal and recurring adjustments that management of the Group considers necessary for a fair presentation of its financial position and operation results. Certain information and footnote disclosures normally included in financial statements prepared in conformity with US GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these statements should be read in conjunction with the Group's consolidated financial statements as of and for the year ended December 31, 2016 included in the Group's 2016 20-F.

Basis of consolidation

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

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

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

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

Impairment of long-lived assets

The Group evaluates its long-lived assets and finite lived intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Group measures impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, the Group recognizes an impairment loss equal to the difference between the carrying amount and fair value of these assets.

The Group performed a recoverability test of its long-lived assets associated with certain hotels due to the continued underperformance relative to the projected operating results, of which the carrying amount of the property and equipment exceed the future undiscounted net cash flows, and

CHINA LODGING GROUP, LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016 AND 2017

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

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

recognized an impairment loss of RMB39,615 and RMB44,439 for the six-month period ended June 30, 2016 and 2017, respectively.

Fair value of the property and equipment was determined by the Group based on the income approach using the discounted cash flow associated with the underlying assets, which incorporated certain assumptions including projected hotels' revenue, growth rates and projected operating costs based on current economic condition, expectation of management and projected trends of current operating results.

Revenue recognition

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

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

In addition, the Group accounts for hotel manager fees related to the manachised hotels under the franchise program as revenues. Pursuant to the franchise agreements, the Group charges the franchisees fixed hotel manager fees to 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 hotel manager fee is recognized as revenue monthly. During the six-month period ended June 30, 2016 and 2017, the hotel manager fees that were recognized as revenue were RMB 155,633 and RMB176,517, respectively

Membership fees from the Group's customer loyalty program are earned and recognized on a straight-line basis over the expected membership duration of the different membership levels. Such duration is estimated based on the Group's and management's experience and is adjusted on a periodic basis to reflect changes in membership retention. The membership duration is estimated to be two to five years which reflects the expected membership retention. Revenues recognized from the customer loyalty program were RMB70,815, and RMB77,376 for the six-month period ended June 30, 2016 and 2017, respectively.

Other revenues are derived from activities other than the operation of hotel businesses, which mainly include revenues from Hua Zhu mall and the provision of IT products and services to hotels.

CHINA LODGING GROUP, LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016 AND 2017

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

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Revenues from Hua Zhu mall are commissions charged from suppliers for goods sold through the platform and are recognized upon delivery of goods to end customers when its suppliers' obligation is fulfilled and collectability is reasonably assured. Revenues from IT products are recognized when goods are delivered and revenues from IT services are recognized when services are rendered.

Leases

A lease of which substantially all the benefits and risks incidental to ownership remain with the lessor is classified as an operating lease. All leases of the Group are currently classified as operating leases. When a lease contains rent holidays or requires fixed escalations of the minimum lease payments, the Group records the total rental expense on a straight-line basis over the initial lease term and the difference between the straight-line rental expense and cash payment under the lease is recorded as deferred rent. As of December 31, 2016 and June 30, 2017, deferred rent of RMB37,648 and RMB41,595 were recorded as other current liabilities and RMB1,023,843 and RMB1,242,292 were recorded as long-term liabilities, respectively.

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.

The estimated fair value of the Group's financial instruments of which the inputs used to value are classified as Level 2 and are not reported at fair value, including cash, restricted cash, loan receivables, receivables, payables and accruals, approximates their carrying value due to their short-term nature or

CHINA LODGING GROUP, LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016 AND 2017

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

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

because the interest rate approximates market rate. Cost-method investments are presented at cost unless impaired based on the result of impairment assessment, as the investees are all private entities and their fair values are not practicable to obtain without undue cost. As of December 31, 2016 and June 30, 2017, cost-method investments were RMB172,571 and RMB246,971 respectively.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group measures fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates.

As of December 31, 2016 and June 30, 2017, 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:

Date	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)
Year Ended December 31, 2016	Long-term available-for-sale securities	247,085	204,945	42,140	
Six-month Period Ended June 30, 2017	Long-term available-for-sale securities	373,163	146,633	226,530	

The following table presents the Group's assets measured at fair value on a non-recurring basis for the year ended December 31, 2016 and six-month period ended June 30, 2017:

Date	Description	Fair Value	Fair Value Measurements at Reporting Date Using			Total Loss for the Period
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Year Ended December 31, 2016	Property and equipment	20,706			20,706	150,533
Year Ended December 31, 2016	Long-term investments	—			—	3,208
Six-month Period Ended June 30, 2017	Property and equipment	12,423			12,423	44,439

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 RMB171,239 and RMB56,862 was not fully recoverable and consequently recorded an impairment charge of

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2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

RMB150,533, and RMB44,439 for the year ended December 31, 2016, and the six-month period ended June 30, 2017 respectively. As a result of the impairment assessment, the Group determined that the long term investment with a carrying amount of RMB3,208 was impaired for the year ended December 31, 2016.

Fair value of the property and equipment as well as the reporting units was determined by the Group based on the income approach using the discounted cash flow associated with the underlying assets, which incorporated certain assumptions including projected hotels' revenue, growth rates and projected operating costs based on current economic condition, expectation of management and projected trends of current operating results. As a result, the Group has determined that the majority of the inputs used to value its long-lived assets held and used and its reporting units are unobservable inputs that fall within Level 3 of the fair value hierarchy. The revenue growth rate and the discount rate were the significant unobservable input used in the fair value measurement, which are 4% and 20%, respectively, for the year ended December 31, 2016 and the six-month period ended June 30, 2017.

Translation into United States Dollars

The financial statements of the Group are stated in RMB. Translations of amounts from RMB into United States dollars are solely for the convenience of the reader and were calculated at the rate of US\$1.00 = RMB6.7793, on June 30, 2017, 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 June 30, 2017, or at any other rate.

Recently issued accounting pronouncements

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): "Scope of Modification Accounting". This update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments affect any entity that changes the terms or conditions of a share-based payment award. The amendments are effective for fiscal years beginning after December 15, 2017. For the Group, the amendments are effective January 1, 2018. The Group has not made any changes to the terms or conditions of share-based payment awards but will refer to the guidance in ASU 2017-09 should that occur. The Group is currently evaluating the impact of this ASU on its consolidated financial statements.

3. ACQUISITIONS

(i) In January 2016, the Group completed the transaction of strategic alliance with AccorHotels ("Accor"). Pursuant to the master purchase agreement, the Group acquired 100% equity interest of certain wholly-owned subsidiaries of Accor engaged in the business of owning, leasing franchising, operating and managing hotels under Accor brands in the midscale and economy market in the PRC,

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3. ACQUISITIONS (Continued)

Taiwan and Mongolia, as well as a non-controlling stake of 28% for Accor Luxury and Upscale hotel operating platform, held by AAPC Hotel Management Limited ("AAPC LUB") in Greater China. The total consideration consists of cash consideration of RMB120,439 and consideration amounted to RMB1,143,521 which was measured at the market price of the 24,895,543 ordinary shares on the issuance date.

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

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

	Year Ended December 31, 2016
Pro forma net revenue	6,548,083
Pro forma net income	806,921

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

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

(ii) The Group acquired 100% of the equity interest of Crystal Orange Hotel Holdings Limited (the "Crystal Orange") on May 25, 2017.

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3. ACQUISITIONS (Continued)

The total purchase price consisted of the following:

	<u>Amount(RMB'000)</u>
Initial Consideration	3,718,673
Pre-combination compensation cost	50,000
Closing Adjustment	*
Total purchase price	<u>3,768,673</u>

* Closing adjustment is determined by several complex adjustment clauses relating net cash, net working capital amount and income tax payable amount of Crystal Orange as of closing date, which were defined in the share purchase agreement. The closing adjustment amount is immaterial based on the preliminary result, while not finalized till this report date.

Under the acquisition method of accounting, the net assets of Crystal Orange acquired pursuant to the acquisition were recorded at their fair values as of the date of the closing of the acquisition based on a preliminary purchase price allocation report prepared by a third-party appraiser. The following is a summary of the fair values of the assets acquired and liabilities assumed based on the preliminary purchase price allocation report:

	<u>May 25, 2017</u>	<u>Amortization Period</u>
Current assets	137,314	
Property and equipment	842,102	3 - 20 years
Favorable leases	97,480	remaining lease terms
Franchise agreement	63,000	remaining contract terms
Brand Name	1,305,699	indefinite life
Goodwill	1,965,206	
Other noncurrent assets	130,813	
Current liabilities	(222,205)	
Noncurrent liabilities	(179,985)	
Deferred tax liabilities	(366,545)	
Noncontrolling interest	(4,206)	
Total	<u>3,768,673</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. Goodwill is not amortized and is not deductible for tax purposes.

The net revenue and net income of the acquirees included in the consolidated statements of operations for the six-month period ended June 30, 2017 were RMB 119,050, and RMB 14,029 respectively.

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3. ACQUISITIONS (Continued)

The following table summarizes unaudited pro forma results of operation for the year ended December 31, 2016 and six-month period ended June 30, 2017 assuming that the acquisition occurred as of January 1, 2016. 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, 2016.

	Year Ended December 31, 2016	Six-month Period Ended June 30, 2017
Pro forma net revenue	7,473,851	3,983,463
Pro forma net income	857,213	577,878

As the total cost incurred by Crystal Orange directly attributable to the business combination includes RMB256.3 million related to the consultation services agreements and option cancellation agreement and transaction cost of RMB 46 million are non-recurring in nature, they were eliminated from the calculation of pro forma net income.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following:

	December 31, 2016	June 30, 2017
Cost:		
Buildings	255,646	255,646
Leasehold improvements	5,563,815	6,319,366
Furniture, fixtures and equipment	925,174	1,036,578
Motor vehicles	820	820
	6,745,455	7,612,410
Less: Accumulated depreciation	(3,196,496)	(3,427,329)
	3,548,959	4,185,081
Construction in progress	161,509	277,867
Property and equipment, net	3,710,468	4,462,948

Depreciation expense was RMB334,735 and RMB349,008 for the six-month periods ended June 30, 2016 and 2017, respectively.

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

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

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4. PROPERTY AND EQUIPMENT, NET (Continued)

As of June 30, 2017, the Group has been formally notified by local government authorities that four additional leased hotels of the Group will likely be demolished due to local government zoning requirements. The aggregate carrying amount of property and equipment at the associated hotels was RMB 14,605 as of June 30, 2017. Neither of the associated hotels has recorded intangible assets or goodwill. The Group has not recognized any impairment as expected cash flows from the hotels' operations prior to demolition and expected amounts to be received as a result of the demolition will likely exceed the carrying value of such assets. The Group estimated amounts to be received based on the relevant PRC laws and regulations, terms of the lease agreements, and the prevailing market practice.

5. INTANGIBLE ASSETS, NET AND UNFAVORABLE LEASE

Intangible assets, net consist of the following:

	As of	
	December 31, 2016	June 30, 2017
<i>Intangible assets with indefinite life:</i>		
Brand name	28,600	1,334,299
Master brand agreement (Note 3)	192,000	192,000
<i>Intangible assets with definite life:</i>		
Manachised & Franchise hotel agreements	11,000	74,000
Non-compete agreement	400	400
Favorable lease agreements	135,874	239,569
Purchased software	55,101	57,218
Total	422,975	1,897,486
Less: Accumulated amortization	(80,281)	(91,103)
Total	342,694	1,806,383

	As of	
	December 31, 2016	June 30, 2017
Unfavorable lease agreements	3,924	3,924
Less: Accumulated amortization	(3,102)	(3,167)
Unfavorable lease agreements, net	822	757

The values of favorable lease agreements were determined based on the estimated present value of the amount the Group has avoided paying as a result of entering into the lease agreements. Unfavorable lease agreements were determined based on the estimated present value of the acquired lease that exceeded market prices and are recognized as other long-term liabilities. The value of favorable and unfavorable lease agreements is amortized using the straight-line method over the remaining lease term.

Amortization expense of intangible assets for the six-month period ended June 30, 2016 and 2017 amounted to RMB8,575 and RMB10,776, respectively.

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6. LONG-TERM INVESTMENTS

The long-term investments as of December 31, 2016 and June 30, 2017 were as follows:

	As of	
	December 31, 2016	June 30, 2017
<i>Available-for-sale securities:</i>		
Quanjudé	159,305	146,633
Tang Palace	18,856	—
Banyan Tree	26,784	—
Cjia	42,140	226,530
<i>Cost-method investments:</i>		
UBOX/BJ UBOX	48,220	33,822
BJ GOOAGOO/GOOAGOO	60,000	60,000
Founder Service	45,000	45,000
Qingpu	17,143	17,143
Mobike	—	69,009
Blossomhill	—	15,194
Other investments	2,208	6,803
<i>Equity-method investments:</i>		
Sheen Star	20,862	20,862
Distrii	28,562	30,750
AAPC LUB	446,100	462,667
China Young	43,054	40,957
CREATER	100,000	101,154
Other investments	6,087	6,190
Total	<u>1,064,321</u>	<u>1,282,714</u>

Available-for-sale securities

In June 2014, the Group purchased 7,241,131 ordinary shares of China Quanjudé (Group) Co., Ltd. ("Quanjudé"), a top restaurant brand listed in Shenzhen Stock Exchange in China, through a private placement. The purchase price was set at RMB13.81 per ordinary share and the total purchase cost was RMB100 million. Upon the closing of the transaction described above, the Group holds approximately 2% of Quanjudé's total outstanding shares.

In 2016, the Group purchased 8,430,000 ordinary shares of Hong Kong Tang Palace Food & Beverage Group ("Tang Palace"), a top restaurant brand listed in Hong Kong Stock Exchange in China, from open market for consideration of RMB16,887. As of December 31, 2016, the Group holds approximately 2% of Tang Palace's total outstanding shares. In the six-month period ended June 30, 2017, the Group sold all the 8,430,000 ordinary shares and reclassified the accumulated unrealized gain of RMB3,813 from other comprehensive income to other income accordingly.

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6. LONG-TERM INVESTMENTS (Continued)

In December 2016, the Group purchased 11,635,400 ordinary shares of Banyan Tree Holdings Limited ("Banyan Tree"), a leading, international hospitality brand that manages and develops premium resorts, hotels and spas listed in Singapore Stock Exchange in Singapore, from open market for consideration of RMB27,328. As of December 31, 2016, the Group holds approximately 2% of Banyan Tree's total outstanding shares. In January 2017, the Group purchased 3,000,000 ordinary shares of Banyan Tree from open market for consideration of RMB7,020. In April 2017, the Group sold all the 14,635,400 ordinary shares and reclassified the accumulated unrealized gain of RMB1,469 from other comprehensive income to other income accordingly.

Given the level of investments, the Group accounts for its investments in Quanjude, Tang Palace, and Banyan Tree as "available-for-sale" and measured the fair value at every period end. The unrealized holding gains and losses for available-for-sale securities are reported in other comprehensive income until realized.

In 2016, the Group sold its subsidiary- Chengjia Hotel Management Co., Ltd. to Chengjia (Shanghai) Apartment Management Co., Limited ("Cjia"), the Group's equity investee. As a result, the Group recognized a gain of RMB49,630 in other income. As of December 31, 2016, the Group had approximately 23% equity interest of Cjia and convertible note with original value of RMB51,200. In the six-month period ended June 30, 2017, the Group invested in Cjia for another two set of convertible notes totaled RMB200,300. As of June 30, 2017, the Group had approximately 23% equity interest of Cjia and convertible notes with original value of RMB251,500. The convertible notes are recorded as available-for-sale investments. The Group recognized its share of loss in Cjia of RMB15,737 in income (loss) from equity method investments for the six-month period ended June 30, 2017, which reduced the cost of equity-method investment to zero and further adjusted the carrying amount of convertible notes balance to RMB226,530 as of June 30, 2017. The remaining carrying amount of the convertible notes approximated its fair value as of June 30, 2017.

Cost-method investments:

From 2012 to 2013, the Group invested in preferred shares and convertible promissory notes of UBOX International Holdings Co., Limited ("UBOX"), a privately-held company, with the total consideration of RMB40,517. The convertible notes were subsequently converted to ordinary shares of UBOX in 2013 and 2014. As a result of restructuring of UBOX group, the investment in UBOX has been converted to the investment of ordinary shares of Beijing UBOX On-line Technology Co., Ltd. ("BJ UBOX"). The Group has additionally injected RMB7,703 to BJ UBOX in 2015. In April 2017, the Group sold 4,810,000 shares of BJ UBOX and recognized gain of RMB35,545 in other income. As of December 31, 2016 and June 30, 2017, the Group had approximately 3% and 2% equity interest of BJ UBOX, respectively. The investments were accounted for using the cost method since the Group does not have the ability to exert significant influence over the operating and financing activities of UBOX or BJ UBOX.

In January 2017, the Group purchased 1,316,205 preferred shares for consideration of US\$5.0 million (equivalently RMB34,294) and invested in convertible notes with principal amount of US\$5.0 million (equivalently RMB34,294) and interest rate of 8% of Mobike Ltd. ("Mobike"), a

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6. LONG-TERM INVESTMENTS (Continued)

Chinese bike-sharing company. In May 2017, the Group converted the entire outstanding principal amount and accrued interest of the convertible notes into 648,559 preferred shares. As of June 30, 2017, the Group had less than 1% equity interest of Mobike. The Group accounted the investment under cost method since the Group does not have the ability to exert significant influence over Mobike.

In May 2017, the Group purchased approximately 4% equity interest of Blossom Hill Hotel Investment & Management (Kunshan) Co., Ltd ("Blossom Hill"), a Chinese hospitality brand that manages and develops premium resorts and hotels with strong features of traditional Chinese culture, for the consideration of RMB15,194. The Group accounted the investment under cost method since the Group does not have the ability to exert significant influence over Blossom Hill.

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

Equity-method investments:

In January 2016, the Group set up Shanghai Distrii Technology Development Co., Ltd. ("Distrii") together with another founder. Distrii is an office rental service company in which the Group contributed RMB35,000 and owned equity interest of 39%. In January 2017, another unrelated investor injected in Distrii which diluted the Group's share of equity interest to 32%, and afterwards the Group sold 6% of Distrii's equity interest for consideration of RMB18,000 and recognized gain of RMB22,682 in other income. As of June 30, 2017, the Group had approximately 26% equity interest of Distrii. The Group accounted for the investment in Distrii under equity-method as the Group has the ability to exert significant influence.

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

7. GOODWILL

The changes in the carrying amount of goodwill for the year ended December 31, 2016 and June 30, 2017 were as follows:

	Gross Amount	Accumulated Impairment Loss	Net Amount
Balance at December 31, 2015	112,785	(4,441)	108,344
Increase in goodwill related to acquisitions	63,160	—	63,160
Balance at December 31, 2016	175,945	(4,441)	171,504
Increase in goodwill related to acquisitions (Note 3)	1,965,206	—	1,965,206
Balance at June 30, 2017	<u>2,141,151</u>	<u>(4,441)</u>	<u>2,136,710</u>

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8. DEBT

In April 2017, the Group entered into a three-year bank loan contract, under which the Group can borrow up to US\$40 million (equivalently RMB270,976) for the period ended September 30, 2017, and the Group had a RMB307,000 deposit pledged accordingly. The interest rate of this borrowing is based on the three-month Libor on draw-down date plus 1.4%. In the six-month period ended June 30, 2017, the Group had drawn down US\$40 million (equivalently RMB270,976) under this contract and repaid nil. As of June 30, 2017, a portion of loan of US\$0.02 million (equivalently RMB135) was recorded under "short-term debt" and the carrying amount of the remaining long term loan was US\$39.98 million (equivalently RMB270,841). The weighted average interest rate for borrowings drawn under such credit facility was 2.57% for the six-month period ended June 30, 2017.

In May 2017, the Group entered into an US\$250 million (equivalently RMB1,693,600) term facility and US\$250 million (equivalently RMB1,693,600) revolving credit facility agreement with several banks. The US\$250 million (equivalently RMB1,693,600) revolving credit facility is available for 35 months after the date of the agreement. The interest rate on the loan is Libor plus 1.75%. There are some financial covenants including interest cover, leverage and tangible net worth related to this facility. In the six-month period ended June 30, 2017, the Group had drawn down US\$500 million (equivalently RMB3,387,200) under this contract and repaid nil. As of June 30, 2017, the carrying amount of this long term loan was US\$500 million (equivalently RMB3,387,200). The weighted average interest rate for the loan was 2.94% for the six-month period ended June 30, 2017. The Group is in compliance with all the financial covenants as of June 30, 2017.

9. INCOME TAXES

The effective tax rate is based on expected income and statutory tax rates. For interim financial reporting, the Group estimates the annual tax rate based on projected taxable income for the full year and records a quarterly income tax provision in accordance with ASC No. 740-270 "Income tax—Interim reporting". As the year progresses, the Group refines the estimates of the year's taxable income as new information becomes available. This continual estimation process often results in a change to the expected effective tax rate for the year. When this occurs, the Group adjusts the income tax provision (benefit) during the quarter in which the change in estimate occurs so that the year-to-date provision reflects the expected annual tax rate.

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.

The Group's effective tax rate for the six months periods ended June 30, 2016 and 2017 was 21.8% and 25.2% respectively.

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10. SHARE-BASED COMPENSATION

The Group measures 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 typically on a straight-line basis over the period in which the grantee is required to provide service to the Group in exchange for the equity award. The Group estimates the fair value of stock options using the binomial option pricing model. 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.

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 six month period ended June 30, 2016 and 2017, the Group recognized share-based compensation expenses of RMB31,095 and RMB31,820, respectively, which was classified as follows:

	Six-month Period Ended June 30,	
	2016	2017
Hotel operating costs	5,998	9,174
Selling and marketing expenses	515	658
General and administrative expenses	24,582	21,988
Total	<u>31,095</u>	<u>31,820</u>

During the six months period ended June 30, 2016 and 2017, the Group granted the following share-based compensation:

	Six-month Period Ended June 30,			
	2016		2017	
	Number of Restricted Stocks	Weighted Average Grant Date Fair Value US\$	Number of Restricted Stocks	Weighted Average Grant Date Fair Value US\$
Restricted stocks	1,176,834	6.50	214,099	15.26

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11. EARNINGS PER SHARE

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

	Six-month Period Ended June 30,	
	2016	2017
Net income attributable to ordinary shareholders—basic	384,888	537,722
Net income attributable to ordinary shareholders—diluted	384,888	537,722
Weighted average ordinary shares outstanding—basic	272,932,730	278,785,660
Incremental weighted-average ordinary shares from assumed exercise of share options and nonvested restricted stocks using the treasury stock method	7,165,227	9,027,892
Weighted average ordinary shares outstanding—diluted	280,097,957	287,813,552
Basic earnings per share	1.41	1.93
Diluted earnings per share	1.37	1.87

For the six month period ended June 30, 2016 and 2017, 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:

	Six-month Period Ended June 30,	
	2016	2017
Outstanding employee options and nonvested restricted stocks	35,171	—

12. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The following entities are considered to be related parties to the Group. The related parties only act as service providers and service recipients to the Group and there is no other relationship wherein the Group has the ability to exercise significant influence over the operating and financial policies of

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12. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

these parties. The Group is not obligated to provide any type of financial support to these related parties.

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

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

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12. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(a) Related party balances

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

	As of	
	December 31, 2016	June 30, 2017
Sheen Star	37,060	37,060
Accor	4,052	4,771
Cjia	50,365	81,772
Jiyuan	3,398	665
Yechun	375	33
Ctrip	3,203	—
Total	98,453	124,301

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

	As of	
	December 31, 2016	June 30, 2017
Ctrip		
—Payables for hotel reservation services	3,291	5,041
Qianya		
—Payables for service fee	164	141
Accor		
—Payables for brand use fee, reservation fee and other related service fee	6,019	3,004
Jiyuan		
—Payables for cash collected on behalf	59	66
Yechun		
—Payables for cash collected on behalf	1,525	1,354
Total	11,058	9,606

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016 AND 2017

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

12. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) *Related party transactions*

During the six-month period ended June 30, 2016 and 2017, related party transactions consisted of the following:

	Six-month Period Ended June 30,	
	2016	2017
Commission expenses to Ctrip	19,815	24,682
Service fee from Yibang	292	—
Service fee to Qianya	487	—
Brand use fee, reservation fee and other related service fee to Accor	2,688	4,695
Marketing and training fee from Ctrip	3,167	6,333
Service fee from Accor	2,718	5,907
Goods sold and service provided to Cjia	—	702
Interest income from Sheen Star	2,060	—
Rental income from Cjia	—	1,450

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

13. COMMITMENTS AND CONTINGENCIES

(a) *Operating lease commitments*

The Group has entered into lease agreements for certain hotels which it operates. Such leases are classified as operating leases.

The Group generally is able to terminate these lease agreements by paying penalties to the lessors, in most cases up to six months of rental pursuant to the terms of the lease agreements or based on the

CHINA LODGING GROUP, LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016 AND 2017

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

13. COMMITMENTS AND CONTINGENCIES (Continued)

group's past experience. Future minimum lease payments under operating lease agreements at June 30, 2017 were as follows:

Remaining of 2017	1,236,599
2018	2,393,534
2019	2,373,897
2020	2,313,127
2021	2,191,614
2022	2,060,981
2023	1,909,230
2024	1,783,423
2025	1,612,346
2026	1,409,048
Thereafter	5,091,718
Total	<u>24,375,517</u>

(b) Purchase Commitments

As of June 30, 2017, the Group's commitments related to leasehold improvements and installation of equipment for hotel operations was RMB120,481, which is expected to be incurred within one year.

(c) Contingencies

The Group is subject to periodic legal or administrative proceedings in the ordinary course of our business. As of December 31, 2016, the Group had several cases outstanding, including lease contract terminations and disputes, and construction contract disputes. The Group believed it is probable that settlement liabilities will be involved, and therefore accrued contingencies of RMB66,234 in other operating expense based on the terms of contract, laws and regulations and latest negotiation result. In May and June 2017, the Group had settled several cases and therefore reversed contingencies of RMB32,230 based on latest negotiation or arbitration result with the remaining accrued contingencies of RMB34,004. The Group does not believe that any other currently pending legal or administrative proceeding to which the Group is a party will have a material adverse effect on the financial statements.

14. SUBSEQUENT EVENTS

On September 8, 2017 the Group entered into a five-year Memorandum of Understanding ("MoU") with Oravel Stays Private Ltd. ("OYO"), India's leading hospitality company, to facilitate and strengthen collaboration to build a global market leading hospitality business. As part of this collaboration, the Group has agreed to make an approximately US\$10.0 million (equivalently RMB67,744) investment in preferred stock of OYO to become a minority shareholder (less than 5%). The Group and OYO will also discuss collaboration in a variety of other areas of mutual interests pursuant to the MoU.

On September 28, 2017, the Group's board of directors approved to pay dividends of around RMB300,000 to the shareholders. As of the report date, the Group has not paid any such dividends.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our audited consolidated financial statements as of December 31, 2015 and 2016 and for the years ended December 31, 2014, 2015 and 2016 and the notes thereto and the section headed "Item 5. Operating and Financial Review and Prospects" in our 2016 20-F, as well as our unaudited condensed consolidated financial statements as of June 30, 2017 and for the six months ended June 30, 2016 and 2017 and the notes thereto included in our current report on Form 6-K furnished to the SEC on October 26, 2017. This discussion may contain forward-looking statements based upon our 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.

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, we believe that our results of operations are also affected by company-specific factors, including, among others:

- *The total number of hotels and hotel rooms in our hotel network.* Our revenues largely depend on the size of our hotel network. Furthermore, we believe the expanded geographic coverage of our hotel network will enhance our brand recognition. Whether we can successfully increase the number of hotels and hotel rooms in our hotel group is largely affected by our ability to effectively identify and lease, own, 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 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, leased and owned hotels generally incur pre-opening expenses ranging from approximately RMB0.5 million to RMB10.0 million per hotel and generate no revenue. During periods when a large number of new leased and owned hotels are under development, the pre-opening expenses incurred may have a significant negative impact on our financial performance.
 - *The mix of mature leased and owned hotels, new leased and owned hotels, manachised hotels and franchised hotels.* When a new hotel starts operation and goes through the ramp-up stage, the occupancy rate is relatively low and the room rate may be subject to discount. Revenues generated by these hotels are lower than those generated by mature hotels and may be insufficient to cover their operating costs, which are relatively fixed in nature and are similar to those of mature hotels. The lower profitability during the ramp-up stage for leased and owned hotels may have a significant negative impact on our financial performance. The length of ramp-up stage may be affected by factors such as hotel size, seasonality and location. New hotels opened in lower-tier cities generally have longer ramp-up period. On average, it takes our hotels approximately six months to ramp up. We define mature leased and owned hotels as those that have been in operation for more than six months. Our mature leased and owned hotels have been and will continue to be the main contributor to our revenues and profit. Under the manachise and franchise models, we generate revenues from fees we charge to each manachised and franchised hotel while the franchisee bears substantially all the capital expenditures,
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pre-opening and operational expenses. The hotel operating costs relating to manachised hotels are mainly costs for hotel managers as we hire and send them to manachised hotels.

Key Performance Indicators

We utilize a set of non-financial and financial key performance indicators which our senior management reviews frequently. The review of these indicators facilitates timely evaluation of the performance of our business and effective communication of results and key decisions, allowing our business to react promptly to changing customer demands and market conditions.

Non-financial Key Performance Indicators

Our non-financial key performance indicators consist of (i) change in the total number of hotels and hotel rooms in our hotel group, (ii) RevPAR, especially RevPAR achieved by our leased and owned hotels and (iii) same-hotel RevPAR change.

Change in the total number of hotels and hotel rooms. We track the change in the total number of hotels and hotel rooms in operation to monitor our business expansion. Our total hotels in operation increased from 1,995 as of December 31, 2014 to 3,541 as of June 30, 2017. Our total hotel room-nights available for sale increased from 65.3 million in 2014 to 112.9 million in 2016 and was 61.1 million in the six months ended June 30, 2017. The following table sets forth various measures of changes in the total number of hotels and hotel rooms as of and for the dates and periods indicated.

	As of and for the Year Ended December 31,			As of and for the Six Months Ended June 30, 2017
	2014	2015	2016	
Total hotels in operation	1,995	2,763	3,269	3,541
Leased and owned hotels	611	616	624	686
Manachised hotels	1,376	2,067	2,471	2,654
Franchised hotels	8	80	174	201
Total hotel rooms in operation	209,955	278,843	331,347	359,530
Leased and owned hotels	72,335	75,436	78,160	86,232
Manachised hotels	136,689	196,737	237,094	253,469
Franchised hotels	931	6,670	16,093	19,829
Total hotel room-nights available for sale	65,321,955	88,384,653	112,937,662	61,101,259
Leased and owned hotels	25,286,195	27,093,439	28,346,421	14,396,873
Manachised hotels	39,542,356	60,244,011	80,161,362	43,991,260
Franchised hotels	493,404	1,047,203	4,429,879	2,713,126
Number of cities	300	352	367	369

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

manachised hotels for the periods indicated. We did not track the RevPAR, average daily room rate or occupancy rate for our franchised hotels before 2015.

	Year Ended December 31,			Six Months Ended June 30,	
	2014	2015	2016	2016	2017
RevPAR(1) (in RMB)					
Leased and owned hotels	169	172	179	171	193
Manachised hotels	153	145	151	142	159
Franchised hotels	N/A	124	125	117	136
Total hotels in operation	159	153	157	148	166
Average daily room rate(1) (in RMB)					
Leased and owned hotels	190	198	208	202	219
Manachised hotels	172	170	177	170	181
Franchised hotels	N/A	177	182	176	193
Total hotels in operation	179	179	185	179	191
Occupancy rate (as a percentage)					
Leased and owned hotels	89	87	86	84	88
Manachised hotels	89	85	85	83	88
Franchised hotels	N/A	70	69	66	70
Total hotels in operation	89	85	85	83	87
Weight of hotel room-nights available for sale contributed by leased and owned hotels less than 6 months (as a percentage)					
	7	3	3	4	3

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

RevPAR may change from period to period due to (i) the change in the mix of our leased and owned hotels in the ramp-up and mature phases, (ii) the change in the mix of our hotels in different cities and locations, (iii) the change in the mix of our hotels of different brands, and (iv) the change in same-hotel RevPAR. The total hotel RevPAR in the six months ended June 30, 2017 was higher than that in the same period of 2016, mainly due to the improvement of the quality of economy hotels and the expansion of midscale and upscale hotels. The total hotel RevPAR in 2016 was higher than that in 2015, mainly as a result of the upgrade of Hanting 2.0 and the growing demand for our midscale hotels. The total hotel RevPAR in 2015 was lower than that in 2014, mainly as a result of the relatively soft overall market and the city mix shifting toward lower-tier cities.

The seasonality of our business may cause fluctuations in our quarterly RevPAR. We typically have the lowest RevPAR in the first quarter due to reduced travel activities in the winter and during the Spring Festival holidays, and the highest RevPAR in the third quarter due to increased travel during

the summer. National and regional special events that attract large numbers of people to travel may also cause fluctuations in our RevPAR.

	Three Months Ended									
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016	March 31, 2017	June 30, 2017
RevPAR (in RMB):										
Leased and owned hotels	150	176	188	172	159	182	195	181	174	211
Manachised hotels	131	146	159	141	133	150	166	152	147	171
Franchised hotels	115	126	137	116	105	128	144	123	118	151
Total hotels in operation	137	156	167	149	139	157	173	158	152	179

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

	For the Three Months Ended									
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016	March 31, 2017	June 30, 2017
Same-hotel RevPAR change (as a percentage)	-5	-4	-3	-3	0	-1	1	2	6	8

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.

(i) *Revenues.* We primarily derive our revenues from operations of our leased and owned hotels and franchise and service fees from our manachised and franchised hotels. Our revenues are subject to business tax of 5% (before May 1, 2016) and other related taxes. The following table sets forth the revenues generated by our leased and owned and manachised and franchised hotels and other revenues, each in absolute amount and as a percentage of total revenues for the periods indicated.

	Year Ended December 31,							
	2014		2015		2016			
	(RMB)	%	(RMB)	%	(RMB)	(US\$)	%	
	(In thousands except percentages)							
Revenues:								
Leased and owned hotels	4,522,431	85.9	4,986,872	81.6	5,212,405	768,871	78.3	
Manachised and franchised hotels	742,797	14.1	1,123,979	18.4	1,411,156	208,156	21.2	
Others	—	—	—	—	31,219	4,605	0.5	
Total revenues	5,265,228	100.0	6,110,851	100.0	6,654,780	981,632	100.0	
Less: Business tax and related taxes(1)	300,500	5.7	336,227	5.5	116,149	17,133	1.7	
Net revenues	4,964,728	94.3	5,774,624	94.5	6,538,631	964,499	98.3	

	Six Months Ended June 30,				
	2016		2017		
	(RMB)	%	(RMB)	(US\$)	%
	(In thousands except percentages)				
Revenues:					
Leased and owned hotels	2,531,497	78.8	2,766,593	408,094	77.2
Manachised and franchised hotels	669,934	20.9	796,914	117,551	22.3
Others	9,622	0.3	18,780	2,770	0.5
Total revenues	3,211,053	100.0	3,582,287	528,415	100.0
Less: Business tax and related taxes(1)	116,149	3.6	—	—	—
Net revenues	3,094,904	96.4	3,582,287	528,415	100.0

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

- *Leased and Owned Hotels.* In 2014, we generated revenue of RMB4,522.4 million from our leased and owned hotels, which accounted for 85.9% of our total revenues for the year. In 2015, we generated revenue of RMB4,986.9 million from our leased and owned hotels, which accounted for 81.6% of our total revenues for the year. In 2016, we generated revenues of RMB5,212.4 million (US\$768.9 million) from our leased and owned hotels, which amounted for 78.3% of our total revenues for the year. In the six months ended June 30, 2017, we generated revenues of RMB2,766.6 million (US\$408.1 million) from our leased and owned hotels, which amounted for 77.2% of our total revenues for the period. We expect that revenues from our leased and owned hotels will continue to constitute a substantial majority of our total revenues in the foreseeable future. As of June 30, 2017, we had 30 leased and owned hotels that were contracted or 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 20 years. We typically enjoy an initial two- to six-month rent-free period. We generally pay fixed rent on a quarterly or biannual basis for the first three to five years of the lease term, after which we are generally subject to a 3% to 5% increase every three to five years.

Our owned hotels include the hotels we acquired as part of our strategic alliance with Accor in 2016.

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

- *The total number of room nights available from the leased and owned hotels in our hotel group.* The future growth of revenues generated from our leased and owned hotels will depend significantly upon our ability to expand our hotel group into new locations in China and maintain and further increase our RevPAR at existing hotels. As of June 30, 2017, we had entered into binding contracts with lessors of 30 properties for our leased and owned hotels, which are currently under development.
- *RevPAR achieved by our leased and owned hotels, which represents the product of average daily rates and occupancy rates.* To understand factors impacting our RevPAR, please see "—Non-financial Key Performance Indicators—RevPAR."

- Manachised and Franchised Hotels.* In 2014, we generated revenues of RMB742.8 million from our manachised and franchised hotels, which accounted for 14.1% of our total revenues for the year. In 2015, we generated revenues of RMB1,124.0 million from our manachised and franchised hotels, which accounted for 18.4% of our total revenues for the year. In 2016, we generated revenues of RMB1,411.2 million (US\$208.2 million) from our manachised and franchised hotels, which accounted for 21.2% of our total revenues for the year. In the six months ended June 30, 2017, we generated revenues of RMB796.9 million (US\$117.6 million) from our manachised and franchised hotels, which accounted for 22.3% of our total revenues for the period. 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 June 30, 2017, we had 582 manachised and franchised hotels that were contracted or under development.
- Manachised Hotels.* Our franchisees either lease or own their hotel properties and also invest in the renovation of their properties according to our product standards. Our franchisees are typically responsible for the costs of developing and operating the hotels, including renovating the hotels according to our standards, and all of the operating expenses. We directly manage our manachised hotels and impose the same standards for all manachised hotels to ensure product quality and consistency across our hotel network. Management services we provide to our franchisees for our manachised hotels generally include hiring, appointing and training hotel managers, managing reservations, providing sales and marketing support, conducting quality inspections and providing other operational support and information. We believe our manachise model has enabled us to quickly and effectively expand our geographical coverage and market share in a less capital-intensive manner through leveraging the local knowledge and relationships of our franchisees.

We collect fees from our franchisees and do not bear the loss, if any, incurred by our franchisees. They are also responsible for all costs and expenses related to hotel construction and refurbishing. Our franchise and management agreements for manachised hotels typically run for an initial term of eight to ten years. Our franchisees are generally required to pay us a one-time franchise fee ranging between RMB80,000 and RMB500,000. In general, we charge a monthly franchise fee of approximately 5% of the total revenues generated by each manachised hotel. We also collect from franchisees a reservation fee for using our central reservation system and a membership registration fee to service customers who join our HUAZHU Rewards loyalty program at the manachised hotels. Furthermore, we employ and appoint hotel managers for the manachised hotels and charge the franchisees a monthly fee for such service.
- Franchised Hotels.* Under our typical franchise agreements, we provide our franchisees with training, central reservation, sales and marketing support, quality assurance inspections and other operational support and information services. We do not appoint hotel managers for our franchised hotels. We collect fees from the franchisees of our franchised hotels and do not bear any loss or share any profit incurred or realized by our franchisees.
- Other Revenues.* Other revenues of RMB31.2 million (US\$4.6 million) in 2016 represent revenues generated from other than the operation of hotel businesses, which mainly included revenues from Hua Zhu mall and the provision of IT products and services to hotels. Other revenues of RMB18.8 million (US\$2.8 million) in the six months ended June 30, 2017 mainly included revenues from Hua Zhu mall and the provision of IT products and services to hotels.

(ii) *Operating Costs and Expenses.* Our operating costs and expenses consist of costs for hotel operation, selling and marketing expenses, general and administrative expenses and pre-opening expenses. The following table sets forth the components of our operating costs and expenses, both in absolute amount and as a percentage of net revenues for the periods indicated.

	Year Ended December 31,						
	2014		2015		2016		
	(RMB)	%	(RMB)	%	(RMB)	(US\$)	
Net revenues	4,964,728	100.0	5,774,624	100.0	6,538,631	964,499	100.0
Operating costs and expenses							
Hotel operating costs:							
Rents	1,543,651	31.1	1,804,532	31.2	1,870,879	275,969	28.6
Utilities	323,837	6.5	341,620	5.9	345,615	50,981	5.3
Personnel costs	788,973	15.9	919,555	15.9	1,088,380	160,545	16.6
Depreciation and amortization	558,833	11.3	645,058	11.2	676,996	99,862	10.3
Consumables, food and beverage	454,795	9.2	485,099	8.4	494,764	72,982	7.6
Others	207,938	4.1	316,283	5.5	455,539	67,195	7.0
Total hotel operating costs	3,878,027	78.1	4,512,147	78.1	4,932,173	727,534	75.4
Other operating costs	—	—	—	—	7,606	1,122	0.1
Selling and marketing expenses	187,435	3.8	179,568	3.1	146,525	21,613	2.2
General and administrative expenses	342,128	6.9	403,008	7.0	492,141	72,595	7.5
Pre-opening expenses	186,325	3.8	110,011	1.9	71,847	10,598	1.1
Total operating costs and expenses	4,593,915	92.6	5,204,734	90.1	5,650,292	833,462	86.3

	Six Months Ended June 30,					
	2016		2017			
	(RMB)	%	(RMB)	(US\$)	%	
Net revenues	3,094,904	100.0	3,582,287	528,415	100.0	
Operating costs and expenses						
Hotel operating costs:						
Rents	950,820	30.7	965,491	142,417	26.9	
Utilities	181,212	5.9	171,792	25,341	4.8	
Personnel costs	532,762	17.2	609,341	89,883	17.0	
Depreciation and amortization	336,558	10.9	354,986	52,363	9.9	
Consumables, food and beverage	244,829	7.9	245,741	36,249	6.9	
Others	171,690	5.5	199,881	29,484	5.6	
Total hotel operating costs	2,417,871	78.1	2,547,232	375,737	71.1	
Other operating costs	3,029	0.1	5,672	837	0.2	
Selling and marketing expenses	69,119	2.2	79,530	11,731	2.2	
General and administrative expenses	225,475	7.4	301,032	44,405	8.4	
Pre-opening expenses	35,390	1.1	67,246	9,919	1.9	
Total operating costs and expenses	2,750,884	88.9	3,000,712	442,629	83.8	

- *Hotel Operating Costs.* Our hotel operating costs consist primarily of costs and expenses directly attributable to the operation of our leased and owned and managed hotels. Leased and owned hotel operating costs primarily include rental payments and utility costs for hotel properties, compensation and benefits for our hotel-based employees, costs of hotel room consumable products and depreciation and amortization of leasehold improvements, intangible

assets and land use rights. Manachised hotel operating costs primarily include compensation and benefits for manachised hotel managers and other limited number of employees directly hired by us, which are recouped by us in the form of monthly service fees. We anticipate that our hotel operating costs in absolute amount will increase as we continue to open new hotels. Our hotel operating costs as a percentage of our net revenue may change from period to period mainly driven by three factors: (i) the hotel operating costs as a percentage of revenues from our leased and owned hotels, (ii) the operating costs, mainly personnel costs, as a percentage of revenues from the manachised and franchised business and (iii) the weight of manachised and franchised hotels in our revenue mix.

- *Selling and Marketing Expenses.* Our selling and marketing expenses consist primarily of commissions to travel intermediaries, expenses for marketing programs and materials, bank fees for processing bank card payments, and compensation and benefits for our sales and marketing personnel, including personnel at our centralized reservation center. We expect that our selling and marketing expenses will increase as our sales increase and as we further expand into new geographic locations and promote our brands.
- *General and Administrative Expenses.* Our general and administrative expenses consist primarily of compensation and benefits for our corporate and regional office employees and other employees who are not sales and marketing or hotel-based employees, travel and communication expenses of our general and administrative staff, costs of third-party professional services, and office expenses for corporate and regional office. We expect that our general and administrative expenses will increase in the near term as we hire additional personnel and incur additional costs in connection with the expansion of our business.
- *Pre-opening Expenses.* Our pre-opening expenses consist primarily of rents, personnel cost, and other miscellaneous expenses incurred prior to the opening of a new leased and owned hotel.

Our pre-opening expenses are largely determined by the number of pre-opening hotels in the pipeline and the rental fees incurred during the development stage. Landlords typically offer a two- to six-month rent-free period at the beginning of the lease. Nevertheless, rental is booked during this period on a straight-line basis. Therefore, a portion of pre-opening expenses is non-cash rental expenses. The following table sets forth the components of our pre-opening expenses for the periods indicated.

	Year Ended December 31,				Six Months Ended June 30,		
	2014	2015	2016		2016	2017	
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(RMB)	(US\$)
	(In thousands)						
Rents	163,155	95,977	67,277	9,924	33,383	59,712	8,807
Personnel cost	7,217	5,903	1,560	230	517	1,103	163
Others	15,953	8,131	3,010	444	1,490	6,431	949
Total pre-opening expenses	<u>186,325</u>	<u>110,011</u>	<u>71,847</u>	<u>10,598</u>	<u>35,390</u>	<u>67,246</u>	<u>9,919</u>

Our hotel operating costs, selling and marketing expenses and general and administrative expenses include share-based compensation expenses. The following tables set 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 for the periods indicated.

	Year Ended December 31,					
	2014		2015		2016	
	(RMB)	%	(RMB)	%	(RMB)	(US\$)
	(In thousands except percentages)					
Hotel operating costs	6,830	21.4	8,835	16.8	13,603	2,006
Selling and marketing expenses	939	2.9	907	1.7	811	120
General and administrative expenses	24,168	75.7	42,793	81.5	41,022	6,051
Total share-based compensation expenses	<u>31,937</u>	<u>100.0</u>	<u>52,535</u>	<u>100.0</u>	<u>55,436</u>	<u>8,177</u>

	Six Months Ended June 30,					
	2016		2017		2017	
	(RMB)	%	(RMB)	(US\$)	% (US\$)	
	(In thousands except percentages)					
Hotel operating costs	5,998	19.3	9,174	1,353	28.8	
Selling and marketing expenses	515	1.7	658	97	2.1	
General and administrative expenses	24,582	79.0	21,988	3,244	69.1	
Total share-based compensation expenses	<u>31,095</u>	<u>100.0</u>	<u>31,820</u>	<u>4,694</u>	<u>100.0</u>	

We adopted our 2007 Global Share Plan and 2008 Global Share Plan in February and June 2007, respectively, expanded the 2008 Global Share Plan in October 2008, adopted the 2009 Share Incentive Plan in September 2009, and expanded the 2009 Share Incentive Plan in October 2009, August 2010 and March 2015. We have granted options to purchase 319,480, 118,348, nil and nil of our ordinary shares in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively. We granted 1,167,100, 13,931,961, 1,919,791 and 214,099 shares of restricted stock in 2014, 2015, 2016 and the six months ended June 30, 2017, 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.

(iii) *EBITDA and Adjusted EBITDA.* We use earnings before interest income, interest expense, income tax expense (benefit) and depreciation and amortization, or EBITDA, a non-GAAP financial measure, to assess our results of operations before the impact of investing and financing transactions and income taxes. Given the significant investments that we have made in leasehold improvements, depreciation and amortization expense comprises a significant portion of our cost structure. We believe that EBITDA is widely used by other companies in the lodging industry and may be used by investors as a measure of our financial performance. We also use Adjusted EBITDA, another non-GAAP measure, which is defined as EBITDA before share-based compensation expenses. We present Adjusted EBITDA because it is used by our management to evaluate our operating performance. We also believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

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

	Year Ended December 31,				Six Months Ended June 30,		
	2014	2015	2016		2016	2017	
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(RMB)	(US\$)
	(In thousands)						
Non-GAAP Financial Data							
EBITDA(1)	969,546	1,271,675	1,730,319	255,236	816,823	1,060,766	156,471
Adjusted EBITDA(1)	1,001,483	1,324,210	1,785,755	263,413	847,918	1,092,586	161,165

- (1) We believe that EBITDA is a useful financial metric to assess our operating and financial performance before the impact of investing and financing transactions and income taxes. Given the significant investments that we have made in leasehold improvements, depreciation and amortization expense comprises a significant portion of our cost structure. In addition, we believe that EBITDA is widely used by other companies in the lodging industry and may be used by investors as a measure of our financial performance. We believe that EBITDA will provide investors with a useful tool for comparability between periods because it eliminates depreciation and amortization expense attributable to capital expenditures. We also use Adjusted EBITDA, which is defined as EBITDA before share-based compensation expenses. We present Adjusted EBITDA because it is used by our management to evaluate our operating performance. We also believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies. Our calculation of EBITDA and Adjusted EBITDA does not deduct foreign exchange loss, which was RMB0.2 million in 2014, and foreign exchange gain, which was RMB7.8 million and RMB16.5 million (US\$2.4 million) in 2015 and 2016, respectively. Our calculation of EBITDA and Adjusted EBITDA does not deduct foreign exchange gain of RMB4.3 million in the six months ended June 30, 2016 and foreign exchange loss of RMB10.0 million (US\$1.5 million) in the six months ended June 30, 2017. The presentation of EBITDA and Adjusted EBITDA should not be construed as an indication that our future results will be unaffected by other charges and gains we consider to be outside the ordinary course of our business.

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

The terms EBITDA and Adjusted EBITDA are not defined under U.S. GAAP, and neither EBITDA nor Adjusted EBITDA is a measure of net income, operating income, operating performance or liquidity presented in accordance with U.S. GAAP. When assessing our operating and financial performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance measure that is calculated in accordance with U.S. GAAP. In addition, our EBITDA or Adjusted EBITDA may not be comparable to EBITDA or Adjusted EBITDA or similarly titled measures utilized by other companies since such other companies may not calculate EBITDA or Adjusted EBITDA in the same manner as we do.

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

	Year Ended December 31,				Six Months Ended June 30,		
	2014	2015	2016		2016	2017	
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(RMB)	(US\$)
	(In thousands)						
Net income attributable to our company	307,348	436,600	804,615	118,687	384,888	537,722	79,318
Interest income	(23,162)	(26,712)	(67,366)	(9,937)	(25,273)	(40,124)	(5,919)
Interest expense	1,533	3,854	11,056	1,631	6,608	18,228	2,689
Income tax expense	113,105	196,529	287,120	42,352	105,170	182,526	26,924
Depreciation and amortization	570,722	661,404	694,894	102,503	345,430	362,414	53,459
EBITDA (Non-GAAP)	<u>969,546</u>	<u>1,271,675</u>	<u>1,730,319</u>	<u>255,236</u>	<u>816,823</u>	<u>1,060,766</u>	<u>156,471</u>
Share-based compensation expenses	31,937	52,535	55,436	8,177	31,095	31,820	4,694
Adjusted EBITDA (Non-GAAP)	<u>1,001,483</u>	<u>1,324,210</u>	<u>1,785,755</u>	<u>263,413</u>	<u>847,918</u>	<u>1,092,586</u>	<u>161,165</u>

(iv) *Net Cash Provided by Operating Activities.* Our net cash provided by operating activities is primarily attributable to our net income, add-backs from share-based compensation expenses, depreciation and amortization and deferred rent and changes in deferred revenue and prepaid rent. We use net cash provided by operating activities to assess the cash generation capability and return profile of our business. Compared with EBITDA, net cash provided by operating activities neutralizes the impact of straight-line based rental accounting and timing difference in certain areas of revenue recognition when assessing the return profile and profitability of our business. We had net cash provided by operating activities of RMB1,454.0 million, RMB1,749.7 million and RMB2,047.7 million (US\$302.1 million) in 2014, 2015 and 2016, respectively. The year-over-year increase was mainly due to the expansion of our hotel network. Our net cash provided by operating activities was RMB984.5 million (US\$145.2 million) in the six months ended June 30, 2017. We expect that our net cash provided by operating activities will continue to increase as we further expand our hotel network.

Results of Operations

The following table sets forth a summary of our consolidated results of operations, both in absolute amount and as a percentage of net revenues for the periods indicated. This information should be read together with our consolidated financial statements and related notes for the relevant periods.

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,						
	2014		2015		2016		
	(RMB)	%	(RMB)	%	(RMB)	(US\$)	
(In thousands except percentages)							
Consolidated Statement of Comprehensive Income Data:							
Revenues:							
Leased and owned hotels	4,522,431	91.1	4,986,872	86.3	5,212,405	768,871	79.7
Manachised and franchised hotels	742,797	15.0	1,123,979	19.5	1,411,156	208,156	21.6
Others	—	—	—	—	31,219	4,605	0.5
Total revenues	5,265,228	106.1	6,110,851	105.8	6,654,780	981,632	101.8
Less: Business tax and related taxes	300,500	6.1	336,227	5.8	116,149	17,133	1.8
Net revenues	4,964,728	100.0	5,774,624	100.0	6,538,631	964,499	100.0
Operating costs and expenses(1):							
Hotel operating costs	3,878,027	78.1	4,512,147	78.1	4,932,173	727,534	75.4
Other operating costs	—	—	—	—	7,606	1,122	0.1
Selling and marketing expenses	187,435	3.8	179,568	3.1	146,525	21,613	2.2
General and administrative expenses	342,128	6.9	403,008	7.0	492,141	72,595	7.5
Pre-opening expenses	186,325	3.8	110,011	1.9	71,847	10,598	1.1
Total operating costs and expenses	4,593,915	92.6	5,204,734	90.1	5,650,292	833,462	86.3
Other operating income (expense), net	18,551	0.5	31,264	0.5	(17,440)	(2,573)	(0.4)
Income from operations	389,364	7.9	601,154	10.4	870,899	128,464	13.3
Interest income	23,162	0.5	26,712	0.5	67,366	9,937	1.0
Interest expenses	1,533	0.0	3,854	0.0	11,056	1,631	0.2
Other income, net	2,884	0.1	6,979	0.0	133,755	19,730	2.1
Foreign exchange gain (loss)	(246)	0.0	7,814	0.1	16,481	2,431	0.3
Income before income taxes	413,631	8.5	638,805	11.0	1,077,445	158,931	16.5
Income tax expense	113,105	2.3	196,529	3.4	287,120	42,352	4.4
Income (loss) from equity method investments	1,865	0.0	(2,896)	(0.0)	6,157	908	0.1
Net income	302,391	6.2	439,380	7.6	796,482	117,487	12.2
Less: net income (loss) attributable to non-controlling interest	(4,957)	(0.1)	2,780	0.0	(8,133)	(1,200)	(0.1)
Net income attributable to China Lodging Group, Limited	307,348	6.3	436,600	7.6	804,615	118,687	12.3

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

	Year Ended December 31,			
	2014	2015	2016	
	(RMB)	(RMB)	(RMB)	(US\$)
(In thousands)				
Share-based compensation expenses	31,937	52,535	55,436	8,177

	Six Months Ended June 30,				
	2016		2017		
	(RMB)	%	(RMB)	(US\$)	%
(In thousands except percentages)					
Consolidated Statement of Comprehensive Income Data:					
Revenues:					
Leased and owned hotels	2,531,497	81.8	2,766,593	408,094	77.2
Manachised and franchised hotels	669,934	21.6	796,914	117,551	22.3
Others	9,622	0.3	18,780	2,770	0.5
Total revenues	3,211,053	103.7	3,582,287	528,415	100.0
Less: Business tax and related taxes	116,149	3.7	—	—	—
Net revenues	3,094,904	100.0	3,582,287	528,415	100.0
Operating costs and expenses(1):					
Hotel operating costs	2,417,871	78.1	2,547,232	375,737	71.1
Other operating costs	3,029	0.1	5,672	837	0.2
Selling and marketing expenses	69,119	2.2	79,530	11,731	2.2
General and administrative expenses	225,475	7.4	301,032	44,405	8.4
Pre-opening expenses	35,390	1.1	67,246	9,919	1.9
Total operating costs and expenses	2,750,884	88.9	3,000,712	442,629	83.8
Other operating income (expense), net	(9,878)	(0.3)	28,474	4,200	0.8
Income from operations	334,142	10.8	610,049	89,986	17.0
Interest income	25,273	0.8	40,124	5,919	1.1
Interest expenses	6,608	0.2	18,228	2,689	0.5
Other income, net	125,385	4.1	101,361	14,952	2.9
Foreign exchange gain (loss)	4,340	0.1	(9,955)	(1,468)	(0.3)
Income before income taxes	482,532	15.6	723,351	106,700	20.2
Income tax expense	105,170	3.4	182,526	26,924	5.1
Income (loss) from equity method investments	145	0.0	(5,632)	(831)	(0.2)
Net income	377,507	12.2	535,193	78,945	14.9
Less: net loss attributable to non-controlling interest	(7,381)	(0.2)	(2,529)	(373)	(0.1)
Net income attributable to China Lodging Group, Limited	384,888	12.4	537,722	79,318	15.0

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

	Six months ended June 30,		
	2016	2017	
	(RMB)	(RMB)	(US\$)
(In thousands)			
Share-based compensation expenses	31,095	31,820	4,694

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Net Revenues. Our net revenues increased by 15.7% from RMB3,094.9 million in the six months ended June 30, 2016 to RMB3,582.3 million (US\$528.4 million) in the same period 2017. The following table sets forth a breakdown of our net revenues for the periods indicated.

	Six Months Ended June 30,		
	2016	2017	
	(RMB)	(RMB)	(US\$)
	(In thousands)		
Revenues			
Leased and owned hotels	2,531,497	2,766,593	408,094
Manachised and franchised hotels	669,934	796,914	117,551
Others	9,622	18,780	2,770
Total revenues	3,211,053	3,582,287	528,415
Less: business tax and related surcharges	116,149	—	—
Net revenues	3,094,904	3,582,287	528,415
Net revenues from leased and owned hotels	2,439,929	2,766,593	408,094
Net revenues from manachised and franchised hotels	645,701	796,914	117,551
Others	9,274	18,780	2,770

(1) Value-added tax has been implemented for hospitality industry to replace business tax in China effective May 1, 2016. For comparison purpose, the business tax and related surcharges in the six months ended June 30, 2016 are re-allocated to reflect net revenues for each business.

- *Leased and Owned Hotels.* Net revenues from our leased and owned hotels increased by 13.4% from RMB2,439.9 million in the six months ended June 30, 2016 to RMB2,766.6 million (US\$408.1 million) in the same period of 2017. This increase was primarily due to our acquisition of Crystal Orange in May 2017. The increase of RevPAR for our leased and owned hotels from RMB171 in the six months ended June 30, 2016 to RMB193 (US\$28) in the same period of 2017 was attributable to the improved quality of economy hotels and the expansion of midscale hotels.
- *Manachised and Franchised Hotels.* Net revenues from our manachised and franchised hotels increased by 23.4% from RMB645.7 million in the six months ended June 30, 2016 to RMB796.9 million (US\$117.6 million) in the same period of 2017. This increase was primarily due to our continued expansion of manachised hotels from 2,306 hotels and 220,456 hotel rooms as of June 30, 2016 to 2,654 hotels and 253,469 hotel rooms as of June 30, 2017 and franchised hotels from 181 hotels and 17,232 hotel rooms as of June 30, 2016 to 201 hotels and 19,829 hotel rooms as of June 30, 2017. RevPAR for our manachised and franchised hotels increased from RMB142 and RMB117 in the six months ended June 30, 2016 to RMB159 (US\$23) and RMB136 (US\$20) in the same period of 2017, respectively, mainly as a result of the upgrade of HanTing 2.0 and the growing demand of our midscale hotels.
- *Other Revenues.* Net other revenues increased by 102.5% from 9.3 million in the six months ended June 30, 2016 to RMB18.8 million (US\$2.8 million) in the same period of 2017. This increase was primarily attributable to an increase of revenues generated from provision of IT products and services to hotels.

Operating Costs and Expenses. Our total operating costs and expenses increased by 9.1% from RMB 2,750.9 million in the six months ended June 30, 2016 to RMB3,000.7 million (US\$442.6 million) in the same period of 2017.

- *Hotel Operating Costs.* Our hotel operating costs increased by 5.4% from RMB2,417.9 million in the six months ended June 30, 2016 to RMB2,547.2 million (US\$375.7 million) in the same period of 2017. This increase was primarily due to our expansion of leased and owned hotels from 627 hotels as of June 30, 2016 to 686 hotels as of June 30, 2017. The increase in personnel costs, part of hotel operating costs, was also attributable to our expansion of managed hotels from 2,306 hotels as of June 30, 2016 to 2,654 hotels as of June 30, 2017. Our hotel operating costs as a percentage of net revenues decreased from 78.1% in the six months ended June 30, 2016 to 71.1% in the same period of 2017. The period-to-period decrease in the percentage was mainly attributable to the improved blended RevPAR and VAT deductions.
- *Selling and Marketing Expenses.* Our selling and marketing expenses increased by 15.1% from RMB69.1 million in the six months ended June 30, 2016 to RMB79.5 million (US\$11.7 million) in the same period of 2017. Our selling and marketing expenses as a percentage of net revenues remained at 2.2% in the six months ended June 30, 2016 and 2017.
- *General and Administrative Expenses.* Our general and administrative expenses increased by 33.5% from RMB225.5 million in the six months ended June 30, 2016 to RMB301.0 million (US\$44.4 million) in the same period of 2017, primarily as a result of our business expansion, including a transaction cost of RMB46.2 million for our acquisition of Crystal Orange in the six months ended June 30, 2017. Our general and administrative expenses as a percentage of net revenues increased from 7.4% in the six months ended June 30, 2016 to 8.4% in the same period of 2017. The increase was mainly attributable to the cost for our acquisition of Crystal Orange in the six months ended June 30, 2017.
- *Pre-opening Expenses.* Our pre-opening expenses increased by 90.0% from RMB35.4 million in the six months ended June 30, 2016 to RMB67.2 million (US\$9.9 million) in the same period of 2017. Our pre-opening expenses as a percentage of net revenues increased from 1.1% in the six months ended June 30, 2016 to 1.9% in the same period of 2017. These increases were primarily due to the construction of more midscale and upscale leased hotels in 2017.

Other Operating Income (Expense). Our other operating expenses were RMB9.9 million in the six months ended June 30, 2016, which mainly includes loss arising from the write-off of property and equipment associated with the terminated leased and owned hotels. Our other operating income was RMB28.5 million (US\$4.2 million) in the six months ended June 30, 2017, which mainly includes reversal of over-accrued contingencies for certain of our pending legal and administrative proceedings upon negotiation or as an arbitration result, partially offset by loss arising from the write-off of property and equipment associated with the terminated leased and owned hotels.

Income from Operations. As a result of the foregoing, we had income from operations of RMB610.0 million (US\$90.0 million) in the six months ended June 30, 2017, compared to income from operations of RMB334.1 million in the same period of 2016.

Interest Income (Expense), Net. Our net interest income was RMB21.9 million (US\$3.2 million) in the six months ended June 30, 2017. Our interest income increased by 58.8% from RMB25.3 million in the six months ended June 30, 2016 to RMB40.1 million (US\$5.9 million) in the same period of 2017, primarily due to the increase in our cash and cash equivalents and loan receivables. Our interest expense increased by 175.8% from RMB6.6 million in the six months ended June 30, 2016 to RMB18.2 million (US\$2.7 million) in the same period of 2017, primarily due to our increased loan balance, particularly our long-term debt.

Other Income, Net. Our other income decreased by 19.2% from RMB125.4 million in the six months ended June 30, 2016 to RMB101.4 million (US\$15.0 million) in the same period of 2017, primarily attributable to gain from our sale of ADSs we held of Homeinns Co., Ltd in 2016.

Foreign Exchange Gain (Loss). We had foreign exchange loss of RMB10.0 million (US\$1.5 million) in the six months ended June 30, 2017, compared to foreign exchange gain of RMB4.3 million in the same period of 2016. This change was primarily due to the appreciation of the Renminbi against the U.S. dollar in 2017.

Income Tax Expense. Our income tax expenses increased by 73.6% from RMB105.2 million in the six months ended June 30, 2016 to RMB182.5 million (US\$26.9 million) in the same period of 2017, primarily due to increase in our income before income taxes. Our effective tax rate in the six months ended June 30, 2017 was 25.2%, which increased from 21.8% in the same period of 2016, primarily due to influence of tax holiday and change in valuation allowance.

Income (Loss) from Equity Method Investments. Our loss from equity method investments was RMB5.6 million (US\$0.8 million) in the six months ended June 30, 2017, compared to our income from equity method investments of RMB0.1 million in the same period of 2016. This change was primarily due to income or loss generated by the investees.

Net Loss Attributable to Non-controlling Interest. Net loss attributable to non-controlling interest represents joint venture partners' share of our net income or loss based on their equity interest in the leased and owned hotels owned by the joint ventures. Net loss attributable to non-controlling interest decreased from RMB7.4 million in the six months ended June 30, 2016 to RMB2.5 million (US\$0.4 million) in the same period of 2017. These losses were incurred by our joint ventures.

Net Income Attributable to China Lodging Group, Limited. As a result of the foregoing, we had net income attributable to China Lodging Group, Limited of RMB537.7 million (US\$79.3 million) in the six months ended June 30, 2017 compared to net income attributable to China Lodging Group, Limited of RMB384.9 million in the same period of 2016.

EBITDA and Adjusted EBITDA. EBITDA (non-GAAP) was RMB1,060.8 million (US\$156.5 million) in the six months ended June 30, 2017, compared with EBITDA of RMB816.8 million in the same period of 2016. Adjusted EBITDA (non-GAAP) increased from RMB847.9 million in the six months ended June 30, 2016 to RMB1,092.6 million (US\$161.2 million) in the same period of 2017. This increase was primarily due to the expansion of our hotel network and the improved RevPAR from June 30, 2016 to June 30, 2017.

Outstanding Indebtedness

In April 2017, we entered into a three-year bank loan agreement where we can borrow up to US\$40 million by September 30, 2017, and for which pledged an RMB307,000 deposit. The interest rate of this borrowing is based on the three-month Libor on the draw-down date plus 1.4%. As of June 30, 2017, we had drawn down US\$40 million under this contract and repaid nil.

In May 2017, we entered into a facilities agreement with a syndicate of banks led by Deutsche Bank AG, Singapore Branch, under which we were granted a term facility of US\$250 million and a revolving credit facility of US\$250 million, and the agreement shall terminate on May 18, 2020. Certain of our subsidiaries have provided guarantees and we have pledged share in certain of our subsidiaries for our loans drawdown from these facilities. As of June 30, 2017, we had drawn down US\$500 million and repaid nil under this agreement.

Liquidity and Capital Resources

Our principal sources of liquidity have been cash generated from operating activities and borrowings from commercial banks. Our cash and cash equivalents consist of cash on hand and liquid investments which have maturities of three months or less when acquired and are unrestricted as to withdrawal or use. As of June 30, 2017, we had entered into binding contracts with lessors of

30 properties for our leased and owned hotels under development. As of June 30, 2017, we expect to incur approximately RMB1,010.1 million of capital expenditures in connection with certain recently completed leasehold improvements and to fund the leasehold improvements of these 30 leased and owned hotels. We intend to fund this planned expansion with our operating cash flow, our cash balances and our credit facilities.

We have been able to meet our working capital needs, and we believe that we will be able to meet our working capital needs for at least the next 12 months with our operating cash flow, existing cash balance and our credit facilities (including the undrawn bank facilities currently available to us and bank facilities we plan to obtain in 2017 and 2018).

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

	Year Ended December 31,				Six Months Ended	
	2014	2015	2016		June 30, 2017	
	(RMB)	(RMB)	(RMB)	(US\$)	(RMB)	(US\$)
	(In thousands)					
Net cash provided by operating activities	1,454,015	1,749,673	2,047,656	302,045	984,518	145,223
Net cash (used in) provided by investing activities	(1,063,186)	(1,550,357)	183,762	27,106	(4,792,925)	(706,994)
Net cash provided by (used in) financing activities	21,683	232,281	(247,549)	(36,515)	3,560,114	525,146
Effect of exchange rate changes on cash and cash equivalents	(1,082)	(2,624)	13,300	1,962	(6,339)	(935)
Net increase (decrease) in cash and cash equivalents	411,430	428,973	1,997,169	294,598	(254,632)	(37,560)
Cash and cash equivalents at the beginning of the year	397,435	808,865	1,237,838	182,591	3,235,007	477,189
Cash and cash equivalents at the end of the year	808,865	1,237,838	3,235,007	477,189	2,980,375	439,629

Operating Activities

In the six months ended June 30, 2017, we financed our operating activities primarily through cash generated from operations. Net cash provided by operating activities amounted to RMB984.5 million (US\$145.2 million) in the six months ended June 30, 2017, primarily attributable to (i) net income of RMB535.2 million (US\$78.9 million), (ii) an add-back of RMB362.4 million (US\$53.5 million) in depreciation and amortization, and (iii) an RMB142.1 million (US\$21.0 million) increase in accrued expenses and other current liabilities.

Investing Activities

Our cash used in investing activities of RMB4,792.9 million (US\$707.0 million) in the six months ended June 30, 2017 was primarily related to (i) RMB3,745.3 million (US\$552.5 million) in acquisitions net of cash received primarily in connection with our acquisition of Crystal Orange, (ii) an RMB467.0 million (US\$68.9 million) increase in restricted cash, and (iii) RMB342.0 million (US\$50.4 million) in purchases of property and equipment.

Financing Activities

Our major financing activities since 2012 consist of loans with commercial banks, entrusted loans from related parties, repurchase of shares and payment of dividends. In May 2017, we entered into a facilities agreement with a syndicate of banks led by Deutsche Bank AG, Singapore Branch, under

which we were granted a term facility of US\$250 million and a revolving credit facility of US\$250 million. See "—Outstanding Indebtedness" for more information. Net cash provided by financing activities was RMB3,560.1 million (US\$525.1 million) in the six months ended June 30, 2017, consisting primarily of (i) RMB3,633.2 million (US\$535.9 million) in proceeds from long-term debt and (ii) RMB136.5 million (US\$20.1 million) in proceeds from short-term debt, offset in part by RMB267.8 million (US\$39.5 million) in repayment of short-term debt.

Capital Expenditures

Our capital expenditures were incurred primarily in connection with leasehold improvements, investments in furniture, fixtures and equipment and technology, information and operational software. Our capital expenditures totaled RMB928.8 million, RMB655.4 million and RMB494.8 million (US\$73.0 million) in 2014, 2015 and 2016, respectively, and was RMB175.4 million and RMB324.9 million (US\$47.9 million) in the six months ended June 30, 2016 and 2017, respectively. Our capital expenditures in 2016 consisted of RMB487.7 million (US\$71.9 million) in property and equipment and RMB7.1 million (US\$1.0 million) in software. Our capital expenditures in the six months ended June 30, 2017 consisted of RMB 323.5 million (US\$47.7 million) in property and equipment and RMB1.4 million (US\$0.2 million) in software. We will continue to make capital expenditures to meet the expected growth of our operations and expect that our cash balances, cash generated from our operating activities and credit facilities will meet our capital expenditure needs in the foreseeable future.

Off-Balance Sheet Arrangements

Other than operating lease and purchase obligations set forth in "—Contractual Obligations," we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Contractual Obligations

The following table sets forth our contractual obligations as of June 30, 2017:

	Payment Due in the Year Ending December 31,										Payment Due Thereafter	
	Total	Remaining of 2017	2018	2019	2020	2021	2022	2023	2024	2025		2026
	(In RMB millions)											
Operating Lease Obligations	24,376	1,237	2,394	2,374	2,313	2,192	2,061	1,909	1,783	1,612	1,409	5,092
Purchase Obligations	120	120	—	—	—	—	—	—	—	—	—	—
Total	24,496	1,357	2,394	2,374	2,313	2,192	2,061	1,909	1,783	1,612	1,409	5,092

Our operating lease obligations related to our obligations under lease agreements with lessors of our leased hotels. We generally are able to terminate these lease agreements by paying penalties to the lessors, in most cases up to six months of rental pursuant to the terms of the lease agreements or our past experience. Our purchase obligations primarily consisted of contractual commitments in connection with leasehold improvements and installation of equipment for our leased hotels.

As of June 30, 2017, we recorded uncertain tax benefits of approximately RMB25.1 million (US\$3.7 million) associated with the interests on intercompany loans.

QuickLinks

[Exhibit 99.2](#)

[MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS](#)

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

Consolidated Financial Statements

For the year ended December 31, 2016

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Report of Independent Auditors

The Board of Directors and Shareholders of Crystal Orange Hotel Holdings Limited

We have audited the accompanying consolidated financial statements of Crystal Orange Hotel Holdings Limited, which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of comprehensive income, changes in shareholders' deficit, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Crystal Orange Hotel Holdings Limited at December 31, 2016, and the consolidated results of its operations and its cash flows for the year ended December 31, 2016 in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young Hua Ming LLP
Beijing, the People's Republic of China
July 20, 2017
Except for Note 17, as to which the date is
October 26, 2017

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET

	<u>Notes</u>	<u>December 31 2016 US\$</u>
ASSETS		
Current assets:		
Cash		43,271,692
Accounts receivable, net of nil allowance for doubtful accounts as of December 31, 2016	3	3,163,018
Consumables		869,881
Prepayments, deposits and other receivables	4	4,834,189
Deferred tax assets	12	912,707
Total current assets		<u>53,051,487</u>
Non-current assets:		
Property and equipment, net	5	110,527,996
Deferred tax assets	12	7,645,848
Rental deposits	4	7,412,124
Sublease receivables	4	243,336
Total non-current assets		<u>125,829,304</u>
TOTAL ASSETS		<u>178,880,791</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	6	255,423
Accrued expenses and other liabilities	7	20,627,769
Income tax payable		5,089,351
Deferred revenue		630,237
Total current liabilities		<u>26,602,780</u>
Non-current liabilities:		
Deferred revenue		3,368,392
Deferred rent	7	19,788,587
Other non-current liabilities	7	890,783
Total non-current liabilities		<u>24,047,762</u>
Total liabilities		<u>50,650,542</u>
Commitments and contingencies	16	

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

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEETS (Continued)

	Notes	December 31 2016 US\$
Mezzanine equity	8	
Series A convertible preferred shares(par value of US\$0.1 per share; 48,247,761 shares authorized as at December 31, 2016, 23,787,878 shares issued and outstanding as at December 31, 2016; liquidation value was US\$0.5 per share)		31,739,000
Series B convertible preferred shares(par value of US\$0.1 per share; 11,224,124 shares authorized as at December 31, 2016, 9,224,124 shares issued and outstanding as at December 31, 2016; liquidation value was US\$0.5 per share)		12,336,000
Series C convertible preferred shares(par value of US\$0.1 per share; 15,100,825 shares authorized as at December 31, 2016, 15,100,825 shares issued and outstanding as at December 31, 2016; liquidation value was US\$1.61 per share)		20,983,000
Series D convertible preferred shares(par value of US\$0.1 per share; 60,510,992 shares authorized as at December 31, 2016, 60,510,992 shares issued and outstanding as at December 31, 2016; liquidation value was US\$2.51 per share)		<u>101,279,000</u>
Total mezzanine equity		<u>166,337,000</u>
Shareholders' deficits:		
Ordinary shares	8	—
Additional paid-in capital		6,314,989
Accumulated other comprehensive loss		(8,442,647)
Accumulated losses		<u>(36,673,298)</u>
Total Crystal Orange Hotel Holdings Limited shareholders' deficit		<u>(38,800,956)</u>
Non-controlling interests		694,205
Total deficit		<u>(38,106,751)</u>
TOTAL LIABILITIES, MEZZANINE AND EQUITY (DEFICIT)		<u>178,880,791</u>

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

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<u>Notes</u>	<u>Year Ended December 31, 2016</u> US\$
Revenues		
Room, food and beverage revenue		128,318,308
Franchise fees		8,864,875
Membership card		527,103
Sublease revenue		2,197,859
Other		1,911,135
Total Revenue		<u>141,819,280</u>
Business tax and related surcharge		(2,552,211)
Net revenue		<u>139,267,069</u>
Costs and operating expenses		
Cost of revenue	10	(102,660,199)
Sales and marketing expenses		(6,380,880)
General and administrative expenses		(14,391,196)
Total costs and operating expenses		<u>(123,432,275)</u>
Income from operations		<u>15,834,794</u>
Interest income		634,322
Other expenses, net	11	(1,142,118)
Income before income tax expenses		<u>15,326,998</u>
Income tax expenses	12	(5,590,066)
Net income		<u>9,736,932</u>
Net income (loss) attribute to:		
Crystal Orange Hotel Holdings Limited		9,855,559
Non-controlling interests		(118,627)
		<u>9,736,932</u>
Other comprehensive loss, net of tax:		
Foreign currency translation adjustment, net of nil tax		(8,187,963)
Total other comprehensive loss, net of tax		<u>(8,187,963)</u>
Total comprehensive income		<u>1,548,969</u>
Total comprehensive income (loss) attributable to:		
Crystal Orange Hotel Holdings Limited		1,667,596
Non-controlling interests		(118,627)
		<u>1,548,969</u>

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

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT

	Attributable to Crystal Orange Hotel Holdings Limited						
	Ordinary shares		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Losses	Non-controlling Interests	Total
	Number of Shares	Amount					
	US\$	US\$	US\$	US\$	US\$	US\$	
Balance at January 1, 2016	1	—	3,845,509	(254,684)	(46,528,857)	—	(42,938,032)
Share-based compensation	—	—	2,469,480	—	—	—	2,469,480
Net income	—	—	—	—	9,855,559	(118,627)	9,736,932
Capital contribution from non-controlling interests	—	—	—	—	—	812,832	812,832
Foreign currency translation adjustments, net of nil tax	—	—	—	(8,187,963)	—	—	(8,187,963)
Balance at December 31, 2016	<u>1</u>	<u>—</u>	<u>6,314,989</u>	<u>(8,442,647)</u>	<u>(36,673,298)</u>	<u>694,205</u>	<u>(38,106,751)</u>

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

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Notes</u>	<u>Year Ended December 31, 2016</u> US\$
Cash flows from operating activities		
Net income		9,736,932
Adjustments to reconcile net income to net cash from operating activities:		
Loss on disposal of property, plant and equipment, net		436,141
Depreciation of property and equipment		19,653,442
Share-based compensation expenses	9	2,469,480
Deferred income tax		(2,457,543)
Changes in operating assets and liabilities:		
Consumables		(273,384)
Prepayments, deposits and other receivables		(985,244)
Rental deposits		18,106
Accounts receivable		(1,055,886)
Deferred rent		5,039,163
Accrued expenses and other liabilities		939,418
Deferred revenue		952,859
Accounts payable		199,453
Income tax payable		3,327,791
Other non-current liabilities		324,603
Net cash provided by operating activities		<u>38,325,331</u>
Cash flow from investing activities		
Acquisition of property and equipment		(33,934,899)
Net cash used in investing activities		<u>(33,934,899)</u>
Cash flow from financing activities		
Capital Injection from non-controlling Interests		812,832
Net cash provided by financing activities		<u>812,832</u>
Effect of exchange rate changes on cash		(2,653,616)
Net change in cash		2,549,648
Cash at beginning of the year		40,722,044
Cash at end of the year		<u>43,271,692</u>
Supplemental disclosures of cash flow information:		
Income tax paid		4,888,928
Non-cash transactions:		
Acquisition of property and equipment included in accrued expenses and other payables		6,596,861

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

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPAL ACTIVITIES AND ORAGNIZATION

Principal Activities

Crystal Orange Hotel Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") are principally engaged to develop, lease, operate and manage chain hotels under the Orange Hotel brand in the People's Republic of China ("PRC") primarily through Orange Hotel Management (China) Company Limited, Beijing Seven Days Holiday Limited and Beijing Crystal Orange Hotel Management Consulting Company Limited. The Group leases real estate properties on which it develops and operates hotel (referred to as "leased-and-operated hotel").

Organization

The Company was incorporated in the British Virgin Islands on March 16, 2006 as an exempted company with limited liability. The Company is an investment holding company. Details of the Company's subsidiaries as of December 31, 2016 are as follows:

<u>Companies</u>	<u>Date of Establishment</u>	<u>Place of Establishment</u>	<u>Percentage of Ownership by the Company</u>	<u>Principal Activities</u>
Orange Hotel Hong Kong Limited ("Orange HK")	April 27, 2007	Hong Kong	100%	Investment
Beijing Orange Times Technical Limited ("Orange Times")	October 30, 2006	PRC	100%	Technical Consultation
Orange Hotel Management (China) Company Limited ("Orange China")	March 30, 2006	PRC	100%	Develop, lease, operate and manage chain hotels
Beijing Seven Days Holiday Hotel Limited ("Seven Days Holiday")	July 30, 2006	PRC	100%	Develop, lease, operate and manage chain hotels
Beijing Crystal Orange Hotel Management Consulting Company Limited ("Crystal Orange")	October 27, 2011	PRC	100%	Develop, lease, operate and manage chain hotels
Beijing Crystal Orange Hotel Management Company Limited	November 18, 2014	PRC	100%	Develop, lease, operate and manage chain hotels
Beijing Orange Times Management Company Limited	May 28, 2015	PRC	100%	Develop, lease, operate and manage chain hotels
Shanghai Orange Nest Apartment Management Co., Ltd.	October 23, 2015	PRC	100%	Develop, lease, operate and manage chain hotels
Hefei Jucheng Hotel Management Consulting Co., Ltd.	February 24, 2016	PRC	70%	Develop, lease, operate and manage chain hotels

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP").

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries. All inter-company balances and transactions between the Company and its subsidiaries have been eliminated upon consolidation.

Foreign Currency

The functional and reporting currency of the Company is the United States Dollars ("US dollar"). The functional currency of Orange HK is US dollar. The functional currency of the Company's subsidiaries in PRC is Renminbi ("RMB"). Subsidiaries in PRC use the average exchange rate and the exchange rate at the balance sheet date to translate the operating results and financial position, respectively. Foreign currency translation gains or losses are accumulated within other comprehensive income or loss as a separate component of shareholder's equity. Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at the balance sheet date. Foreign currency gains and losses are included in other expenses, net.

Use of Estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates, and as such, differences could be material to the consolidated financial statements.

Management evaluates estimates, including those related to the useful lives for depreciation/ amortization periods of property and equipment, collectability of accounts receivable, accruals for customer reward program, the fair value of the Company's ordinary and preferred shares, share-based compensation, average life of membership card, and the realization of deferred taxes. Management bases the estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ materially from those estimates.

Cash

Cash is stated at cost, which approximates fair value, and primarily consist of cash on hand, bank deposits that are unrestricted as to withdrawal and use.

The Group holds its cash in major financial institutions that management believes are of high credit quality.

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recognized and carried at original invoiced amount less an allowance for any potential uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when collection efforts have ceased. As of December 31, 2016, no allowance was provided for accounts receivable.

Consumables

The Group purchases consumables mainly for the operations of lease-and-operated hotels.

The Group's consumables include fabrics, such as towels and beddings, and household utensils, which need to be renewed periodically. Consumables are amortized over their estimated useful lives, generally one year, from the time they are purchased.

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and amortization. Depreciation or amortization is calculated on a straight line basis over the shorter of the estimated useful lives of the assets or the term of the related lease, as follows:

<u>Category</u>	<u>Estimated useful life</u>	<u>Residual value</u>
Leasehold improvements	5 - 20 years	—
Machinery and equipment	5 - 10 years	5%
Furniture, fixtures, and office equipment	3 - 5 years	5%

Repair and maintenance costs are charged to expense as incurred, whereas the cost of renewals and betterments that extend the useful life of property and equipment are capitalized as additions to the related assets. Retirements, sales and disposals of assets, if any, are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in the consolidated statement of comprehensive income.

Construction in progress

Construction in progress represents leasehold improvements under construction or installation 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 property and equipment and depreciation commences when the asset is ready for its intended use.

Impairment of Long-lived Assets

The Group evaluates its long-lived assets 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 would recognize an impairment loss based on the fair value of the assets. Fair value is generally determined by discounting the cash flows expected to be generated by the assets, when the market

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-lived Assets (Continued)

prices are not readily available for the long-lived assets. No impairment charges have been recorded in the period presented.

Accruals for customer reward program

The Group invites its customers to participate in a customer loyalty reward program. The membership has unlimited life. Members enjoy favorable treatment such as discounts on room rates and accumulation of membership points for their paid stays.

Under incremental cost approach, the estimated incremental costs to provide membership upgrades, room night awards and other gifts are accrued and recorded as accruals for customer reward program as members accumulate points and recognized as sales and marketing expenses in the accompanying statement of comprehensive income. As members redeem awards, the provision is reduced correspondingly.

As of December 31, 2016, the accruals for customer reward program based on the estimated liabilities under the customer reward program amounted to US\$312,637.

Deferred revenue

Deferred revenue is derived from cash received for membership fees and franchise fee.

Revenue recognition

In accordance with Accounting Standards Codification ("ASC") subtopic 605-25 ("ASC 605-25"), Revenue Recognition: *Multiple—Deliverable Revenue Arrangements*, for arrangements that include multiple deliverables, the Group would evaluate all the deliverables in the arrangement to determine whether they represent separate units of accounting. For the arrangements with deliverable items to be considered a separate unit of accounting, the Group allocates the total consideration of the arrangements based on their relative price, with the price of each deliverable determined using vendor-specific objective evidence ("VSOE") of price, and recognizes revenue as each service deliverable is provided.

Revenue is primarily derived from hotel operations, including the rental of rooms and food and beverage sales. Revenue is recognized when rooms are occupied and food and beverages are sold. Sublease rental revenue is recognized on a straight-line basis over the contractual lease term.

Revenue from franchised-and-managed hotel is derived from franchise agreements where the franchisees are required to pay (i) franchise fee, (ii) on-going management and service fees based on a percentage of the rooms revenue and (iii) hotel design fee.

The franchise fee is recorded as deferred revenue when cash received and recognized as revenue during the franchising period.

The ongoing management and service fees, normally 4% to 6% of the total revenue of the franchised hotel, are recognized monthly when the underlying revenue is recognized by the franchisees' operations. The system maintenance, support fee and central reservation system usage fee is recognized when services are provided.

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

The hotel design fee is recognized when services are provided.

One-time fees from the regular membership of the Group's customer loyalty program are recognized on a straight-line basis over the expected membership term which is three years. Such term is estimated based on the Group's historical information on the customer behavior pattern. The Group continues to monitor its membership activity patterns and re-assesses average life of memberships at each reporting period to ensure estimate of revenue recognition period is reasonable.

Business tax and related surcharge

The Group is subject to business tax, education surtax and urban maintenance and construction tax on the services provided in PRC before April 30, 2016. Business tax and related surcharge are based on revenue at applicable rate of 1.8% for the year ended December 31, 2016 and are recorded as a reduction of revenues.

Value Added Tax

On January 1, 2012, the Chinese State Council officially launched a pilot value-added tax ("VAT") reform program, or Pilot Program, applicable to businesses in selected industries. Businesses in the Pilot Program would pay VAT instead of business tax. The Pilot Industries in Shanghai included industries involving the leasing of tangible movable property, transportation services, research and development and technical services, information technology services, cultural and creative services, logistics and ancillary services, certification and consulting services. Revenues generated by advertising services, a type of "cultural and creative services," are subject to the VAT tax rate of 6%. According to official announcements made by competent authorities in Beijing and Guangdong province, Beijing launched the same Pilot Program on September 1, 2012, and Guangdong province launched it on November 1, 2012. On May 24, 2013, the Ministry of Finance, or the MoF, and the State Administration of Taxation, or the SAT, issued the Circular on Tax Policies in the Nationwide Pilot Collection of Value Added Tax in Lieu of Business Tax in the Transportation Industry and Certain Modern Services Industries, or the Circular 37. The scope of certain modern services industries under the Circular 37 extends to the inclusion of radio and television services. On August 1, 2013, the Pilot Program was implemented throughout China. On December 12, 2013, the MoF and the SAT issued the Circular on the Inclusion of the Railway Transport Industry and Postal Service Industry in the Pilot Collection of Value-added Tax in Lieu of Business Tax, or Circular 106. Among the other things, Circular 106 abolished Circular 37, and refined the policies for the Pilot Program. On April 29, 2014, the MoF and the SAT issued the Circular on the Inclusion of Telecommunications Industry in the Pilot Collection of Value-added Tax in Lieu of Business Tax. On March 23, 2016, the MoF and the SAT issued the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax. Effective from May 1, 2016, the PRC tax authorities collect VAT in lieu of Business Tax in all regions and industries. All of our entities (small-scale taxpayers are not included) were subject to VAT at the rate of 6% for services provided and 11% for rental income and small-scale taxpayers were subject to VAT at a base rate of 6% as of December 31, 2016.

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The Group records a valuation allowance against deferred tax assets, based on the weight of available evidence when it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on the characteristics of the underlying assets and liabilities, or the expected timing of their use when they do not relate to a specific asset or liability.

The Group applies the provisions of ASC 740, *Income Tax* ("ASC 740"), in accounting for uncertainty in income taxes. ASC 740 clarified the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. The Group has elected to classify interest and penalties related to an uncertain tax position (if and when required) as part of income tax expense in the consolidated statements of comprehensive income. As of and for the year ended December 31, 2016, the Company determined that it had no material unrecognized tax benefit and accordingly no material related interest and penalty.

Leases

Leases have been classified as either capital or operating leases. Leases that transfer substantially all the benefits and risks incidental to the ownership of assets are accounted for as if there was an acquisition of an asset and incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. The Group had no capital leases as at December 31, 2016. Certain lease agreements contain rent holidays, which are recognized on a straight-line basis over the lease term. Lease renewal periods are considered on a case-by-case basis and are not included in the initial lease term.

Fair value measurements

Fair value is 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. Authoritative literature provides a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurements (Continued)

measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

Level 1

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2

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

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Group did not have any financial instruments that were required to be measured at fair value on a recurring basis as of December 31, 2016. Financial instruments include cash, restricted cash, accounts receivable and accounts payable. The carrying values of financial instruments which consist of cash, restricted cash, accounts receivable and accounts payable approximate their fair values due to their short-term maturities.

Employee benefits

The full-time employees of the Group's PRC subsidiaries participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that PRC subsidiaries of the Group to make contributions to the government for these benefits beyond the personal contribution made. The Group has no legal obligation for the benefits beyond the contributions. The employee benefits were expensed as incurred.

Share-based compensation

The Group applies ASC 718, *Compensation—Stock Compensation*, in connection with its share-based compensation related to employees. In accordance with ASC 718, the Company determines whether an award should be classified and accounted for as a liability award or equity award. All the Company's grants of share-based awards to employees were classified as equity awards and are recognized in the financial statements based on their grant date fair values, less expected forfeitures, over the requisite service period, which is generally the vesting period. The Group estimates the fair value of each equity award on the date of grant using the Binomial option pricing model and recognizes the related share based compensation expense on the straight-line method for all share-based awards with no performance conditions. Determining the fair value of share based awards

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based compensation (Continued)

requires judgment, including estimating the risk free interest rate, expected volatility, expected dividends, and exercise multiples. For awards with performance conditions, such as qualified public offering, compensation cost is recognized when qualified public offerings is consumed.

The Group applies ASC 505-50, *Equity-Based Payments to Non-Employees*, in connection with its share-based compensation related to non-employees. In accordance with ASC 505-50, share based compensation expense related to non-employees is measured at the date at the earlier of the following dates: a) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached, b) the date at which the counterparty's performance is complete based on the fair value of the equity award and is recognized as expense. The Group estimates the fair value of each equity award on the date of the completion of performance using the Binomial option pricing model and recognizes the related share based compensation expense.

Risk Free Interest Rate: the Group bases the risk free interest rate on the implied yield currently rates of US dollar denominates bond issued by the Chinese government with a remaining term equivalent to the estimated life of the share based awards. Where the expected term of the Company's share based awards does not correspond with the term for which an interest rate is quoted, the Company performs a straight line interpolation to determine the rate from the available term maturities.

Expected Volatility: the Company's volatility factor is estimated using comparable public Company volatility for similar option terms.

Expected Dividends: the Company has never paid cash dividends and has no present intention to pay cash dividends in the future, and as a result, the expected dividends are zero.

Recently issued accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASC 606, *Revenue from Contracts with Customers*. ASC 606 provide accounting guidance for all revenue arising from contracts with customers and affect all entities that enter into contracts to provide goods or services to their customers. ASC 606 outline the principles an entity must apply to measure and recognize revenue and the related cash flows. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in the standards will be applied using the following five steps:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract;
- Recognize revenue when (or as) the entity satisfies a performance obligation.

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02 ("ASU 2016-02"), Leases. ASU 2016-02 specifies the accounting for leases. For operating leases, ASU 2016-02 requires a lessee to recognize a right-of-use asset and a lease liability, initially measured

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently issued accounting pronouncements (Continued)

at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. ASU 2016-02 is effective for nonpublic companies for annual reporting periods beginning after December 15, 2018, and interim periods within those years beginning after December 15, 2019. Early adoption is permitted. The Group is currently in the process of evaluating the impact of the adoption of ASU2016-02 on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07 ("ASU 2016-07"), which eliminates the requirement to retroactively adopt the equity method of accounting. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The amendments in this ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. The Group is in the process of evaluating the impact of this ASU on the consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-08 ("ASU 2016-08"), which amends the principal-versus-agent implementation guidance and illustrations in the Board's new revenue standard (ASC 606). The amendments in this update clarify the implementation guidance on principal versus agent considerations. When another party, along with the reporting entity, is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide that good or service to the customer (as a principal) or to arrange for the good or service to be provided to the customer by the other party (as an agent). The guidance is effective for interim and annual periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Group is in the process of evaluating the impact of this ASU on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09 ("ASU 2016-09"), which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. For nonpublic entities, the ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within annual reporting periods beginning after December 15, 2018. Early adoption will be permitted in any interim or annual period for which financial statements have not yet been issued or have not been made available for issuance. The Group is in the process of evaluating the impact of this ASU on the consolidated financial statements.

In August, 2016, the FASB issued ASU No. 2016-15 ("ASU 2016-15"), which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The ASU's amendments add or clarify guidance on eight cash flow issues, including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently issued accounting pronouncements (Continued)

effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. For nonpublic business entities, this ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for all entities. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable. The Group is in the process of evaluating the impact on the consolidated financial statements.

In October, 2016, the FASB issued ASU No. 2016-16 ("ASU 2016-16"), which removes the prohibition in ASC 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The ASU, which is part of the Board's simplification initiative, is intended to reduce the complexity of U.S. GAAP and diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving intellectual property. For nonpublic business entities, the ASU is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted for all entities as of the beginning of a fiscal year for which neither the annual or interim (if applicable) financial statements have been issued or made available for issuance. The Group does not expect the adoption of this ASU will have significant impact on the consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18 ("ASU 2016-18"), Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 requires companies to include amounts generally described as restricted cash in cash when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard is effective for nonpublic business entities for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted. The Group is currently evaluating the effect that this guidance will have on our consolidated financial statements and related disclosures.

3. ACCOUNTS RECEIVABLE, NET OF NIL ALLOWANCE

Accounts receivable, net consisted of the following:

	December 31, 2016
	US\$
<i>Accounts receivable</i>	3,163,018
Less: allowance for doubtful accounts	—
<i>Accounts receivable, net</i>	<u>3,163,018</u>

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Prepayments, deposits and other receivables consist of the following:

	December 31, 2016
	US\$
<i>Current portion:</i>	
Prepayments for rental expense	480,049
Prepayment for utilities expense	1,316,739
Advances to employees	697,452
Advance to suppliers	414,881
Interest receivables	90,369
Advances to the proprietor	432,464
Prepaid tax	476,453
Other current assets	925,782
	4,834,189
<i>Non-current portion:</i>	
Rental deposits	7,412,124
Sublease receivables	243,336
	7,655,460
Total prepayments, deposits and other receivables	12,489,649

5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following:

	December 31, 2016
	US\$
Leasehold improvements	146,717,465
Machinery and equipment	14,146,055
Furniture, fixtures and office equipment	11,678,844
Construction in progress	16,055,345
	188,597,709
Less: Accumulated depreciation and amortization	
Leasehold improvements	(64,489,343)
Machinery and equipment	(13,525,412)
Furniture, fixtures and office equipment	(54,958)
	(78,069,713)
Total property and equipment, net	110,527,996

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. PROPERTY AND EQUIPMENT, NET (Continued)

The total depreciation expense on property and equipment for fiscal year ended December 31, 2016 was approximately US\$19,653,442. Additions of property and equipment for the year ended December 31, 2016 were US\$3,737,919. The Group recognized impairment loss on fixed assets of nil for the year ended December 31, 2016. The Group's property and equipment are not under any restriction.

6. ACCOUNTS PAYABLE

Accounts payable, net consisted of the following:

	December 31, 2016
	US\$
Accounts payable	255,423

7. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consisted of the following:

	December 31, 2016
	US\$
<i>Current Portion:</i>	
Accrued payable on construction of leasehold improvement	6,596,861
Accrued salaries and welfare payable	2,765,665
Advance from franchisees	6,013,391
Accruals for utilities expenses	915,756
Accrued social insurance	848,737
Consulting fee	851,444
Accrued expenses for customer reward program	312,637
Accrued commission fees	318,767
Accrued rental expenses	586,697
Others	1,417,814
	20,627,769
<i>Non-current Portion:</i>	
Deferred rent	19,788,587
Others	890,783
	20,679,370
Total accrued expenses and other liabilities	41,307,139

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. CONVERTIBLE PREFERRED SHARES AND ORDINARY SHARES

Ordinary Shares Reserved for Future Issuance

The Company has reserved the following shares of ordinary shares for issuance on December 31, 2016, in connection with the following:

	December 31, 2016
	Shares
Conversion of Series A convertible preferred share	23,787,878
Conversion of Series B convertible preferred share	9,224,124
Conversion of Series C convertible preferred share	15,100,825
Conversion of Series D convertible preferred share	60,510,992
Ordinary share options outstanding	30,228,450
Ordinary share options available for future grant under stock option plans	76,026
	138,928,295

Convertible Preferred Shares

Under the Company's amended articles of incorporation, the Company's board of directors are authorized to determine the rights, preferences, and terms of each series of preferred shares. At December 31, 2016 the amounts, terms, and liquidation values of Series A, B, C and D convertible preferred share ("Preferred Share") are as follows:

The Company issued Preferred Share as follows:

Series	Shares Outstanding	Liquidation Preference	
		Per Share US\$	Total US\$
A	23,787,878	0.50	11,893,939
B	9,224,124	0.50	4,612,062
C	15,100,825	1.61	24,312,328
D	60,510,992	2.51	151,882,590
	108,623,819		192,700,919

All the series are collectively called the Preferred Shares. The preferred shares were accounted as mezzanine equity. Key terms of the Preferred Share as of December 31, 2016, are as follows:

Redemption

The Preferred Shares are not redeemable except for liquidation events.

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. CONVERTIBLE PREFERRED SHARES AND ORDINARY SHARES (Continued)

Conversion

Optional Conversion

Any Preferred Share may, at the option of the holders thereof, be converted at any time after the date of issuance of such Preferred Shares, without the payment of any additional consideration, into fully-paid and non-assessable ordinary shares based on the Applicable Conversion Price.

Automatic Conversion

Each Preferred A Share shall automatically be converted, without the need for Shareholder consent, based on the Preferred A Conversion Price then in effect, without the payment of any additional consideration, into fully-paid and non-assessable Ordinary Shares upon the earlier of (a) the closing of a Qualified Public Offering, or (b) the date specified by written consent or agreement of the holders of at least fifty percent (50%) of the then outstanding Preferred A Shares.

Each Preferred B Share shall automatically be converted, without the need for Shareholder consent, based on the Preferred B Conversion Price then in effect, without the payment of any additional consideration, into fully-paid and non-assessable Ordinary Shares upon the earlier of (a) the closing of a Qualified Public Offering, or (b) the date specified by written consent or agreement of the holders of at least fifty percent (50%) of the then outstanding Preferred B Shares.

Each Preferred C Share shall automatically be converted, without the need for Shareholder consent, based on the Preferred C Conversion Price then in effect, without the payment of any additional consideration, into fully-paid and non-assessable Ordinary Shares upon the earlier of (a) the closing of a Qualified Public Offering, or (b) the date specified by written consent or agreement of the holders of at least sixty-six point seven percent (66.7%) of the then outstanding Preferred C Shares.

Each Preferred D Share shall automatically be converted, without the need for Shareholder consent, based on the Preferred D Conversion Price then in effect, without the payment of any additional consideration, into fully-paid and non-assessable Ordinary Shares upon the earlier of (a) the closing of a Qualified Public Offering, or (b) the date specified by written consent or agreement of the holders of at least a majority of the then outstanding Preferred D Shares.

Voting rights

Each Preferred Share shall be entitled to the voting rights that would attach to the number of Ordinary Shares which would be issuable upon the exercise of the conversion rights attached to such Preferred Share as at the record date for the vote being conducted or, if no such record date is established, at the date such vote is taken or any written consent of Shareholders is solicited, including, without limitation, the right to receive notice of, attend, form a quorum and vote in person or by proxy at a general meeting of the Company (and the right to give written consent or pass written resolutions in connection therewith) and otherwise on all matters voted on by holders of Ordinary Shares as a class, voting together as a single class with the holders of Ordinary Shares.

Dividends Payment

For each fiscal year, the Series A, Series B, Series C and Series D convertible preferred share shareholder has the right to a preferential dividend of 5%, 5%, 8% and 8%, respectively, of issuance

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. CONVERTIBLE PREFERRED SHARES AND ORDINARY SHARES (Continued)

Dividends Payment (Continued)

price of per share as and when a dividend in respect of the shares of Preferred Share is declared out of the legally distributable funds of the Group for such fiscal year. Up till December 31, 2016, no dividends have been declared or paid by the Company.

The Preferred D Preferential Dividend shall be declared and paid in priority to any declaration or payment of distributable profits of the Company in respect of the Preferred C Shares, Preferred B Shares, Preferred A Shares and Ordinary Shares, and if the Preferred D Preferential Dividend has not been paid in full when due, the Company shall not pay any dividends or distributions on any Preferred C Shares, Preferred B Shares, Preferred A Shares or Ordinary Shares until such time as the Preferred D Preferential Dividend has been paid in full with respect to all amounts then due.

The Preferred C Preferential Dividend shall be declared and paid in priority to any declaration or payment of distributable profits of the Company in respect of the Preferred B Shares, Preferred A Shares and Ordinary Shares, and if the Preferred C Preferential Dividend has not been paid in full when due, the Company shall not pay any dividends or distributions on any Preferred B Shares, Preferred A Shares or Ordinary Shares until such time as the Preferred C Preferential Dividend has been paid in full with respect to all amounts then due.

The Preferred B Preferential Dividend shall be declared and paid in priority to any declaration or payment of distributable profits of the Company in respect of the Preferred A Shares and Ordinary Shares, and if the Preferred B Preferential Dividend has not been paid in full when due, the Company shall not pay any dividends or distributions on any Preferred A Shares or Ordinary Shares until such time as the Preferred B Preferential Dividend has been paid in full with respect to all amounts then due.

The Preferred A Preferential Dividend shall be declared and paid in priority to any declaration or payment of distributable profits of the Company in respect of the Ordinary Shares, and if the Preferred A Preferential Dividend has not been paid in full when due, the Company shall not pay any dividends or distributions on any Ordinary Shares until such time as the Preferred A Preferential Dividend has been paid in full with respect to all amounts then due.

As of December 31, 2016, no dividends had been declared by the Company on the Preferred Shares.

Liquidation preference

In the event of (a) any liquidation, dissolution or winding up of the Group or (b) any sale transaction (collectively "liquidation event"), the assets of the Group available for distribution and proceeds received by the Group and the shareholders shall be distributed in the following order (after satisfaction of all creditors' claims and claims that may be preferred by applicable law of British Virgin Islands):

- (i) The holders of the Preferred D Shares shall be entitled to receive, for each Preferred D Share, prior and in preference to any distribution of any of the distributable assets to the holders of any other class or series of Shares of the Company, an amount equal to the sum of (A) the greater of (i) 150% of the Original Preferred D Issuance Price (subject to appropriate adjustment for share splits, share dividends, combinations, recapitalizations and similar events

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. CONVERTIBLE PREFERRED SHARES AND ORDINARY SHARES (Continued)

Liquidation preference (Continued)

with respect to such shares) and (ii) such amount as would have been payable for the number of Ordinary Shares issuable upon conversion of one Preferred D Share had all of the Preferred Shares been converted into Ordinary Shares immediately prior to such liquidation event, plus (B) all declared but unpaid dividends on such Preferred D Share (collectively, the "Series D Preference Amount"). If upon the occurrence of a liquidation event, the distributable assets to be distributed among the holders of the Preferred D Shares shall be insufficient to permit the payment to such holders of the full Series D Preference Amount on a per share basis, then the entire distributable assets shall be distributed ratably among the holders of the Preferred D Shares in proportion to the Series D Preference Amount each such holder is otherwise entitled to receive on a per share basis.

- (ii) After distribution or payment in full, on a per share basis, of the Series D Preference Amount, the holders of the Preferred C Shares shall be entitled to receive, for each Preferred C Share, prior and in preference to any distribution of any of the remaining distributable assets to the holders of Preferred B Shares, Preferred A Shares and Ordinary Shares or any other class or series of Shares of the Company (other than the Preferred D Shares) by reason of their ownership of such Shares, an amount equal to the sum of (A) the greater of (i) 150% of the Original Preferred C Issuance Price (subject to appropriate adjustment for share splits, share dividends, combinations, recapitalizations and similar events with respect to such shares) and (ii) such amount as would have been payable for the number of Ordinary Shares issuable upon conversion of one Preferred C Share had all of the Preferred Shares been converted into Ordinary Shares immediately prior to such liquidation event, plus (B) all declared but unpaid dividends on such Preferred C Share (collectively, the "Series C Preference Amount"). If upon the occurrence of a liquidation event, the portion of the distributable assets to be distributed among the holders of the Preferred C Shares shall be insufficient to permit the payment to such holders of the full Series C Preference Amount on a per share basis, then such portion of the distributable assets shall be distributed ratably among the holders of the Preferred C Shares in proportion to the Series C Preference Amount each such holder is otherwise entitled to receive on a per share basis.
- (iii) After distribution or payment in full, on a per share basis, of the Series C Preference Amount, the holders of the Preferred B Shares shall be entitled to receive, for each Preferred B Share, prior and in preference to any distribution of any of the remaining distributable assets to the holders of Preferred A Shares and Ordinary Shares or any other class or series of Shares (other than the Preferred D Shares and Preferred C Shares) by reason of their ownership of such Shares, an amount equal to the sum of (A) the greater of (i) the Original Preferred B Issuance Price (subject to appropriate adjustment for share splits, share dividends, combinations, recapitalizations and similar events with respect to such shares) and (ii) such amount as would have been payable for the number of Ordinary Shares issuable upon conversion of one Preferred B Share had all of the Preferred Shares been converted into Ordinary Shares immediately prior to such liquidation event, plus (B) all declared but unpaid dividends on such Preferred B Share (collectively, the "Series B Preference Amount"). If upon the occurrence of a liquidation event, the portion of the distributable assets to be distributed among the holders of the Preferred B Shares shall be insufficient to permit the payment to such holders of the full Series B Preference Amount on a per share basis, then the entire

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. CONVERTIBLE PREFERRED SHARES AND ORDINARY SHARES (Continued)

Liquidation preference (Continued)

assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Preferred B Shares in proportion to the Series B Preference Amount each such holder is otherwise entitled to receive on a per share basis.

- (iv) After distribution or payment in full, on a per share basis, of the Series B Preference Amount, the holders of the Preferred A Shares shall be entitled to receive, for each Preferred A Share, prior and in preference to any distribution of any of the remaining distributable assets to the holders of Ordinary Shares or any other class or series of Shares (other than the Preferred D Shares, Preferred C Shares and Preferred B Shares) by reason of their ownership of such Shares, an amount equal to the sum of (A) the greater of (i) the Original Preferred A Issuance Price (subject to appropriate adjustment for share splits, share dividends, combinations, recapitalizations and similar events with respect to such shares) and (ii) such amount as would have been payable for the number of Ordinary Shares issuable upon conversion of one Preferred A Share had all of the Preferred Shares been converted into Ordinary Shares immediately prior to such liquidation event, plus (B) all declared but unpaid dividends on such Preferred A Share (collectively, the "Series A Preference Amount"). If upon the occurrence of a liquidation event, the portion of the distributable assets to be distributed among the holders of the Preferred A Shares shall be insufficient to permit the payment to such holders of the full Series A Preference Amount on a per share basis, then such portion of the distributable assets shall be distributed ratably among the holders of the Preferred A Shares in proportion to the Series A Preference Amount each such holder is otherwise entitled to receive on a per share basis.
- (v) After distribution or payment in full of the Series A Preference Amount, the remaining distributable assets, if any, shall be distributed to the holders of Ordinary Shares on a pro rata basis based on the number of Ordinary Shares held by each such holder.

On May 11, 2006, January 23, 2008, May 6, 2008 and November 18, 2008, the Company entered into the preferred shares purchase agreements with its founders and external investors to issue 7,240,000, 10,860,000, 20,147,761 and 10,000,000 shares of Preferred A Shares for an aggregate consideration of US\$24,123,881.

On August 1, 2009 and April 10, 2010, the Company entered into the preferred shares purchase agreements with its creditors to convert the debts to 7,906,000 and 3,318,124 shares of Preferred B Shares for an aggregate consideration of US\$5,612,062.

On September 16, 2010, December 28, 2010 and January 31, 2011, the Company entered into the preferred shares purchase agreements with its founders and external investors to issue 4,646,408, 7,573,645 and 2,880,772 shares of convertible redeemable participating Preferred C Shares for an aggregate consideration of US\$16,249,998. Meanwhile, the Company adopted the amended and restated memorandum and articles, pursuant to which, Preferred A Shares and Preferred B Shares are redeemable upon the occurrence of liquidation event.

On May 22, 2012, pursuant to the Series D Preferred Share Subscription Agreement entered among the Company and an external investor, the Company issued 60,510,992 shares of Series D Preferred Shares with par value of US\$0.1 each to the external investor at the price of US\$1.6738 per share. On the meanwhile, the external investor entered into several share purchase agreements

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. CONVERTIBLE PREFERRED SHARES AND ORDINARY SHARES (Continued)

Liquidation preference (Continued)

(the "SPAs") with some of Series A & B shareholders (the "Selling Shareholders"), pursuant to which the Selling Shareholders sold to the Series D Investor, and the Series D Investor purchased from the Selling Shareholders 24,459,883 Series A Preferred Shares and 2,000,000 Series B Preferred Shares (the "Sale Shares") at the price at US\$1.3417 for total consideration of US\$35,500,456. The Sale Shares were redeemed by the Company at Completion in consideration for issuance of additional Preferred D Shares in the same number as the number of Sale Shares, which were issued to the Series D Investor simultaneously with such redemption. At the closing, the Company received net aggregate consideration of US\$65,780,713.

As the Series A Preferred Share, Series B Preferred Share, Series C Preferred Share and Series D Preferred Share are redeemable contingently upon the occurrence of a conditional event (i.e. a liquidation event), these preferred shares are reclassified to mezzanine equity.

In accordance with 480-10-S99-3A, the Company remeasured the fair value of Series A, Series B, Series C preference share upon issuance of Series D Preferred Shares as following:

<u>Equity Class</u>	<u>No. of Shares</u>	<u>Per Share Value</u>	<u>Total Value</u> <u>USD'000</u>
Series A Preferred Share	23,787,878	1.33	31,739
Series B Preferred Share	9,224,124	1.34	12,336
Series C Preferred Share	15,100,825	1.39	20,983
Series D Preferred Share	60,510,992	1.67	101,279
			<u>166,337</u>

Beneficial conversion features ("BCF") exist when the conversion price of the Convertible Preferred Shares is lower than the fair value of the ordinary share at the commitment date. Since the Convertible Preferred Shares are convertible from inception but contain conversion terms that change upon the occurrence of a future event, the contingent beneficial conversion feature is measured at the commitment date but not recognized until the contingency is resolved. The Company determined the fair value of the ordinary share with the assistance from an independent third party valuation firm. The Company is ultimately responsible for the determination of such fair value. On the respective issuance dates of the Convertible Preferred Shares (the respective commitment dates), the most favorable conversion price is greater than the fair value per ordinary share. Therefore, no BCF was recognized.

Ordinary Shares

The Group issued one ordinary share with a par value of US\$0.1 on the date of the establishment of the Group. As of December 31, 2016, there has been no change in activity since the inception date of the Company.

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. SHARE-BASED COMPENSATION

Stock-Option Plans

The Group adopted four stock options plans under which the Chief Executive Officer ("CEO") has the ability to grant options to employees, officers, directors, and consultants. The four plans were adopted on December 21, 2007, November 19, 2009, May 20, 2010, and March 2015, respectively. Under these four plans, the CEO may grant up to an aggregate of 1,600,000, 2,000,000, 11,268,000, and 15,436,476 of options, respectively. If an award expires, or is forfeited, or otherwise terminated without having been exercised or settled in full, the shares allocable to the unexercised portion of that award shall again become available for future grant. Options granted under the four plans generally vest over a period of 2 to 4 years and expire 10 years from the grant date. In 2016, the CEO granted an aggregate of 15,436,450 of options under the plan of 2015. The share option was divided to Group A and Group B. The 6,174,580 Options of Group A is subject to a requirement that the individual remain employed for four years to earn the award (i.e., vesting is subject to an explicit service condition), with no associated performance commitment. The 9,261,870 Options of Group B is subject to conditional vesting: After the consummation of the Qualified Public Offering, if the implied valuation of the Company as calculated based on the weighted average closing prices of the Company's equity securities on the relevant stock exchange is higher than the respective vesting price during the six-month trading period (the "Review Period") starting from the trading day following the expiry of the six-month period after the consummation of the Qualified Public Offering, then the corresponding number of the ordinary shares of the Company under the Option shall vest immediately after the end of the Review Period.

Share Based Compensation Expense

Share-based compensation expense for share-based related to employee awards granted is based on the grant-date fair value in accordance with the provisions of ASC 718, Compensation—Stock Compensation.

The fair value of the stock options granted to employees in 2007, 2009, 2010, 2014 and 2016 were estimated on the respective grant dates using the Binomial option pricing model with the following assumptions:

	2007	2009	2010	2014	2016
Dividend yield (%)	—	—	—	—	—
Annualized volatility	48.00%	54.00%	53.00%	44.29%	24% - 34%
Risk-free interest rate	4.22%	2.59%	2.12%	2.69%	1.04% - 2.25%
Exercise multiple	2.2 - 2.8	2.2 - 2.8	2.2 - 2.8	2.2 - 2.8	2.2 - 2.8

The fair value of these options granted to non-employees was determined using the Binomial option pricing model and expensed upon the date at which the non-employees' performance is complete using the following assumptions:

	2016
Dividend yield (%)	—
Annualized volatility	24% - 34%
Risk-free interest rate	1.04% - 2.25%
Exercise multiple	2.2

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. SHARE-BASED COMPENSATION (Continued)

Share Based Compensation Expense (Continued)

Total share based compensation expense was classified in the consolidated statement of comprehensive income as follows:

	2016
	US\$
Cost of revenue	218,800
Sales and marketing expenses	8,486
General and administrative expenses	<u>2,242,193</u>
Total	<u><u>2,469,480</u></u>

No income tax benefit associated with share-based compensation expense was recognized in the consolidated statement of comprehensive income for the year ended December 31, 2016.

A summary of the Company's share option activity under the plan adopted March 2015 for the year ended December 31, 2016 is as follows:

	Number of Options	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Life Years
		US\$	
Outstanding, January 1, 2016	14,820,000	0.21	5.38
Granted	15,436,450	1.67	
Cancelled/Forfeited	<u>(28,000)</u>	1.05	
Outstanding, December 31, 2016	<u>30,228,450</u>	0.95	6.91
Exercisable at December 31, 2016	<u><u>13,657,743</u></u>	0.16	3.19

As of December 31, 2016, 76,026 shares were available for future grant under the Plan and approximately US\$ 7,887,464 of unrecognized share compensation cost related to non-vested awards (net of estimated forfeitures) is expected to be recognized over a weighted-average period of 2.2 years.

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. COST OF REVENUE

Cost of revenue consists of the followings

	Year Ended December 31, 2016
	US\$
Rents	37,069,287
Depreciation and amortization	18,136,820
Personnel costs	21,928,811
Utilities and others	13,418,149
Consumables	7,401,544
Pre-opening expenses	4,705,588
	102,660,199

Pre-opening expenses are costs incurred prior to the commencement of operations of the Group's hotels. These costs relate to newly opened hotels which started in 2016. These costs are expensed as incurred.

11. OTHER EXPENSES

Other expenses consists of the followings

	Year Ended December 31, 2016
	US\$
Exchange loss	107,384
Bank charges	1,025,578
Others	9,156
	1,142,118

12. INCOME TAXES

British Virgin Islands

Under the current tax laws of the British Virgin Islands, the Company is not subject to tax on income or capital gain. In addition, upon payments of dividends by the Company to its shareholders, no British Virgin Islands withholding tax will be imposed.

Hong Kong

Orange HK was subject to Hong Kong profit tax at a rate of 16.5% on their assessable profits. No Hong Kong profit tax has been provided as the Orange HK did not have assessable profit the year presented.

PRC

The Company's subsidiaries incorporated in PRC are subject to PRC Corporate Income Tax ("CIT") on the taxable income as reported in their respective statutory financial statements adjusted in accordance with relevant PRC income tax laws. Effective January 1, 2008, the Company's subsidiaries

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. INCOME TAXES (Continued)

PRC (Continued)

are subject to the Corporate Income Tax Law of the People's Republic of China (hereinafter "the new CIT Law") as approved by the National People's Congress on March 16, 2007, under which the corporate income tax rate applicable is 25%.

Composition of income tax expense

Income (loss) before income taxes consists of:

	Year Ended December 31, 2016
	US\$
PRC	17,805,353
Non-PRC	(2,478,355)
Total income before income tax expenses	15,326,998

The current and deferred portion of income tax expense / (benefit) included in the consolidated statement of comprehensive income for the year ended December 31, 2016 were as follows:

	Year Ended December 31, 2016
	US\$
Current income tax	8,047,609
Deferred income tax	(2,457,543)
Total income tax charge for the year	5,590,066

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

	Year Ended December 31, 2016	
	US\$	%
Income before income tax	15,326,998	
Expected taxation at PRC statutory rate of 25%	3,831,750	25
Tax effect of other expenses that are not deductible in determining taxable profit	1,069,594	7
Effect of different tax rates in different jurisdictions	618,391	4
Change in valuation allowance	70,331	1
Total	5,590,066	36
Effective tax rate	36.47%	

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. INCOME TAXES (Continued)

Composition of income tax expense (Continued)

The tax effect of temporary differences that give rise to the deferred tax balances at December 31, 2016 are as follows:

	December 31, 2016
	US\$
<i>Current deferred tax assets:</i>	
Accruals for customer reward program	78,159
Deferred revenue	157,559
Accrued payroll and expense	676,989
Total current deferred tax assets	912,707
Less: valuation allowance	—
Current deferred tax assets, net	912,707
<i>Non-current deferred tax assets:</i>	
Deferred rent	6,597,720
Tax losses carry forwards	624,588
Deferred revenue	842,098
Total non-current deferred tax assets	8,064,406
Less: valuation allowance	(345,137)
Less: non-current deferred tax liabilities	(73,421)
Non-current deferred tax, net	7,645,848
	8,558,555

As of December 31, 2016, the Group had applicable tax losses of US\$2,660,691 carrying forward. As of December 31, 2016, US\$260,990 will expire in 2017, US\$239,915 will expire in 2018, US\$188,184 will expire in 2019, US\$250,571 will expire in 2020 and US\$1,721,031 will expire in 2021.

The Company did not provide for additional deferred income taxes and foreign withholding taxes on the undistributed earnings of foreign subsidiaries in 2016 on the basis of its intent to permanently reinvest foreign subsidiaries' earnings. As of December 31 2016, the total amount of undistributed earnings from the PRC subsidiaries for which no withholding tax has been accrued was RMB15.77 million (US\$2.27 million). Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable.

13. MAINLAND CHINA CONTRIBUTION PLAN AND PROFIT APPROPRIATION

Full time employees of the Group in 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, subject to certain ceilings. The total contribution for such employee benefits were US\$6,605,237 for the year ended December 31, 2016. The Group has no ongoing obligation to its employees subsequent to its contributions to the PRC plan.

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. STATUTORY RESERVES AND ACCUMULATED LOSSES

Pursuant to the laws applicable to PRC's Foreign Investment Enterprises and local enterprises, the Company's entities in PRC must make appropriations from after-tax profit to non-distributable reserve funds as determined by the Board of Directors of the Company.

The Company's subsidiaries, in accordance with the China Company Laws, must make appropriations from its after-tax profit (as determined under the PRC GAAP) to non-distributable reserve funds including (i) statutory surplus fund, (ii) statutory public welfare fund and (iii) discretionary surplus fund. Statutory surplus fund is at least 10% of the after-tax profits calculated in accordance with the PRC statutory accounts. Appropriation is not required if the reserve fund has reached 50% of the registered capital of the respective company. Appropriation to the statutory public welfare fund and discretionary surplus fund are made at the discretion of the Company.

The appropriation to these reserves by the Group's PRC entities was US\$ 2,273,316 for the year ended December 31, 2016.

15. RELATED PARTY TRANSACTION

There was no significant related party transaction during the year ended December 31, 2016, and significant balances with related party was nil as of December 31, 2016.

16. COMMITMENTS AND CONTINGENCIES

(a) Non-cancelable operating leases commitments

The Group has entered into lease agreements with third parties relating to leased-and-operated hotels that are classified as operating leases. For the year ended December 31, 2016, total rental expense for operating leases was US\$43,340,729. The Group's future minimum operating lease payment under non-cancellable operating leases at the end of the reporting periods is as follows:

	December 31, 2016 US\$
2017	45,026,968
2018	45,319,246
2019	45,020,725
2020	44,442,886
2021 and thereafter	346,664,943
	<u>526,474,768</u>

(b) Capital commitment

As of December 31, 2016, the Group had contractual capital commitments of US\$7,865,939 related to leasehold improvements.

CRYSTAL ORANGE HOTEL HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. SUBSEQUENT EVENTS

(b) Capital commitment (Continued)

We have evaluated subsequent events up to October 26, 2017, which is the date the consolidated financial statements are issued.

On February 25, 2017, the shareholders of the Company and China Lodging Holdings (HK) Limited, a subsidiary of China Lodging Group, Limited which is a US listed company, entered the share purchase agreement, pursuant to which all the shares of the Company would be acquired by China Lodging Holdings (HK) Limited, with the consideration in cash of RMB3.65 billion. The closing date of equity transfer is May 25, 2017.

On May 15, 2017, the Group and Quanming Enterprise Management Consulting Center entered the consulting services agreement in respect of the equity interest transfer of the Company, the consideration for consulting services included fixed fee of RMB5.91 million (US\$0.88 million) and variable expense based on the certain percentage of the purchase consideration. The consulting fee was paid in May 2017 with amount of RMB174 million (US\$25.91 million).

On May 24, 2017, the Group signed cancellation option agreement with all option holders. The total amount of compensation for the options cancelled is about RMB41.19 million (US\$6.13 million).

In 2017, the Group received notifications from the government to shut down three hotels and one training facility. One of the three hotels entered into a terminate agreement with the landlord in September 2017, and the other two hotels and the training facility are still in the process of negotiation.

CHINA LODGING GROUP, LIMITED
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On February 25, 2017, China Lodging Group, Limited (the "Group") entered into a definitive Share Purchase Agreement with the shareholders of Crystal Orange Hotel Holdings Limited (the "Crystal Orange"), a company established under the laws of the British Virgin Islands, to acquire 100% of the equity interest in Crystal Orange for an initial aggregated consideration in cash of approximately RMB3.76 billion, with customary closing consideration adjustment. On May 22, 2017, the Group entered into a Supplemental Letter Agreement with the shareholders of Crystal Orange to provide for the arrangement of consideration settlement and determine the acquisition closing date to be May 25, 2017.

The accompanying unaudited pro forma condensed combined statements of comprehensive income for the fiscal year ended December 31, 2016 and the six-month period ended June 30, 2017, respectively combine the historical consolidated statements of comprehensive income of the Group and Crystal Orange, giving effect to this acquisition as if it had occurred on January 1, 2016. As the acquisition of Crystal Orange was completed on May 25, 2017, the statement of comprehensive income of Crystal Orange for the period from May 25, 2017 to June 30, 2017 was already consolidated in the Group's statement of comprehensive income for the six-month period ended June 30, 2017. A pro forma balance sheet is not required as the acquisition is already reflected in the Group's unaudited condensed consolidated balance sheet as of June 30, 2017.

The historical consolidated financial information has been adjusted in the unaudited pro forma condensed combined financial statements to give effect to pro forma events that (1) are directly attributable to the acquisition of Crystal Orange, (2) are factually supportable, and (3) with respect to the statements of comprehensive income, have a continuing impact on combined results. The unaudited pro forma condensed combined financial information should be read in conjunction with the accompanying notes to the unaudited pro forma condensed combined financial statements. In addition, the unaudited pro forma condensed combined financial information was based on and should be read in conjunction with the companies' historical statements referenced below:

- separate historical financial statements of the Group for the year ended December 31, 2016 and the related notes included in Group's Annual Report on Form 20-F for the year ended December 31, 2016;
- separate historical financial statements of Crystal Orange for the year ended December 31, 2016 and the related notes included in the Current Report on Form 6-K furnished with the Securities and Exchange Commission (SEC) on October 26, 2017;
- separate historical financial statements of the Group for the period ended June 30, 2017 and the related notes included in Group's interim financial information on Form 6-K furnished with the Securities and Exchange Commission (SEC) on October 26, 2017;

For the unaudited pro forma condensed combined statement of comprehensive income for the year ended December 31, 2016, and the six-month period ended June 30, 2017, the Crystal Orange statements were originally presented in US dollars (USD), and were converted to Renminbi (RMB) using an average exchange rate of 6.7153 and 6.8787 for the year ended December 31, 2016 and the six-month period ended June 30, 2017, respectively.

There were no material transactions between the Group and Crystal Orange during the periods presented in the unaudited pro forma condensed combined financial statements that would need to be eliminated.

The unaudited pro forma condensed combined financial information has been prepared using the acquisition method of accounting under existing U.S. generally accepted accounting principles (GAAP standards) and in accordance with the regulations of the SEC. The Group has been determined to be the acquirer under the acquisition method of accounting. Due to the timing of the close of the transaction, the Group is still finalizing the allocation of the purchase price to the individual assets acquired and liabilities assumed. The allocation of the purchase price included in the pro forma statements is based on the best estimate of management and is preliminary and subject to change. To assist management in the allocation, the Group engaged valuation specialists to prepare appraisals. The Group will finalize the amounts recognized as the information necessary to complete the analysis is obtained.

The unaudited pro forma condensed combined financial information is not necessarily indicative of the financial position and operating results that would have been achieved had the transaction been in effect as of the dates indicated and should not be construed as being a representation of financial position or future operating results of the combined companies. There can be no assurance that the Group and Crystal Orange will not incur additional charges related to the acquisition or that management will be successful in its effort to integrate the operations of the two entities.

In addition, the unaudited pro forma condensed combined financial information does not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve and realize as a result of the acquisition, the costs to integrate the operations of the Group and Crystal Orange, or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements.

CHINA LODGING GROUP, LIMITED

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31, 2016

(In thousands of Renminbi, except share and per share data)

	Group	Crystal Orange	Pro Forma Adjustments		Notes	Pro Forma Results
			Conforming/Reclassifications Note A	Pro Forma Adjustments		
Revenues:						
Leased and owned hotels	5,212,405	—	879,995	—		6,092,400
Manachised and franchised hotels	1,411,156	—	59,530	—		1,470,686
Others	31,219	12,834	—	—		44,053
Room, food and beverage revenue	—	861,696	(861,696)	—		—
Franchise fees	—	59,530	(59,530)	—		—
Membership card	—	3,540	(3,540)	—		—
Sublease revenue	—	14,759	(14,759)	—		—
Total revenues	6,654,780	952,359	—	—		7,607,139
Less: Business tax and related taxes	116,149	17,139	—	—		133,288
Net revenues	6,538,631	935,220	—	—		7,473,851
Operating costs and expenses:						
Hotel operating costs	4,932,173	—	657,795	18,114	B	5,608,082
Other operating costs	7,606	—	—	—		7,606
Selling and marketing expenses	146,525	42,850	—	—		189,375
General and administrative expenses	492,141	96,641	—	—		588,782
Pre-opening expenses	71,847	—	31,599	—		103,446
Cost of revenue	—	689,394	(689,394)	—		—
Total operating costs and expenses	5,650,292	828,885	—	18,114		6,497,291
Other operating income (expenses), net	(17,440)	—	—	—		(17,440)
Income (loss) from operations	870,899	106,335	—	(18,114)		959,120
Interest income	67,366	4,260	—	—		71,626
Interest expense	11,056	—	—	—		11,056
Other income (expense), net	133,755	(7,670)	—	—		126,085
Foreign exchange gain	16,481	—	—	—		16,481
Income before income taxes	1,077,445	102,925	—	(18,114)		1,162,256
Income tax expenses (benefits)	287,120	37,539	—	(4,529)	D	320,130
Income (loss) from equity method investments	6,157	—	—	—		6,157
Net income (loss)	796,482	65,386	—	(13,585)		848,283
Less: net loss attributable to noncontrolling interest	(8,133)	(797)	—	—		(8,930)
Net income (loss) attributable to China Lodging Group, Limited /Crystal Orange Hotel Holdings Limited	804,615	66,183	—	(13,585)		857,213
Other comprehensive income						
Unrealized securities holding gains, net of tax	16,449	—	—	—		16,449
Reclassification adjustment of unrealized securities holding gains, net of tax, for gain included in net income	(67,921)	—	—	—		(67,921)
Foreign currency translation adjustments, net of tax	(12,627)	(54,984)	—	—		(67,611)
Comprehensive income	732,383	10,402	—	(13,585)		729,200
Comprehensive loss attributable to the noncontrolling interest	(8,133)	(797)	—	—		(8,930)
Comprehensive income attributable to China Lodging Group, Limited /Crystal Orange Hotel Holdings Limited	740,516	11,199	—	(13,585)		738,130
Earnings per share:						
Basic	2.92					3.12
Diluted	2.84					3.03
Weighted average number of shares used in computation:						
Basic	275,139,070					275,139,070
Diluted	282,889,494					282,889,494

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

CHINA LODGING GROUP, LIMITED

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF COMPREHENSIVE INCOME

Period Ended June 30, 2017

(In thousands of Renminbi, except share and per share data)

	Group(1) (consolidating Crystal Orange from May 25, 2017 to June 30, 2017)	Crystal Orange(2) (From January 1, 2017 to May 24, 2017)	Pro Forma Adjustments		Notes	Pro Forma Results
			Conforming/ Reclassifications	Pro Forma Adjustments		
			Note A			
Revenues:						
Leased and owned hotels	2,766,593	—	377,216	—		3,143,809
Manahised and franchised hotels	796,914	—	23,960	—		820,874
Others	18,780	—	—	—		18,780
Room, food and beverage revenue	—	372,813	(372,813)	—		—
Franchise fees	—	23,960	(23,960)	—		—
Membership card	—	3,847	(3,847)	—		—
Sublease revenue	—	556	(556)	—		—
Total revenues	3,582,287	401,176	—	—		3,983,463
Less: Business tax and related taxes	—	—	—	—		—
Net revenues	3,582,287	401,176	—	—		3,983,463
Operating costs and expenses:						
Hotel operating costs	2,547,232	—	320,487	2,945	B, C	2,870,664
Other operating costs	5,672	—	—	—		5,672
Selling and marketing expenses	79,530	16,104	—	(163)	C	95,471
General and administrative expenses	301,032	289,611	—	(298,176)	C	292,467
Pre-opening expenses	67,246	—	10,960	—		78,206
Cost of revenue	—	331,447	(331,447)	—		—
Total operating costs and expenses	3,000,712	637,162	—	(295,394)		3,342,480
Other operating income (expenses), net	28,474	(592)	—	—		27,882
Income (loss) from operations	610,049	(236,578)	—	295,394		668,865
Interest income	40,124	1,782	—	—		41,906
Interest expense	18,228	—	—	—		18,228
Other income (expense), net	101,361	(2,007)	—	—		99,354
Foreign exchange gain	(9,955)	20	—	—		(9,935)
Income before income taxes	723,351	(236,783)	—	295,394		781,962
Income tax expenses (benefits)	182,526	(1,370)	—	20,072	D	201,228
Income (loss) from equity method investments	(5,632)	—	—	—		(5,632)
Net income (loss)	535,193	(235,413)	—	275,322		575,102
Less: net loss attributable to noncontrolling interest	(2,529)	(247)	—	—		(2,776)
Net income (loss) attributable to China Lodging Group, Limited /Crystal Orange Hotel Holdings Limited	537,722	(235,166)	—	275,322		577,878
Other comprehensive income						
Unrealized securities holding gains, net of tax	(4,775)	—	—	—		(4,775)
Reclassification adjustment of unrealized securities holding gains, net of tax, for gain included in net income	(5,282)	—	—	—		(5,282)
Foreign currency translation adjustments, net of tax	47,303	8,339	—	—		55,642
Comprehensive income	572,439	(227,074)	—	275,322		620,687
Comprehensive loss attributable to the noncontrolling interest	(2,529)	(247)	—	—		(2,776)
Comprehensive income attributable to China Lodging Group, Limited /Crystal Orange Hotel Holdings Limited	574,968	(226,827)	—	275,322		623,463
Earnings per share:						
Basic	1.93					2.07
Diluted	1.87					2.01
Weighted average number of shares used in computation:						
Basic	278,785,660					278,785,660
Diluted	287,813,552					287,813,552

- (1) The Group's statement of comprehensive income for the six-month period ended June 30, 2017 included the comprehensive income of Crystal Orange for the period from May 25, 2017 to June 30, 2017.
- (2) The Crystal Orange's statement of comprehensive income was for the period from January 1, 2017 to May 24, 2017.

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

1. Basis of Pro Forma Presentation

As of May 25, 2017, the agreed closing date, the legal title of Crystal Orange was transferred to the Group, and meanwhile the Group paid all the initial aggregated consideration. Accordingly the Group obtained the effective control of finance and operation of Crystal Orange, therefore the Group determined the acquisition date to be May 25, 2017.

The Group has engaged a third party valuation specialist firm with the assessment of purchase price allocation as of the closing date, and then performed a preliminary result with identifiable intangible assets and goodwill based on the unaudited financial statements of Crystal Orange as of May 25, 2017. For purposes of the pro forma condensed combined consolidated financial statements for the year 2016 presented herein, the Group has (i) assumed that the carrying value of all assets and liabilities other than the intangible assets and goodwill identified upon acquisition approximated their respective acquisition-date fair values, (ii) performed a preliminary valuation of Crystal Orange's identifiable intangible assets as of May 25, 2017, and (iii) has computed the value of goodwill based on a total preliminary purchase price, after deducting the assets and liabilities identified in (i) and (ii) above.

Intangible asset identified represents the trademark of Crystal Orange with indefinite life, manachised hotel agreements with franchisees which are expect to be amortized over estimated useful lives of 14 years, and favourable leases which are expected to be amortised over residual contract period of each lease agreement, ranging from 1 to 13 years. a) The fair value of trademark of Crystal Orange was established using a form of valuation approach known as the "relief from royalty method", which applied an estimated royalty rate to derive the expected after-tax royalty cash flows from the trademark, discounted to present value. Inputs used in the relief from royalty method included the discount rate of 15%, the estimated income rate of 25% and the estimated royalty rate of 3%; b) The fair value of manachised hotel agreements was established using a form of income approach known as the "excess earnings method". In applying this method, the earnings expected to be generated by the intangible asset are forecasted over the estimated duration of the intangible asset. The earnings are then adjusted by taxes and the required return for the use of the contributory assets. The after-tax excess cash flows are then present-valued to estimate the value of the intangible asset as of the estimate date. Inputs used in the excess earnings method included the discount rate of 15%, the estimated income tax rate of 25%, and the estimated life of manachised hotel agreements of remaining contract terms; c) The fair value of favorable leases was established using a form of income approach known as the "incremental cash flow method" under which fair value of the favourable lease agreements was involved in forecasting the future operating cash flows saved (or the incremental cash flows to be derived) by the favorable leases contracts and then discounting it back to present value at the discount rate of 15%.

The fair value of deferred tax liability associated with the identified intangible asset was estimated using the fair value of the intangible asset identified multiplied by statutory income tax rate of the Crystal Orange's subsidiaries that hold the contracts and trademark.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

1. Basis of Pro Forma Presentation (Continued)

The total purchase price consisted of the following:

	<u>Amount(RMB'000)</u>
Initial Consideration	3,718,673
Pre-combination compensation cost	50,000
Closing Adjustment	*
Total purchase price	<u>3,768,673</u>

* Closing adjustment is determined by several complex adjustment clauses relating net cash, net working capital amount and income tax payable amount of Crystal Orange as of closing date, which were defined in the share purchase agreement. The closing adjustment amount is immaterial based on the preliminary result, while not finalized till this report date.

Under the acquisition method of accounting, the net assets of Crystal Orange acquired pursuant to the acquisition were recorded at their fair values as of the date of the closing of the acquisition based on a preliminary purchase price allocation report prepared by a third-party appraiser. The pro forma adjustments that are reflected in the preliminary purchase price allocation are shown below:

	<u>Amount(RMB'000)</u>	<u>Amortization period</u>
Total tangible assets and liability acquired	708,040	
Cash and cash equivalents	77,145	
Property and equipment, net	842,102	3 - 20 years
Other assets and liabilities	(211,208)	
Noncontrolling interests	(4,206)	
Intangible assets acquired:	1,466,179	
Favorable leases	97,480	Remaining lease terms
Manachised hotel agreements	63,000	Remaining contract terms
Trademark	1,305,699	Indefinite life
Goodwill	1,965,206	
Deferred tax liabilities	(366,545)	
	<u>3,768,673</u>	

The unaudited pro forma combined financial information is based on assumptions and adjustments that are described in the accompanying notes. The application of the acquisition method of accounting is dependent upon certain preliminary valuations that have yet to be finalized. Accordingly, the pro forma adjustments reflected in the unaudited pro forma combined financial information are preliminary and based on estimates, subject to further revision as additional information becomes available, and have been made solely for the purpose of providing the unaudited pro forma combined financial information. Other than as disclosed in the footnotes thereto, the unaudited pro forma combined financial data does not reflect any additional liabilities, off-balance sheet commitments or other obligations that may become payable after the date of such financial data.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

2. Pro Forma Adjustments

The Group's unaudited pro forma condensed combined financial statements give effect to the following pro forma adjustments on the unaudited financial statements:

Note A: The Group made several reclassification adjustments to conform Crystal Orange's presentation to the Group's presentation. Below are the reclassification adjusted in the pro forma condensed combined financial information. Refer to "Conforming/Reclassification" Column within the pro forma condensed combined statement of comprehensive income for additional details.

- To reclassify the revenue of Crystal Orange generated from leased and owned hotels including room, food and beverage, membership card and sublease to leased and owned hotels in order to conform with the Group's presentation.
- To reclassify the revenue of franchise fees of Crystal Orange to manachised and franchised hotels in order to conform with the Group's presentation.
- To reclassify the pre-opening expenses and cost of revenue of Crystal Orange in order to conform with the Group's presentation.

Note B: The Group calculated the amortization of identifiable intangible assets related to the acquisition of Crystal Orange to be RMB 18.1 million and RMB 7.1 million for the year ended December 31, 2016 and the six-month period ended June 30, 2017, respectively. The calculation uses the straight-line method and applies the assets' fair value over the weighted average useful life.

Note C: On May 15, 2017, Crystal Orange and Quanming Enterprise Management Consulting Center entered into a consulting services agreement in respect of the equity interest transfer of Crystal Orange, and Crystal Orange incurred corresponding cost of RMB 167.9 million in the second quarter of 2017. The consulting fee was paid in May 2017.

On May 24, 2017, Crystal Orange signed an option cancellation agreement with all option holders. Meanwhile Crystal Orange recognized share-based compensation cost of RMB47.2 million related to the accelerated vesting of remaining unvested options, and recorded RMB 4.2 million, RMB 42.9 million and RMB0.1 million in hotel operating cost, general and administrative expenses, and selling and marketing expenses, respectively, in accordance with ASC 718 *Compensation—Stock Compensation*. Crystal Orange also paid cash compensation of RMB41.2 million for the options cancelled on May 24, 2017, which was recorded as general and administrative expenses upon cancellation.

Moreover, the Group incurred RMB46.2 million in transaction costs directly related to the acquisition in year 2017. These costs included legal and consulting fees, accounting fees and investment banking fees. The Group recognized these factually supportable costs as "General and administrative expenses" in the second quarter of 2017.

Considering the above total cost incurred by Crystal Orange of RMB256.3 million and transaction cost of RMB46.2 million incurred by the Group are non-recurring in nature, they were eliminated from the pro forma condensed combined statement of comprehensive income for pro forma purposes.

Note D: For pro forma purpose, the Group recorded Crystal Orange's income tax benefits related to the pro forma amortization of the intangible assets, and the tax impact resulting from Note C, based on the statutory income tax rate.

QuickLinks

[Exhibit 99.4](#)

[CHINA LODGING GROUP, LIMITED UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION](#)

[CHINA LODGING GROUP, LIMITED UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF COMPREHENSIVE INCOME Year Ended December 31, 2016 \(In thousands of Renminbi, except share and per share data\)](#)

[CHINA LODGING GROUP, LIMITED UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF COMPREHENSIVE INCOME Period Ended June 30, 2017 \(In thousands of Renminbi, except share and per share data\)](#)

[NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION](#)

